



# **Massachusetts Bay Transportation Authority**

## 2021 Subordinated Sales Tax Bonds

Refund Parking Revenue Bonds, New Money, Cash Flow Relief

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MassDOT Board of Directors & Fiscal and Management Control Board

February 22, 2021

Pat Landers

# Introduction

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- We have an opportunity to exercise a current call option on \$304 million of parking revenue bonds (NPV savings: \$98.8 million)
- The Metropolitan Boston Transit Parking Corporation (MBTPC) generates a narrow stream of cash flows from pledged parking revenues. The MBTA experienced a historic decline in parking utilization due to the pandemic. Pre-pandemic average revenues were in excess of \$4 million per month, which have now dropped to \$380,726 (January 2021). Current parking revenue is insufficient to pay the debt service and the MBTA has been funding the difference.
- We propose to refund the entirety of MBTPC debt onto our subordinated sales tax lien, which has adequate capacity and is a broader, more secure, more highly-rated credit, and lower cost of capital. This will also help us align liabilities to assets.



# New Money Debt Issuance

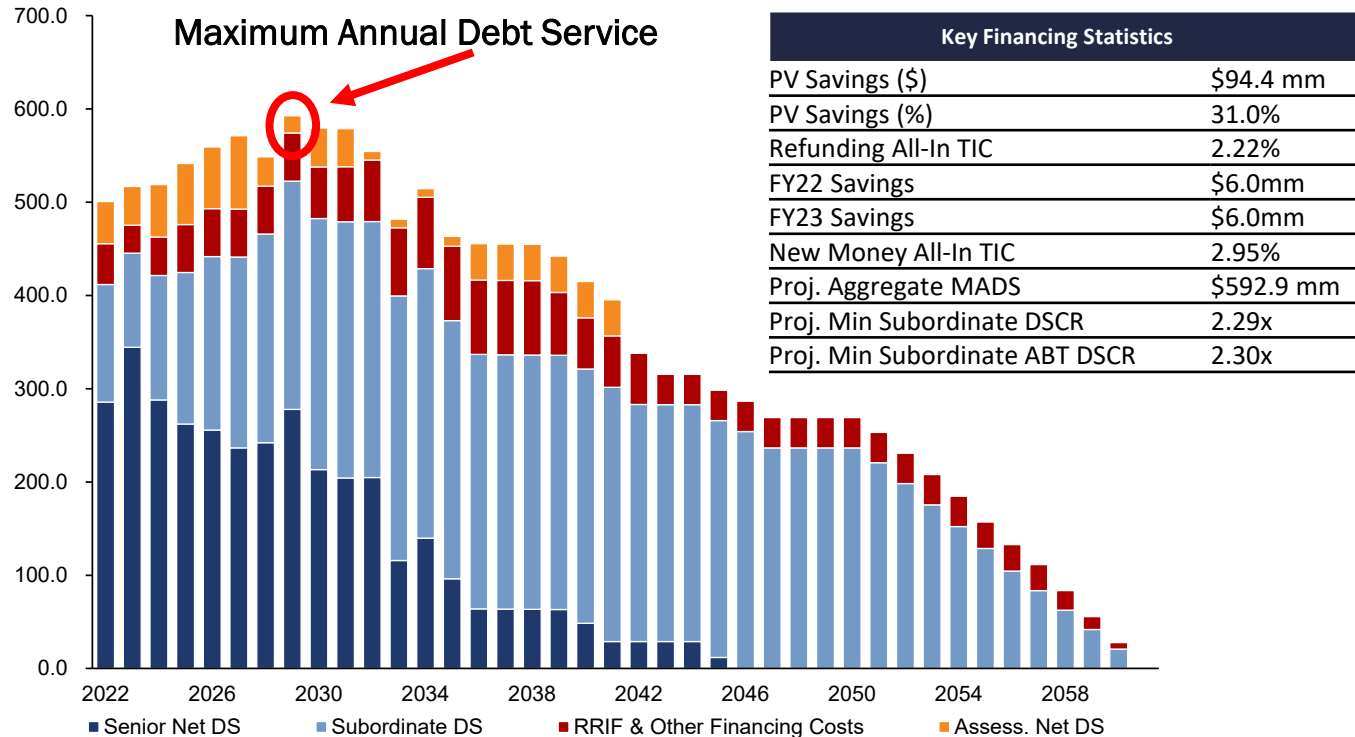
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- In addition to the refunding transaction, we will also issue additional bonds sufficient to generate \$442.5 million in new money debt to satisfy the bond-funded portion of our proposed Capital Improvement Program (CIP). The anticipated issuance is discounted from the \$590 million carried in the CIP to account for Build America Loan financing and projected capital spend (versus programmed spend). A portion of the issuance may be designated as Sustainability Bonds.
- A subset of the \$442.5 million will repay outstanding commercial paper (CP). This will restore capacity of our \$250 million commercial paper program. Restored CP capacity enables us to fine tune our exact borrowing needs for the first year of the proposed five-year CIP.
- Furthermore, the new money allows us to use the longer asset lives of additional new capital projects so that we can smooth over year-to-year variation in our debt service budget, and more accurately align our debt obligations with the useful life of the assets being acquired.



