Massachusetts Bay Transportation Authority

Issuer: Massachusetts Bay Transportation Authority		
Assigned	**Rating**	**Outlook**
Senior Sales Tax Bonds, 2025 Series A	AAA	Stable
Senior Sales Tax Bonds, 2025 Series B	AAA	Stable
Affirmed	**Rating**	**Outlook**
Senior Sales Tax Bonds	AAA	Stable
Subordinated Sales Tax Bonds (USDOT Loan)	AA+	Stable

Methodology:

U.S. Special Tax Revenue Bond Rating Methodology

ESG Global Rating Methodology

Analytical Contacts:

Peter Scherer, Senior Director
+1 (646) 731-2325
peter.scherer@kbra.com

Joanne Ferrigan, Senior Director
+1 (646) 731-1455
joanne.ferrigan@kbra.com

Douglas Kilcommons, Managing Director
+1 (646) 731-3341
douglas.kilcommons@kbra.com

Rating Summary: The long-term ratings for the Massachusetts Bay Transportation Authority's (Authority or MBTA) senior sales tax bonds and subordinated sales tax bonds (USDOT loans) reflect their respective priority of payment from pledged revenues, including dedicated sales tax receipts, before such receipts are made available for Authority operations; the historic strength and resilience of the underlying pledged revenue base; the Authority's practice of structuring annual debt service requirements below the inflation-adjusted dedicated sales tax Base Revenue Amount (BRA) which exceeds pro forma maximum annual debt service (MADS) and insulates bondholders from volatility in actual sales tax collections; the strong coverage of 4.03x senior and 3.07x combined pro forma MADS from FY 2024 pledged revenues; and, conservative, two-part additional bonds test (ABT) that includes a requirement to demonstrate that prior year sales tax receipts provide pro forma MADS coverage of at least 2.0x for senior and 1.5x for combined sales tax bonds.

Senior sales tax bonds rank first in priority of payment from the pledged revenues. USDOT loans are, in contrast, subordinate in priority of payment both to senior sales tax bonds (including commercial paper) and subordinated sales tax bonds which are not USDOT loans, although there is a springing provision in the indenture which stipulates that USDOT loans shall be secured by a first priority security interest on parity with senior sales tax bonds in the unlikely event that the Authority were to file for bankruptcy. KBRA makes a rating distinction between the senior sales tax bonds and USDOT subordinated sales tax bonds based on the difference in priority of payment (notwithstanding the springing provision) and less restrictive additional bonds test. KBRA would not expect to make a rating distinction between the subordinated and USDOT subordinated sales tax bonds given otherwise similar legal provisions.

Proceeds of the currently offered bonds will be used to fund a portion of the Authority's capital improvement program, refund commercial paper, and refund and tender certain outstanding bonds for present value savings.

The MBTA is a political subdivision of the Commonwealth of Massachusetts (Commonwealth) created in 1964 to finance and operate a mass transportation system across the greater Boston area. It operates pursuant to Chapter 161A and Section 35T of Chapter 10 of Massachusetts General Laws (collectively, the Enabling Act) and serves a territory encompassing 4.8 million people (~70% of the Commonwealth's population). The MBTA operates: (i) 76 bi-directional track miles of heavy rail routes across 52 stations; (ii) 60 bi-directional track miles of light rail routes across 70 stations; (iii) more than 1,080 buses across 1,349 bi-directional road miles; (iv) a commuter rail network comprised of 80 locomotives, 400 coaches, and 141 stations; and, (v) a range of other services including commuter boats, paratransit, and express buses.

The senior sales tax bonds are secured primarily by a pledge of: (i) the greater of the gross receipts of a 1% Commonwealth-wide general sales tax (excluding meals) plus $160 million annually (the Dedicated Sales Tax Revenue Amount, or DSTRA), and the statutory inflation-adjusted BRA (collectively, the Pledged Sales Tax) and (ii) a lien and charge on certain funds and accounts created under the sales tax bond trust agreement, including the senior sales tax bond debt service fund, senior sales tax bond debt service reserve fund and the Authority-held deficiency and maintenance funds. In addition, (iii) assessment revenues remaining after the satisfaction of obligations under the assessment bond trust agreement (residual assessments) are available to cure shortfalls in the sales tax bond trust agreement. Assessment revenues are generated from proceeds of assessments levied upon 178 municipalities in the MBTA service area. The USDOT loan is secured by the same pledged sources, but on a subordinated basis to both the senior sales tax bonds and subordinated sales tax bonds that are not USDOT loans, and excluding the balances of the debt service and debt service reserve funds (if any) specific to the senior and subordinated bonds.

