

RatingsDirect®

Summary:

Massachusetts Bay Transportation Authority; CP; Sales Tax

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Credit Profile

US\$125.0 mil cml pap sales tax BANs ser B-TE-TX due 06/24/2024		
<i>Short Term Rating</i>	A-1+	New
US\$125.0 mil cml pap sales tax BANs ser A-TE-TX due 06/24/2024		
<i>Short Term Rating</i>	A-1+	New
US\$75.0 mil cml pap sales tax BANs ser D-TE-TX		
<i>Short Term Rating</i>	A-1+	New
US\$75.0 mil cml pap sales tax BANs ser C-TE-TX		
<i>Short Term Rating</i>	A-1+	New

Rating Action

S&P Global Ratings assigned its 'A-1+' short-term rating to the Massachusetts Bay Transportation Authority's (MBTA) commercial paper (CP) sales tax bond anticipation notes (BANs). This rating assignment follows the expansion of MBTA's CP authorization amount to \$400 million from \$250 million, substitution of a CP liquidity facility to Barclays Bank PLC (A/Stable/A-1) from TD Bank N.A., and a revised covenant to ultimately retire the CP from proceeds of MBTA's subordinate sales tax bonds, as opposed to the previous covenant to use senior or subordinate sales tax bonds.

We have also affirmed our 'AA' long-term ratings, with a stable outlook, on MBTA's senior and subordinate sales tax secured bonds.

The CP is secured by MBTA's covenant to issue subordinate sales tax bonds to ultimately retire the principal of CP notes, as well as funds advanced from Barclays Bank credit lines, CP rollover proceeds, and other available funds of the authority, while amounts on deposit in the subordinate bonds' debt service fund, on parity with subordinate long-term bonds and subordinate to senior sales tax bonds, secure interest on the CP. While there is no longer a covenant to take-out the CP with senior sales tax bonds, there is nothing that prevents MBTA from determining to do so.

The expanded CP program will consist of:

- Up to \$125 million of combined tax-exempt subseries A-TE and federally taxable subseries A-TX;
- Up to \$125 million combined tax-exempt subseries B-TE and federally taxable subseries B-TX;
- Up to \$75 million combined tax-exempt subseries C-TE and federally taxable subseries C-TX; and
- Up to \$75 million combined tax-exempt subseries D-TE and federal taxable subseries D-TX.

We understand that proceeds of the CP BANs will be used to finance various capital projects, refinance a portion of debt service due on MBTA's outstanding bonds or notes, and pay the expenses of issuances.

Credit overview

The CP rating reflects our view of the authority's ability to issue long-term subordinate sales tax bonds to refinance the CP. We consider MBTA's market risk profile to be low. The trust agreement for the subordinated sales tax bonds includes a covenant to include in its additional bonds test calculation, when selling either additional senior or subordinated sales tax bonds, a pro forma debt service schedule that includes an issue of subordinate sales tax bonds that could refund CP debt. The MBTA has projected that a subordinate sales tax bond, if issued, could refund the entire new \$400 million CP authorization and remain well within the additional bonds test for the subordinate-lien sales tax bonds.

At present, we do not make a rating distinction between the long-term rating on MBTA's senior sales tax bonds and subordinate bonds, which are both rated 'AA', with a stable outlook, based on the stronger of a dual pledge of certain guaranteed state sales tax revenues, or a 1% statewide sales tax. In our view, the stronger security is the pledge of the state-guaranteed base sales tax revenue amount. The long-term sales tax bond ratings reflect strong debt service coverage by the pledged base revenue amount, a statewide economic base generating the pledged revenue, and a good additional bonds test, offset by large capital needs. (For more information on the long-term sales tax bond ratings, see our most recent MBTA long-term sales tax bond rating rationale published March 25, 2021, on RatingsDirect).

The current TD Bank liquidity agreement was scheduled to expire Dec. 10, 2021. This will now be substituted with two separate Barclays Bank credit lines: one for series A and B that will expire June 24, 2024, and another for series B and D that will expire June 24, 2026. The liquidity facility substitutions for the new credit lines are scheduled to go into effect June 24, 2021. The CP issuances must mature the earlier of 265 days for taxable CP, 270 days for tax-exempt CP, or one business day preceding the termination date of the applicable liquidity facility.

