



Massachusetts Bay Transportation Authority

Refunding of 2017A Direct Purchase

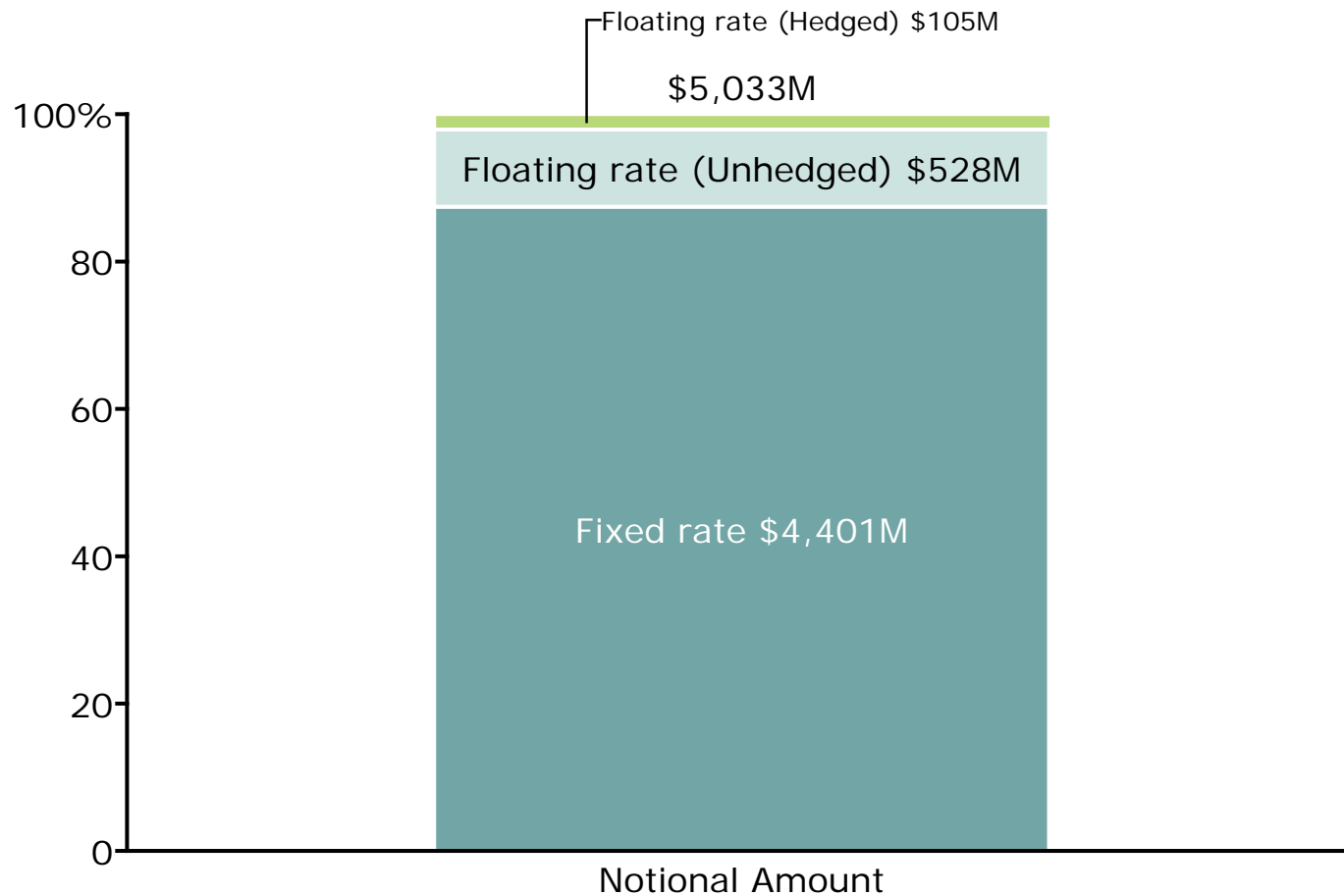
May 9, 2018



Current Debt Portfolio



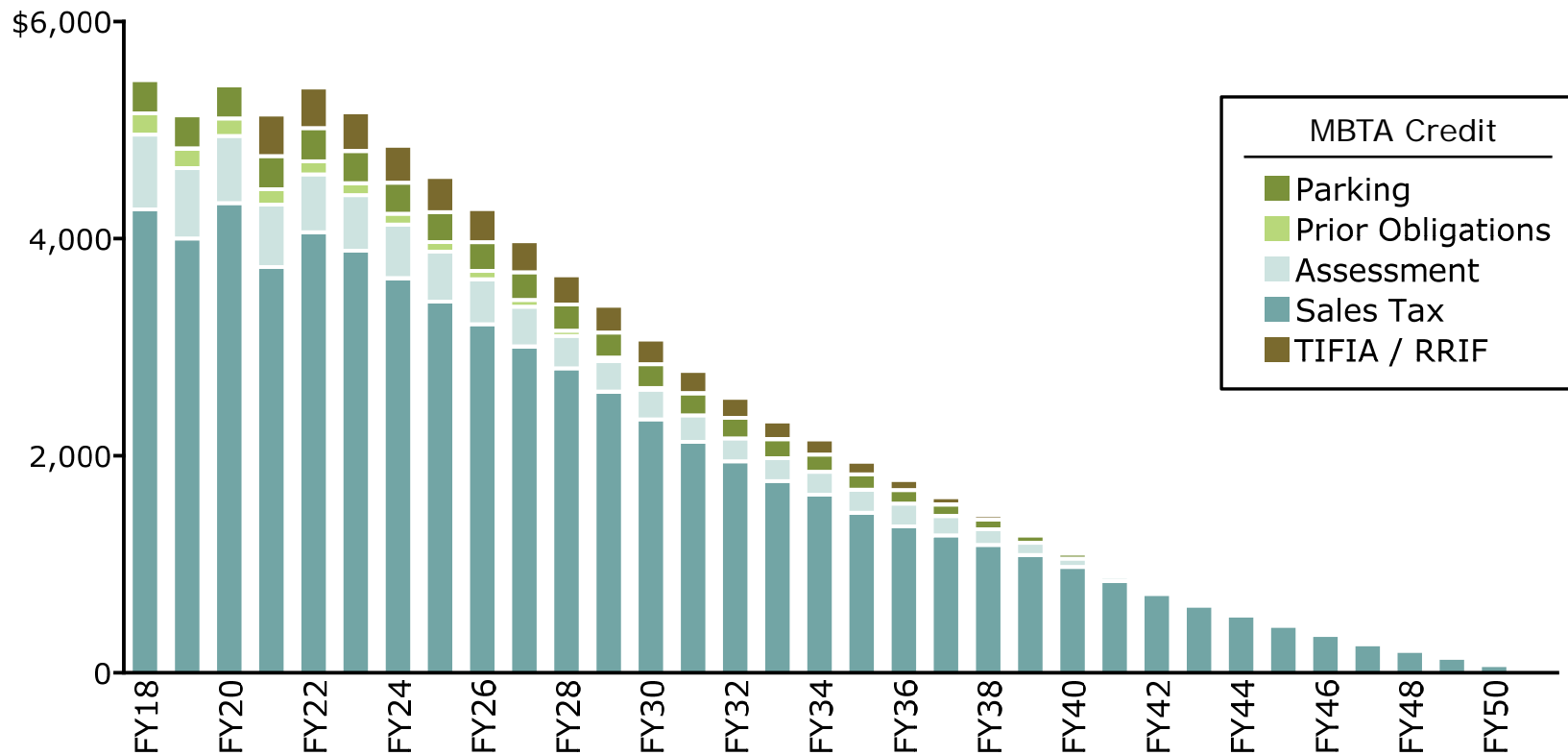
- As of May 1, the MBTA has \$5.0B of principal outstanding