Pledged sales tax revenues, which comprised 92.2% of total pledged revenues in FY 2024, are administered and collected by the Commonwealth Department of Revenue (DOR) and credited upon receipt, without appropriation, to the MBTA state and local contribution fund. Amounts deposited to the MBTA state and local contribution fund are immediately available upon request of the MBTA general manager and must be applied to senior, subordinated, and USDOT loan subordinated sales tax revenue bond debt service before becoming available for any other purpose. Assessments are also administered and collected by DOR and credited to the MBTA state and local contribution fund, without appropriation. Residual assessments, which comprised 7.8% of pledged revenues in FY 2024, are available, as needed, to cure shortfalls in the sales tax bond trust agreement, including to pay debt service on senior, subordinated, and subordinated USDOT loan sales tax revenue bonds.

The Commonwealth's economic base, throughout which the pledged taxes and assessments are levied, is characterized by stable demographics and strong per capita income. Per capita income in 2023 was 129% of the national average. Its economy is broad, demonstrably resilient, and diverse. Massachusetts is home to 16 Fortune 500 companies as of 2024, reflecting its status as a major center of commerce. It is the most populous state in New England and home to the majority of the Boston-Cambridge-Newton, MA-NH metropolitan statistical area (Boston Metro), which is the 11th most populous urbanized area in the Nation.

Pledged revenues in FY 2024 of $1.52 billion provide strong pro forma MADS coverage of 4.03x senior (FY 2029) and 3.07x combined (FY 2028) sales tax bonds. Pro forma MADS coverage of the USDOT subordinated bonds specifically is 30.04x, reflecting the large residual of pledged revenues after payment of pro forma senior and subordinated debt service and comparatively modest debt service requirements for the USDOT subordinated bonds. KBRA notes further that the guaranteed BRA pledged sales tax floor of $1.16 billion in FY 2024 alone provides pro forma coverage of 3.08x senior and 2.34x combined sales tax bond MADS.

Pledged revenues in FY 2024 were comprised of $1.40 billion in pledged sales tax revenues and $118.7 million in residual assessment revenues relative to MADS. Pledged Revenues increased at a strong 3.3% compound annual growth rate (CAGR) between FY 2001 and FY 2024, faster than the 2.4% consumer price index for all urban areas in the Nation. Pledged revenues have experienced a low level of volatility since FY 2001 declining in only two years including FY 2004 (-0.2%) and FY 2024 (-1.0%). Last year's decline reflects moderating sales tax receipts following several years of very strong stimulus and inflation-fueled growth. Sales tax receipts in the first nine months of FY 2025 through March are, in contrast, up 3.6% YoY. KBRA anticipates that receipts could again moderate in the months ahead based on tariff-related uncertainties and weakened consumer sentiment, but expects longer-term growth to remain in line with the solid historic average.

The gross nature of the pledged sales tax, as well as the availability of residual assessment receipts before becoming available for operations, substantially insulates sales tax bondholders from MBTA operations. We note nevertheless that MBTA relied on farebox revenues to support about 37% of operating expenditures in the five years preceding the COVID-19 pandemic and that the reduced ridership environment continues to pressure operations. March 2025 ridership was 30.6% below the March 2019 (same month pre-pandemic) level and was little changed YoY. MBTA was allocated a total of $1.99 billion in pandemic-related federal assistance which will be fully exhausted by FYE 2025. MBTA's FY 2025 budget was balanced with the use of $307 million in reserves or an amount equal to more than 11% of revenues. Outyear budget gaps referenced in the State's January 2025 Massachusetts Transportation Funding Task Force Report forecast gaps rising to $696 million in FY 2026 and $863 million by FY 2029. The Governor has subsequently proposed substantial Commonwealth support to stabilize the MBTA including $780 million in supplemental appropriations in FY 2025 and $780 million in appropriations from the FY 2026 budget, both of which would be paid from a portion of voter-approved 4% surtax on personal incomes over $1 million, which became effective January 1, 2023 and has to date brought in more than an additional $2 billion to the Commonwealth annually. Though not yet finalized, management expects that this support will materialize substantially as proposed and is likely to be provided through at least FY 2028, which would provide operating stability over the three-year window.

