



NAVIGATING FISCAL CHALLENGES

BETSY TAYLOR

MBTA AUDIT & FINANCE SUBCOMMITTEE | SEPTEMBER 12, 2024

WHY DID CHAIRMAN GLYNN ASK ME TO SPEAK?

- **Chair of MBTA Board and Chair of MBTA Audit & Finance Committee 2021-2023**
- **DOT Board Member and Chair for DOT Audit & Finance Committee 2015-2023**
- Member of MBTA Retirement System Board 2015-2023
- Elected Member of Massport Employee Retirement Board 2013-Present
- Employed by Massport Finance Department in various positions culminating as Director of Finance & Treasury 1978-2015

AGENDA

- State of the MBTA in 2021
- MBTA Board Initiatives 2021-2023
- Modernization of the MBTA Pension System
- MBTA Treasury Improvements in Recent Years

STATE OF THE MBTA IN 2021

- Governance shifted from the Fiscal and Management Control Board (2015-2021) to the new Board of Directors
- COVID-19 Pandemic Emergency ongoing
- Dangerously low staffing levels and a challenging hiring environment
- Low ridership and uncertain financial future



MBTA BOARD INITIATIVES 2021-2023



A&F SUBCOMMITTEE GOVERNANCE INITIATIVES

- Held bi-annual discussions with IT department regarding disaster recovery and cyber security in executive session
- Held annual private meeting with KPMG (external auditors) after conclusion of the financial statements audit
- Instituted monthly report of new contracts valued at \$2-\$17 million let under delegated authority
- Instituted monthly federal grant reports of applications in process, grants submitted, awards, and rejections

BOARD PRIORITIES FOR FY22 – FY24

Safety First!

- Fully Supported FTA requests for safety improvements
- Shifted Capital Program scoring to prioritize safety projects
- Monthly Committee & Board Discussion of Safety metrics and progress
- Established Department of Quality, Compliance & Oversight

Increase Support for Capital Maintenance

- Designated federal funds to Green Line Train Protection
- FY22-FY27 Capital Program funded \$7.5 billion in safety projects
- Awarded contract for signal improvements for Tower #1
- Funded work on North Station Draw Bridge

Advocate for long-term funding

- Insisted that operating budget reflect staffing required by FTA safety protocols and required operating maintenance
- Regretfully relied on one-time funding sources to cover these costs during this time
- The T cannot borrow to cover operating costs



MODERNIZING THE MBTA PENSION SYSTEM



OVERVIEW OF MBTA PENSION AGREEMENT

- MBTA Retirement Fund (MBTA RF) was established as a *private trust* in 1948
- Retirement Plan does not fall under ERISA or MGL chapter 32
- Governed by the Pension Agreement between the MBTA and the Carmen's Union, Local 589
- All MBTA employees are eligible

- Prior to renegotiated agreement in March 2023:
 - The fund had 5,805 active employees and 6,800 people on the retiree payroll
 - The fund had average returns above its 7.25% discount rate
 - The fund had an unfunded liability of \$1.46 billion

KEY HIGHLIGHTS FROM 2023 NEGOTIATED PENSION AGREEMENT

Participant Improvements

- Raised maximum pension from 75% to 80% to increase employee retention
- Created new tier for new hires (post April 1st)
 - Vested and able to retire after 10 years
 - Retirement allowance calculated with sliding scale of benefits to increase number of decision points for employees
 - Full retirement allowance assumes retirement at age 65
 - Existing employees permitted to join new tier, 962 existing employees or 15% switched to new tier
 - 2%-5% cost of living adjustment (COLA) increase for retirees on first \$13,000 of annual allowance
 - Permitted rehiring of retired members to ease staff shortage

Structural Improvements

- Increased contributions by employees and MBTA to accelerate funding of the MBTA RF
 - Employees had paid 25% of actuarial required contribution as a % of salary, now pay 1.25% of salary above that or 10.34% of salary
 - MBTA contribution at 75% of required amount or 25.9% of salary
- Transfer of 50% of assets to Pension Reserves Investment Management Board (PRIM) within 5 years to reduce management fees by up to \$850K/year
 - As of spring 2024, 40% of assets were committed to PRIM
- The Authority was projected to save \$2.5 million per year



MBTA TREASURY INNOVATIONS



TREASURY DEPARTMENT'S IMPROVEMENTS: 2016-2019

- Conducted first competitive bond sale in nearly 20 years
- De-risked swap portfolio by unwinding nearly \$340.4 million in floating to fixed rate swaps, providing \$6.4 million in savings
- Created a new Subordinated Sales Tax lien that received rating on par with Senior Sales Tax lien from S&P despite no Debt Service Reserve Facility (DSRF)
- Issued the first municipal sustainability bond in the nation winning the Bond Buyer's 2017 Northeast Deal of the Year
- Procured nearly \$590 million in liquidity support for variable rate bonds and commercial paper

