S&P Global
Ratings

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Summary:

Massachusetts
Massachusetts Bay Transportation Authority; State Revolving Funds/Pools

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Massachusetts		
Massachusetts Bay Transp Auth (Massachusetts) assess bnds st revolv funds / pools		
Long Term Rating	AAA/Stable	Affirmed

Rationale

S&P Global Ratings has affirmed its 'AAA' rating on Massachusetts' assessment bonds issued for the Massachusetts Bay Transportation Authority (MBTA). The outlook is stable. At the same time, we have withdrawn our ratings on MBTA's series 2000A and 2008A assessment bonds because they are no longer outstanding.

The 'AAA' ratings reflect our opinion of the following:

- A very strong enterprise risk profile, which includes the effects of a negative adjustment given for geographic concentration;
- An extremely strong financial risk profile, reflecting its loss coverage score (LCS), operating performance, and financial policies; and
- A one-notch positive adjustment due to both the ability of the cash flows to withstand a default rate much higher than the one needed to support an extremely strong LCS and a pledged assessment payment mechanism that generally ensures timely payments.

Because we view securitizations backed by pools of public-sector assets as highly sensitive to country risk, the rating on the securitization is capped at two notches above the sovereign. However, no specific sovereign default stress is applied, given the U.S. sovereign rating is 'AA+'.

The bonds are secured by assessments levied on 176 member towns, surplus revenues released after debt service is paid on MBTA's sales tax bonds, and pledged reserve funds. Under the enabling act, neither assessments nor sales taxes can be reduced or diverted, and neither is subject to annual appropriation. Total assessment bonds outstanding were $651 million as of the fiscal year ended June 30, 2019.

We view the enterprise risk profile of the program as very strong, based on the combination of the low industry risk profile for municipal pools and the program's market position, which we consider extremely strong. The MBTA was created in 1964 as a political subdivision of the commonwealth. It finances and operates mass transportation facilities within its territory and, to a limited extent, beyond. Debt service coverage (DSC) generated each year effectively creates a large equity position, in our view, since each year the large amount of pledged revenues (assessments and excess sales tax revenues after payment of debt service on MBTA's sales tax bonds) that are collected far exceed annual debt service payments, and those excess payments remain with the authority to be used for operations or any other authority purpose. The very strong enterprise risk profile includes the effects of applying an adjustment for geographic concentration since the MBTA's service area serves one metropolitan area.

We view the financial risk profile of the program as extremely strong, based on the combination of the extremely strong LCS, extremely low default and delinquency rate, and adequate management policies.

Annual assessments are levied on municipalities in the MBTA service area. The assessments were guaranteed to equal approximately $136 million annually since fiscal year 2006, and, as per the enabling act, escalate annually at the lesser of the previous year's inflation rate or 2.5%. For fiscal 2019, the MBTA collected a total of $170.1 million in assessments; for fiscal 2020, it estimates the assessment to be about $174 million. Coverage of maximum annual debt service (MADS) from the minimum statutory amount of $136 million is 1.9x, while coverage of 2020 expected revenues to MADS will be 2.5x.

The presence of a debt service reserve (DSR) totaling about $29 million also helps support credit quality, in our view. A DSR equal to 50% of the lesser of 10% of the original net proceeds from the sale of such series, 125% of average annual debt service for such series, or MADS must be maintained. To the extent that the amount on deposit in the DSRF is less than the DSRF requirement, the MBTA is required to restore the amount on deposit in that fund.

The level of over-collateralization resulting from assessments, excess sales tax revenues after payment of sales tax bond debt service, and the DSRF is consistent with an extremely strong LCS.

We believe the MBTA's financial policies and practices are adequate. Assessments are paid monthly, and the local aid intercept can be used any time that assessments are not paid in full to the authority. The authority has a five-year capital improvement plan (CIP) that management updates annually. The authority has its own investment policy, and management reviews investment reports no less than monthly.

Management has also indicated that there have been no assessment defaults or delinquent payments.

Program and assessment bond characteristics

MBTA is the oldest and fifth-largest transit system in the country, operating subway, bus, and commuter rail service throughout eastern Massachusetts. Created in 1964, it is a political subdivision of the commonwealth. A board of five directors is appointed by the governor and manages the MBTA. Directors are appointed to four-year terms. The board appoints a general manager and other officers. An advisory board consists of a representative of each of the cities and towns paying assessments.

The MBTA is responsible for an estimated 1.3 million passenger trips every business day. It owns more than 1,000 buses, which cover routes totaling 763 miles. Commuter rail service runs between Boston and 134 outlying rail stations. In addition, the MBTA provides a broad range of other passenger services, including commuter boats. The territorial area of the MBTA includes 176 cities and towns directly or indirectly receiving service. The service area is primarily the greater Boston MSA, extending north to the New Hampshire border, west to Worcester, and south into Providence, R.I. The MBTA currently employs approximately 5,440 full-time and about 600 part-time employees.

The five largest assessments are as follows: Boston (51% of assessments), Cambridge (6%), Newton (3%), Somerville (3%), and Brookline (3%).

Under both the assessment bond and sales tax bond trust agreements, surplus revenues released from either the assessment bond or sales tax bond flow of funds are available to fund shortfalls in either trust agreement prior to remittance to the MBTA. Additionally, under the enabling act, neither revenue stream can be reduced or diverted and neither is subject to annual appropriation. As mentioned above, a local aid intercept is available in the event of nonpayment by a community, although there are other competing programs that also have the ability to intercept state aid (e.g., Massachusetts Clean Water Trust and Massachusetts Water Resources Authority), and the priority of the intercept has never been legally determined.

Management has indicated that it has no current plans to issue additional assessment bonds within the timeframe of the MBTA's 2020-2024 $8 billion CIP. An additional bonds test requires that the assessment floor amount of $136 million must equal at least 1.2x MADS, and the sum of the assessment floor amount plus the residual sales tax must be at least 1.5x MADS.

Outlook

The stable outlook reflects our expectation that assessments, excess sales tax collections, and reserve funds will continue to provide over-collateralization consistent with the rating level.

Downside scenario

Barring any significant deterioration in assessment collections or additional unforeseen and large debt plans secured by assessments, we do not foresee the rating or outlook changing within the two-year outlook horizon, especially given the importance of the MBTA's functions and the large equity positions created from excess revenues that are pledged to bondholders, namely assessments and excess sales tax revenues, after debt service is paid on the authority's sales tax bonds.