The Authority's proposed capital plan for FY 2026 through FY 2030 totals $9.8 billion, approximately $4.3 billion of which is projected to be debt financed. Management notes however that actual spending generally falls well short of budgeted levels due to the inherent complexities of developing major capital projects. Even if some or all CIP borrowing were to be funded with sales tax bonds, KBRA anticipates that leverage will remain moderate, constrained by the 2.00x senior and 1.50x combined additional bonds tests, and the need to fund a substantial portion of operations from the pledged sales tax revenues.

The Stable Outlook reflects KBRA's expectation that pledged revenues will generally continue to grow in line with the historic trend, with limited downside volatility reflecting the application of a guaranteed inflation-adjusted sales tax floor as well as the breadth, wealth, and growing economy of the underlying tax base. The Outlook also reflects the expectation that additional borrowing will be comfortably accommodated within the respective additional bonds tests and other existing financing programs.

Key Credit Considerations

The rating actions reflect the following key credit considerations:

Credit Positives

- Flow of funds requiring that pledged revenues must be used to pay debt service before being made available for other purposes insulates bondholders from MBTA operations.
- Pledged revenues provide strong coverage of both senior and combined sales tax bond pro forma MADS with residual amounts providing a substantial source of recurring financial support for capital and operating needs.
- Pledged revenue volatility is limited by the base revenue amount, an inflation-adjusted floor for pledged sales tax receipts, which at $1.16 billion for FY 2024 provides coverage of 3.08x senior and 2.34x combined pro forma MADS.
- Stable demographic trends and favorable socio-economic characteristics of tax base support growth and stability of pledged receipts.

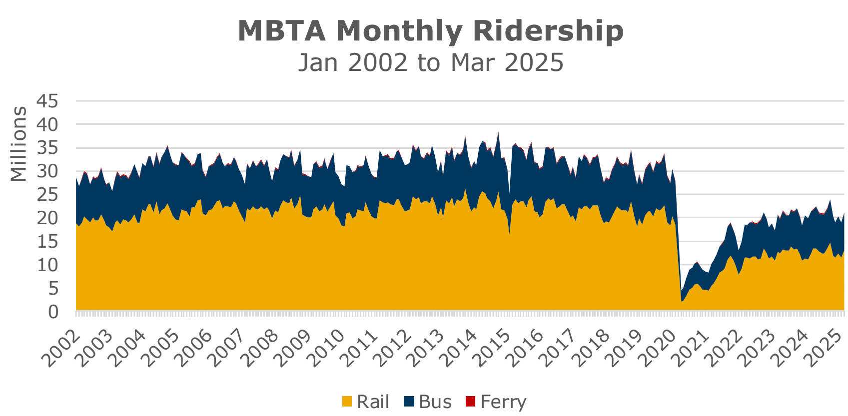
Credit Challenges

- Pledged revenues have some sensitivity to economic cycles.

Rating Sensitivities

▪ Not applicable to senior sales tax bonds given AAA rating level. A rating upgrade is not anticipated for the subordinated sales tax bonds (USDOT loans).	**+**
▪ A significant decline in debt service coverage due to very large increases in sales tax bond leverage accompanied by significant and prolonged deterioration in the sales tax base.	**-**

Key Ratios	
Pledged Revenues, FY 2024	$1.522 billion
Growth FY 2001 to FY 2024	3.3% CAGR
CPI Growth FY 2001 to FY 2024	2.4% CAGR
Pro Forma MADS Coverage from FY 2024 Pledged Revenues	
Senior	4.03x
Combined	3.07x
Pro Forma MADS Coverage from FY 2024 BRA Floor Only	
Senior	3.08x
Combined	2.34x