We base our CP rating on the ability of MBTA to refund the CP with subordinate sales tax bonds, and not solely on Barclays Bank's liquidity support, due to various provisions allowing the expiration of the bank lines upon certain credit events. The new extended credit lines cover each series' aggregate principal amount of CP authorized, plus 270 days of interest at the maximum permitted rate of 9.0%. The credit lines can be terminated in advance of their expiration dates on the occurrence of certain events, including failure of the MBTA to pay any amount when due with respect to the principal of, or interest on, any CP or parity obligations; if one of three rating agencies lowers the subordinate sales tax bond parity rating below investment grade, or suspends a rating; if MBTA commences a case of bankruptcy; or if MBTA or the commonwealth imposes a debt moratorium, among other events. Loan amounts under the facility agreement are subject to acceleration in the event of nonpayment of subordinate bond principal or interest, and if the agreement is suspended due to events other than nonpayment of principal and interest, are repayable with a three-year term-out on a parity basis with the outstanding subordinate bonds at a stepped-up interest rate of 4.0% above a base rate.

(For more information on the Commonwealth of Massachusetts (AA/Stable) and its economy, see our most recent state GO analysis published April 27, 2021.)

Related Research

Through The ESG Lens 2.0: A Deeper Dive Into U.S. Public Finance Credit Factors, April 28, 2020

Ratings Detail (As Of June 17, 2021)		
Massachusetts Bay Transp Auth subord sales tax		
<i>Long Term Rating</i>	AA/Stable	Affirmed
Massachusetts Bay Transp Auth, Massachusetts		
Massachusetts		
Massachusetts Bay Transp Auth, Massachusetts		
Massachusetts Bay Transp Auth sr sales tax		
<i>Long Term Rating</i>	AA/Stable	Affirmed
Massachusetts Bay Transp Auth, Massachusetts		
Massachusetts		
Massachusetts Bay Transp Auth, Massachusetts		
Massachusetts Bay Transp Auth sr sales tax		
<i>Long Term Rating</i>	AA/A-1+/Stable	Affirmed
Massachusetts Bay Transp Auth, Massachusetts		
Massachusetts		
Massachusetts Bay Transp Auth, Massachusetts		
Massachusetts Bay Transp Auth sr sales tax		
<i>Long Term Rating</i>	AA/A-1+/Stable	Affirmed
Massachusetts Bay Transp Auth, Massachusetts		
Massachusetts		
Massachusetts Bay Transp Auth, Massachusetts		
Massachusetts Bay Transp Auth sr sales tax (AGM) (MBIA)		
<i>Unenhanced Rating</i>	AA(SPUR)/Stable	Affirmed
Massachusetts Bay Transp Auth, Massachusetts		
Massachusetts		
Massachusetts Bay Transp Auth, Massachusetts		
Massachusetts Bay Transp Auth sr sales tax (MBIA) (National)		
<i>Unenhanced Rating</i>	AA(SPUR)/Stable	Affirmed
Massachusetts Bay Transp Auth, Massachusetts		
Massachusetts		
Massachusetts Bay Transp Auth, Massachusetts		
Massachusetts Bay Transp Auth subordinated sales tax bnds (sustainability bnds)		
<i>Long Term Rating</i>	AA/Stable	Affirmed
Massachusetts Bay Transp Auth, Massachusetts		
Massachusetts		
Massachusetts Bay Transp Auth, Massachusetts		
Massachusetts Bay Transp Auth subord sales tax		
<i>Long Term Rating</i>	AA/Stable	Affirmed

Ratings Detail (As Of June 17, 2021) (cont.)

Massachusetts Bay Transp Auth, Massachusetts

Massachusetts

Massachusetts Bay Transp Auth, Massachusetts

Massachusetts Bay Transp Auth subord sales tax

Long Term Rating AA/Stable Affirmed

Massachusetts Bay Transp Auth, Massachusetts

Massachusetts

Massachusetts Bay Transp Auth, Massachusetts

Massachusetts Bay Transp Auth subord sales tax

Long Term Rating AA/Stable Affirmed

Massachusetts Bay Transp Auth, Massachusetts

Massachusetts

Massachusetts Bay Transp Auth, Massachusetts

Massachusetts Bay Transp Auth subord sales tax

Long Term Rating AA/Stable Affirmed

Massachusetts Bay Transp Auth, Massachusetts

Massachusetts

Massachusetts Bay Transp Auth, Massachusetts

Massachusetts Bay Transp Auth subord sales tax

Long Term Rating AA/Stable Affirmed

Many issues are enhanced by bond insurance.

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