Research Update:

Massachusetts Bay Transport Authority, Series 2026A Senior Sales Tax Bonds Rated 'AA+'

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Overview

- S&P Global Ratings assigned its 'AA+' long-term rating to the **Massachusetts Bay Transportation Authority**'s (MBTA) series 2026A senior sales tax bonds.
- At the same time, we affirmed our 'AA+' long-term rating on the MBTA sales tax bonds outstanding, our 'AA+/A-1' dual rating on MBTA's variable-rate demand purchase debt, our 'A-1+' short-term rating on the authority's commercial paper (CP) program, and our 'AA+' long-term rating on a U.S. Department of Transportation third-lien Railroad Rehabilitation and Improvement Financing (RRIF) loan agreement for MBTA's commuter rail safety and resiliency program.
- The outlook is stable.

Rationale

Security

The series 2026A senior sales tax bonds and parity debt are secured by a gross pledge of the greater amount of either a 1% statewide sales tax (excluding sales tax on meals) plus $160 million of additional state sales taxes per year, or an inflation-adjusted sales tax revenue base amount distributed by Massachusetts. In addition, the surplus assessments on 178 cities and towns are pledged to the senior sales tax bonds, after payment of debt service on separate MBTA assessment bonds that have a first lien on that revenue. Neither the pledged dedicated sales tax amount or the base amount needs legislative appropriation to pay debt service.

MBTA also has subordinate second-lien loans and transportation RRIF loan agreements outstanding that are secured by the sales tax pledge but are subordinate to the senior sales tax bonds. Th subordinate sales tax pledge consists of the same revenue pledged to the senior sales tax bonds, after payment of senior-lien sales tax bond debt service and senior-lien debt service reserve fund (DSRF) replenishments, if any. The RRIF loans are secured by third-lien sales tax revenue after payment of the subordinate sales tax bonds. The RRIF loan agreement also specifies that the loan's junior lien changes to parity with senior-lien bondholders if MBTA files for bankruptcy or initiates bankruptcy-like actions; however, we believe that MBTA, as a state agency, is not permitted to file for bankruptcy under the federal bankruptcy code.

MBTA issued the series 2026A bonds to finance projects under the authority's capital program and refund some bonds outstanding.

Credit highlights

Our long-term rating on MBTA's sales tax bond is based on the pledge of the state to pay the guaranteed base revenue amount to the authority, which we view as stronger compared to the pledge of MBTA's sales tax revenue. Currently, we view the pledge of state-guaranteed base revenue amount as having stronger credit quality because it is backed by the commonwealth's guarantee to make payments without the risk of appropriation. The senior and subordinated sales tax bonds outstanding will continue to have an open lien, permitting further debt issuance using the additional bonds test (ABT) coverage of 2x and 1.5x, respectively. Consequently, we expect debt service coverage (DSC) based on pledged revenue to remain strong and stable in the near term for all liens.

Our 'AA+' rating on Massachusetts' GO debt is supported by its strong economic metrics, with very high per capita income compared with that of the nation, partially due to the large presence of high-tech companies in the Boston metropolitan statistical area (MSA). The rating further reflects our view of some historical cyclicality in financial results driven by volatile revenue sources, although recent strong growth in tax collections and federal aid have led to large operating surpluses and reserves. It also reflects our view of the commonwealth's high debt, pension, and other postemployment benefits (OPEB) liabilities, with a history of paying less than the full annual actuarial recommendations to its pension and OPEB funds.

Factors supporting the 'AA+' rating include our view of Massachusetts':

- Deep and diverse economy and income levels that are among the highest in the nation, with per capita incomes averaging approximately 129% of the national level since 2021;
- History of timely revenue and expenditures monitoring, and ability to take swift action when needed to make adjustments;
- Well-balanced institutional framework that supports predictability, structural balance, and revenue-raising autonomy;
- Strong financial, debt, and budget management policies, including annualized formal debt affordability statements and multiyear capital investment planning;
- Steady financial performance and historically high budget stabilization fund reserves equal to about 12% of revenue, positioning Massachusetts to manage future fiscal pressures; and
- High debt, pension, and OPEB liabilities that could escalate future costs.

Combined sales tax revenue coverage from all liens of senior sales tax and subordinate sales tax bonds is very strong. However, we believe the ABT for the pledged revenue weakens future coverage due to the authority's large capital improvement plan (CIP) and additional borrowing needs. Given the reliance on pledged revenue for MBTA operations, we do not expect the authority to diminish coverage below strong levels on the senior and subordinated liens.

For more information on the commonwealth, see our recent report on Massachusetts, May 28, 2026.

Environmental, social, and governance

We consider Massachusetts' physical risks moderately negative in our credit rating analysis for the pledged revenue because of the commonwealth's coastal exposure to rising sea level. With about two-thirds of its population in the Boston MSA and substantial property value within the combined Boston and Cape Cod areas, the commonwealth is exposed to significant economic disruption following a high-impact event. However, Massachusetts has been addressing environmental risks since 2004 through its Clean Energy Climate Plan, which it regularly updates to meet its needs, and has historically maintained a stable management and policy framework to respond to developing risks. We view social and governance risks as neutral.

