

## RATING ACTION COMMENTARY

# Fitch Rates MA Bay Trans Auth's Assessment Revs Series 2022 'AAA'; Outlook Stable

Fri 25 Mar, 2022 - 4:44 PM ET

Fitch Ratings - Austin - 25 Mar 2022: Fitch Ratings has assigned a 'AAA' rating to the following bonds issued by the Massachusetts Bay Transportation Authority (MBTA or the authority):

--Approximately \$185.9 million assessment bonds, 2022 subseries A-1 (tax exempt);

--Approximately \$104.9 million assessment bonds, 2022 subseries A-2 (tax exempt [sustainability bonds]);  
and

--Approximately \$1.9 million assessment bonds, 2022 series B (federally taxable).

Bond proceeds will be used to refund the 2012 series A bonds and a portion of the 2016 series A bonds for debt service savings, to fund a portion of the authority's capital program, to refund certain outstanding CP and bond anticipation notes, and to pay costs of issuance. The bonds are expected to price via negotiation on or around April 5.

The Rating Outlook is Stable.

## SECURITY

Assessment bonds are special obligations of the authority secured by a first-lien pledge of annual assessment revenues from a pool of 176 cities and towns within the commonwealth of Massachusetts (the commonwealth, rated AA+/Stable), in addition to certain funds and accounts established under the assessment bond trust agreement (the ABTA or the trust agreement).

The bonds are also secured on a subordinated basis by dedicated state sales tax revenues (the residual sales tax revenues) after certain payments due to senior sales-tax debt holders and other prior obligations.

Pledged revenues are subject to a statutory lien and non-impairment covenants and are not conditioned upon the MBTA providing service.

## **KEY RATING DRIVERS**

**SUPERIOR FINANCIAL STRUCTURE:** Fitch's cash flow modeling demonstrates that MBTA's assessment bond program (the program) can continue to pay bond debt service even with hypothetical obligor defaults in excess of the 'AAA' liability rating stress hurdle (stress hurdle), as produced by Fitch's Portfolio Stress Model (PSM).

**SIGNIFICANT CONCENTRATION DOMINATED BY BOSTON:** The city of Boston (Boston or the city; GOs rated AAA/Stable) is by far the largest program participant, as it represents nearly 53% of the total pool. Programs with higher concentration are automatically assessed at higher stress levels in Fitch's PSM. Additionally, as per its criteria, Fitch assumed a lower recovery rate for the city of Boston to account for its large single-obligor concentration. Boston's very high credit quality helps to mitigate the added concentration risk.

**POOL IS HIGHLY RATED:** Nearly the entire participant pool is rated 'AA-' or better, and because of Boston's relative size in the portfolio, about 70% of the pool participants are rated 'AAA'. This translates to a very favorable 'AAA' stress hurdle of just 5%, which compares very favorably to Fitch's 'AAA' median of 31% for similar municipal-pool programs.

**VERY FAVORABLE OBLIGOR SECURITY:** Under state law, the payment by a city or town of its assessment is not limited to a particular fund or revenue source and, as a result, such assessment constitutes a general obligation of the city or town. General obligations typically receive Fitch's highest level of recovery in Fitch's modelling due to the strength of this obligation.

**STRONG HISTORICAL PERFORMANCE:** The program has a very strong history of performance with no instances of challenges to payment requirements or non-payment. The latter is supported by the process in which assessment requirements for participating cities and towns are netted from state local aid payments.

## **RATING SENSITIVITIES**

Factors that could, individually or collectively, lead to positive rating action/upgrade:

--Not applicable.

Factors that could, individually or collectively, lead to negative rating action/downgrade:

--Significant deterioration in aggregate pool-participant credit quality;

--Material increases in pool concentration;

--Increases in program leverage, with any of these factors resulting in the inability of the program to pass Fitch's 'AAA' liability rating stress hurdle would place downward pressure on the rating;

--A material decline in the city of Boston's credit quality could also pressure the rating.

## **BEST/WORST CASE RATING SCENARIO**

International scale credit ratings of Sovereigns, Public Finance and Infrastructure issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of three notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit <https://www.fitchratings.com/site/re/10111579>.

## **CREDIT PROFILE**

The authority was created in 1964 in order to finance and operate mass transportation within the commonwealth of Massachusetts. The MBTA provides an essential service within a territory covering a population of approximately 4.8 million people throughout eastern Massachusetts. The MBTA is the fifth largest transit system in the U.S. and provides an average of 1.3 million passenger trips per day.

Under the enabling act and the ABTA, the authority receives a dedicated revenue stream consisting of annual assessments payable by cities and towns within the authority's territory. The assessment revenues are equal to the greater of a base amount of \$136 million set in fiscal year 2006 or the annual assessment set in the prior fiscal year adjusted for inflation, with the adjustment capped at 2.5% due to state law. Assessment requirements are sized by the relative population of participating entities. The annual assessment has never been decreased and currently stands at about \$177.9 million.

The authority's assessment bond and sales tax bond programs are utilized to fund a portion of the MBTA's extensive capital improvement program. The 2022 bonds constitute the sixth series of assessment bonds to be issued under the ABTA.

## **SUPERIOR FINANCIAL STRUCTURE**

Bondholders are protected from hypothetical losses primarily by the annual assessment revenues that are in excess of bond debt service payments. In total, the current annual assessments, assuming no inflationary increases, cover the annual debt service of the program bonds by a minimum of 2.6x through bond maturity. This level compares favorably to Fitch's 'AAA' sector median, which is 1.6x. Projections of assessment and residual sale tax revenues provided by management show all-in coverage of at least 15.0x through bond maturity.