# Current MBTA Pro-Forma Debt Profile

If we were to issue successive level-debt transactions and structure match maturity refunding bonds to produce level savings, based on our current pro formas, projected maximum annual debt service would occur in FY29.



| Key Financing Statistics       |            |
|--------------------------------|------------|
| PV Savings (\$)                | \$94.4 mm  |
| PV Savings (%)                 | 31.0%      |
| Refunding All-In TIC           | 2.22%      |
| FY22 Savings                   | \$6.0mm    |
| FY23 Savings                   | \$6.0mm    |
| New Money All-In TIC           | 2.95%      |
| Proj. Aggregate MADS           | \$592.9 mm |
| Proj. Min Subordinate DSCR     | 2.29x      |
| Proj. Min Subordinate ABT DSCR | 2.30x      |

### What is debt service coverage ratio (DSCR)?

The debt service coverage ratio (DSCR) is a measurement of available cash flow to pay current debt obligations. To calculate the DSCR, divide revenue from sales tax by debt service obligation.

### What is maximum annual debt service (MADS)? Why does it matter?

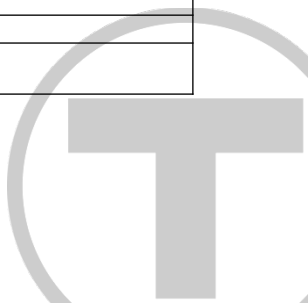
MADS is the year in which debt service is at its highest level. Rating agencies use this number to determine credit quality.



# 2016A Capital Appreciation Bonds

- Capital Appreciation Bonds were structured for bullet maturities. This essentially gave the MBTA a debt service holiday on the principal amortization and debt service expenses until principal and interest come due in the amounts in the table to the right.
- However, these bullet maturities, which are essentially balloon payments, will cause a spike in debt service (see MADS 2029) after we overlay principal and interest payments from our multi-year pro forma. This constrains capacity and creates a potential challenge for our credit rating.