Outlook

The stable outlook reflects our view of Massachusetts' underlying economy and very strong reserves, despite its economically sensitive revenue.

Downside scenario

We could lower the rating if revenue weakens and we believe Massachusetts will fail to make the necessary budget adjustments to maintain structural balance or strong reserves. We could also take a negative rating action if Massachusetts sees significant growth in debt or other fixed costs, or a significant decline in pension funding due to falling significantly behind required contributions.

Upside scenario

We could raise our rating if Massachusetts significantly reduces its pension and debt obligations while demonstrating commitment to strong budgetary policies and pension funding discipline, especially during periods of economic contraction. We could also raise our rating on the senior-lien bonds should pledged sales tax revenue increase significantly and senior-lien bonds maximum annual debt service (MADS) coverage grows and is sustained at levels we consider extremely strong, despite existing ABT requirements.

Credit Opinion

Sales tax pledge

The senior and subordinated sales tax bonds are backed by a lien on the 1% statewide sales tax (excluding sales tax on meals) plus $160 million per year of the commonwealth's sales tax, with excess sales tax revenue funding sales tax debt service along with the assessment revenue after debt service funding MBTA general operations.

We view the volatility of the pledged revenue as low given its relative stability. The 1% pledged sales tax, plus $160 million per year, is part of the commonwealth's overall 6.25% sales tax rate. Despite declines during the Great Recession, sales tax revenue has risen considerably in recent years, with average annual growth of 5.2% from fiscal years 2015-2025. Additionally, we view the guaranteed base amount of pledged sales tax revenue as providing more stability should pledged sales tax revenue decrease or fail to keep pace with inflation.

The ABT requires either 1.0x coverage of combined senior and subordinated sales tax bond MADS using the base revenue amount, or 2.0x coverage of senior and 1.5x coverage of combined senior and subordinated sales tax bond debt service by historical sales tax revenue. Because the ABT allows MBTA to issue additional sales tax bonds if MADS at least equals the base revenue amount, we believe this could weaken coverage and weakens our view of the provisions. The third-lien sales tax revenue pledge is closed, but the authority is able to issue senior-lien debt.

Although current DSC is strong across all liens, we believe coverage could potentially weaken due to the authority's large CIP. However, given MBTA's reliance on pledged revenue for its operations, we do not expect the authority to dilute coverage below strong levels on the senior and subordinated liens. In 2024, MBTA received bondholder consent to convert the senior sales tax bond DSRF requirement to an aggregate amount from a per-series requirement. The bondholder consent also allows the authority to choose not to fund a DSRF on future senior bond issuances. The series 2026A senior sales tax bonds will not have a DSRF.

Combined MADS coverage for the senior and subordinated sales tax bonds is very strong, in our opinion, calculated at 2.6x based on historical fiscal 2025 pledged actual sales tax revenue, and 2.1x based on the 2025 certified state-guaranteed base revenue amount. Budgeted pledged sales tax revenues for 2027 are expected to cover MADS on all liens at about 3.01x. MBTA anticipates about $3.8 billion of its current CIP through 2031 will be funded from its own resources, which could include additional debt issuance. We believe the lack of a DSRF on the bonds is mitigated by strong DSC.

Massachusetts Bay Transport Authority--coverage metrics

	Senior sales tax	Subordinate sales tax	Third-lien (RRIF) sales tax
Coverage and liquidity	Strong	Strong	Adequate
Baseline coverage assessment	Other	Other	Other
MADS coverage (x)	3.39	2.92	2.54
MADS year	2029	2029	2030
Annual debt service coverage (x)	6.47	5.34	3.93
2-year pledged revenue change (%)	1.34	1.34	1.34
Bond provisions			
ABT (x)	2.01x	1.50	
ABT type	MADS	MADS	Closed
ABT period	Historical	Historical	Historical
DSRF type	Other	None	None

Data points and ratios may reflect analytical adjustments. MADS-Maximum annual debt service. ABT--Additional bonds test. DSRF--Debt service reserve fund. Debt service based on priority lien on sales tax revenue.

Base revenue amount

The commonwealth created a formula for a guaranteed base amount of pledged sales tax revenue should revenues fall or fail to keep pace with inflation. This base amount was raised by an extra $160.0 million in fiscal 2015, and increases annually by the Boston Consumer Price Index (CPI) rate of up to 3% per year; however, if the CPI increase is less than 3% but exceeds the sales tax rate increase, the base amount increases by the rate of increase in sales tax). If neither the CPI nor the sales tax increase in a given year, the base amount is held flat for that year. The base amount for fiscal 2027 risen to $1.3 billion compared with $799 million in fiscal 2014. MBTA also receives other commonwealth money and federal revenue that are not pledged to the sales tax bonds.

