



MASSACHUSETTS BAY TRANSPORTATION AUTHORITY

Debt Issuance and Management Policy

June 2024

1) Purpose for Policy and Debt; Use of Debt Proceeds

The purpose of this policy is to establish a framework for the issuance and effective management of debt of the Massachusetts Bay Transportation Authority (“MBTA” or the “Authority”) consistent with Chapter 161A of Massachusetts General Laws, as amended (the “Enabling Act”) and other applicable law and the terms of relevant bond resolutions and trust agreements.

To the extent of any inconsistency between this policy and the Enabling Act and the terms of bond resolutions and trust agreements, the Enabling Act, bond resolutions and trust agreements shall govern. Furthermore, to the extent of any inconsistency between this policy and any matter approved by the Board of Directors, the matter approved by the Board of Directors shall govern.

The MBTA was established in 1964 pursuant to the Enabling Act, as a body corporate and politic and political subdivision of The Commonwealth of Massachusetts (the “Commonwealth”) to finance and operate mass transportation facilities.

Under the Enabling Act, the MBTA is required to meet all of its expenditures, both operating and capital, from a combination of revenues generated from operation of its transit system, federal and state assistance and a dedicated revenue stream (the “Dedicated Revenues”) consisting of the “Dedicated Sales Tax” and “Assessments.” The Dedicated Sales Tax is equal to the greater of a base revenue amount, determined in accordance with Section 35T of Chapter 10 of Massachusetts General Laws (“Section 35T”), and the amount raised by a 1% statewide sales tax, plus \$160 million annually. Assessments include amounts deducted from local aid payable to each of the 176 member communities as determined in accordance with the Enabling Act and Section 35T. Under the Enabling Act, the Dedicated Revenues are impressed with a trust for the benefit of MBTA bondholders. The Commonwealth covenants that while any MBTA debt secured by the Dedicated Revenues is outstanding and unpaid, the Dedicated Revenues shall not be diverted, and, so long as the Dedicated Revenues are necessary for the purpose for which they have been pledged, the rate of the sales tax shall not be reduced below the amount of the Dedicated Sales Tax and annual aggregate Assessments shall not be reduced below \$136,026,868.

Under the Enabling Act, MBTA debt may be a general obligation or may be secured by a pledge or conveyance of all or a portion of revenues, receipts or other assets or funds of the MBTA. The MBTA has

outstanding (i) Sales Tax Bonds (senior, subordinated, and subordinated for USDOT TIFIA/RRIF loans), secured primarily by a gross lien on the Dedicated Sales Tax, and a program of commercial paper structured as Subordinated Sales Tax Bond Anticipation Notes; (ii) Assessment Bonds secured primarily by a gross lien on Assessments; and (iii) so-called “Prior Obligations” which consist of certain bonds and other debt obligations issued or entered into prior to July 1, 2000 (and which are no longer authorized to be issued) which were guaranteed by or paid from funds from the Commonwealth. The MBTA has previously issued, and is authorized to issue, project revenue bonds secured primarily from revenues generated from a project and federal grant anticipation notes secured by grants received from the Federal Transit Administration.

Proceeds of MBTA debt are used to finance or refinance projects in the MBTA’s rolling five-year Capital Investment Program and other expenses, including working capital, eligible to be funded from debt. Such projects are selected through an ongoing prioritization process that strives to balance needs across the entire range of the MBTA’s transit services. Given the MBTA’s financial limitations, each year capital requests usually exceed the MBTA’s capacity to provide capital funds. Therefore, the MBTA engages in an annual prioritization and selection process to select the highest priority needs for funding and inclusion in the Capital Investment Program, for capital projects, and budget priorities for other expenses. One of the highest priorities for the MBTA, following projects required to be completed under federal and state law, is the pursuit of a “State of Good Repair.” To measure the need for capital expenditures devoted to maintaining and replacing existing infrastructure, transit systems often use the State of Good Repair standard, wherein all capital assets are functioning at their ideal capacity within their design life. While few transit systems are likely to achieve this ideal, the standard does identify a level of ongoing capital needs that must be addressed over the long-term for the existing infrastructure to continue to provide reliable service.

This Policy provides guidelines for effective debt management within the MBTA’s limited resources in order to preserve debt capacity to fund expenses while meeting all other financial obligations.

2) Internal Debt Management

Under the Enabling Act, as amended in July 2021, the Authority is governed and its corporate powers exercised by a seven-member board of directors (the “Board”). The MBTA Board is responsible for approving any long-term borrowing including the financing or refinancing of any debt of the Authority in accordance with the Enabling Act.