Benefiting from the aforementioned loss protection, Fitch's cash flow modeling, including only the assessment revenues which were fixed as present levels (approximately \$177.9 million with no inflationary growth), demonstrates that the program can continue to pay bond debt service even with hypothetical pool defaults of 44% over the first four years, and 100% of the middle and last four years of the program's lifespan.

Given the large single-obligor exposure to Boston, as per its criteria, Fitch assumed a 75% post-default recovery when determining the default tolerance. This equated to a weighted-average recovery rate of 82% used in Fitch's cash flow model versus a criteria-related non-discounted rate of 90%.

The minimum default tolerance of 44% is in excess of Fitch's 'AAA' liability rating stress hurdle of 5% as produced by the PSM, thereby indicating a passing result. The PSM's stress hurdle is calculated based on overall pool credit quality as measured by the rating of underlying obligors, obligation size, term and pool concentration.

Fitch calculates the program's asset strength ratio (PASR) at 6.0x, which is much stronger than Fitch's 2021 'AAA' median PASR of 2.0x. The PASR, an asset-to-liability ratio, includes total scheduled assessment repayments divided by total scheduled bond debt service.

#### HIGHLY RATED POOL DOMINATED BY BOSTON

Overall credit quality is very strong and better than other municipal pool programs rated by Fitch, as reflected by a 'AAA' PSM liability stress hurdle of 5% versus Fitch's 'AAA' median level of 31% (lower hurdles are indicative of higher credit quality). Similarly, Fitch calculates the weighted-average pool quality to be 'AA+' versus a sector median of 'BBB'.

The pool is composed of 176 obligors. In aggregate, the top 10 participants represent a significant 78% of the pool (versus Fitch's AAA median level of 55%). Following Boston's 53% exposure, the next largest obligor is the city of Cambridge (GO debt rated AAA/Stable), which represents 6% of the pool total. The remaining top-10 participants range from 1.7%-3.4% of the pool total, and all are considered to be of very high credit quality. Concentration is expected to remain largely static over the long-term given that pool composition is driven by the population size of program participants.

#### LOCAL AID INTERCEPT/RESIDUAL SALES TAX PLEDGE

Further enhancing the financial structure, the annual assessments from program participants which back the bonds are paid via a netting process from the commonwealth's local-aid payments to such participants. In the unlikely event of local-aid payment interruption on the part of the commonwealth, the cities and towns would still be obligated to pay the assessments, creating a backstop to the risk of payment interruption. This is described further below.

Local aid payments consist of the commonwealth's general revenue-sharing funds and other specific sharing funds to cities, towns, and school districts. As of FYE 2021, the MBTA assessment requirements were at most 25% of total local aid payable to program participants, demonstrating a measurable surplus in the event of any shortages.

In addition to the surplus assessment revenues, bondholders are protected from potential losses by a cross-collateralization feature with the sales tax program bonds.

The sales tax bonds are supported by a dedicated sales tax equal to the greater of a 1% statewide sales tax plus an additional \$160 million or a pre-determined base revenue of \$1.1 billion adjusted annually for

inflation. At FYE 2021, the residual value was about \$817 million.

The cross-collateralization feature allows for any debt service shortfalls within the assessment bond program to be offset by surpluses from the sale-tax program after payment of related senior obligations, and vice versa.

## STRONG HISTORICAL PERFORMANCE

The program has a very strong history of performance with no missed or late payments. If the amount of assessment revenue due from a program participant is in excess of the local aid payable by the commonwealth, the act requires the local treasurer to pay the amount owed to the state treasurer. Late fees are assessed if payments are not paid on a specified time by the State Secretary of Administration and Finance. Late payments beyond 10 days after the specified time are subject to lawsuit. Historically, all program participants receive substantially more local aid than they owe via the assessments, so this has never been required.

## CORONAVIRUS IMPACT LIMITED

While the amount of revenues generated from MBTA service has been adversely impacted by the pandemic, the authority has continued to receive assessments and the dedicated sales tax, as required by the act. As described previously, the financial structure of the program protects bondholders from payment interruption without regard to the MBTA's direct performance.

## DATE OF RELEVANT COMMITTEE

22 March 2022

## REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

## RATING ACTIONS

### ENTITY / DEBT ↕

### RATING ↕

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Massachusetts Bay Transportation  
Authority (MA) [State Revolving  
Fund]

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Massachusetts Bay Transportation  
Authority (MA) /Assessment  
Revenues/1 LT

LT    AAA Rating Outlook Stable    New Rating

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**APPLICABLE CRITERIA**

Public Sector, Revenue-Supported Entities Rating Criteria (pub. 01 Sep 2021) (including rating assumption sensitivity)

State Revolving Fund and Municipal Finance Pool Program Rating Criteria (pub. 27 Sep 2021) (including rating assumption sensitivity)

**APPLICABLE MODELS**

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

Portfolio Stress Model, v1.11.1 (1)

State Revolving Fund Cash Flow Model, v1.18.1 (1)

## **ADDITIONAL DISCLOSURES**

Dodd-Frank Rating Information Disclosure Form

Solicitation Status

Endorsement Policy

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Massachusetts Bay Transportation Authority (MA)

EU Endorsed, UK Endorsed

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