- MBTA will pay down \$257M of principal in FY18 and \$273M in FY19



Current Debt Portfolio (cont.)



Outstanding Principal* (\$ millions)



*Balances are as of the beginning of period.

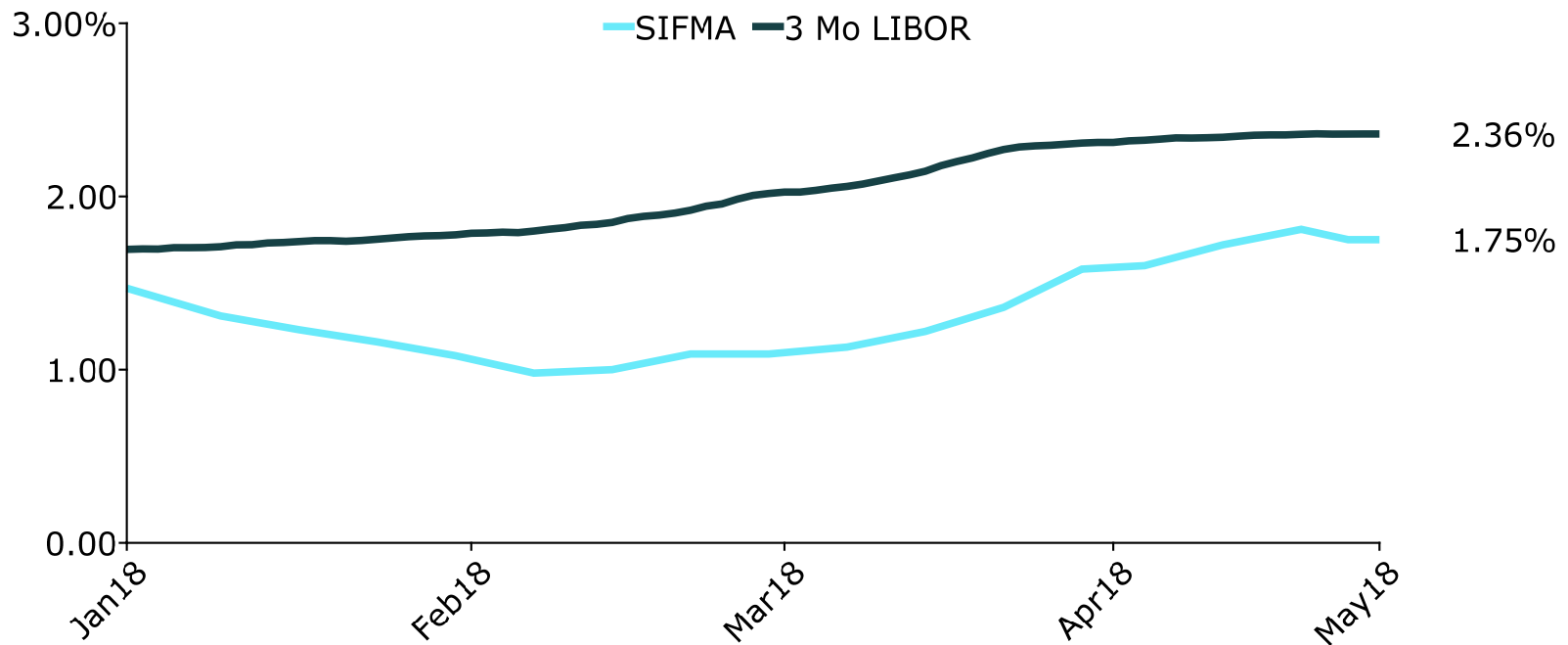
Includes TIFIA/RRIF loans and approximately \$500M of new issues in both FY19 and FY21.