TREASURY DEPARTMENT'S PROGRESS: 2020-PRESENT

- Smoothed out debt service amortization to be more predictable year to year
- Implemented 8 separate bond refundings for a total of \$243.4 million in NPV savings
- Increased commercial paper program from \$250 to \$400 million, creating more flexible and less expensive funding for the capital program
- In 2023, achieved AAA rating on Senior Sales Tax Lien from Fitch Ratings and Kroll Bond Rating Agency

BUILD AMERICA BUREAU TIFIA/RRIF LOANS

- MBTA is the only Massachusetts entity to have applied for federal credit assistance under the TIFIA or RRIF programs
- \$851 million loan (RRIF) for PTC and ATC and associated design, engineering, procurement and installation (including burial) of a fiber optic cable network supporting the commuter rail system
- Achieved significant savings (\$191M) through refinancing and locking in historically low rates during the COVID-19 Pandemic: Positive Train Control (1.90%), Automatic Train Control (1.24%) and Fiber Resiliency (1.38%)
- MBTA maintains a productive relationship with the Build America Bureau and continues pursuing loans under favorable financing conditions.
- In-process loan application for Widett Circle Preservation of Right-of-Way (under evaluation by USDOT) and \$300 million loan for Quincy Bus Maintenance Facility (under evaluation by MBTA)

CONCLUSION

- From 2016 to the present, the MBTA Treasury staff has instituted a numerous new money and refunding bond issues that have significantly reduced the MBTA's debt service
- They have achieved improved bond ratings that will lower future costs
- They have exploited federal programs such as TIFIA AND RRIF to fund important projects at lower costs than the public markets provide
- They have done, and will continue to do what they can, using sophisticated financial tools, to help the MBTA fund major maintenance and upgrades.



APPENDIX



SMOOTHING OUT DEBT SERVICE

- The MBTA used strategic bond amortization, refunding savings, and targeted defeasances to smooth out debt service.
- Knocking down spikes and removing choke points in debt service helps increase capacity, improve rating metrics, and decrease long-term cost of capital.
- The MBTA received bondholder consent in 2022 to adjust its Assessment lien covenant to measure coverage based on Historical Revenue rather than the Assessment Floor Amount, significantly increasing bonding Assessment capacity.
- Coverage is now higher in the next 15 years compared to 2019 and 2020 due to debt service sculpting and both statutory revenue increases in the BRA and covenant-related increases to Assessment revenues.

