



**Massachusetts Bay
Transportation Authority**

Issuance of Long-Term Debt

Finance and Audit Committee

Patrick Landers

April 13, 2020

Long-Term Debt Issuance Summary

The MBTA is requesting authorization to issue Subordinated Sales Tax Bonds in amounts sufficient to accomplish the following:

MBTA Subordinated Sales Tax, 2020 Series	Amount	Original Final Maturity Date	New Bonds Final Maturity Date	Comments
New CIP Spending	\$200.0	-	2050	Fixed rate
Repay Commercial Paper*	\$125.0	-	2050	Fixed rate, CP capacity back to \$250 million
Refund Series 2010 Series A – Variable Rate	\$80.3	2030	2030	Converting variable rate to fixed rate bonds
Refund Series 2010 Series B – Fixed Rate	\$65.0	2035	2035	Locking in fixed rate debt service savings
Total	\$470.3			

*Current amount of outstanding commercial paper.

FMCB Recommendation and MassDOT Board Approval Required

Refunding Bonds

Refund Series 2010B Sales Tax Bonds - \$65 million

- Callable on 7/1/2020

Refund Series 2010A Sales Tax Windows Bonds - \$80.255 million

- Recent resets unfavorable
- Unique structure with very limited buyer base

Repay commercial paper - \$125 million

- The MBTA has made three draws and has been rolling the maturities:
 - \$50 million (May 2019)
 - \$25 million (January 2020)
 - \$50 million (February 2020)
- The MBTA has the capacity for \$250 million for commercial paper and may draw upon that in advance of long-term debt issuance.

Bond issuance total: Approximately \$470 million



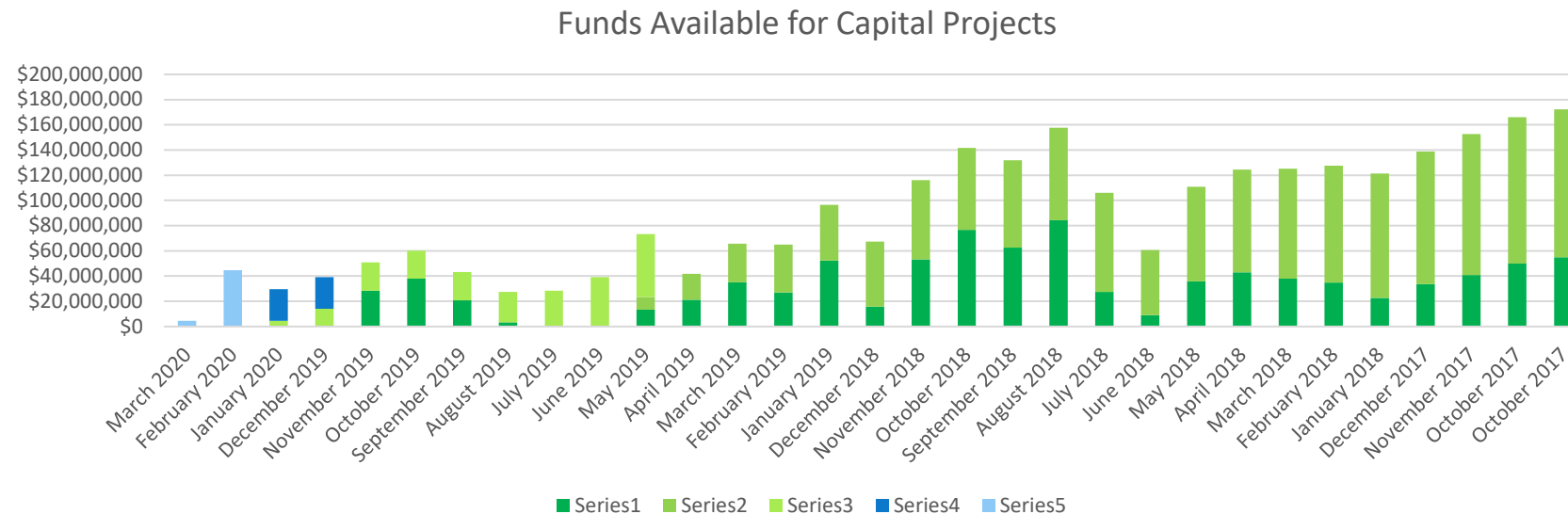
Why We Need to Issue

The MBTA has dramatically increased capital investment over the past three years, achieving \$1 billion in spend for the first time ever in FY2019. Additional bond proceeds and commercial paper are required to support the growing capital program.