Short-term interest rates are trending higher in 2018



SIFMA and 3 Month LIBOR Since January 1, 2018

Interest Rate



LIBOR is a benchmark interest rate that reflects interbank borrowing costs.

SIFMA is a benchmark interest rate that reflects the 7-day borrowing cost of highly rated tax-exempt issuers.



Background

- In March 2017, the MBTA entered into a direct purchase agreement with State Street
 - \$211,800,000 of Senior Sales Tax Series 2017A Bonds outstanding
 - This agreement includes a mechanism in which MBTA interest payments increase if the corporate tax rate falls (“margin rate reset”)
 - Margin rate reset effective January 1 with passage of Tax Cuts and Jobs Act
- MBTA can (1) pay higher interest rate resulting from federal tax reform or (2) terminate the agreement with no breakage fee prior to July 2018

RFR Solicitation

- The Authority issued a Request for Responses ("RFR") to competitively solicit bids from banks for public and private market replacements
- MBTA requested responses on two items from banks:
 - **to provide a liquidity facility for a new variable rate issue, or**
 - **to convert the existing obligation to a new Bank Direct Purchase**



RFR Design and Communication

- Circulated to over twenty (20) bank counterparties
- Requested bids for liquidity facilities and direct purchase proposals
 - A liquidity facility, or Stand By Purchase Agreement (“SBPA”), exists for variable rate municipal debt and acts as a backstop in case debt is put back to the issuing agency
- Gave banks flexibility to quote based on credit availability for the Authority
- Included a clear framework for comparison of responses

Responses to RFR

- Received proposals from 10 highly-rated bank counterparties
 - 6 bids for liquidity facility for new variable rate issue
 - 5 direct purchase proposals for 2017A bonds



Liquidity Facility Proposals (6 received)

- Proposals offer flexibility around both fees and term

	Term (Range)	Cost (Range)
Bids	3 Year – 7 Years	0.15% pa – 0.47% pa

Direct Purchase Proposals (5 received)

- All proposals match principal amortization schedule of existing bonds
- 5 proposals are based on LIBOR and 1 on SIFMA
- Proposals remove put, renewal and remarketing risk
- Eliminates need for liquidity and remarketing agent
- No rating required, minimal disclosure, no underwriting fee required



Financial Advisor's Recommendation

Pursue Liquidity Facility / Variable Rate Issue

New Liquidity Facility Savings^{1,2}

\$4,1601,000

- Banks are bidding liquidity facilities through previous levels as the taxable income received from the fee revenue is now taxed at a lower corporate tax rate
- The Authority's variable rate exposure remains constant
- Rate resets will more closely track the tax-exempt weekly floating rate index - SIFMA
- State Street Bank SBPA provides diversification away from other credit facilities

Do Not Pursue Direct Placement

Direct Purchase Savings²

\$1,009,000

- Because of recent Tax Reform, direct purchases now carry a higher cost for banks than liquidity facilities

1. NPV savings assume 5yr facilities at 0.32% pa

2. NPV savings calculated assuming forward interest rate curves as of May 2, 2018 discounted at the all-in cost of the existing SSB Direct Purchase

Additional Considerations and Request for Recommendation



- Transaction complies with MBTA Debt Policy (June 2016)
- RFR is currently in process for a remarketing agreement to accompany SBPA
 - Responses due Thursday, May 10
- Transaction to be presented to FMCB and MassDOT Board on May 14, and State Finance and Governance Board on May 17
- MBTA is working with Public Financial Management and Mintz Levin

Request for Recommendation

The MBTA management team respectfully requests a recommendation to the joint MassDOT Board and FMCB in support of the procurement of a Standby Purchase Agreement and Remarketing Agreement.