



**Massachusetts Bay
Transportation Authority**

PTC Loans

Discussion and Request for Vote

November 2017



The MBTA has the opportunity to lock in a low long-term borrowing rate for PTC expenses. These loans represent the first combined TIFIA and RRIF commitment and incorporates requirements of the FTA and FRA.

Overview of Loans

- Transportation Infrastructure Finance and Innovation Act (“TIFIA”) is a federal credit program which supports infrastructure projects of regional and national significance.
- Railroad Rehabilitation and Improvement Financing (“RRIF”) is a federal credit program which provides assistance for development of railroad infrastructure.
- Loan commitment amounts:
 - TIFIA: \$162 million
 - RRIF: \$220 million
- Loans may be drawn in full before December 31, 2021.
- Amortization begins in 2022, with final maturity on July 1, 2039.

Positive Train Control (“PTC”) Project Finance Plan

- Project expenses will be paid with ‘Interim Financing’, which consists of Bond Anticipation Notes (BANs) that were issued in September, along with Commercial Paper (CP).
 - Upon project completion, TIFIA / RRIF loans will be drawn and proceeds used to pay down BANs and CP.
 - TIFIA / RRIF loans are the largest source of financing. Other sources include federal grants and an MBTA contribution/local match.
 - Loans are to be paid back with sales tax revenue.
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Federal Loan Procurement Timeline



The loan procurement process began in early 2016. Closing is scheduled for November 21, subject to board approval.

Date	Event
August 9, 2016	MBTA submits RRIF pre-application worksheet
November 21, 2016	MBTA submits TIFIA letter of interest
July 13, 2017*	MBTA submits separate TIFIA and RRIF applications
August 17, 2017	Application deemed complete
October 10, 2017	MBTA approved as a borrower under TIFIA and RRIF
November 1, 2017	Rating agencies review loans
November 13, 2017	FMCB and MassDOT Board review
November 21, 2017	Anticipated loan closing date

*Negotiation around loan terms began upon application submission and continued until rating agency review



On October 12, the MBTA issued \$271 million of Bond Anticipation Notes (BANs) to interim finance the PTC project. The MBTA utilized its Subordinate Sales Tax lien for the BANs issuance.

Proceeds of BANs issuance, along with Commercial Paper, will be used to pay PTC project expenses until substantial completion.