This chart shows bond funds available for capital projects.

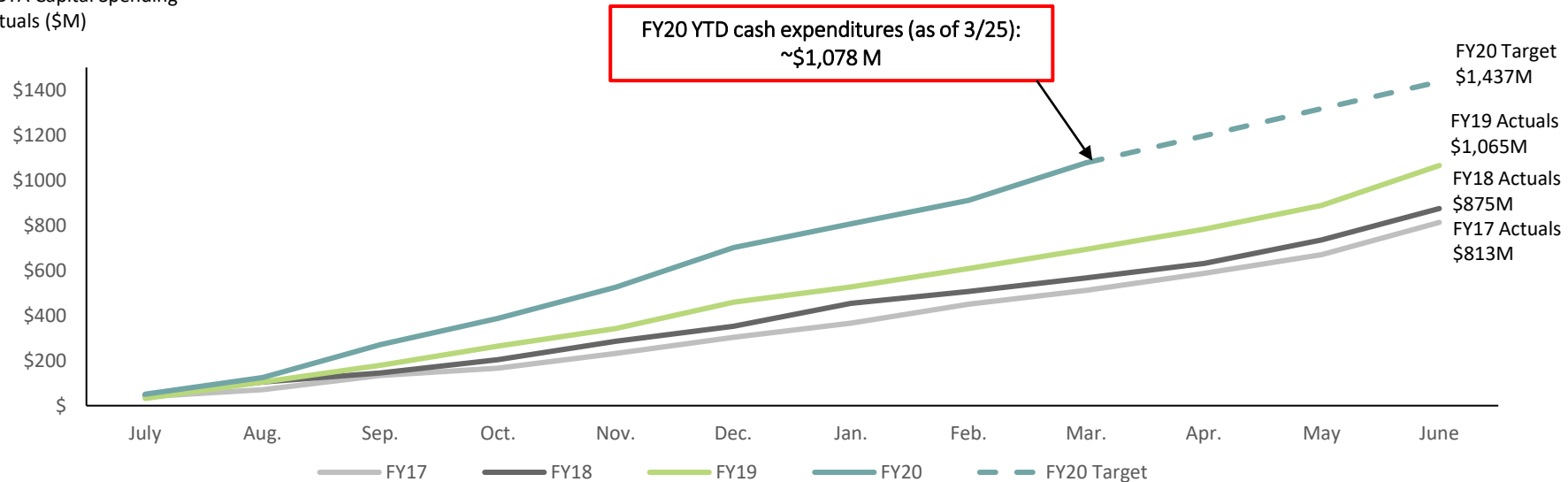
Green: **Traditional** and **Sustainable** 2017 Bonds

Blue/Black: **Commercial Paper**



FY20 KPI: \$1.4B Total Capital Investment - YTD Total Spending vs. Previous Years

MBTA Capital Spending
Actuals (\$M)



MBTA Cumulative Capital
Spending Actuals (\$M)

	<u>July</u>	<u>Aug.</u>	<u>Sept.</u>	<u>Oct.</u>	<u>Nov.</u>	<u>Dec.</u>	<u>Jan.</u>	<u>Feb.</u>	<u>March</u>	<u>April</u>	<u>May</u>	<u>June</u>
FY20 (\$M)	\$52	\$126	\$271	\$388	\$526	\$701	\$807	\$911	\$1,078			
FY19 (\$M)	\$33	\$105	\$180	\$265	\$343	\$459	\$527	\$609	\$694	\$784	\$889	\$1,065
FY18 (\$M)	\$48	\$105	\$146	\$205	\$286	\$353	\$454	\$507	\$567	\$631	\$736	\$875
FY17 (\$M)	\$40	\$72	\$134	\$167	\$232	\$304	\$366	\$451	\$512	\$588	\$670	\$813

MBTA Monthly Capital
Spending Actuals (\$M)