|      | TYPICAL MATURITY SCHEDULE |              | CAPITAL APPRECIATION BONDS |          |
|------|---------------------------|--------------|----------------------------|----------|
|      | 2015 A Sales Tax          |              | 2016 A Sales Tax           |          |
|      | Principal                 | Interest     | Principal                  | Interest |
| FY17 | \$ -                      | \$ 8,252,700 | \$ -                       |          |
| FY18 | \$ -                      | \$ 8,252,700 | \$ -                       |          |
| FY19 | \$ -                      | \$ 8,252,700 | \$ -                       |          |
| FY20 | \$ -                      | \$ 8,252,700 | \$ -                       |          |
| FY21 | \$ -                      | \$ 8,252,700 | \$ 21,360,000              |          |
| FY22 | \$ 4,095,000              | \$ 8,252,700 | \$ 21,305,000              |          |
| FY23 | \$ 4,285,000              | \$ 8,092,950 | \$ 21,820,000              |          |
| FY24 | \$ 4,505,000              | \$ 7,878,700 | \$ 12,045,000              |          |
| FY25 | \$ 4,735,000              | \$ 7,653,450 |                            |          |
| FY26 | \$ 4,980,000              | \$ 7,416,700 |                            |          |
| FY27 | \$ 5,235,000              | \$ 7,167,700 |                            |          |
| FY28 | \$ 5,500,000              | \$ 6,905,950 | \$ 29,325,000              |          |
| FY29 | \$ 5,785,000              | \$ 6,630,950 | \$ 42,210,000              |          |
| FY30 | \$ 6,080,000              | \$ 6,341,700 | \$ 24,100,000              |          |
| FY31 | \$ 6,360,000              | \$ 6,037,700 | \$ 45,870,000              |          |
| FY32 | \$ 6,620,000              | \$ 5,783,300 | \$ 68,295,000              |          |
| FY33 | \$ 6,890,000              | \$ 5,518,500 | \$ 1,865,000               |          |
| FY34 | \$ 7,170,000              | \$ 5,242,900 |                            |          |
| FY35 | \$ 7,465,000              | \$ 4,956,100 |                            |          |
| FY36 | \$ 7,810,000              | \$ 4,657,500 |                            |          |
| FY37 | \$ 8,210,000              | \$ 4,267,000 |                            |          |
| FY38 | \$ 8,630,000              | \$ 3,856,500 |                            |          |
| FY39 | \$ 9,070,000              | \$ 3,425,000 |                            |          |
| FY40 | \$ 9,535,000              | \$ 2,971,500 |                            |          |
| FY41 | \$ 10,005,000             | \$ 2,494,750 |                            |          |
| FY42 | \$ 10,470,000             | \$ 2,039,650 |                            |          |
| FY43 | \$ 10,960,000             | \$ 1,563,600 |                            |          |
| FY44 | \$ 11,465,000             | \$ 1,065,500 |                            |          |
| FY45 | \$ 11,995,000             | \$ 544,650   |                            |          |



# Benefits of Restructuring

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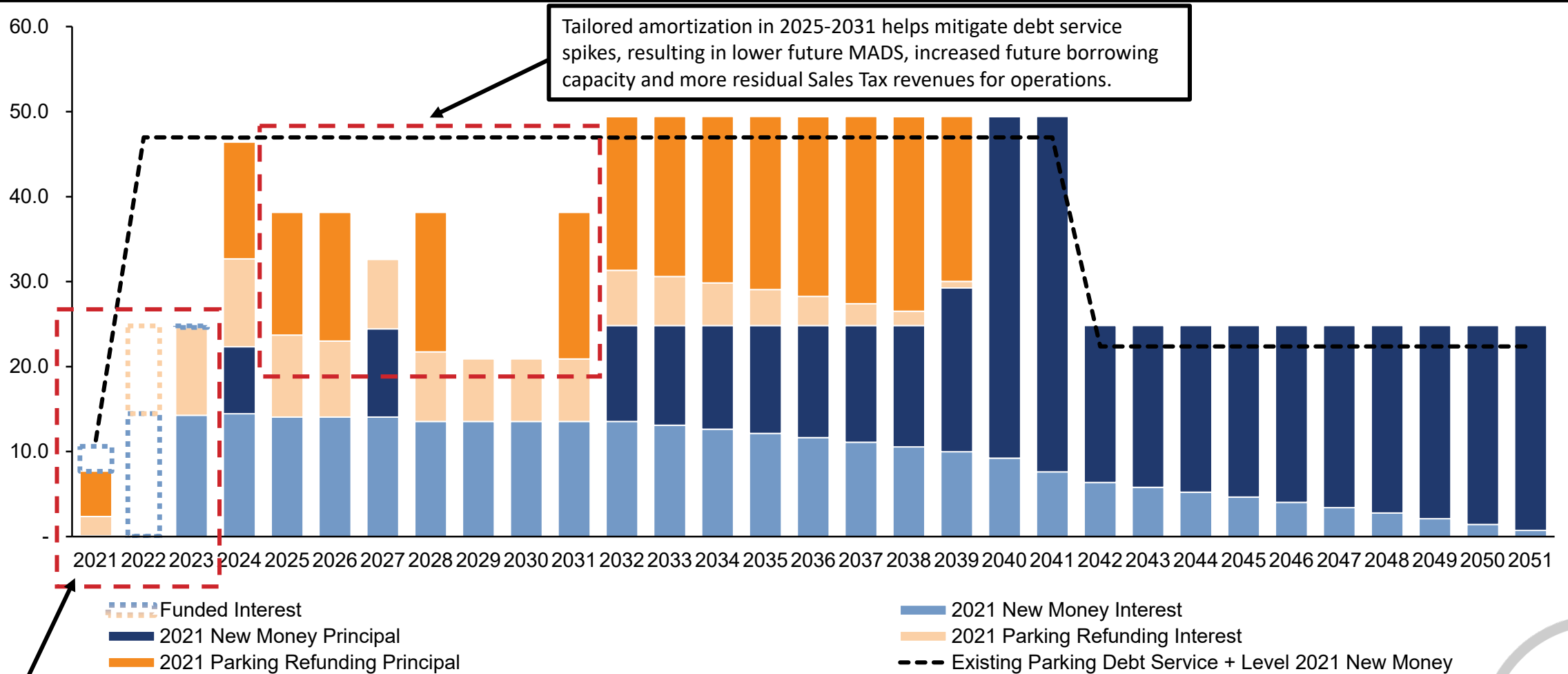
The \$98.8 million in net present value that is created by monetizing the MBTPC call option allows us to restructure our debt service obligations to more accurately align our debt to useful life of the assets that have been and will be financed.