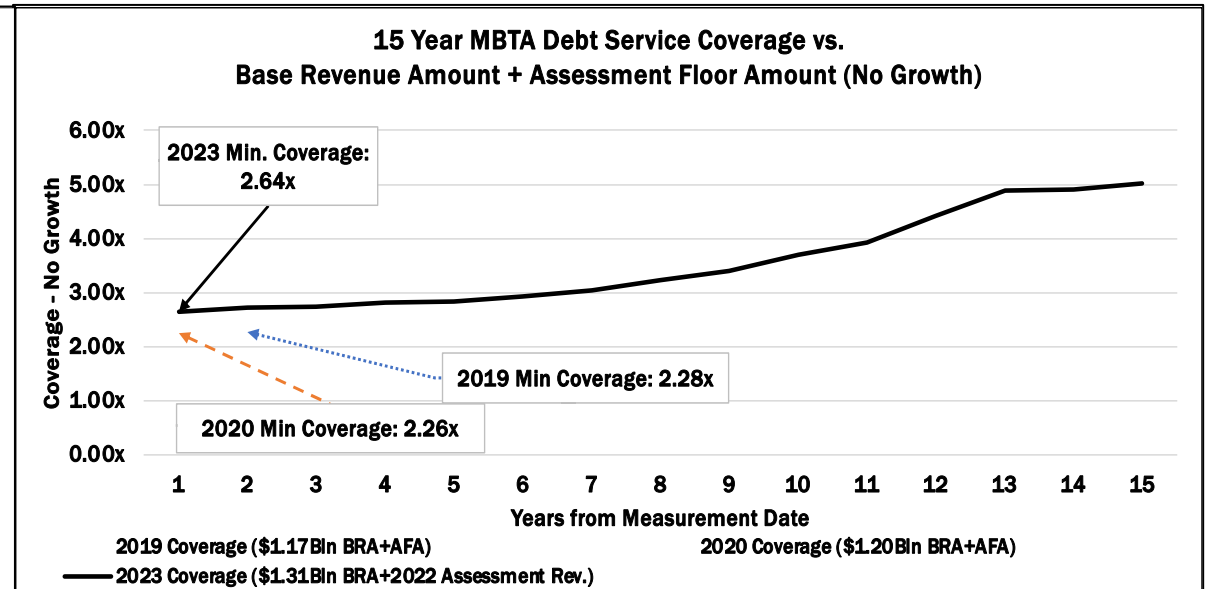
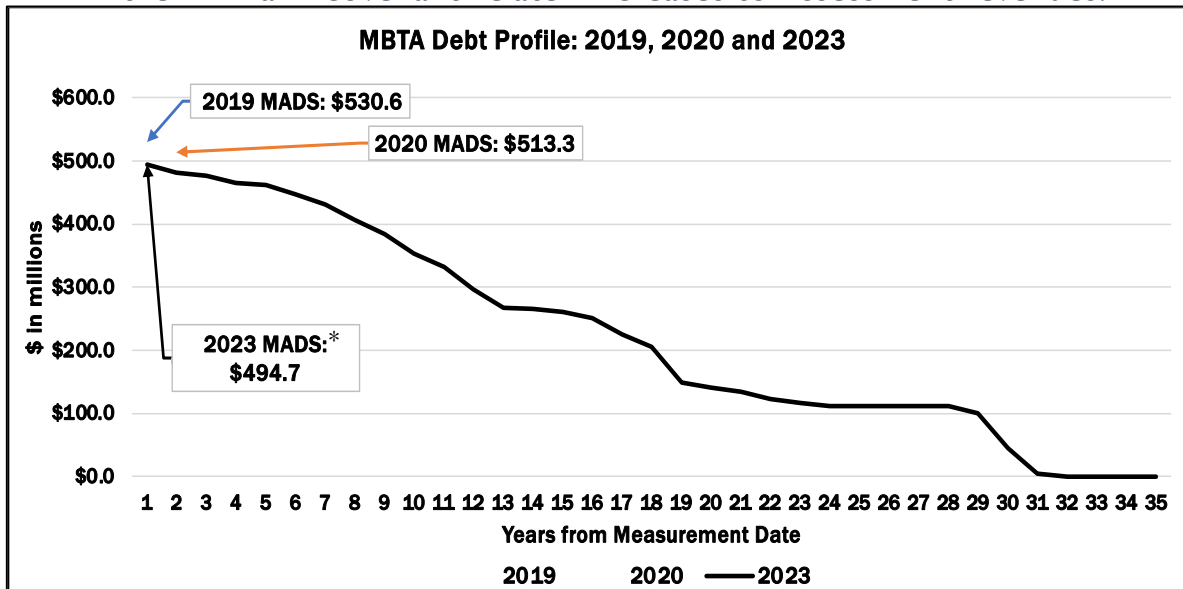