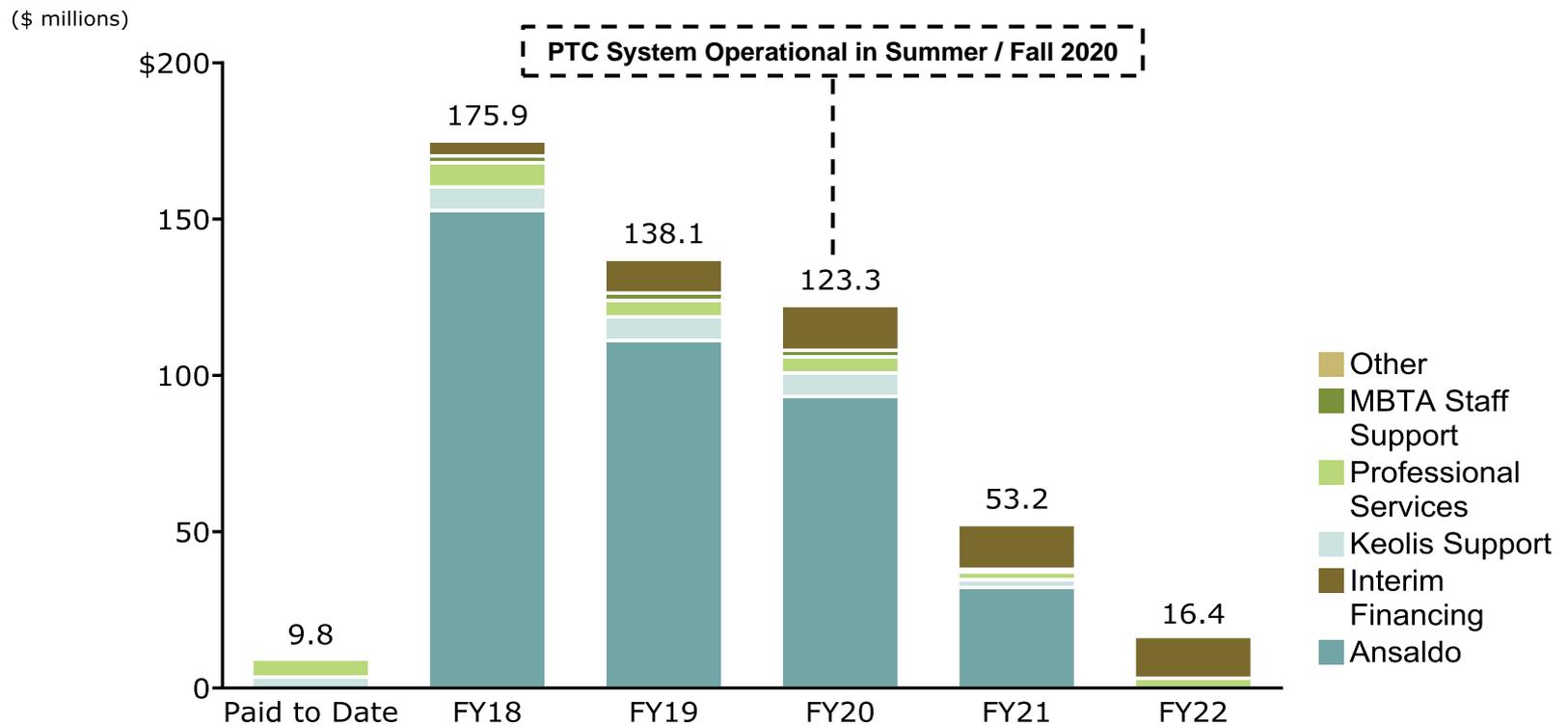
- Recently issued BANs will mature December 2021. Then-current market conditions will dictate whether the MBTA draws on TIFIA/RRIF loans.
 - If the prevailing market environment makes drawing on the TIFIA/RRIF loans favorable, BANs will be taken out by loan funds.
 - However, if a long-term MBTA issuance offers economic advantages, proceeds from a future, traditional bond offering will take out BANs.
- The MBTA replenished commercial paper capacity through its recent issuance and has \$250 million available for PTC expenses.
- Recent BANs issuance and traditional bond issuance are secured by the MBTA's Subordinated Sales Tax lien. The lien was rated AA by Standard and Poor's and Aa3 by Moody's in September 2017.
- PTC Loan Account is a sub-account within the Subordinate Sales Tax lien.

Estimated Project Expenditures



Project costs will be paid on an interim basis with BANs proceeds through Fiscal Year 2022.