This restructuring to “level” our annual debt service obligations brings the following benefits:

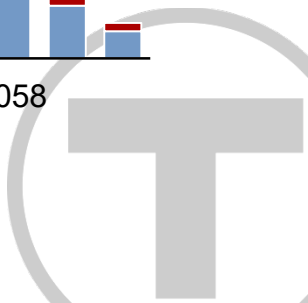
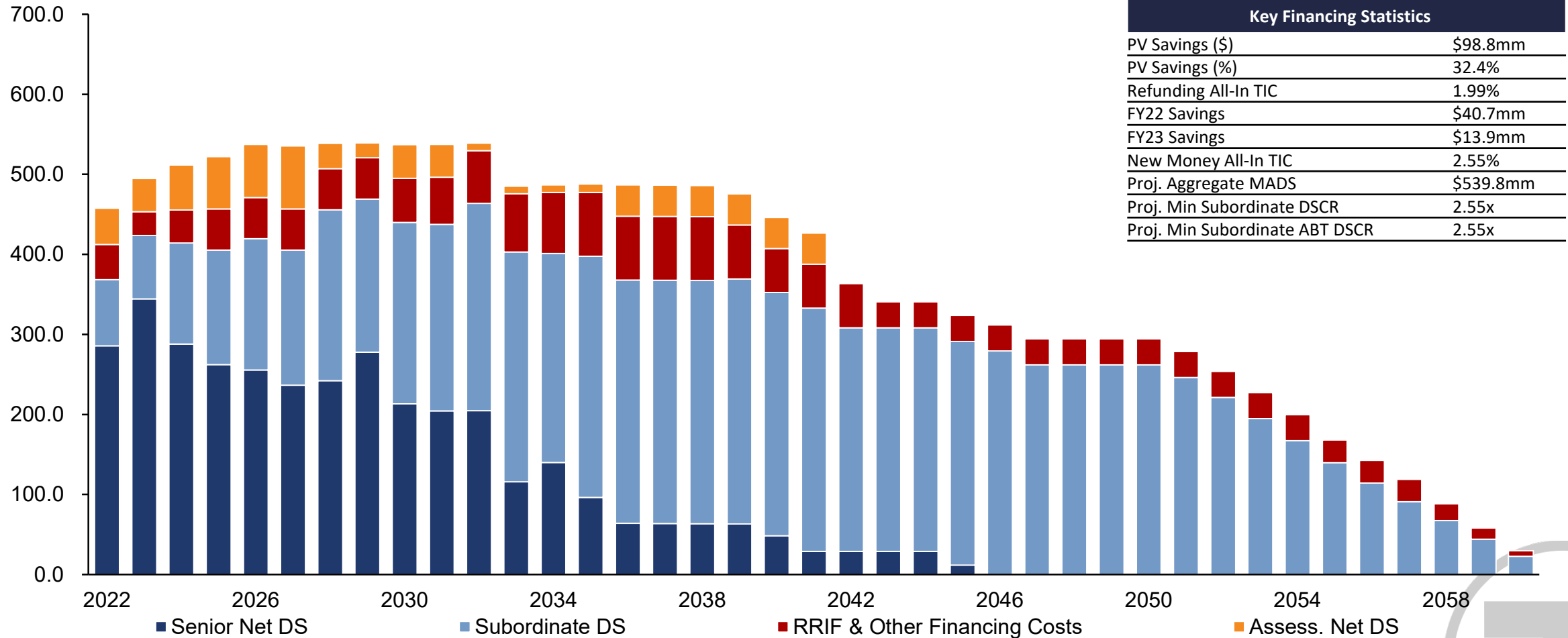
- Maximizes capacity under all our liens for future borrowing
- Improves our MADS and debt service coverage ratios by filling in holes and reducing peaks in our debt service profile. This will be seen as a credit positive by the rating agencies.
- Increases net revenues available for operations by amortizing our borrowings over the full life of the capital assets being acquired.