The Chief Administrator and the General Manager of the MBTA will have overall responsibility for the day-to-day operations and management of the Authority, including debt management. The Chief Administrator, the Chief Financial Officer, and the Treasurer will have primary responsibility for debt management, supported by other MBTA staff, who collectively have broad experience in the issuance of tax-exempt debt and related compliance issues. The Chief Administrator, Chief Financial Officer, Treasurer and staff members will read appropriate periodicals and other subject materials, and engage industry professionals, to maintain and increase education, skills and knowledge necessary to effectively manage the debt program.

3) Legal Authorization, Debt Limits and Debt Capacity

As described above, MBTA debt may be a general obligation or may be secured by a pledge or conveyance of all or a portion of revenues, receipts or other assets or funds of the MBTA. The MBTA is not subject to a statutory debt limit, nor are there any constitutional limits on the amount of MBTA debt that may be issued.

The MBTA is no longer authorized to issue Prior Obligations supported by a Commonwealth guaranty or other support.

The trust agreements for each of the Sales Tax Bonds and the Assessment Bonds contain financial covenants, including additional bonds tests, which limit the amount of additional parity bonds that may be issued. MBTA staff will carefully monitor compliance with such covenants. Given the financial constraints of the MBTA and the fact that the Dedicated Revenues are applied first to pay debt service, the MBTA will ensure that coverage is high enough to provide sufficient Dedicated Revenues, following the payment of debt service on Prior Obligations, Sales Tax Bonds, Notes and other Sale Tax obligations and Assessment Bonds, to meet the other financial obligations of the MBTA not paid from other revenue sources.

The MBTA will engage external professional resources as needed to assist in the issuance of debt.

Borrowing needs will be determined based on the necessary funding of the Capital Improvement Program and other expenses, including working capital, as described above, within the MBTA's financial constraints. Once such needs are identified, the Chief Administrator, the Chief Financial Officer, the Treasurer and other staff will review detailed financial projections and *pro formas* to assess the impact on the operating budget, short- and long-term debt capacity and compliance with applicable financial covenants.

MBTA staff and its advisors will monitor the debt portfolio to identify and evaluate possible opportunities to reduce debt service cost and/or optimize debt portfolio. As a result of the Tax Cuts and Jobs Act of 2017, which eliminated the ability to advance refund outstanding bonds on a tax-exempt basis, MBTA staff and its advisors will evaluate a taxable advance refunding, forward refunding, tender transactions, as well as strategic cash defeasance opportunities through a breakeven analysis, comparing the expected savings versus a tax-exempt refunding executed 90 days before the call date. In evaluating a taxable advance, forward refunding, or tender transaction, MBTA staff and its advisors may consider the length of time to the call date (the longer the amount of time, the less efficient the transaction), the breakeven rate on a transaction and per maturity basis, and the percentage of net present value savings among other metrics. The MBTA may consider a taxable advance refunding or a strategic cash defeasance of bonds as part of a transaction that satisfies policy goals such as covenant changes, debt restructuring, etc.

MBTA bonds will be sold (i) on a competitive basis, (ii) through private placement, or (iii) on a negotiated basis with an underwriting team selected by competitive process. For each bond sale, MBTA staff will provide a memorandum detailing the Authority's proposed plan of finance to the MBTA Board. The decision will be based on a variety of factors including, but not limited to, the complexity of the sale, market conditions, transaction cost, and investor engagement. The MBTA will diversify its underwriting team and limit the sales in which the same underwriting firm serves as senior booking running manager on successive negotiated bond sales unless transactions are part of a common plan of finance.

The MBTA Board will authorize the issuance of bonds, including a not-to-exceed net proceeds amount for new money bonds. The MBTA Board will delegate to MBTA officers the authority to execute and deliver documents required for the debt issue.

4) Selection Process for Professional Services

In accordance with its procurement procedures, including procedures that promote transparency and comply with applicable public records laws, the MBTA periodically issues Requests for Qualification/ Proposal/ Response or otherwise engages professional services including for bond counsel, financial advisor, rebate compliance, external financial auditors, investment advisor, swap advisor, underwriter, liquidity provider, remarketing agent and liquidity provider, etc. The financial advisor shall be a registered independent municipal advisor and shall serve for a term not to exceed three years before contract is reviewed, extended or terminated.

5) Debt Affordability/Borrowing Capacity

Under the Enabling Act, the MBTA is required to meet all of its expenditures, both operating and capital, from a combination of revenues generated from operation of its transportation system, federal assistance and the Dedicated Revenues. In addition to complying with its financial covenants for the outstanding Assessment and Sales Tax Bonds, the MBTA will manage its debt to ensure sufficient Dedicated Revenues and other revenues to meet its other financial obligations. MBTA staff, led by the Chief Administrator, the Chief Financial Officer and Treasurer, will monitor debt capacity and analyze the incurrence of additional debt with a view to the short- and long-term impact on debt capacity.

