



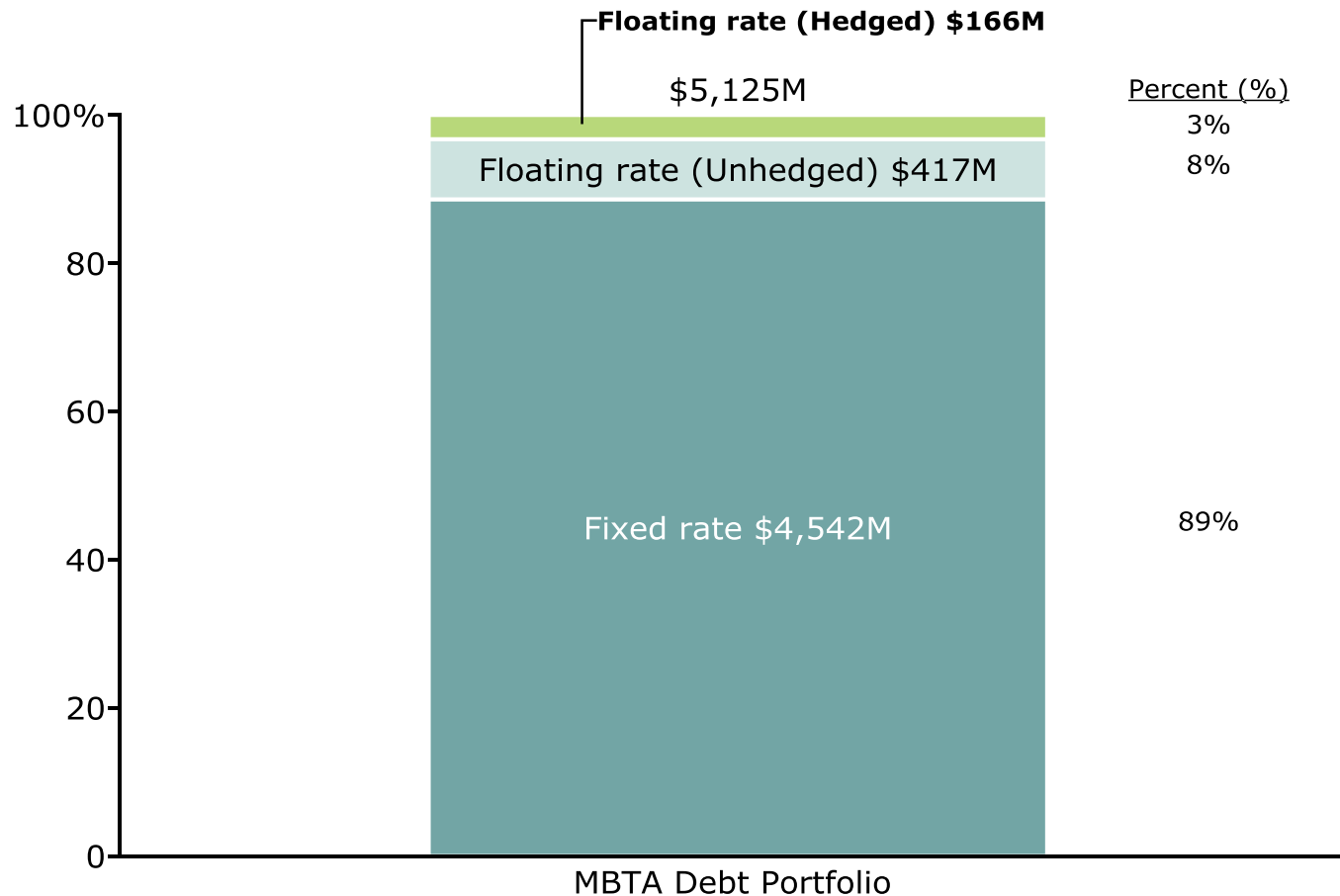
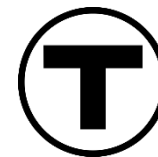
**Massachusetts Bay
Transportation Authority**

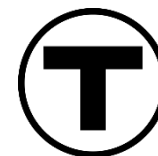
Interest Rate Swap Portfolio

Amendment Opportunity

January 2017

MBTA has a Total of \$5.1B in Outstanding Debt as of 12/5/2016





After terminating five interest rate swaps in May 2016, three remain in place

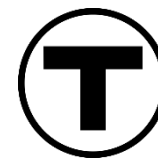
Maturity	Counterparty	Current Mark-to-Market*	Pay	Receive
2020	Morgan Stanley	(\$1,677,000)	4.13%	CPI + 79bps
2022	JP Morgan	(\$8,218,000)	5.20%	SIFMA
2030	JP Morgan	(\$29,332,000)	5.61%	SIFMA

- Since the MBTA is not posting collateral to JP Morgan or Morgan Stanley, both banks are exposed to MBTA non-repayment (i.e. credit) risk
- Due to the size of its mark-to-markets and related risk, JP Morgan has the largest incentive to terminate or amend the contracts
- There are two ways in which the MBTA can capitalize on this:
 - (1) Terminate the swaps at a discount**
 - (2) Pay down the fixed rate at a discount (recommended)**

FMCB approval is required to amend the existing interest rate agreements

*From MBTA perspective. As of 1/6/2017.