# Building Blocks of 2021 Restructuring

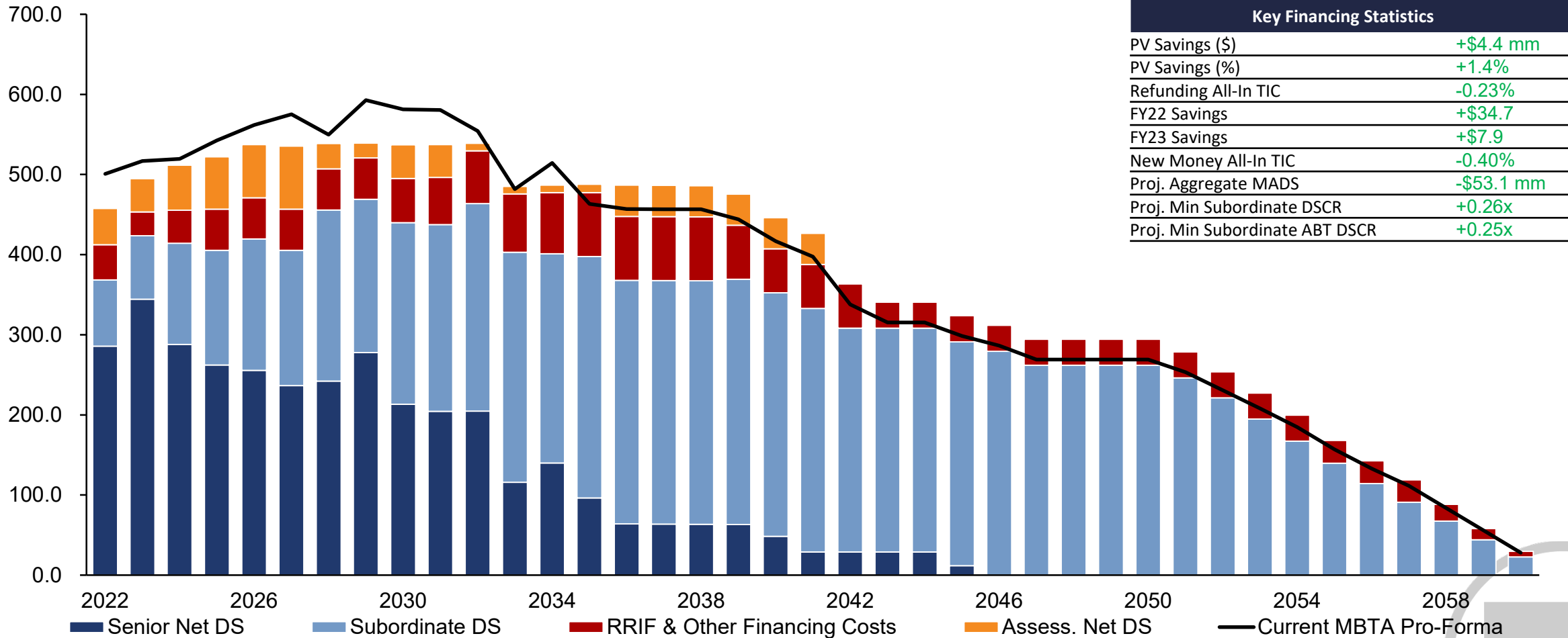


# Proposed Plan of Finance





# Compare Do-Nothing to Tailored Approach



# Proposed Action - FMCB

## VOTED:

To recommend to the Board of Directors of the Massachusetts Department of Transportation (“MassDOT”) that it:

- Approve the Plan of Finance recommended by the MBTA’s financial advisor, Public Resources Advisory Group, in its memoranda presented herewith;
- Authorize the issuance of Subordinated Sales Tax Bonds (the “Parking Refunding Bonds”) in one or more series or subseries pursuant to the Sales Tax Bond Trust Agreement, in an amount to produce net proceeds sufficient to redeem in full on July 1, 2021 the Metropolitan Boston Transit Parking Corporation Systemwide Senior Lien Parking Revenue Bonds, Series 2011, currently outstanding in the principal amount of \$304,585,000, and to pay costs of issuance and capitalized interest;
- Authorize the issuance of Subordinated Sales Tax Bonds (the “New Money Bonds”) in one or more series or subseries pursuant to the Sales Tax Bond Trust Agreement, in an amount to produce net proceeds sufficient to finance or refinance a \$442.5 million portion of the costs of the MBTA’s Capital Investment Plan (CIP) budget for fiscal years 2021-2022, including the refinancing of outstanding commercial paper bond anticipation notes and to pay costs of issuance;
- Authorize the issuance of Subordinated Sales Tax Bonds (the “Restructuring Bonds” and together with the Parking Refunding Bonds and the New Money Bonds, the “Bonds”) in one or more series or subseries pursuant to the Sales Tax Bond Trust Agreement, in an amount to produce net proceeds sufficient to refinance outstanding indebtedness and to fund interest on MBTA indebtedness;
- Authorize the determination by any one or more Authorized Officers to designate all or any portion of the Bonds as ‘Sustainability Bonds’ pursuant to the MBTA’s Sustainability Bond Framework previously approved by MassDOT and to issue any such Sustainability Bonds as a separate series, subseries or maturity of the Bonds, such determination to be conclusively evidenced by the execution of such Sustainability Bonds by an Authorized Officer;



# Proposed Action – FMCB (cont.)

- Authorize the execution by the General Manager, Chief Administrative Officer, Chief Financial Officer and Treasurer, or any of them acting singly (each, an “Authorized Officer”), acting in the name and on behalf of the MBTA, and delivery of one or more Supplemental Trust Agreements providing for the issuance of the Bonds, in substantially the form presented at this meeting, with such changes as are deemed advisable by an Authorized Officer, the definitive form(s) of such agreement to be evidenced conclusively by the execution thereof by an Authorized Officer;
- Authorize (i) the distribution of one or more Preliminary Official Statements, in substantially the form presented at this meeting, with such changes as are deemed advisable by an Authorized Officer, the definitive form of such agreement to be evidenced conclusively by the execution thereof by an Authorized Officer, and (ii) the execution by an Authorized Officer, acting in the name and on behalf of the MBTA, and delivery to the underwriters of the Bonds, of final Official Statements in substantially the same form as the respective Preliminary Official Statement, with such changes, omissions, insertions and revisions as are deemed advisable by an Authorized Officer, the definitive forms of which shall be evidenced by a certificate of such Authorized Officer;
- Authorize the execution by an Authorized Officer, acting in the name and on behalf of the MBTA, and delivery of one or more continuing disclosure agreements with respect to the Bonds, in the form approved by any such Authorized Officer, the definitive form of which shall be evidenced conclusively by the execution thereof by any such Authorized Officer;
- Authorize the sale of the Bonds on a negotiated basis to any one or more of the underwriters, selected by competitive process, listed in the form purchase contract presented at this meeting and the execution by an Authorized Officer, acting in the name and on behalf of the MBTA, and delivery of one or more purchase contracts with respect to the Bonds, in substantially such form, with such changes as are deemed advisable by an Authorized Officer, the definitive form of which shall be evidenced conclusively by the execution thereof by any such Authorized Officer; and
- Authorize each Authorized Officer, the General Counsel and other officers of the MBTA and MassDOT, acting singly, to do all acts and things and to execute, in the name and on behalf of the MBTA, and deliver any and all documents, certificates and other instruments necessary or desirable to effectuate the transactions contemplated by the documents executed in connection with foregoing votes.