PTC Cash Flow Requirements

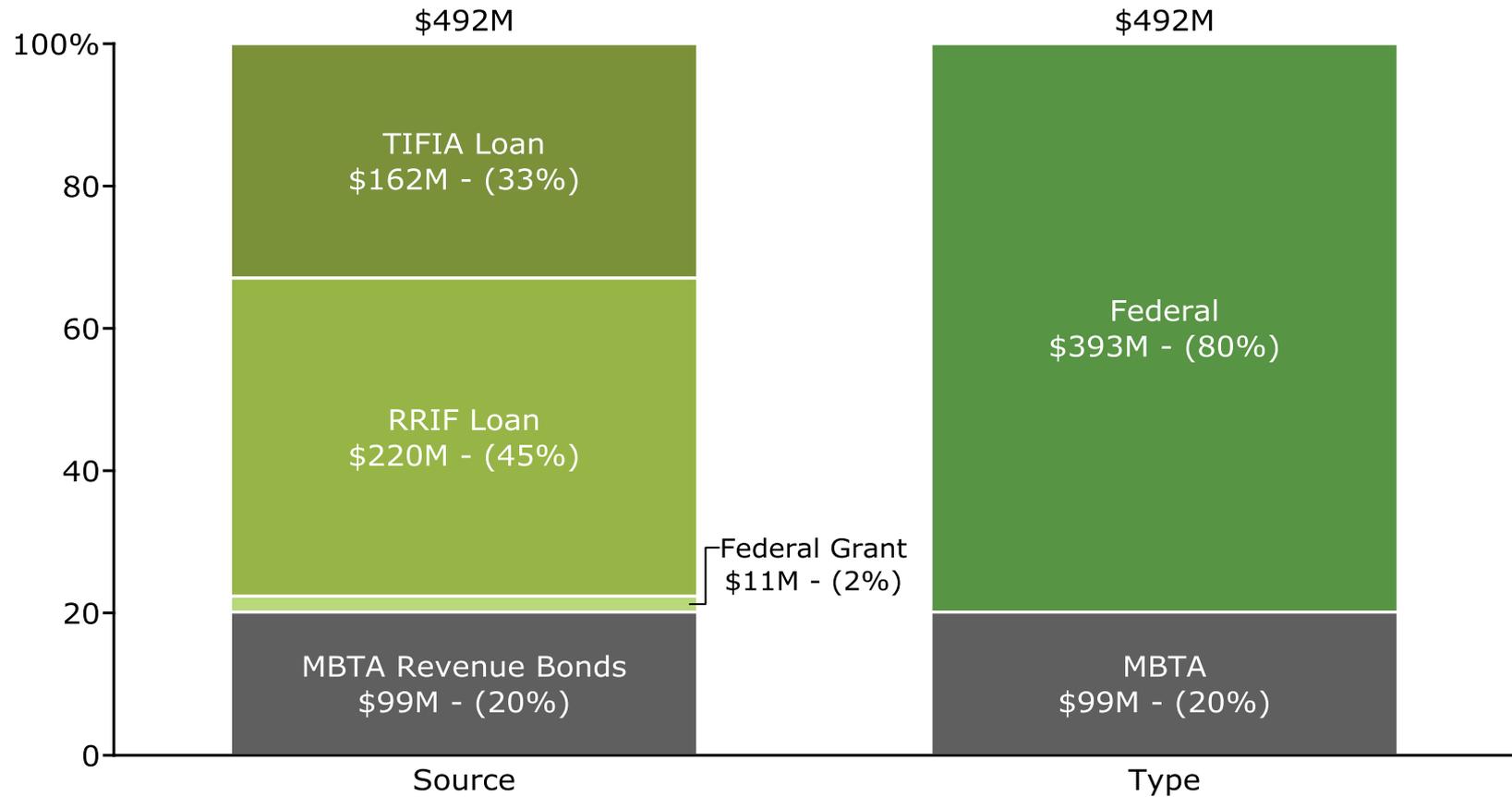


Long Term Project Financing



The estimated project cost of implementing the PTC system is \$516 million. Financing is comprised of TIFIA, RRIF, Federal Grants, and MBTA contributions.

