

Rating Action: Moody's assigns Aa3/VMIG 1 to Massachusetts Bay Transportation Authority's Sub Sales Tax Bonds; outlook stable

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New York, September 19, 2022 -- Moody's Investors Service has assigned Aa3/VMIG 1 ratings to the Massachusetts Bay Transportation Authority's \$95 million Subordinated Sales Tax Bonds, Variable Rate Demand Obligations, 2022 Series A. The outlook on the long-term rating is stable.

RATINGS RATIONALE

The Aa3 long-term rating on the subordinate sales tax bonds are one notch below MBTA's senior sales tax lien and reflects the subordinate lien on MBTA's 1% gross sales revenue (excludes meals) that is collected on transactions across the commonwealth, plus \$160 million annually, funded from the sales tax.

MBTA's Aa2 long-term senior lien rating reflects that sound coverage of debt service provided by a minimum floor of sales tax revenue guaranteed by the Commonwealth of Massachusetts (Aa1 stable). The rating also reflects an additional lien on net assessment revenues to pay all sales tax bonds, adequate liquidity and ongoing operational and financial support from the commonwealth, above and beyond the sales tax pledge. These strengths are balanced by elevated long-term liabilities amid growing capital needs.

The short-term rating is derived from (i) the credit quality TD Bank, N.A. (Bank) as the liquidity support provider under the Standby Bond Purchase Agreement (SBPA); (ii) the long-term rating of the Bonds and (iii) our assessment of the likelihood of an early termination of the liquidity facility without a mandatory purchase of the Bonds. Events that would cause termination or suspension of the SBPA without a mandatory purchase of the Bonds are directly related to the credit quality of the subordinated pledge of sales tax revenues. Accordingly, the likelihood of any such event occurring is reflected in the long-term rating, Aa3, assigned to the Bonds. Our current short-term Counterparty Risk (CR) Assessment (CR Assessment) of the Bank is P-1(cr).

RATING OUTLOOK

The stable outlook reflects our view that despite operating pressures resulting from the large decline in ridership due to the coronavirus pandemic, MBTA bondholders are protected by the commonwealth-guaranteed sales tax floor.

FACTORS THAT COULD LEAD TO AN UPGRADE OF THE RATINGS

Long-term rating:

- Significant increase in pledged revenues coupled with maintained higher coverage levels
- Continued progress towards reducing the capital backlog
- Stronger bondholder protections, such as a higher additional bonds test

Short-term rating:

- Short-term rating: Not applicable

FACTORS THAT COULD LEAD TO A DOWNGRADE OF THE RATINGS

Long-term rating:

- Significant additional leveraging of sales tax revenues that leads to lower debt service coverage
- Economic decline across Massachusetts
- Operating strain, or reduced state support

Short-term rating:

- Moody's downgrades the short-term CR Assessment of the Bank providing liquidity support.
- A multi-notch downgrade of the long-term rating of the Bonds

LEGAL SECURITY

The bonds are payable from the subordinate sales tax revenues after payment of the senior sales tax bonds.

Liquidity support for tenders

In the event of a failed remarketing, liquidity support is provided by the TD Bank, N.A. liquidity facility.

The Bank's obligation under the SBPA may be automatically terminated or suspended upon:

- the Issuer is bankrupt or otherwise insolvent;
- an involuntary case or other proceeding is initiated against the Issuer and either the Issuer consents to such action or such case shall not be dismissed within 60 days;
- the Issuer fails to pay principal or interest when due on the Bonds, or on debt on parity with the Bonds;
- the Issuer claims it has no liability or obligation under or with respect to any provision of the Act, the SBPA, the Sales Tax Bond Trust Agreement, the Bonds or any debt on parity with the Bonds relating to either (i) the Issuer's obligation to pay principal and interest under such documents or (ii) the Pledged Revenues securing the Bonds or debt on parity with the Bonds;
- the Issuer contests the legality, validity or enforceability of (i) the Act, the SBPA, the Sales Tax Bond Trust Agreement, the Bonds or any debt on parity with the Bonds or (ii) the Issuer's obligation to pay principal and interest under such documents or the Pledged Revenues securing the Bonds or debt on parity with the Bonds;
- any court or other governmental authority with jurisdiction in a final non-appealable decision finds or rules that the SBPA, the Bonds, the Act, the Sales Tax Bond Trust Agreement or the Supplemental Trust Agreement relating to (1) the ability or the obligation of the Issuer to pay, when due, the principal of or interest on the Bonds (including any Bank Bonds) or (2) the Pledged Revenues securing said Bonds, is not valid or binding.
- the unenhanced rating of the Bonds is withdrawn or suspended for credit-related reasons or reduced below investment grade by each rating agency then rating the Bonds;
- the entry or filing of one or more final and non-appealable judgments in an aggregate amount equal to or in excess of \$10,000,000 against the Issuer and failure of the Issuer to pay, stay or satisfy such judgment within sixty (60) days or as otherwise required by such judgment

The Bonds will be issued in the weekly rate mode and pay interest semiannually on each January 1 and July 1. The interest rate on the Bonds is convertible, in whole, to the daily, index, flexible term or fixed rate modes. Upon any such conversion, the Bonds will be subject to mandatory tender. The SBPA only supports the Bonds while in the weekly and daily rate modes.

The SBPA may be substituted. Upon any substitution the Bonds will be subject to mandatory tender on the substitution date. The trustee is instructed to draw on the existing liquidity facility and shall submit such liquidity facility for cancellation on the date following the mandatory tender date.

The Bonds are subject to mandatory tender as follows: (i) upon any interest rate conversion; (ii) on the business day immediately preceding the expiration date of the SBPA; (iii) on the substitution date of the liquidity facility; (iv) on the business day prior to voluntary termination of the SBPA by the Issuer; and (v) on the business day prior to the termination of the liquidity facility following the trustee's receipt of notice of termination from the Bank due to an event of default under the SBPA.

The SBPA covers the full principal amount of Bonds outstanding plus 187 days of interest at 10%, the maximum rate applicable to the Bonds. The SBPA provides sufficient coverage for the Bonds while in the weekly or daily rate modes. The SBPA is available to pay purchase price to the extent remarketing proceeds received are insufficient.

The commitment under the SBPA will terminate upon the earliest to occur of: (i) September 27, 2027, the stated expiration date; (ii) the date on which no eligible Bonds remain outstanding; (iii) the date on which the Issuer voluntarily terminates the SBPA; (iv) the date the Bank receives notice that the SBPA is terminated due to the delivery of an alternate liquidity facility; (v) the 30th day following the trustee's receipt of notice of termination from the Bank due to an event of default under the SBPA; or (vi) upon an immediate termination event.

USE OF PROCEEDS

Proceeds of the bonds will fund a portion of the MBTA's capital improvement program.

PROFILE

The MBTA is the oldest and fifth largest transit system in the country, providing transportation service through subway, trackless trolley, trolley, bus and commuter rail service throughout the eastern portion of Massachusetts and into the northern portion of Rhode Island (Aa2 stable). Pre-pandemic, there were approximately 1.3 million passenger trips on average per business day, though to date ridership is still recovering and has not reached the pre-pandemic average. MBTA operates over 38 miles of rapid transit rail routes. Service is also provided by streetcars and light rail vehicles on 26 miles of additional rail routes.

METHODOLOGY

The principal methodology used in the long-term rating was US Public Finance Special Tax Methodology published in January 2021 and available at <https://ratings.moodys.com/api/rmc-documents/70024>. The principal methodology used in the short-term rating was Variable Rate Instruments Supported by Conditional Liquidity Facilities published in March 2017 and available at <https://ratings.moodys.com/api/rmc-documents/68283>. Alternatively, please see the Rating Methodologies page on <https://ratings.moodys.com> for a copy of these methodologies.

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found on <https://ratings.moodys.com/rating-definitions>.

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