# Proposed Action – MassDOT Board

## **VOTED:**

To approve the recommendation of the Massachusetts Bay Transportation (“MBTA”) Fiscal and Management Control Board that it:

- Approve the Plan of Finance recommended by the MBTA’s financial advisor, Public Resources Advisory Group, in its memoranda presented herewith;
- Authorize the issuance of Subordinated Sales Tax Bonds (the “Parking Refunding Bonds”) in one or more series or subseries pursuant to the Sales Tax Bond Trust Agreement, in an amount to produce net proceeds sufficient to redeem in full on July 1, 2021 the Metropolitan Boston Transit Parking Corporation Systemwide Senior Lien Parking Revenue Bonds, Series 2011, currently outstanding in the principal amount of \$304,585,000, and to pay costs of issuance and capitalized interest;
- Authorize the issuance of Subordinated Sales Tax Bonds (the “New Money Bonds”) in one or more series or subseries pursuant to the Sales Tax Bond Trust Agreement, in an amount to produce net proceeds sufficient to finance or refinance a \$442.5 million portion of the costs of the MBTA’s Capital Investment Plan (CIP) budget for fiscal years 2021-2022, including the refinancing of outstanding commercial paper bond anticipation notes and to pay costs of issuance;
- Authorize the issuance of Subordinated Sales Tax Bonds (the “Restructuring Bonds” and together with the Parking Refunding Bonds and the New Money Bonds, the “Bonds”) in one or more series or subseries pursuant to the Sales Tax Bond Trust Agreement, in an amount to produce net proceeds sufficient to refinance outstanding indebtedness and to fund interest on MBTA indebtedness;
- Authorize the determination by any one or more Authorized Officers to designate all or any portion of the Bonds as ‘Sustainability Bonds’ pursuant to the MBTA’s Sustainability Bond Framework previously approved by MassDOT and to issue any such Sustainability Bonds as a separate series, subseries or maturity of the Bonds, such determination to be conclusively evidenced by the execution of such Sustainability Bonds by an Authorized Officer;

## Proposed Action – MassDOT Board (cont.)

- Authorize the execution by the General Manager, Chief Administrative Officer, Chief Financial Officer and Treasurer, or any of them acting singly (each, an “Authorized Officer”), acting in the name and on behalf of the MBTA, and delivery of one or more Supplemental Trust Agreements providing for the issuance of the Bonds, in substantially the form presented at this meeting, with such changes as are deemed advisable by an Authorized Officer, the definitive form(s) of such agreement to be evidenced conclusively by the execution thereof by an Authorized Officer;
- Authorize (i) the distribution of one or more Preliminary Official Statements, in substantially the form presented at this meeting, with such changes as are deemed advisable by an Authorized Officer, the definitive form of such agreement to be evidenced conclusively by the execution thereof by an Authorized Officer, and (ii) the execution by an Authorized Officer, acting in the name and on behalf of the MBTA, and delivery to the underwriters of the Bonds, of final Official Statements in substantially the same form as the respective Preliminary Official Statement, with such changes, omissions, insertions and revisions as are deemed advisable by an Authorized Officer, the definitive forms of which shall be evidenced by a certificate of such Authorized Officer;
- Authorize the execution by an Authorized Officer, acting in the name and on behalf of the MBTA, and delivery of one or more continuing disclosure agreements with respect to the Bonds, in the form approved by any such Authorized Officer, the definitive form of which shall be evidenced conclusively by the execution thereof by any such Authorized Officer;
- Authorize the sale of the Bonds on a negotiated basis to any one or more of the underwriters, selected by competitive process, listed in the form purchase contract presented at this meeting and the execution by an Authorized Officer, acting in the name and on behalf of the MBTA, and delivery of one or more purchase contracts with respect to the Bonds, in substantially such form, with such changes as are deemed advisable by an Authorized Officer, the definitive form of which shall be evidenced conclusively by the execution thereof by any such Authorized Officer; and
- Authorize each Authorized Officer, the General Counsel and other officers of the MBTA and MassDOT, acting singly, to do all acts and things and to execute, in the name and on behalf of the MBTA, and deliver any and all documents, certificates and other instruments necessary or desirable to effectuate the transactions contemplated by the documents executed in connection with foregoing votes.