PTC Financing Sources



Loan Overview and Key Terms



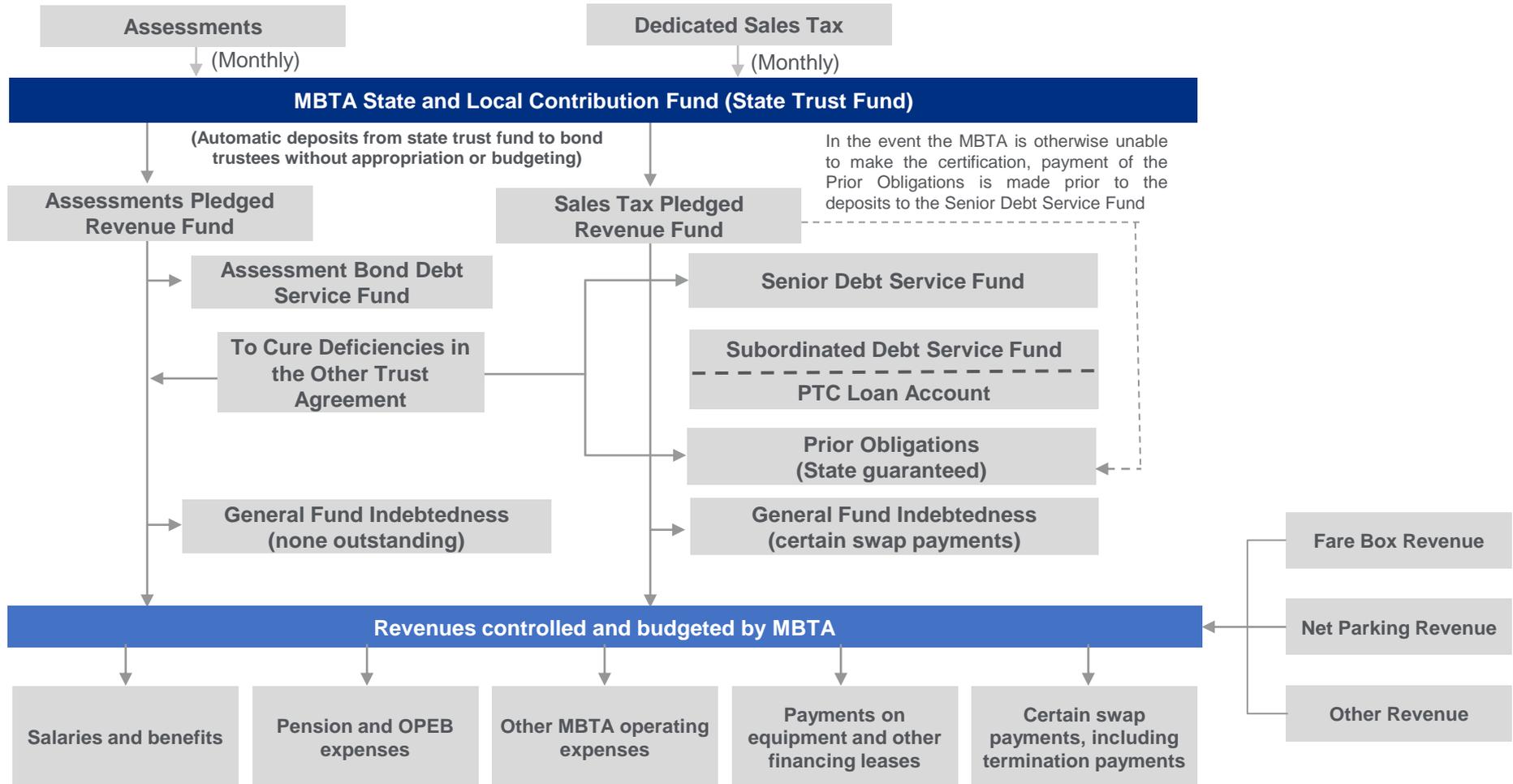
Loans represent the first combined TIFIA and RRIF commitment from the U.S. Department of Transportation and incorporates both FTA and FRA requirements.

- Loan are secured with a lien on a newly created account in the Subordinated Debt Service Fund under the Sales Tax Trust Agreement evidenced by issuance of Subordinated Sales Tax Bonds to the U.S. Department of Transportation
 - Loans may be prepaid in whole or in part at any time without penalty.
 - Repayment of TIFIA and RRIF funds to occur *pro rata*.
 - Loans include a non-subordination or “springing lien” clause stating that the federal loan cannot be subordinated to senior debt in the event of bankruptcy, liquidation or default.
 - Final maturity date matches useful life of underlying assets. Peer agencies have arrived at similar useful life estimates for PTC assets.
 - Coverage tests include variable rate provision. Variable interest rate assumptions increase to Revenue Bond Index rate should the rating on Senior Sales Tax Bonds fall below the third highest rating of Nationally Recognized Rating Agency.
 - Loans will be scaled down should the scope of I-ETMS or other project components be reduced.
 - Draws of loan funds is contingent on substantial project completion which is defined as the utilization of PTC during revenue service operations on some portion of the North and South sides of the MBTA commuter rail system.
 - Loans require periodic reporting prior to drawdown in December 2021 and ongoing surveillance afterward.
 - Loan term is equal to or less than the life of assets being financed
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MBTA System Flow-of-Funds



The PTC Loan Account is a closed lien that sits within the Subordinate Sales Debt Service Fund. The federal government is paid after Senior Sales Tax and Subordinate Sales Tax bondholders.

