Massachusetts Bay Transportation Authority – Sales Tax

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METHODOLOGY

Public Finance: U.S. Special Tax Revenue Bond Rating Methodology

Ratings

Description	Rating Action	Rating/Outlook or Watch
Issuer: Massachusetts Bay Transportation Authority		
Senior Sales Tax Bonds, 2026 Series A	Assigned	AAA/Stable
Senior Sales Tax Bonds	Affirmed	AAA/Stable
Subordinated Sales Tax Bonds (USDOT Loans)	Affirmed	AA+/Stable

Rating Summary

The long-term ratings continue to reflect the priority of payment of Senior Sales Tax Bonds and Subordinated Sales Tax Bonds (USDOT Loans) from Pledged Revenues, including dedicated sales tax receipts, before such receipts are made available for Massachusetts Bay Transportation Authority (Authority or MBTA) 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 maximum annual debt service (MADS) and insulates bondholders from volatility in actual sales tax collections; the strong coverage of pro forma senior (3.67x) and combined (2.87x) MADS from FY 2025 pledged revenues; and, a conservative, two-part additional bonds test (ABT) that includes a requirement to demonstrate that prior year sales tax receipts provide MADS coverage of at least 2.0x for senior and 1.5x for combined Sales Tax Bonds.

Proceeds from currently offered Senior Sales Tax Bonds (Bonds) will be used to fund a portion of the Authority's capital improvement plan, refund commercial paper, and refund and tender certain outstanding bonds for present value savings. A portion of proceeds will additionally be used to pay the costs of issuance.

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 (none rated by KBRA) which are not USDOT Loans, although there is a springing provision in the indenture which stipulates that USDOT Loans will 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 subordinated USDOT Loans 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 Sales Tax Bonds and subordinated USDOT Loans given otherwise similar legal provisions.

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). As of 2025 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.

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 Fund and Capital Maintenance Fund. 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. Subordinated Sales Tax Bonds (USDOT Loans) are secured by the same pledged sources, but on a subordinated basis to both the Senior Sales Tax Bonds and Subordinated Sales Tax Bonds, and excluding the balances of the debt service and debt service reserve funds (if any) specific to the Senior Sales Tax and Subordinated Sales Tax Bonds.

Pledged sales tax revenues, which comprised 92% of total Pledged Revenues in FY 2025, 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 for 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 8% of pledged revenues in FY 2025, are available, as needed, to cure shortfalls in the Sales Tax Bond Trust Agreement, including to pay debt service on Senior Sales Tax, Subordinated Sales Tax, 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 2024 was 128% of the national average. Its economy is broad, demonstrably resilient, and diverse. Massachusetts is home to 18 Fortune 500 companies as of 2025, 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 2025 of $1.57 billion provide strong pro forma MADS coverage of 3.68x senior (FY 2029) and 2.88x combined (also FY 2029) Sales Tax Bonds. The guaranteed BRA pledged sales tax floor of $1.20 billion in FY 2025 alone provides coverage of 2.80x senior and 2.20x combined sales tax bond MADS.

Pledged Revenues in FY 2025 were comprised of $1.44 billion in pledged sales tax revenues and $123.4 million in Residual Assessments relative to MADS. Pledged Revenues increased at a strong 4.0% compound annual growth rate (CAGR) over the last decade through FY 2025, faster than the 3.1% 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%), the latter of which reflected moderating sales tax receipts following several years of very strong stimulus and inflation-fueled growth. Sales tax receipts in the first ten months of FY 2026 through April were down 0.2% YoY. KBRA anticipates that receipts will generally fluctuate mildly with the economic cycle 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. KBRA notes 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 current reduced ridership environment continues to pressure operations. April 2026 ridership was 20.1% below the April 2019 (same month pre-pandemic) level, an improvement of 4.8 percentage points from one year prior. MBTA was allocated $1.99 billion in pandemic-related federal assistance which was fully exhausted in FY 2025.

MBTA's FY 2026 budget was balanced with $780 million in supplemental appropriations from the State derived from a portion of the voter-approved 4% surcharge on personal incomes over $1 million and the use of $168 million in reserves. As of May 21, 2026, management forecast a $239 million drawdown in fund balance in FY 2026 before application of $300 million from the Commonwealth for deficiency fund replenishment from the Commonwealth's Fair Share receipts. The deficiency fund balance is projected to increase 16.4% YoY to $433 million, or an amount equivalent to 16.8% of current-year operating expenses.