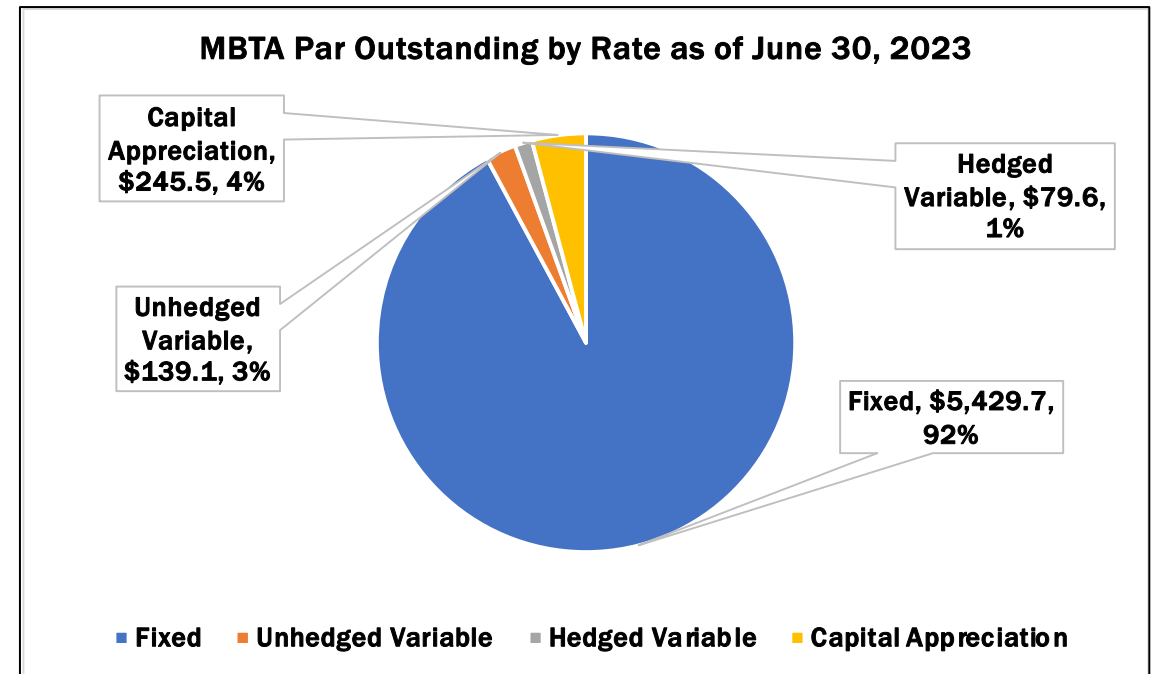
Chart Assumptions

- Minimum Coverage assumes the Base Revenue Amount (BRA) and the Assessment Floor Amount (AFA) don't grow year over year
- 2023 Coverage uses 2022 Historic Assessment Revenue as per changes to Assessment Trust Indenture

*Maximum annual debt service

ACTIONS TO MANAGE VARIABLE RATE DEBT

- Redeemed 2018 Senior variable rate bonds maturing 2023-2026
- Issued new 2022 Subordinated variable rate bonds maturing 2046-2052 years later
- Ensured consistent variable rate exposure
- Relieved MBTA of near-term amortization at a neutral net present value



IMPROVEMENT OF RATING

- Between 2020 and 2023 the MBTA was able to improve its ratings for a variety of reasons
 - Strategic medium- and long-term planning
 - Improved credit metrics
 - Updated Financial Policies approved by the Board of Directors
- In 2022, the MBTA issued Assessment Bonds with ‘AAA’ ratings from S&P Global and Fitch Ratings
- In 2023, the MBTA issued Senior Sales Tax bonds and achieved ‘AAA’ ratings from Fitch Ratings and Kroll Bond Rating Agency

Senior Sales Tax Bonds				
	Moody's	S&P	Fitch	Kroll
2020	Aa2	AA	--	--
2023	--	AA+	AAA	AAA

GENERATED ESTIMATED \$243.4M NPV SAVINGS

Fiscal Year	Transaction	Benefit to the Authority
2020	Subordinated Sales Tax Bonds, 2020B	~\$31.3 million NPV Savings
2021	Subordinated Sales Tax Bonds, 2021A & 2021B (Taxable)*	~\$97.0 million NPV Savings
	Refinanced USDOT Loan Agreement for Lower Interest Rate	~\$41.1 million NPV Savings
	Subordinated Sales Tax Bond Anticipation Notes, 2021	~\$8.5 million NPV Savings
2022	Assessment Bonds, Series 2022A	~\$30.7 million NPV Savings
	Senior Sales Tax Bonds, 2014A, 2015A, 2015B Defeasance	~\$18.6 million NPV Savings
2023	Subordinated Sales Tax Bonds, 2021B (Taxable) Defeasance	~\$3.8 million NPV Savings
	Subordinated Sales Tax Bond Anticipation Notes, 2021 Partial Defeasance	~\$12.4 million NPV Savings

Total Estimated NPV Savings	~\$243.4 million
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*In 2021, the MBTA fully refunded MBTPC parking bonds onto Subordinated Sales Tax lien for \$97 million in NPV savings, leaving the lien open but dormant, as parking garage revenues fell during COVID and risked a ratings impact

INCREASED FINANCING CAPACITY BY \$1.2B

Fiscal Year	Transaction	Benefit to the Authority
2020	Subordinated Sales Tax Bonds, 2020A (UBS Line of Credit)	\$50 million of increased capacity
2021	Increased CP Program from \$250M to \$400M, Allow Taxable CP	\$150 million of increased capacity
	Assessment Bonds, Series 2022A	~\$1 billion of increased capacity
	Senior Sales Tax Bonds, 2018A (VRDOs) Redemption	Redeem \$94.2 million due 2023-2026 and re-amortize with Sub. ST 2022A (VRDOs)
	Subordinated Sales Tax Bonds, 2022A (VRDOs)	Near term budget relief, neutral on NPV basis
2023	Senior Sales Tax Bonds, 2023A	Raised \$660 million project funds, invest DSRF funds up to maximum rate
Total Increased Financing Capacity at Current Rating		\$1.20 billion