	<u>July</u>	<u>Aug.</u>	<u>Sept.</u>	<u>Oct.</u>	<u>Nov.</u>	<u>Dec.</u>	<u>Jan.</u>	<u>Feb.</u>	<u>March</u>	<u>April</u>	<u>May</u>	<u>June</u>
FY20 (\$M)	\$52	\$74	\$145	\$118	\$138	\$176	\$105	\$104	\$167			

Cash basis

March accounting period not yet closed



Estimated Bond Spending – FY21-25 CIP



Options to Access the Market

- Short-term rates spiked in mid-March, but have improved after Congress passed a \$2.2 trillion CARES Act stimulus on March 27.
- The municipal market has seen very few long-term debt issues since March, but anticipated rates remain favorable.
- To raise cash for capital projects, the MBTA has flexibility with various tools to access funds:
 - Issue **additional commercial paper** (\$125 million capacity)
 - Pursue a **direct loan** with a bank – Board authorization received on 3/23 (\$200 million capacity)
 - Issue **long-term debt** (Board authorization determines capacity)



Financing Overview: Subordinate Lien

The term 'subordinate lien' means that holders of such debt will be paid only after senior lien debt holders have been paid.

- Ratings Agencies view the subordinate lien as strong credit.
 - S&P assigned a AA rating, which is the same as the senior lien.
 - Moody's assigned a rating of Aa3, one notch below the senior lien.
 - Under the subordinated lien:
 - In today's environment, the MBTA would not pay a higher rate of interest for a subordinate lien issuance.
 - Investors recognize that fundamental credit strengths are identical to the Senior Lien:
 - Protected by BRA
 - Coverage tests for senior and subordinate debt are calculated in aggregate
 - Debt Service Reserve Fund is not required on the subordinate lien.
 - DSRF is considered less important for highly-rated issuers like the MBTA who score "very strong" on Economic Strength* and Debt Service Coverage metrics
 - Coverage on the Sales Tax credit remains strong and in compliance with the MBTA Debt Policy/MGL Chapter 161A Enabling Act
 - Estimated Maximum Annual Debt Service coverage 2.55x after issuance of new debt
 - All bonds mature well before the 40-year maximum allowed in the Debt Policy / Enabling Act
 - Bonds amortize through 2050
- *Economic strength is based off the market the MBTA serves, which is among the highest in the nation for per capita incomes and market value.*



Financing Overview: Method of Sale

The MBTA needs the flexibility to pursue a negotiated sale if the market environment remains volatile.

MBTA may still pursue a competitive sale depending on market conditions.

Negotiated

The MBTA would:

- Select an underwriter or underwriting syndicate
- Work with the underwriting team to market the bonds, with the issuer and financial advisor negotiating the pricing of the bonds
- Accept a cost of issuance and yields that might be higher and less transparent
- Be aided by a structure that allows for flexibility, better pre-sale awareness, control of volatility through pre-sale marketing and responds better to institutional investors needs

Competitive

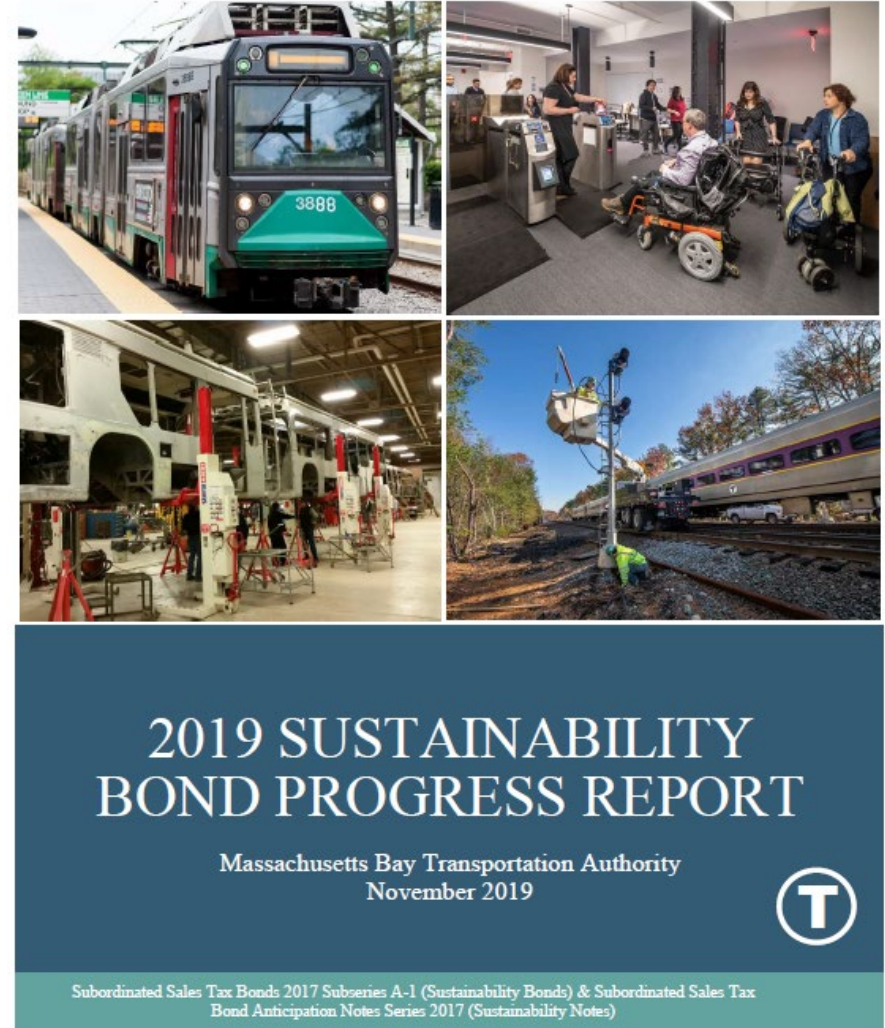
The MBTA would:

- Open bidding to all underwriting firms, generating competitive pressure to lower interest rates.
- Award bid to lowest bidder based on true interest cost.
- Benefit from a more transparent process with better pricing and no favoritism to any underwriter.
- Risk a higher premium during volatile markets and face minimal pre-sale support.



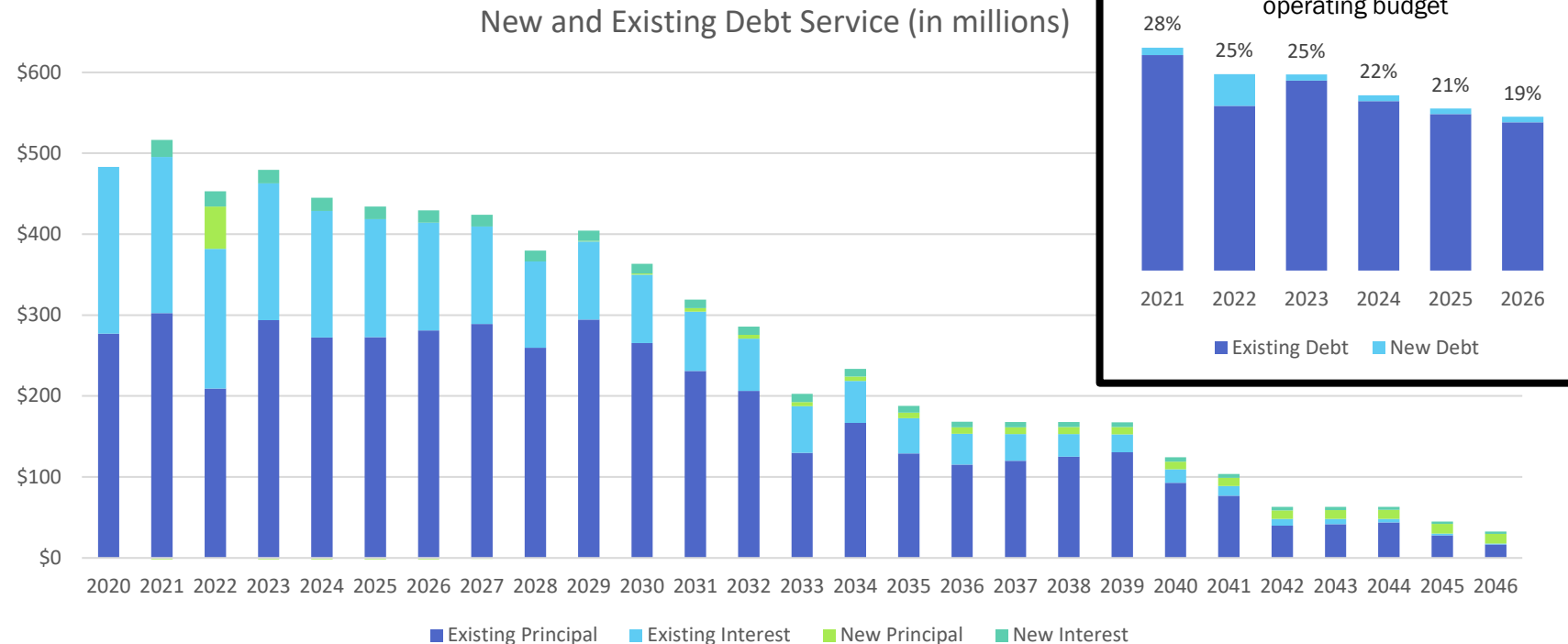
Financing Overview: Sustainability

- MBTA debuted Sustainability Bonds with its 2017 issuance of bonds and notes.
- At that time, the MBTA adopted a standard by which to qualify projects for such financing.
- A number of the projects being financed and refinanced from the proposed bonds would qualify under the standards.
- To the extent that market conditions favor sustainability bonds, all or a portion of the proposed bonds may be issued as Sustainability Bonds.



New debt results in minimal impact on coverage ratio

- Proposed bond issuance causes minimal impact on budget and helps smooth over debt portfolio.
- Total debt service coverage remains above additional bonds test of 1.5x



Coverage	
2020	2.63x
2021	2.55x
2022	2.93x
2023	2.86x
2024	3.14x
2025	3.22x
2026	3.31x
2027	3.41x
2028	3.84x
2029	3.68x
2030	4.16x
2031	4.82x
2032	5.47x
2033	7.73x
2034	6.90x
2035	8.64x
2036	9.76x
2037	9.96x
2038	10.17x
2039	10.39x
2040	13.93x

Timeline

Title	Date
Kick-off Conference Call with Financing Team	March 2, 2020
Presentation to MassDOT board and FMCB on revision to debt policy/derivatives	March 23, 2020
MassDOT Finance & Audit Committee Meeting	April 8, 2020
Joint MassDOT and FMCB Meeting – Approval of Finance Plan	April 13, 2020
Calls with rating agencies	Week of April 20
Joint MassDOT and FMCB Meeting – Request authorization of issuance for 2020 bonds and ATC/Fiber Resiliency Financing	May 11, 2020
Issuance of 2020 bonds and ATC/Fiber Resiliency Financing	Week of May 25



Recommend and Approve Plan of Finance

Please reference the vote language in the board package.