6) Risk Controls/Monitoring

The MBTA will monitor its outstanding debt with respect to a variety of potential risks, including without limitation exposure to variable rates, liquidity and credit providers and remarketing agents, investments, and investment providers.

The MBTA will institute such controls as recommended by its independent auditor and other best practices deemed appropriate by the Chief Administrator, the Chief Financial Officer and Treasurer, including on advice from the financial advisor, investment advisor and bond counsel.

7) Debt Structure

Maturities of new money debt generally will be based on the useful life of the assets being financed. Principal will be amortized to take into account short- and long-term needs and debt capacity. . The use of capitalized interest (borrowing to pay a portion of the interest) will be limited depending on budgetary needs, market conditions, and applicable federal tax law. Call features will be evaluated by considering the relative value of future financing flexibility and the market's perception of any premium associated with a call.

Credit enhancement or insurance will only be used when the present value of anticipated savings (i.e., reduced interest expense) are expected to exceed the cost of the enhancement.

The relative amount of unhedged variable rate, hedged variable rate and fixed rate debt will be monitored consistent with the risk control strategies described herein. Unhedged variable rate debt (not including commercial paper) (i) will be limited to the extent of offsetting natural hedges in the MBTA's financial profile and, in no event, more than 20% of the total outstanding MBTA bonds or (ii) mitigated by other means that manage interest rate and other risks associated with unhedged variable rate debt, such as conservative budgeting, elimination of put risk or other factors.

8) Credit Rating Agency Management and Communication

The MBTA will proactively manage its debt portfolio and financial position to maintain or improve credit ratings. While high credit ratings generally reduce the MBTA's cost of debt and increase market access, these rating considerations must be balanced with maintaining flexibility to meet operational and capital needs.

9) Investor Relations Management

The MBTA's most recent Official Statement and audited financials will be posted on its website (www.mbta.com). The MBTA also will submit annual filings to the Electronic Municipal Market Access ("EMMA") system operated by the Municipal Securities Rulemaking Board (<http://emma.msrb.org>).

Prior to each bond issue with assistance from its financial advisor and underwriters, as applicable, a marketing plan will be developed and outreach made to targeted investors (both existing and potential new investors). If necessary and/or desirable, in the view of MBTA staff, its financial advisor and its underwriters, the MBTA will conduct an investor call in connection with a bond sale.

MBTA staff, with ultimate oversight by the Chief Administrator, the Chief Financial Officer and the Treasurer, will engage in ongoing communication with investors and will respond to requests from investors and potential investors as appropriate and in a manner consistent with applicable securities laws.

10) Use of Derivatives

The MBTA will maintain a Derivatives policy. Use of derivatives in connection with debt must comply with the terms of such policy then in effect. Bond counsel and the swap advisor will be consulted in the event the MBTA is considering entering into any swap or other derivative in connection with tax-exempt debt.

11) Post Monitoring, Management, Compliance

The Authority will maintain an adequate system of internal controls to provide compliance with applicable laws, rules, regulations, and covenants associated with outstanding debt, including post-issuance compliance. Annual calendars will be maintained identifying due dates for key financial activities including, but not limited to, schedules for debt service payments; certifications of revenue sufficiency and maintenance of insurance; arbitrage calculations; and continuing disclosure commitments.

Investments of bond proceeds and other funds held under trust agreement or bond resolution will only be invested in accordance with the terms of such trust agreement, bond resolution, and the MBTA's investment policy.

12) Continuing Disclosure and Other Debt-Related Reporting Requirements

The MBTA will comply with the requirements of all of its "undertakings" under Rule 15c2-12 of the Securities and Exchange Commission by filing annually its disclosure statement and audited financial statements.

The Authority will comply with the terms of its bond resolutions and trust agreements relating to the submission of annual budgets, audited financials, etc. to the applicable trustee or fiscal agent.

The Authority will comply with the terms of the Enabling Act and other applicable law in respect of the delivery of reports, budgets, certificates and other items to the legislature, the administration, the MBTA Board or the State Finance and Governance Board, as applicable.

13) Review and Revision of the Policy

This policy will be reviewed by MBTA staff and reauthorized, as amended, by the MBTA Board every two years or as required.

14) Availability of Policy to Public

A copy of this policy will be posted on the MBTA's website (www.mbta.com) and will be made available to any members of the public upon reasonable request for review.