The Governor has proposed substantial continuing Commonwealth support to stabilize the MBTA in FY 2027, including $470 million in contract assistance and $450 million in additional operating and capital support from the Fair Share supplemental budget. This level of support would fully address the projected operating shortfall for the year and continue MBTA's progress toward fiscal stability.

The Authority's proposed capital plan for FY 2027 through FY 2031 totals $9.96 billion. The plan does not specify what portion of this spending is to be debt financed, but management indicates that the current plan is to issue $3.13 over the next five fiscal years. Management notes 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.

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 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 $1.20 billion for FY 2025 provides coverage of 2.80x senior and 2.20x combined pro forma MADS.
- Stable demographic trends and favorable socio-economic characteristics of tax base support growth and stability of pledged receipts.

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Credit Challenges

- Pledged revenues have some sensitivity to economic cycles.

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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).

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- While not anticipated, a significant decline in debt service coverage due to very large increases in sales tax bond leverage accompanied by prolonged, material deterioration in the sales tax base.

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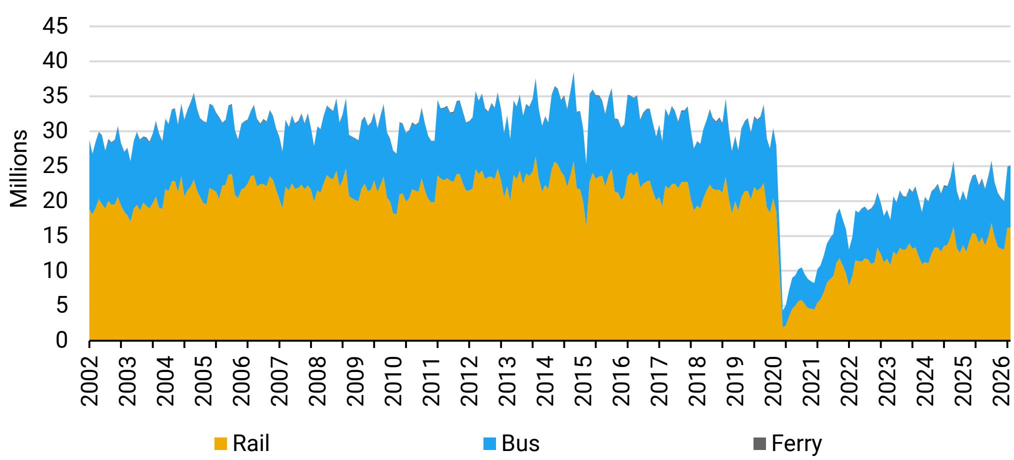
Key Ratios

Pledged Revenues, FY 2025	**$1.567 billion**
Growth FY 2015 to FY 2025	4.0% CAGR
CPI Growth FY 2015 to FY 2025	3.1% CAGR
Pro Forma MADS Coverage from FY 2025 Pledged Revenues	
Senior	3.67x
Combined	2.87x
Pro Forma MADS Coverage from FY 2025 BRA Floor Only	
Senior	2.80x
Combined	2.20x

MBTA Monthly Ridership Jan 2002 to Apr 2026



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

Rating Determinants

	Senior	Subordinate (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 and KBRA's Bankruptcy Risk Assessment can be found in prior reports, the most recent of which is dated May 16, 2025.

RD 4: Revenue Analysis Update

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	$1,197.2	3.0%	$1,443.1	2.8%	$245.9	$1,443.1	2.8%	$193.1	2.5%	$69.7	$123.4	4.0%	$1,566.5	2.9%

(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.

Source: MBTA

RD 5: Coverage and Bond Structure Update

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 Pro Forma MADS, Cumulative to Lien Level			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 (FY 2026)	Residual Assessment Revenues Available for Sales Tax Bond DS	Pledged Revenues Available for Sales Tax Bond DS	Senior (FY 2029)	Sub. (FY 2029)	USDOT Sub. (FY 2029)	Senior (FY 2029)	Combined (FY 2029)
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					
2025	$1,443.1	$1,197.2	$1,443.1	$193.1	$69.7	$123.4	$1,566.5	$426.9	$494.5	$545.2	**3.67x**	**2.87x**

Source: MBTA

Doc ID: 1015617