FitchRatings

Massachusetts Bay Transportation Authority

The 'AAA' rating on the Massachusetts Bay Transportation Authority's (MBTA) senior dedicated sales tax bonds reflects the strong standalone credit quality of the dedicated portion of the commonwealth's sales tax allocated to the MBTA. The rating incorporates leverage limitations that provide structural resilience, in light of a sizable ongoing borrowing program and relatively strong revenue growth. The bonds are insulated from both the operations of the MBTA and the commonwealth, allowing for a rating distinct from MBTA operations and linked to, but not capped by, the commonwealth's 'AA+' Issuer Default Rating (IDR).

Fitch Ratings views the statute and bond documents as meeting the conditions necessary for it to rate a dedicated tax security above the commonwealth IDR, based on the narrow nature of the statutory dedication, the specific purpose of the borrowing program, and the use of residual revenues for MBTA capital and operating expenses.

Ratings

Long-Term IDR	AA+

Outlooks

Long-Term IDR	Stable

New Issues

$951,990,000 Senior Sales Tax Bonds, 2024 Series A	AAA
$99,710,000 Senior Sales Tax Bonds, 2024 Series B (Sustainability Bonds)	AAA

Sale Date

June 26, 2024 by negotiation

Outstanding Debt

Massachusetts Bay Transportation Authority Senior Sales Tax Bonds	AAA

Applicable Criteria

U.S. Public Finance State Governments and Territories Rating Criteria (April 2024)

Related Research

Fitch Rates Massachusetts Bay Transportation Auth's $1BN Sr. Sales Tax Bonds 'AAA'; Outlook Stable (June 2024)

Fitch Rates Massachusetts' $705 Million GO Bonds 'AA+'; Outlook Stable (May 2024)

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Dedicated Tax Key Rating Drivers

Growth Prospects for Revenues

Performance of the dedicated sales tax securing the senior lien bonds is strong. Pledged revenues are likely to continue increasing at a rate equal to, or greater than that of, national GDP growth, reflecting the broad nature of the sales tax and the fundamental strength of the commonwealth's economy, which is supportive of the 'aaa' growth prospects assessment.

Sensitivity and Resilience

The sales tax revenues are sensitive to economic cycles, and experienced a steep, three-year decline in the aftermath of the Global Financial Crisis. While the structure benefits from a revenue floor provided by the Base Revenue Amount (BRA), future revenues can still fluctuate with the economy and decline to that floor. Given the leverage limitation of the 2x maximum annual debt service (MADS) additional bonds test (ABT), the senior lien bond structure provides substantial cushion to address both a moderate downturn scenario and one equivalent to the largest historical decline, warranting the 'aaa' assessment for resilience.

Exposure to Related Government

Dedicated revenues are segregated from the commonwealth general fund, allowing the rating to be linked to, but not capped by, the commonwealth IDR. Linkage of the bond rating with the IDR is derived from the commonwealth's levying and collection of the tax and its ability to change the tax base, which it has done in the past.

The rating is not capped by the IDR because the dedicated revenues are not commingled with the commonwealth's general fund or other funds, and are not subject to legislative appropriation. The rating is not linked to the credit quality of the MBTA, as revenues are not exposed to MBTA operations. Strong legal covenants protect against diversion of revenues or lowering of the tax rate, although the tax base can be changed.

Dedicated Tax Rating Sensitivities

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

- A longer-term slowing of dedicated revenue growth to below long-term inflation, reflecting erosion of the tax base and lowered expectations for long-term economic gains that result in coverage of maximum leverage closer to 1.3x.
- Negative rating action on the commonwealth's 'AA+'/Stable IDR, although the rating on the senior lien bonds would not automatically move as the result of an IDR downgrade.

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

- Not relevant with 'AAA' rating.

Dedicated Tax Credit Profile

The commonwealth has imposed a sales tax since 1966. Total annual sales tax growth has averaged about 6.7% since inception, inclusive of rate and base changes that have been relatively frequent. Consistent with the broader sales tax revenue stream, the pledged share of the sales tax reflects the commonwealth's fundamentally strong economic profile, with solid revenue growth expected over time.

Dedicated sales tax revenues are deposited monthly into the MBTA State and Local Contribution Fund (a state trust fund held by the state), and then disbursed monthly to the bond trustee. Payments for a Railroad Rehabilitation and Improvement Financing (RRIF) loan from the U.S. Department of Transportation are subordinate to both liens of the MBTA's sales tax revenue bonds, but the RRIF loan has a springing lien — if the MBTA defaults on the RRIF loan, then the obligation springs to parity with the senior lien sales tax revenue bonds. Similarly, debt service payments for prior obligations become senior to senior lien debt service in the event the authority does not certify in advance that it has provided for their payment in the annual budget.

The monthly deposit is 1/12 of the DSTRA, and the comptroller of the commonwealth conducts a quarterly calculation of the base revenue amount (BRA) and dedicated sales tax revenue amount (DSTRA). If the DSTRA is lower than the BRA, then the MBTA receives a true-up payment at the end of each quarter. The BRA, therefore, provides a floor of revenues in support of the bonds. Semiannual debt service payments are timed to accommodate this potential true-up. The BRA is calculated as a base amount of sales tax revenues that increases with inflation, up to 3%, and cannot be reduced. For fiscal 2025, the BRA will be $1.197 billion, while the DSTRA is forecast to be $1.465 billion.

