

Rating Action: Moody's assigns Aa2/VMIG 1 to MBTA's Senior Sales Tax Bonds (VRDO) 2018 Series A

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New York, June 22, 2018 -- Moody's Investors Service has assigned a Aa2/VMIG 1 rating to the Massachusetts Bay Transportation Authority's (MBTA) \$191.2 million Senior Sales Tax Bonds Variable Rate Demand Obligations, 2018 Series A, Subseries A-1 and Subseries A-2. The outlook is stable.

RATINGS RATIONALE

MBTA's Aa2 senior lien rating reflects the sound coverage of debt service provided by a minimum floor of sales tax revenue guaranteed by the Commonwealth of Massachusetts (Aa1 stable). The rating also reflects satisfactory bondholder protections, MBTA's manageable, yet growing, long-term liabilities and its ongoing efforts to improve operations.

The short-term VMIG 1 ratings on the 2018 Series A, Subseries A-1 and A-2 (the Bonds) will each be supported by a standby bond purchase agreement (SBPA) provided by State Street Bank and Trust Company (the Bank). The short-term rating on each Series is based on (i) the short-term Counterparty Risk Assessment (CR Assessment) of the Bank, (ii) the long-term rating of the Bonds, and (iii) Moody's assessment of the likelihood of an early termination of the SBPA without a mandatory tender. Events which could lead to the immediate termination of the SBPAs without a mandatory tender are directly related to the credit quality of the Massachusetts Bay Transportation Authority. Accordingly, the likelihood of any such event occurring is reflected in the long-term rating assigned to the Bonds. The Bank's short-term CR Assessment is currently P-1(cr).

RATING OUTLOOK

The stable outlook reflects our view that despite MBTA's operating pressures, bondholders are protected by the Commonwealth-guaranteed sales tax floor. Recent changes to MBTA's oversight and management structure have started to yield efficiencies, improving its strained financial operations.

FACTORS THAT COULD LEAD TO AN UPGRADE - Long Term

- Significant increase in pledged revenues and maintenance at higher coverage levels
- Stronger bondholder protections, such as a higher additional bonds test
- Continued operational improvement, including reduction of annual structural operating deficit, progress towards reducing capital backlog and/or evidence of ongoing state support

FACTORS THAT COULD LEAD TO AN UPGRADE - Short Term

- Not applicable

FACTORS THAT COULD LEAD TO A DOWNGRADE - Long-Term

- Significant additional leveraging of sales tax revenues that leads to lower debt service coverage
- Economic decline across Massachusetts
- Operating strain, including an inability to reduce structural deficit, growing capital needs and/or reduced state support

FACTORS THAT COULD LEAD TO A DOWNGRADE - Short Term

- downgrade of the short-term CR Assessment of the Bank.
- downgrade of the long-term rating of the Bonds.

LEGAL SECURITY FOR LONG TERM BONDS

The senior sales tax bonds are secured by a first claim, before transit operations, on 1% of statewide sales tax allocated from the Commonwealth of Massachusetts' existing sales tax (currently 6.25%), plus an additional \$160 million annually. The bonds also have a subordinate lien on assessment revenues that are paid by cities and towns located in the authority's territory after assessment bond debt service. Additional security is provided by a Base Revenue Amount (BRA) providing a guaranteed floor on sales tax amounts pledged to the MBTA.

LIQUIDITY SUPPORT FOR TENDERS

The Bank may automatically terminate or suspend its obligation to purchase the Bonds pursuant to each SBPA if:

- an event of insolvency occurs with respect to the Authority;
- any principal or interest on the Bonds or parity debt is not paid when due by the Authority;
- the long-term rating assigned to the Bonds or any parity debt is suspended, withdrawn for credit-related reasons or reduced below investment grade by each rating agency then rating such debt;
- the Authority repudiates its obligations under the SBPA, the Bond Indenture, the Sales Tax Trust Agreement, the Bonds or any parity debt;
- the Authority claims that any provisions that provide for the payment of principal or interest on the Bonds, the Sales Tax Trust Agreement or any parity debt is not valid or binding on the Authority or repudiates or contests any such payment provision;
- a court or governmental authority finds that the SBPA, the Bond Indenture, the Sales Tax Trust Agreement or the Bonds or any provision thereof that provide for the payment by the Authority of principal or interest on the Bonds is not valid or binding on the Authority; or
- a final, nonappealable judgment for the payment of money in excess of \$10,000,000 remains unpaid for a period of 60 days.

The Bonds will initially bear interest in the weekly rate mode with interest paid semiannually on each January 1 and July 1. The Bonds may be converted, in whole, to the daily or fixed rate modes. Upon conversion, the Bonds will be subject to mandatory tender at a purchase price of par plus accrued interest. Moody's short-term rating will only apply to Bonds in the weekly rate mode.

Purchase price for Bonds in the weekly rate mode that are tendered will be paid from remarketing proceeds and, to the extent that remarketing proceeds are not available, from a draw under the applicable SBPA.

Bondholders may optionally tender Bonds in the weekly mode on any business day with seven days prior notice. Such notice of optional tender shall be delivered to the trustee and remarketing agent. The Bonds will be subject to mandatory tender: (a) on each interest rate conversion date; (b) on the fifth (5th) business day preceding the expiration or termination of each SBPA; and (c) on the substitution date of the SBPA.

Each SBPA will cover full principal of the Bonds plus 187 days of interest at 10%, the maximum rate applicable to the Bonds. The SBPAs will be available to pay purchase price to the extent remarketing proceeds are insufficient. Each SBPA provides coverage for the Bonds while they are in the weekly rate mode only.

Draws made under each SBPA received by the Bank at or prior to 12:00 p.m., NY time, will be honored by 2:30 p.m., NY time, on the same business day. Draws made under each SBPA will be reinstated upon reimbursement.

The Bank's commitment under each SBPA will terminate upon the earliest of: (a) the stated expiration date of the SBPA (July 2, 2023); (b) the date on which no Eligible Bonds remain outstanding; (c) the date the Authority voluntarily terminates the SBPA; and (d) the date the available commitment and the Bank's obligation to purchase Bonds under the SBPA is terminated in its entirety (including for immediate termination of the SBPA due to one of the immediate termination events described above or termination of the SBPA with notice from the Bank to the trustee due to an event of default under the SBPA).

USE OF PROCEEDS

The bonds will take out privately placed debt issued by the authority in 2017.

PROFILE

The MBTA is the oldest and fifth largest transit system in the country, providing transportation service through subway, trackless trolley, trolley, bus and commuter rail service throughout the eastern portion of Massachusetts. There are approximately 1.3 million passenger trips on average per business day and MBTA operates over 38 miles of rapid transit rail routes. Service is also provided by streetcars and light rail vehicles on 26 miles of additional rail routes.

METHODOLOGY

The principal methodology used in the long-term ratings was US Public Finance Special Tax Methodology published in July 2017. The principal methodology used in the short-term rating was Variable Rate Instruments Supported by Conditional Liquidity Facilities published in March 2017. Please see the Rating Methodologies page on www.moodys.com for a copy of these methodologies.

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The person who approved the long-term ratings is Timothy Blake, MD-Public Finance, Municipal Supported Products, Journalists: 1-212-553-0376, Client Service: 1-212-553-1653. The person who approved the short-term ratings is Joann Hempel, VP-Sr Credit Officer, Municipal Supported Products, Journalists: 1-212-553-0376, Client Service: 1-212-553-1653.

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