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Massachusetts Bay Transportation Authority

The 'AAA' rating on the MBTA's senior dedicated sales tax bonds reflects the strong standalone credit quality of the dedicated portion of the commonwealth's sales tax allocated to the authority. The rating incorporates leverage limitations that provide structural resilience, in light of a sizable ongoing borrowing program and relatively strong revenue growth. The bonds are insulated from both the operations of the MBTA and the commonwealth, allowing for a rating distinct from MBTA operations and linked to, but not capped by, the commonwealth's 'AA+' Issuer Default Rating (IDR).

Dedicated Tax Security

The bonds are paid from a dedicated sales tax that is equal to the greater of either a base revenue amount (BRA), that is $1.2 billion in fiscal 2026 and increases with inflation, up to 3%, and cannot be reduced, or the dedicated sales tax revenue amount (DSTRA), which is 1% of the 6.25% commonwealth sales tax, excluding meals, plus an additional $160 million annually. The lien on the pledged revenues is prior to the payment of operating expenses and is not contingent upon the authority's provision of transportation services. The bonds are further backed by assessments levied on municipalities in the MBTA service area after payment of debt service on separately secured assessment bonds.

Dedicated Tax Key Rating Drivers

Revenue Risk - 'aa'

Stable Revenue Stream with Strong Long-Term Growth: Performance of the dedicated sales tax securing the senior lien bonds is strong. Fitch assesses the revenue type at ‘aa’, reflecting the broad nature of the statewide sales tax. Fitch assesses the revenue sensitivity at ‘aa’ based on historical patterns of moderate declines and rapid recovery through the economic cycle. While the structure benefits from a revenue floor provided by the Base Revenue Amount (BRA), sales tax revenues are economically sensitive and will fluctuate with the economy and, although unlikely, could decline to that floor. Revenue growth prospects are assessed at ‘aaa’, reflecting the broad nature of the sales tax and the fundamental strength of the commonwealth's economy. This is expected to support pledged revenue growth increasing at a rate equal to, or greater than, that of national GDP growth.

Resilience - 'aaa'

Robust Coverage and Resilience: Debt service coverage is strong. Pledged revenues can absorb Fitch's standard 5% stress for the 'aa' revenue risk assessment and still provide superior coverage of the 2.5x minimum 'aaa' coverage requirement at maximum anticipated leverage of 2.67x MADS.

Exposure to Related Government

Rating Linked to State IDR: Dedicated revenues are segregated from the commonwealth general fund and do not require legislative appropriation, allowing the rating to be linked to, but not capped by, the commonwealth Issuer Default Rating (IDR, 'AA+/ROS). Linkage of the bond rating with the IDR is derived from the commonwealth's levying and collection of the tax and its ability to change the tax base, which it has done in the past. The rating is not linked to the credit quality of the MBTA, as revenues are not exposed to MBTA operations. Strong legal covenants protect against diversion of revenues or lowering of the tax rate, although the tax base can be changed.

Fitch Ratings views the statute and bond documents as meeting the conditions necessary for it to rate a dedicated tax security above the commonwealth IDR, based on the narrow statutory dedication, the specific purpose of the borrowing program, and the use of residual revenues for MBTA capital and operating expenses.

The rating is not linked to the credit quality of the MBTA, as revenues are not exposed to MBTA operations. Strong legal covenants protect against diversion of revenues or lowering of the tax rate, although the tax base can be changed.

Dedicated Tax Rating Sensitivities

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

- A longer-term slowing of dedicated revenue growth to below long-term inflation, reflecting erosion of the tax base and lowered expectations for long-term economic gains that result in coverage of maximum leverage below 2.5x from Fitch-stressed pledged revenue, which incorporates the standard 5% stress for a 'aa' Revenue Risk assessment;

- Any event that causes the subordinate lien bonds to become parity to the senior lien bonds and resulting in coverage of maximum leverage below 2.5x from Fitch-stressed pledged revenue, which incorporates the standard 5% stress for a 'aa' Revenue Risk assessment;

- Negative rating action on the commonwealth's 'AA+'/Stable IDR, although the rating on the senior lien bonds would not automatically move as the result of an IDR downgrade.