Source: Federal Transit Administration, National Transit Database Monthly Unlinked Passenger Ride Data

Rating Determinants (RD)	Senior	Subordinated (USDOT Loan)
1. Legal Framework	AA+	AA
2. Nature of Special Tax Revenues	AAA	AAA
3. Economic Base and Demographics	AAA	AAA
4. Revenue Analysis	AAA	AAA
5. Coverage and Bond Structure	AAA	AAA

A discussion of each rating determinant, ESG management, and KBRA's bankruptcy assessment can be found in prior reports, the most recent of which is dated December 13, 2024.

RD 4 Update: Revenue Analysis

Figure 1

Dedicated Revenues
FYE June 30 (dollars in millions)

	Dedicated Sales Tax							Residual Assessments					Total Dedicated Revenues	
FYE	Base Revenue Amount (BRA)	Δ YoY	Dedicated Sales Tax Revenue Amount (DSTRA)	Δ YoY	Excess (Deficiency) of DSTRA Over (Under) BRA	Pledged Sales Tax Available for DS	Δ YoY	Assessment Receipts[2]	Δ YoY	Assessment Bond MADS[3]	Estimated Residual Assessment Revenues Available for Sales Tax Bond DS[3]	Δ YoY	Pledged Revenues Available for Sales Tax Bond DS	Δ YoY
	a		b		b - a	Greater of a and b = **c**		d		e	d - e = **f**		c + f = **g**	
2001	$ 645.0		$ 654.6	5.3%	$ 9.6	$ 654.6		$ 144.6		$ 69.7	$ 74.9		$ 729.5	
2002	664.4	3.0%	638.8	-2.4%	(25.6)	664.4	1.5%	142.9	-1.2%	69.7	73.2	-2.3%	737.5	1.1%
2003	684.3	3.0%	639.2	0.1%	(45.1)	684.3	3.0%	141.2	-1.2%	69.7	71.5	-2.3%	755.7	2.5%
2004	684.3	0.0%	642.2	0.5%	(42.1)	684.3	0.0%	139.4	-1.2%	69.7	69.7	-2.4%	754.0	-0.2%
2005	704.8	3.0%	666.2	3.7%	(38.6)	704.8	3.0%	137.7	-1.2%	69.7	68.0	-2.5%	772.8	2.5%
2006	712.6	1.1%	684.0	2.7%	(28.5)	712.6	1.1%	136.0	-1.2%	69.7	66.3	-2.5%	778.9	0.8%
2007	734.0	3.0%	691.8	1.1%	(42.2)	734.0	3.0%	139.4	2.5%	69.7	69.7	5.1%	803.7	3.2%
2008	756.0	3.0%	690.8	-0.1%	(65.2)	756.0	3.0%	142.9	2.5%	69.7	73.2	5.0%	829.2	3.2%
2009	767.1	1.5%	647.8	-6.2%	(119.2)	767.1	1.5%	146.5	2.5%	69.7	76.8	4.9%	843.8	1.8%
2010	767.1	0.0%	637.1	-1.7%	(130.0)	767.1	0.0%	150.1	2.5%	69.7	80.4	4.8%	847.5	0.4%
2011	767.1	0.0%	654.6	2.8%	(112.4)	767.1	0.0%	150.1	0.0%	69.7	80.4	0.0%	847.5	0.0%
2012	779.1	1.6%	670.5	2.4%	(108.6)	779.1	1.6%	152.1	1.3%	69.7	82.4	2.4%	861.5	1.7%
2013	786.9	1.0%	682.0	1.7%	(104.8)	786.9	1.0%	155.9	2.5%	69.7	86.2	4.6%	873.1	1.3%
2014	799.3	1.6%	727.5	6.7%	(71.8)	799.3	1.6%	157.1	0.8%	69.7	87.4	1.4%	886.7	1.6%
2015	970.6	[1] 21.4%	924.1	[1] 27.0%	(46.5)	970.6	[1] 21.4%	160.1	1.9%	69.7	90.4	3.4%	1,061.1	19.7%
2016	986.3	1.6%	958.5	3.7%	(27.8)	986.3	1.6%	162.9	1.7%	69.7	93.2	3.0%	1,079.4	1.7%
2017	992.2	0.6%	976.8	1.9%	(15.4)	992.2	0.6%	164.0	0.7%	69.7	94.3	1.2%	1,086.5	0.7%
2018	1,006.8	1.5%	1,007.9	3.2%	1.1	1,007.9	1.6%	166.5	1.5%	69.7	96.8	2.6%	1,104.7	1.7%
2019	1,032.1	2.5%	1,053.2	4.5%	21.1	1,053.2	4.5%	170.1	2.2%	69.7	100.4	3.8%	1,153.6	4.4%
2020	1,063.0	3.0%	1,077.3	2.3%	14.3	1,077.3	2.3%	174.4	2.5%	69.7	104.7	4.2%	1,182.0	2.5%
2021	1,083.3	1.9%	1,261.4	17.1%	178.1	1,261.4	17.1%	177.9	2.0%	69.7	108.2	3.3%	1,369.6	15.9%
2022	1,095.6	1.1%	1,348.9	6.9%	253.3	1,348.9	6.9%	179.3	0.8%	69.7	109.6	1.3%	1,458.5	6.5%
2023	1,128.5	3.0%	1,424.0	5.6%	295.5	1,424.0	5.6%	183.8	2.5%	69.7	114.1	4.1%	1,538.1	5.5%
2024	1,162.3	3.0%	1,403.8	-1.4%	241.5	1,403.8	-1.4%	188.4	2.5%	69.7	118.7	4.0%	1,522.5	-1.0%
2025 Projected	1,197.2	3.0%	1,472.0	4.9%	274.8	1,472.0	4.9%	193.1	2.5%	69.7	123.4	4.0%	1,595.4	4.8%
2026 Projected	1,233.1	3.0%	1,425.0	-3.2%	191.9	1,425.0	-3.2%	193.1	0.0%	69.7	123.4	0.0%	1,548.4	-2.9%