Comparison of Options



(1) Cost of Swap Termination

Maturity	Counterparty	Pay	Fair Value	Cost to Terminate
2022	JP Morgan	5.20%	(\$8,218,000)	(\$7,930,000)
2030	JP Morgan	5.61%	(\$29,332,000)	(\$28,300,000)
			(\$37,550,000)	(\$36,230,000)

- Discount of approximately 4.00%
- Size of reduction in future liabilities is uncertain

(2) Cost to Pay Down Fixed Rate to 2.00% (Recommended)

Maturity	Counterparty	Pay	Fair Value	Cost to Amend
2022	JP Morgan	5.20%	(\$6,717,000)	(\$6,640,000)
2030	JP Morgan	5.61%	(\$27,687,000)	(\$26,487,000)
			(\$34,404,000)	(\$33,127,000)

- Discount of approximately 4.00%
- Reduce expected future liabilities by \$35,665,000
- Remain protected against rising interest rates

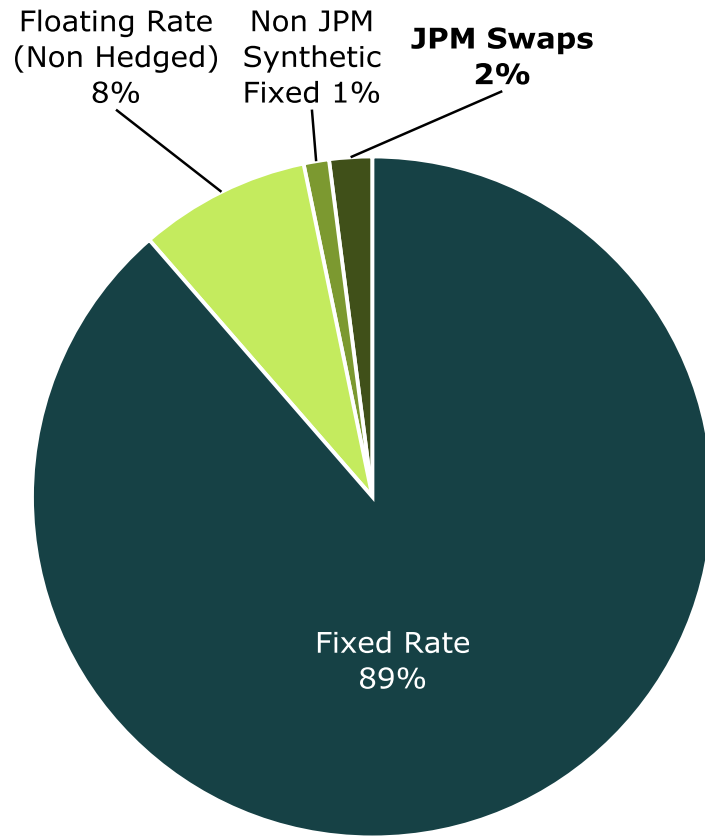
Values as of 1/6/2017



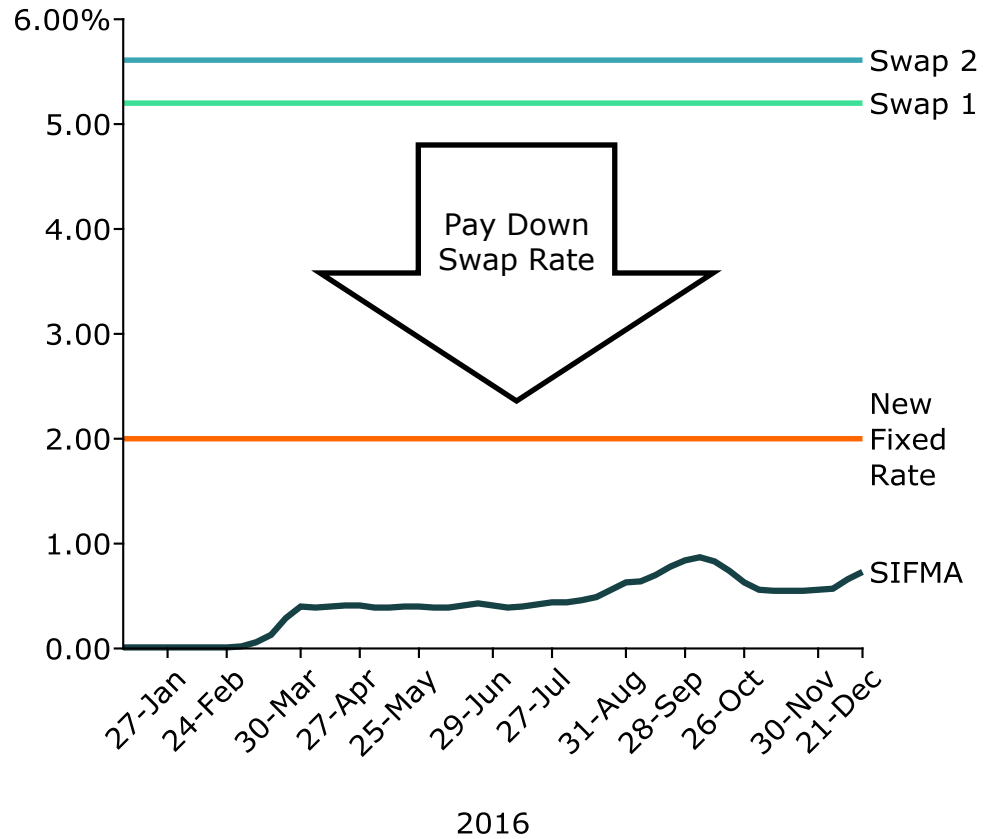
- Transaction is in compliance with the Scope, Permitted Uses, Authority, Procedure and Documentation guidelines established in the MBTA Master Swap Policy drafted on June 20, 2016
- The MBTA retains the ability to terminate the swap at a future date
- Cash from the Deficiency Fund will be used to make the amendment payment