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

- Positive rating factors are not relevant given the 'AAA' rating.

Dedicated Tax Credit Profile

The bonds are paid from a dedicated sales tax that is equal to the greater of either a base revenue amount (BRA), that is certified at $1.27 billion for fiscal 2027 and increases with inflation, up to 3%, and cannot be reduced, or the dedicated sales tax revenue amount (DSTRA) which is 1% of the 6.25% commonwealth sales tax, excluding meals, plus an additional $160 million annually. The lien on the pledged revenues is prior to the payment of operating expenses and is not contingent upon the authority's provision of transportation services. The bonds are further backed by assessments levied on municipalities in the MBTA service area after payment of debt service on separately secured assessment bonds.

Dedicated sales tax revenues are deposited monthly into the MBTA state and local contribution fund (a state trust fund held by the state), and then disbursed monthly to the bond trustee. Payments for a Railroad Rehabilitation and Improvement Financing (RRIF) loan from the U.S. Department of Transportation are subordinate to both liens of the MBTA's sales tax revenue bonds, but the RRIF loan has a springing lien, if the MBTA defaults on the RRIF loan, then the obligation springs to parity with the senior lien sales tax revenue bonds.

The monthly deposit is 1/12 of the DSTRA, and the comptroller of the commonwealth conducts a quarterly calculation of the BRA and DSTRA. If the DSTRA is lower than the BRA, then the MBTA receives a true-up payment at the end of each quarter. The BRA, therefore, provides a floor of revenues in support of the bonds. Semiannual debt service payments are timed to accommodate this potential true-up. For fiscal 2027, the BRA is certified at $1.27 billion, while the DSTRA is forecast to be $1.45 billion.

Additional Key Credit Driver Commentary for Revenue Risk

Revenue risk is assessed at 'aa', reflecting the broad nature of the pledged sales tax, the limited impact of the economic cycle on revenue collections, and strong revenue growth anticipated, based on the strength of the Massachusetts economy.

Pledged revenues are derived from the broad statewide sales tax and the sales tax on motor vehicles. Massachusetts imposes a statewide sales tax at a rate of 6.25% that covers most of the economic activity of the state, excluding meals. These broad-based revenues warrant a 'aa' assessment for revenue type.

State sales tax revenues are stable relative to cyclical stress and benefit from the presence of the BRA floor. Of the two potential revenue streams, the BRA provides a floor of revenues and, therefore, limits the downside risk. From 2002 to 2017, the BRA was higher than the DSTRA, but recent strong growth in sales taxes has brought the DSTRA above the BRA. Revenues did not decline during the global financial crisis given the floor. However, with the DSTRA now above the BRA, sales tax revenues can fluctuate with the economy and, although unlikely, could decline to that floor.

Given the broad nature of the commonwealth's sales tax, Fitch considers growth prospects for the dedicated revenues supporting the bonds to be strong, similar to the economic and revenue growth prospects supporting the commonwealth's IDR. Over the 10 years ending in fiscal 2025, the state sales tax grew at a 4% CAGR, a figure driven both by underlying economic trends, as well as periodic expansions of the sales tax base, including the extension of the tax to online sellers that began in late 2019. Fitch anticipates future pledged revenue growth may moderate but will remain in line with our long-term expectations for national GDP growth.

Additional Key Credit Driver Commentary for Resilience

Strong Coverage Levels

To assess the resilience of a bond structure to potential cyclicality, Fitch considers how much coverage the structure could provide under a stress scenario given the assessed revenue risk. While the additional bonds test limits issuance to 2x MADS, the issuer has indicated that it will maintain coverage in excess of that which is required to maintain a 'aaa' resilience assessment. This would be approximately 2.63x coverage of MADS.

