



**Massachusetts Bay
Transportation Authority**

MBTA 2023 Sales Tax Bonds

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January 2023

Introduction

- The MBTA is requesting authorization to issue Sales Tax Bonds to fund a portion of our Capital Improvement Plan (CIP).
- A portion of the proceeds (~\$250m) will be used to repay outstanding commercial paper (CP) and restore the MBTA's CP program capacity. The Commercial Paper program, which overall has a \$400 million capacity, allows the Authority to interim fund capital projects until it has critical mass to issue a long-term fixed revenue bond deal.
- The debt strategy to smooth debt service in future years, includes aligning debt amortization with asset lives and funding longer-lived assets.



Long-Term Debt Issuance Summary

- The MBTA is requesting authorization to issue Sales Tax Bonds in amounts sufficient to accomplish the following:

MBTA Sales Tax, 2023 Series	Est. Amount (in millions)	Comments
New CIP Spending	~\$500	Fixed Rate
Repay Commercial Paper*	~\$250	Fixed Rate, CP capacity back to \$400 million
"Not To Exceed" Total	~\$750	

*Projected amount of Commercial Paper outstanding

- Consistent with recent financings, MBTA will structure the 2023 Sales Tax Bonds to ensure optimal coverage, maximize capacity and improve the Authority's credit quality.
- The MBTA is considering issuing a tranche of Sustainability Bonds as part of this transaction. This is a continuation of our award-winning sustainability bond program that funds capital projects that go above and beyond in achieving social and environmental goals.



MBTA's Sales Tax Lien Considerations

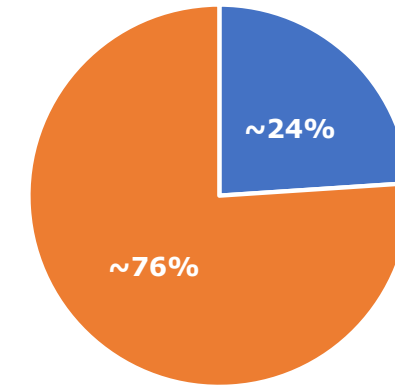
- Over the past five years, the MBTA has chosen to issue new money working capital on its Subordinated Sales Tax lien rather than the Senior Sales Tax lien.
- In the past, MBTA issued Subordinated Sales Tax Bonds because the Debt Service Reserve Fund (“DSRF”) required by Senior Sales Tax bondholders had significant negative arbitrage.
 - Cost of Tax-Exempt Bond Proceeds > Earnings on Eligible Investments in the DSRF (low returns)
- **However, today**, taxable rates have increased substantially, **now** the Authority can earn a return on investment equal to the cost of funds for the DSRF.
 - Cost of Tax-Exempt Bond Proceeds ≤ Earnings on eligible investments in the DSRF (high returns)
- Senior Sales Tax Bonds have a higher credit quality and can therefore attain a lower interest cost.
- If these market conditions continue, this dynamic would lead us to utilize the Senior Sales Tax lien for this transaction.



Springing Amendments to Modernize Sales Tax Indenture

- In April 2022, MBTA made amendments to the Assessment lien to modernize the Assessment Trust Indenture that was more than 20 years old.
- The MBTA has a similar opportunity to begin to make changes on decades old indenture provisions in the Sales Tax Trust Indenture.
- Proposed changes include:
 1. Provide for the (Debt Service Reserve Fund) DSRF requirement to be calculated on the basis of all of the bonds outstanding, rather than by series.
 2. Strengthen the ABT (Additional Bonds Test) to conform to the amended Assessment Bonds Trust Agreement.

Bondholders Consenting after 2023 Series



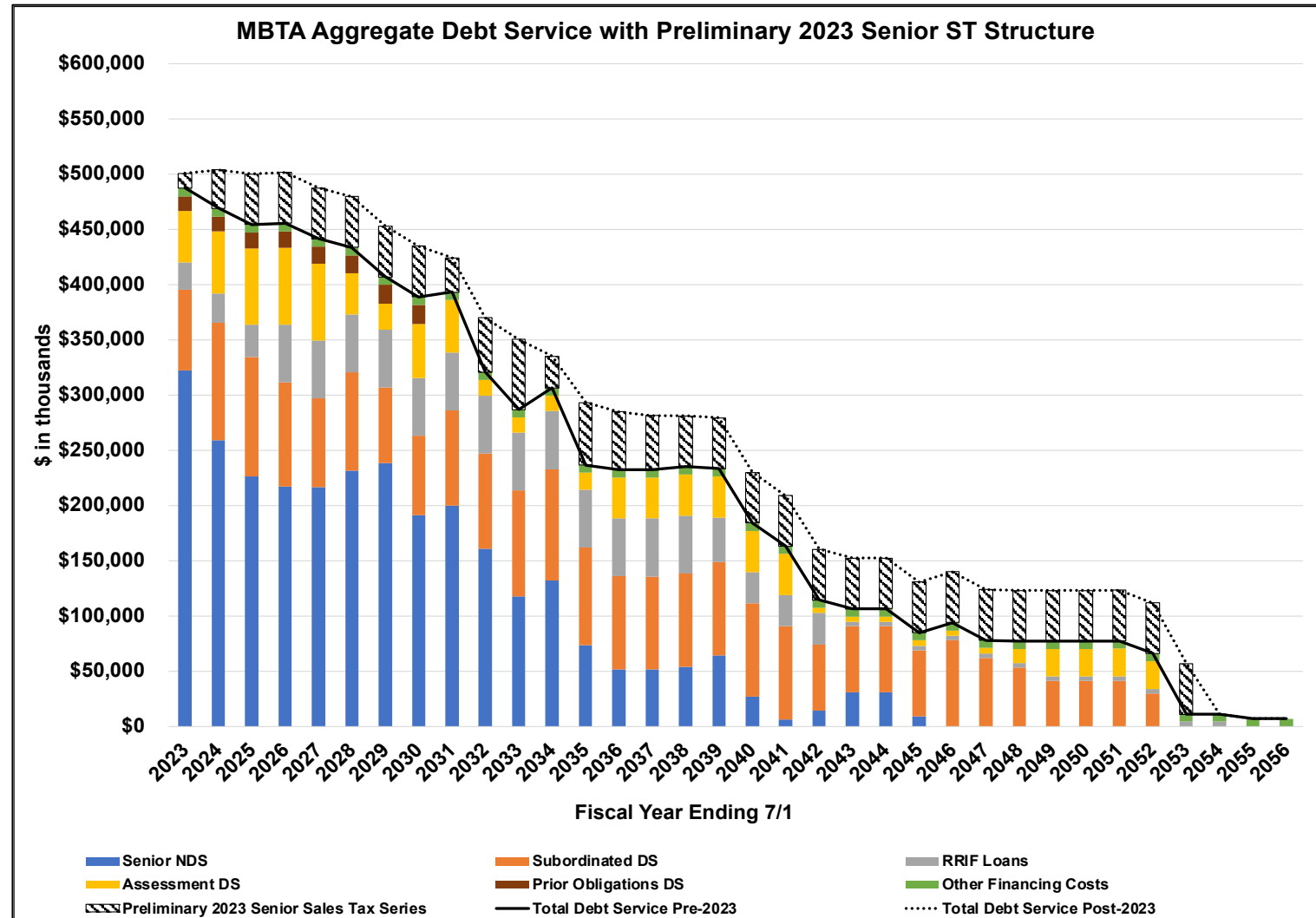
■ Consenting Bondholders ■ Non-Consenting Bondholders