Source: MBTA

(1) The Enabling Act was amended on October 31, 2014 to increase the annual BRA and the DSTRA amount by $160 million, replacing the annual appropriation the MBTA received from FY 2010 to FY 2014.
(2) Subject to floor of $136.027 million.
(3) Historic Residual Assessment revenues are estimated based by subtracting forward Assessment Bond MADS from total Assessment Receipts in all prior years.

RD 5 Update: Coverage and Bond Structure

Figure 2

Historic Revenues Available for Sales Tax Revenue Bond Debt Service and Pro Forma MADS Coverage
FYE June 30 (dollars in millions)

								Sales Tax Bond MADS, Cumulative to Lien Level (Pro Forma)			MADS Coverage (Pro Forma)			
FYE	MBTA Sales Tax Receipts	Base Revenue Amount	Sales Tax Available for Sales Tax Bond DS	Assessment Receipts	Assessment Bond MADS	Residual Assessment Revenues Available for Sales Tax Bond DS	Pledged Revenues Available for Sales Tax Bond DS	Senior (FY 2029)	Sub. (FY 2028)	USDOT Sub. (FY 2028)	Senior (FY 2029)	Subordinated, Lien Level (FY 2028)	USDOT Subordinated Lien Level (FY 2028)	Combined (FY 2028)
2018	$ 1,007.9	$ 1,006.8	$ 1,007.9	$ 166.5	$ 69.7	$ 96.8	$ 1,104.7							
2019	1,053.2	1,032.1	1,053.2	170.1	69.7	100.4	1,153.6							
2020	1,077.3	1,063.0	1,077.3	174.4	69.7	104.7	1,182.0							
2021	1,261.4	1,083.3	1,261.4	177.9	69.7	108.2	1,369.6							
2022	1,348.9	1,095.6	1,348.9	179.3	69.7	109.6	1,458.5							
2023	1,424.0	1,128.5	1,424.0	183.8	69.7	114.1	1,538.1							
2024	1,403.8	1,162.3	1,403.8	188.4	69.7	118.7	1,522.5	377.7	445.9	496.6	**4.03x**	**17.23x**	**30.04x**	**3.07x**

Source: MBTA