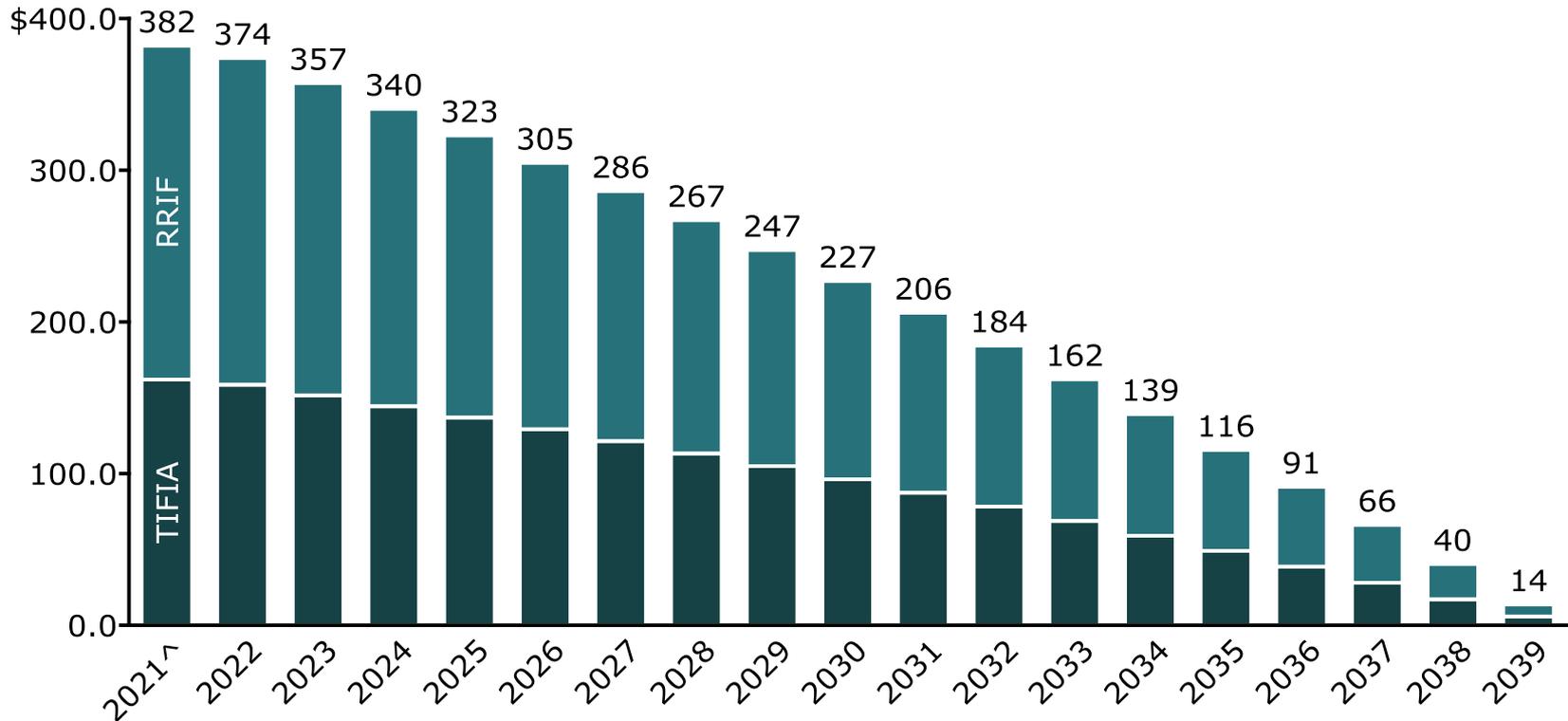


Loan Amortization



Both TIFIA and RRIF loans amortize between 2020 and 2038.

