MOODY'S

Rating Action: Moody's affirms A3 rating on NY MTA's Transportation Revenue Bonds; outlook revised to positive from stable

19 Sep 2023

$20.6 billion of TRB bonds affected

New York, September 19, 2023 -- Moody's Investors Service has affirmed the A3 rating on the Metropolitan Transportation Authority, NY's (MTA) $20.6 billion of outstanding Transportation Revenue Bonds (TRB). The outlook on MTA's TRBs has been revised to positive from stable based on the significant increase in state tax support that will offset the post-COVID ridership losses and structurally balance projected budget gaps.

RATINGS RATIONALE

The A3 rating on Metropolitan Transportation Authority's (MTA) Transportation Revenue Bonds is based on the system's essential service to a vast and economically robust service area and strong political and financial support from New York State (Aa1 stable), New York City (Aa2 stable) and the Government of the United States of America (Aaa stable), which have been instrumental in supporting the credit through the coronavirus pandemic and recovery. Despite slow ridership recovery, the MTA has nearly closed its forecasted budget gaps and stabilized its liquidity due to a significant increase in state tax support, a major factor in the outlook revision. Some budget risk remains due to the need for biennial fare increases that yield 4% growth, operating efficiencies that generate savings of 3% of budget, continued economic growth and steady ridership recovery to fully balance the budget. MTA's budget flexibility is constrained by high fixed costs and strong collective bargaining units, but enhanced by sound, proactive budget management and a history of strong support from the state and city.

The A3 rating also incorporates MTA's high leverage and substantial capital and debt plans, somewhat balanced by dedicated funding for capital projects from city and state sales taxes and impending central business district toll revenues.

RATING OUTLOOK

The positive outlook on MTA's TRBs reflects the significant improvement in MTA's financial forecast due to the state-authorized increase in dedicated taxes.

FACTORS THAT COULD LEAD TO AN UPGRADE OF THE RATINGS

- Successful implementation of further budget balancing actions that support maintenance of liquidity

- Continued recovery of ridership and revenues toward projected levels

- Timely implementation of a central business district tolling plan that supports stable leverage metrics

- Reduced labor-related financial and operating constraints and related fixed costs

- Continued progress with capital projects that supports improved asset condition and satisfactory service performanc

FACTORS THAT COULD LEAD TO A DOWNGRADE OF THE RATINGS

- Slower than expected ridership recovery that leads to larger revenue losses, budget gaps, and liquidity pressure

- Increase in leverage position and associated fixed costs, or increased short-term debt risk

- Declines in service performance or public confidence that reduce public and/or political support for MTA, its subsidies and future fare increases

- Significant capital project delays or cost overruns that increase debt or destabilize public support for the enterprise

LEGAL SECURITY

The transportation revenue bonds (TRBs) are one of four primary credits that the MTA uses to finance its capital programs. The TRB bonds are special obligations of the MTA, payable on a gross basis from transit and commuter system revenues, certain state and local operating subsidies, dedicated taxes, and operating surpluses of the Triborough Bridge and Tunnel Authority, NY (TBTA) (Sr lien Aa3 stable) after operating and maintenance requirement and debt service payments on the TBTA's own debt. TRB financed projects must be approved by the state's Capital Program Review Board (CPRB).

The TRB rate covenant requires sum-sufficient coverage by fares and subsidies of debt service and O&M. Only board approval is required to raise fares for the rate covenant. Unlike most other rated transit systems, there is no debt service reserve fund and no explicit additional bonds test for the TRBs, although the balanced budget requirement an CPRB approval provide solid leverage controls. Pledged revenues flow to a trustee held account and are set-aside monthly for debt service before being released for operations.

PROFILE

The MTA is a public benefit corporation of New York State, created by the New York State legislature in 1965. The MTA's governing board is appointed by the governor with advice and consent of the state Senate. New York City's mayor recommends four voting board members, and the county executives of Nassau, Suffolk, Westchester, Dutchess, Orange, Rockland, and Putnam counties recommend one each, with the latter four casting one collective vote. The Board also has six non-voting members that represent collective bargaining units, citizens and riders.

The MTA is responsible for developing and implementing a unified mass transportation policy for the Metropolitan Transportation District which includes New York City and the surrounding Duchess, Nassau, Orange, Putnam, Rockland, Suffolk and Westchester counties. In addition to these counties, MTA's service area also includes Fairfield and New Haven counties in CT. MTA operations are performed through nine different agencies, including the Triborough Bridge and Tunnel Authority (Sr lien Aa3 stable). TBTA surplus, after paying its own O&M, debt service and required reserve deposits, are transferred to MTA to subsidize transit, bus and commuter rail operations.

METHODOLOGY

The principal methodology used in these ratings was Mass Transit Enterprises Methodology published in December 2017 and available at https://ratings.moodys.com/rmc-documents/64385. Alternatively, please see the Rating Methodologies page on https://ratings.moodys.com for a copy of this methodology.

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found on https://ratings.moodys.com/rating-definitions.

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