Deficiency Fund Balance	
Current Balance	\$ 39,405,000
Initial Outlay	<u>\$ (33,127,000)</u>
Ending Balance	\$ 6,278,000

JP Morgan Swaps hedge 1/5th of Variable Rate Debt



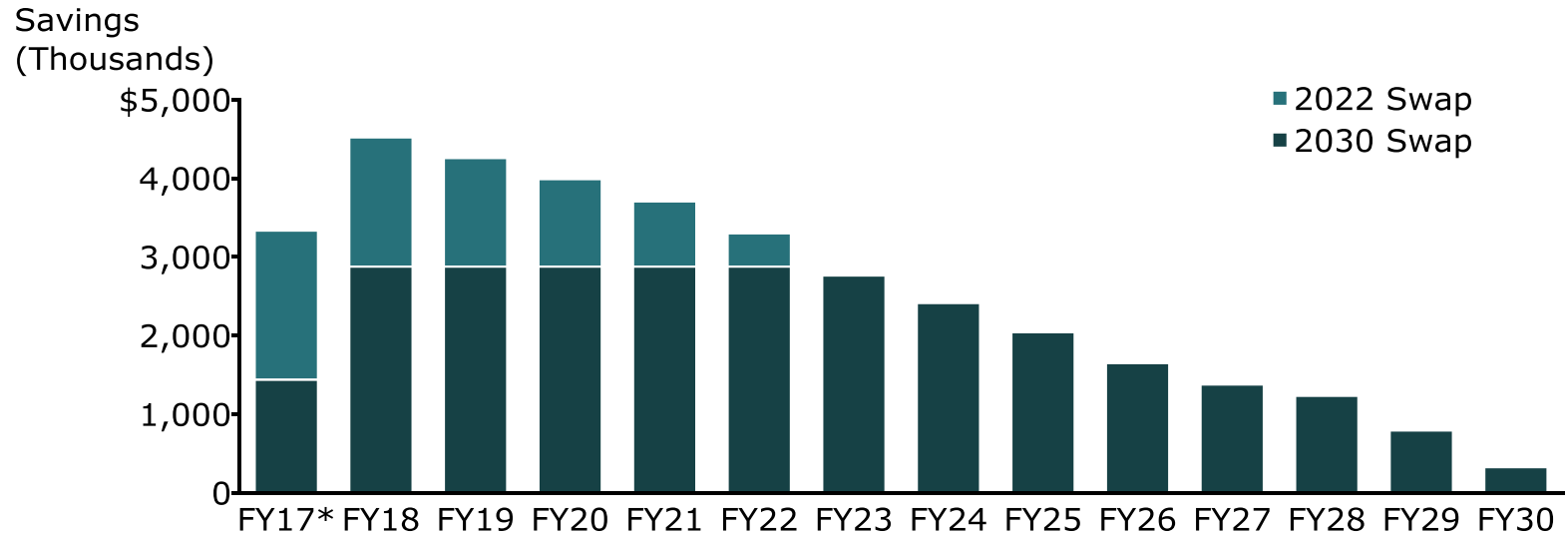
SIFMA Rates Weekly



Savings produced by Paying Down Swap through FY30



Projected Savings by Year



*Savings Feb16-Jun17 are exclusive of amendment payment



MASSACHUSETTS BAY TRANSPORTATION AUTHORITY FISCAL AND MANAGEMENT CONTROL BOARD

VOTED: That the members of the FMCB hereby authorize the Chief Administrator, the Chief Financial Officer and the Treasurer (each, an “Authorized Officer”) of the MBTA to amend one or both of the existing interest rate swap agreements between the MBTA and J.P. Morgan Chase to reduce the fixed rate payable by the MBTA under the respective swap agreement, on such terms recommended by the MBTA’s independent swap advisor, Omnicap Group LLC, and approved by an Authorized Officer, acting singly, such approval to be evidenced by the execution thereof by such Authorized Officer, and to take all actions necessary or convenient to effect such terminations, including making a payment to JP Morgan Chase in an amount not to exceed \$34 million.

VOTED: That the preceding vote shall take effect upon passage.