MBTA has \$2.22 billion of Senior Sales Tax bonds outstanding as of the 2023 Senior Sales Tax issuance. With the issuance of approximately \$700 million of par amount of bonds (\$750 million in bond proceeds) in the 2023 Senior Sales Tax transaction, this would **represent about 24% of Senior Sales Tax bondholders.**

With subsequent Senior Sales Tax new money and refunding transactions combined with the amortization of existing Senior Sales Tax bonds, **50% consent can be achieved in the near future**, at which point all bondholders will have deemed to consent to the proposed springing amendments.

Current MBTA Pro-Forma Debt Profile

- Large swings in YoY debt service can present a budgetary challenge.
- Currently, MBTA's debt profile has dips and spikes that the Authority has worked to alleviate and smooth out. Debt service is the second largest item after labor costs.
- The Series 2023 Senior Sales Tax Bonds represents another opportunity to smooth out debt service and improve future capacity for the MBTA.
- In addition, the Authority seeks ways to improve its debt service profile by identifying opportunities to defease bonds for savings that may not be able to be refunded from tax exempt bonds.
- Based on a preliminary structure for the Series 2023 Senior Sales Tax Bonds, MBTA's aggregate debt service will have less year-to-year variation.



Timeline

EVENT	DATE
“Kick-off” Conference Call with Financing Team	December 6, 2022
MBTA Audit & Finance Subcommittee Meeting	January 19, 2023
MBTA Board Meeting	January 26, 2023
Calls with Rating Agencies	Week of January 16-20, 2023*
Due Diligence Call	January 30 or 31, 2023*
Bond Sale	Week of February 14-17, 2023*
Closing/Transfer of Funds	March 1, 2023*

*Preliminary, subject to change.



Resolution Part 1

That the members of the Board of Directors of the Massachusetts Bay Transportation Authority hereby:

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 Sales Tax Bonds (the "2023 Sales Tax Bonds"), in one or more series or subseries, as Senior Sales Tax Bonds or Subordinated Sales Tax Bonds, pursuant to the Sales Tax Bond Trust Agreement (i) to fund costs of the MBTA's Capital Investment Plan (CIP), including the refinancing of outstanding commercial paper bond anticipation notes, (ii) to fund a debt service reserve fund for the 2023 Sales Tax Bonds, as needed, and (iii) to pay costs of issuance, provided that the total amount of 2023 Sales Tax Bonds issued shall not exceed the amount necessary to fund **\$750,000,000** of the CIP;

Authorize the determination by any one or more Authorized Officers to designate all or any portion of the 2023 Sales Tax 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 respective 2023 Sales Tax Bonds, such determination to be conclusively evidenced by the execution of such Sustainability Bonds by any of the General Manager, Chief Administrative Officer, Chief Financial Officer and Treasurer, or any of them acting singly (each, an "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 Supplemental Trust Agreements providing for the issuance of the 2023 Sales Tax 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;



Resolution Part 2

Authorize (i) the distribution of one or more Preliminary Official Statements for the 2023 Sales Tax Bonds, in substantially the form presented at this meeting, with such changes as are deemed advisable 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 2023 Sales Tax Bonds, of one or more 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 such Preliminary and final Official Statements 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 2023 Sales Tax 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 2023 Sales Tax Bonds on a negotiated basis to any one or more of the underwriters, selected by competitive process, listed in the respective purchase contract for the 2023 Sales Tax 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 the defeasance from revenues of outstanding Sales Tax Bonds or Assessment Bonds for savings that may not be able to be refunded from tax exempt bonds, in such amount as set forth in a defeasance escrow agreement in the form approved 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, 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.

January 19, 2023