Fiscal 2025 pledged revenues of $1.44 billion provide 6.9x coverage of annual debt service. Using the standard 5% stress related to the 'aa' revenue risk assessment, fiscal 2025 revenues provide 2.67x coverage of maximum assumed leverage. Fitch considers the security provided by the pledged revenues to be very resilient to economic volatility, consistent with a 'aaa' assessment.

Given the springing lien on the RRIF loan that could move it into parity with the senior lien, Fitch's analysis of the resilience of the senior lien bonds' security structure also includes an all-obligations assessment with senior, subordinate, and RRIF loan. Fiscal 2025 pledged revenues covered MADS for all obligations (senior lien, RRIF loan and prior obligations) by 2.1x.

Exposure to Related Government

Fitch views MBTA's dedicated sales tax bonds as having limited exposure to the operations of the commonwealth and no exposure to that of the MBTA. Dedicated tax receipts are credited to the MBTA state and local contribution fund, a state trust fund, which is held by the commonwealth treasurer exclusively for the purposes of the MBTA and disbursed to the bond trustee on a monthly basis prior to release to the MBTA for its operations. The pledge and receipt of the dedicated sales tax, whether calculated according to the DSTRA or the BRA, is not contingent upon provision of transportation services.

State and local contribution fund revenues are not commingled with other commonwealth funds and are not subject to appropriation. Bondholders have a first claim on the dedicated sales tax. Strong statutory covenants protect against diversion of revenues or lowering the dedicated tax rate, although the base can be changed.

Fitch Ratings views the statute and bond documents as meeting the conditions necessary for it to rate a dedicated tax security above the commonwealth IDR. While sales tax revenues are a broad revenue source, the allocation of one cent of the total sales tax and the leverage limitations imposed by the ABT significantly narrow the scope of the pledged revenues. Specific uses for bond proceeds are defined in statute and are limited to the MBTA's capital plan. Residual revenues are retained by the MBTA for capital and operating expenses.

Additional Security Features

Bonds are additionally backed by excess revenues pledged to support separately secured assessment bonds of the MBTA. Excess revenues are available to cure any deficiencies in the dedicated sales tax bond structure.

Additional Credit Factors (ACFs)

Fitch has applied an ACF with positive influence for revenue control, given the demonstrated ability and willingness of the Commonwealth of Massachusetts to actively manage pledged revenues. The commonwealth added $160 million to pledged revenues, whether the DSTRA or the BRA, to support authority operations and capital plan.

The commonwealth has also demonstrated support for the MBTA's operations and capital plan through the dedication of approximately 50% of the 4% “Fair Share” surtax on high income taxpayers to the MBTA. For fiscal 2025, the MBTA received $680 million in Fair Share revenue.

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Economic Resource Base

The commonwealth has a broad and wealthy economy. Education levels are high and, although population growth is below the U.S. average, it is strong for the Northeast region. The strength of the commonwealth's healthcare, technology and education sectors has supported GDP growth comparable with that of the nation over time and leaves it well positioned for solid future gains. Measured by per-capita personal income, Massachusetts is the second wealthiest state in the nation.

Ratings

Long-Term IDR	AA+
Outlooks	
Long-Term IDR	Stable

New Issues

$767,375,000 Massachusetts Bay Transportation Authority Senior Sales Tax Bonds, 2026 Series A	AAA
$10,000,000 Massachusetts Bay Transportation Authority Senior Sales Tax Bonds, Variable Rate Demand Obligations, 2026 Series B (Federally Taxable)	AAA

Sale Date

Series A July 8

Series B July 21

Outstanding Debt

Issuer Ratings Information

Applicable Criteria

U.S. Public Finance Dedicated Tax and Revenue Bond Rating Criteria (May 2026)
U.S. Public Finance State Governments and Territories Rating Criteria (May 2026)

Related Research

Fitch Rates MBTA's $777 Million Senior Sales Tax Bonds 'AAA'; Outlook Stable; Removes UCO (June 2026)

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