Variable-rate debt and swaps

The authority has $95 million in unhedged subordinated sales tax variable-rate demand obligations (VRDO) and authorization for up to $500 million of subordinated CP bond anticipation notes, all secured by sales tax revenue. MBTA plans to issue an additional $10 million in VRDO bonds in the current fiscal year.

MBTA has an interest rate swap agreement with a notional amount of $49.3 million as of June 2026. The authority is not required to begin posting collateral for any of its swap agreements in the event of negative swap valuations until the rating on the sales tax bonds falls below 'A'. Immediate swap termination events with notice do not go into effect unless the rating on either MBTA or Massachusetts falls below 'BBB-', although certain swap termination events with notice can occur if the rating on the sales tax bond falls below 'A-'. Any swap termination payments would be subordinate to payment of sales tax bond debt service. We believe that termination events are unlikely at the current ratings.

MBTA operations

MBTA runs the oldest and fifth-largest transit system in the country, providing subway, bus, and commuter rail services throughout eastern Massachusetts. Prior to the COVID-19 pandemic, the authority reported an estimated 1.3 million passenger trips each business day. It operates more than 38 miles of rapid-transit rail and 26 miles of light rail routes. Additionally, MBTA provides other passenger services, including commuter ferries. Its service area has expanded to 178 cities primarily in the greater Boston MSA, extending north to the New Hampshire border, west to Worcester, and south into Providence, Rhode Island, serving a total population of about 4.8 million.

MBTA was created in 1964 and was placed under the control of a state oversight board following various operational issues in 2015. The oversight board expired June 30, 2021, and MBTA governance went to the Massachusetts Department of Transportation, although MBTA exists as a separate legal entity within the department. However, following the Enabling Act amendment in 2021, the authority has a separate seven-member governing board, five of whom are appointed by the governor. The Enabling Act does not provide for MBTA to be a debtor under the federal bankruptcy code.

The authority’s fiscal 2026 adopted budget contains operating expenses (excluding debt service) of approximately $2.683 billion and debt service of $560 million. The authority generates revenues from its transportation system operations, including both fare revenues and nonfare revenues (derived from parking, advertising, and real estate), budgeted at approximately $533 million for fiscal 2026. The authority also generates other nonoperating revenues, such as investment earnings, and federal and state assistance.

MBTA estimates a five-year (2027-2031) CIP of $10.3 billion. The CIP includes a portion of the funding of the authority's $2.1 billion green line rail extension, which will also receive funding from federal and local sources. MBTA expects approximately $3.8 billion of its current five-year CIP will be funded with its own sources, $2.1 billion from the commonwealth’s resources including transportation bond issuances, and $4.2 billion from federal assistance.

Commercial paper

Our rating on the CP is based on MBTA’s ability to refund the CP with subordinated sales tax bonds, and not solely on TD Bank N.A.'s liquidity support, due to various provisions allowing the expiration of the bank lines on certain credit events. The authority maintains CP programs under the sales tax bond trust agreement in the aggregate principal amount not to exceed $500 million, as expanded by a series established in 2025.

The credit line covers each series' aggregate principal amount of authorized CP, plus 270 days of interest at the maximum permitted rate of 9.0%. The credit lines can be terminated prior to their expiration dates upon certain events, including if MBTA fails to pay any amount of principal or interest on any CP or parity obligations; if one of three rating agencies lowers the subordinated sales tax bond parity rating below investment-grade or suspends a rating; if MBTA starts a case of bankruptcy; or if MBTA or the commonwealth imposes a debt moratorium, among other events. Loan amounts under the facility agreement are subject to acceleration in the event of nonpayment of subordinate bond principal or interest. If f the agreement is suspended due to events other than nonpayment of principal and interest, loan amounts are repayable with a three-year term-out on a parity basis with the subordinated sales tax bonds outstanding at an interest rate of 4.0% above a base rate.

Ratings List	
New Issue Ratings	
US$905.31 mil sr sales tax bnds (Massachusetts) ser 2026A due 07/01/2066	
Long Term Rating	AA+/Stable
Ratings Affirmed	
Multiple Revenue Stream	
Massachusetts Bay Transp Auth, MA Sales Tax 1st Lien and Special Assessments 2nd Lien	A-1+
Massachusetts Bay Transp Auth, MA Sales Tax and GO	AA+/Stable
Massachusetts Bay Transp Auth, MA Unlimited Tax General Obligation and Massachusetts TIFIA/RRIF Sales Tax 3rd Lien	AA+/Stable
Massachusetts MA, Commercial Paper Program 2nd Lien	A-1+
Strong Link Massachusetts Bay Transp Auth, MA Sales Tax 1st Lien and Unlimited Tax General Obligation	AA+/Stable

The ratings appearing below the new issues represent an aggregation of debt issues (ASID) associated with related maturities. The maturities similarly reflect our opinion about the creditworthiness of the U.S. Public Finance obligor's legal pledge for payment of the financial obligation. Nevertheless, these maturities may have different credit ratings than the rating presented next to the ASID depending on whether or not additional legal pledge(s) support the specific maturity's payment obligation, such as credit enhancement, as a result of defeasance, or other factors.