Annual Loan Balances*



*Balances as of the beginning of Fiscal Year

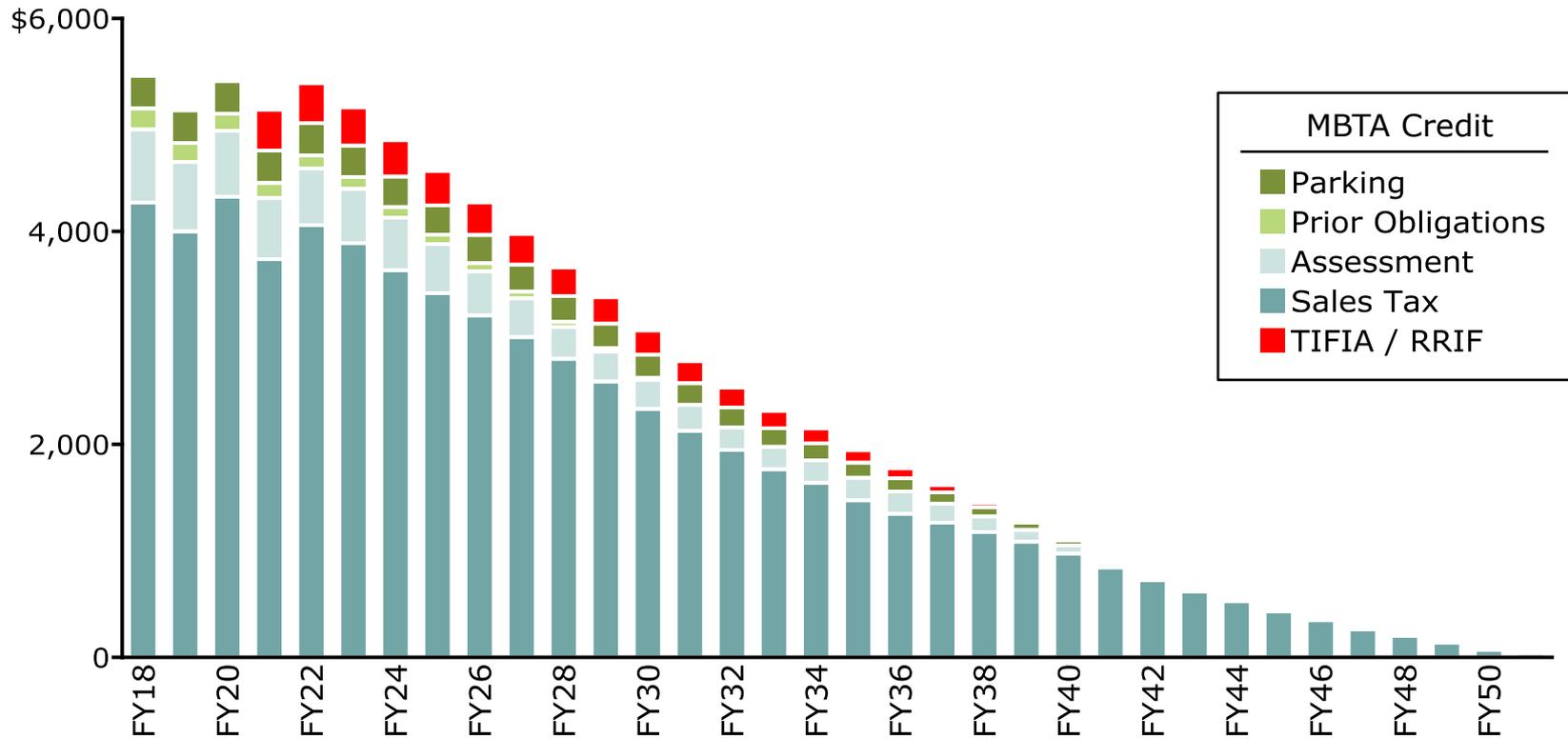
^Represents initial loan amount, prior to amortization, which begins in FY22

Debt Portfolio Amortization



PTC loans do not make a significant impact on the structure of overall MBTA debt portfolio.

Outstanding Principal (\$ millions)



Recommend and Approve Proposed Debt Issuance



Please reference the vote language in the board package, provided by Mintz Levin. Note these obligations have not changed.

MASSACHUSETTS BAY TRANSPORTATION AUTHORITY FISCAL AND MANAGEMENT CONTROL BOARD

The votes provide for the FMCB to recommend the MassDOT Board approve and the MassDOT Board to approve:

- The Plan of Finance recommended by loan arranger, Citigroup.
- TIFIA/RRIF Loan Agreement between MBTA and US Department of Transportation.
- Issuance of Not to Exceed \$382,000,000 of Subordinated Sales Tax Bonds.
- Thirty-Seventh Supplemental Trust Agreement providing for the issuance of the Bonds.
- Sale of the Bonds to USDOT.
- Authorize General Manager, Chief Administrator and Chief Financial Officer to deliver and execute any documentation to effectuate completion of transactions.