Fiscal 2023 pledged revenues covered MADS for senior lien sales tax bonds by 4.4x and MADS for all obligations (senior lien, subordinated lien, RRIF loan and prior obligations) by 3.2x.

Dedicated Tax Security

The bonds are paid from a dedicated sales tax equal to the greater of the BRA or 1% of the 6.25% commonwealth sales tax plus an additional $160 million annually (the DSTRA). The lien on the pledged revenues is prior to the payment of operating expenses and is not contingent upon the authority's provision of transportation services. The bonds are further backed by assessments levied on municipalities in the MBTA service area after payment of debt service on separately secured assessment bonds

Dedicated Revenue Stream Drivers and Growth Prospects

Given the broad nature of the commonwealth's sales tax, Fitch considers growth prospects for the dedicated revenues supporting the bonds to be solid, similar to the economic and revenue growth prospects supporting the commonwealth's IDR. Over the 10 years ending in fiscal 2023, the state sales tax grew at a 6.1% CAGR, a figure driven both by underlying economic trends prior to the coronavirus pandemic, as well as by periodic expansions of the sales tax base, including the extension of the tax to online sellers that began in late 2019. Fitch anticipates future pledged revenue growth rates will moderate to between our long-term expectations for national GDP and inflation.

Sensitivity and Resilience of Security through Economic Declines

To test the resilience of a dedicated tax, Fitch stresses the revenue stream under two scenarios. The first is a moderate recession scenario based on the Fitch Analytical Stress Test (FAST) model, which relates historical collections to GDP. The second scenario is the largest historical revenue decline.

Of the two potential revenue streams, the BRA provides a floor of revenues and, therefore, limits the downside risk. From 2002 to 2017, the BRA was higher than the DSTRA, but recent strong growth in sales taxes has brought the DSTRA above the BRA. Since both of these revenues are incorporated in the definition of the dedicated tax, and since the MBTA receives the higher of the two on an annual basis, the FAST similarly considers the higher of the two revenues on an annual basis in this analysis. However, for the purpose of assessing the largest decline, Fitch's analysis considers actual sales tax collections, as there can be volatility in the performance of the sales tax when it is above the BRA.

Resilience of the structure to potential cyclicality is ample, given the limits on leverage, with the 2x MADS ABT and the revenue floor that has limited downside performance historically. Revenues could decline by 50% and maintain sum-sufficient coverage of MADS at the 2x ABT. The cushion provided by fiscal 2023 pledged revenues ($1.4 billion) is 50x the FAST output, based on a moderate recession resulting in a 1% revenue decline, and 6.3x the largest historical decline in the overall state sales tax experienced during the Global Financial Crisis. These results warrant a 'aaa' assessment for resilience.

Given the springing lien on the RRIF loan that could move it into parity with the senior lien, as well as the potential for the prior debt to also move above the senior lien, Fitch's analysis of the resilience of the senior lien bonds' security structure also includes an all-obligations assessment with senior, subordinate, RRIF loan and prior obligations. Based on the 1.5x MADS ABT for the subordinate lien and current MADS on the RRIF loan and prior obligations, Fitch estimates fiscal 2023 pledged revenues could decline 33.3% while maintaining sum-sufficient coverage. This is 33x the FAST output and more than 4x the largest historical decline, also supporting a 'aaa' resilience assessment.

Exposure to Related Government

Fitch views MBTA's dedicated sales tax bonds as having limited exposure to the operations of the commonwealth and no exposure to that of the MBTA. Dedicated tax receipts are credited to the MBTA State and Local Contribution Fund, a state trust fund, which is held by the commonwealth treasurer exclusively for the purposes of the MBTA and disbursed to the bond trustee on a monthly basis prior to release to the MBTA for its operations. The pledge and receipt of the dedicated sales tax, whether calculated according to the DSTRA or the BRA, is not contingent upon provision of transportation services.

State and Local Contribution Fund revenues are not commingled with other commonwealth funds and are not subject to appropriation. Bondholders have a first claim on the dedicated sales tax. Strong statutory covenants protect against diversion of revenues or lowering the dedicated tax rate, although the base can be changed.

Additional Security Features

Bonds are additionally backed by excess revenues pledged to support separately secured assessment bonds of the MBTA. Excess revenues are available to cure any deficiencies in the dedicated sales tax bond structure.

Economic Resource Base

The commonwealth has a broad and wealthy economy. Education levels are high and, although population growth is below the U.S. average, it is strong for the Northeast region. The strength of the commonwealth's healthcare, technology and education sectors has supported GDP growth comparable with the nation's over time, and leaves it well positioned for solid future gains. Measured by per-capita personal income, Massachusetts is the second wealthiest state in the nation.

Additional Security Details

The bonds are further backed by excess revenues from the MBTA's separately secured assessment bonds available to cure any deficiencies in the dedicated sales tax bond structure. The assessment bonds are rated 'AAA' by Fitch under its "State Revolving Fund and Municipal Finance Pool Program Rating Criteria" (See "Fitch Rates MA Bay Trans Auth's Assessment Revs Series 2022 'AAA'; Outlook Stable" (March 2022) on www.fitchratings.com).

SOLICITATION & PARTICIPATION STATUS

For information on the solicitation status of the ratings included within this report, please refer to the solicitation status shown in the relevant entity's summary page of the Fitch Ratings website.

For information on the participation status in the rating process of an issuer listed in this report, please refer to the most recent rating action commentary for the relevant issuer, available on the Fitch Ratings website.