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

- The Finance Plan, which provides for the issuance of bonds in an amount sufficient to finance \$200 million of the costs of the MBTA's Capital Investment Plan (CIP), and to refund commercial paper notes, Series 2010A and Series 2010B senior sales tax bonds. The issuance of the bonds and related matters would be approved separately at a future meeting.
- Proceeding with a competitive process to select a syndicate of underwriters to implement the Plan of Finance



Appendix



Upcoming Board Authorization Requests

Financing for ATC/Fiber Resiliency Project (Anticipated May 11) under the Railroad Rehabilitation & Improvement Financing (RRIF) Loan

- Authorization to fund **\$470 million** of the Automatic Train Control (ATC)/Fiber Resiliency Project. Combined with the previously authorized and approved USDOT loan for **\$382 million** for Positive Train Control the total loan would be **\$852 million**.
- Long-term loan with the U.S. Department of Transportation, may be interim financed with Bond Anticipation Notes.
- Authorization to refinance existing USDOT loans for PTC Project to provide substantial savings.

Automatic Train Control on the north-side commuter rail involves the installation of critical communication signaling systems as part of federally-mandated safety improvements.

The **Resiliency Program** will bury the fiber optic cable to improve the resiliency of PTC/ATC critical safety communications system and reduce costs associated with frequent repairs along the line.

Positive Train Control
\$382 million (approved 2017)



Automatic Train Control -
\$360 million



Fiber Resiliency -
\$100 million

New combined loan =
\$852 million

Advisors

Public Resources Advisory Group (Financial Advisor)

Tom Huestis

Senior Managing Director

Andrew Evanchik

Senior Managing Director

Mintz, Levin, Cohn, Ferris, Glovsky, and Popeo, P.C. (Bond Counsel)

Meghan Burke

Member

Matt Page

Senior Associate

