FitchRatings

RATING ACTION COMMENTARY

Fitch Downgrades MTA, NY's Transp Rev Bonds to 'A+'; Outlook Negative; Removes Rtg Watch Negative

Thu 02 Apr, 2020 - 6:01 PM ET

Fitch Ratings - New York - 02 Apr 2020: Fitch Ratings has assigned a rating of 'A+' on approximately $800 million of transportation revenue bonds (TRB), series 2020C (climate bond certified) to be issued by the Metropolitan Transportation Authority (MTA). The bonds will be sold via negotiation−the sale date and par are both subject to market conditions. Proceeds will be used to retire the outstanding transportation revenue bond anticipation notes, subseries 2018B-1 and subseries 2019B-2. Concurrent with this rating action, Fitch has downgraded the rating on the MTA's outstanding transportation revenue bonds (TRBs) to 'A+' from 'AA-' and outstanding TRB anticipation notes to 'F1' from 'F1+' and removed the long-term rating from Rating Watch Negative. The Rating Outlook is Negative.

SECURITY

The TRBs are backed by a gross lien on the MTA's operating revenues, which include, among other sources, fares received from the subway and bus systems operated by the MTA New York City Transit and its subsidiary, the Manhattan and Bronx Surface Transit Operating Authority, the commuter railroads operated by MTA Long Island Rail Road and MTA Metro-North Railroad, and buses operated by MTA Bus. TRBs are also backed by a gross lien on operating subsidies from the state of New York, New York City, and surplus from the operation of the Triborough Bridge and Tunnel Authority (TBTA).

KEY RATING DRIVERS

Analytical Conclusion: The downgrade of the TRB rating to 'A+' from 'AA-' and Rating Outlook Negative reflect the risk to significant deterioration of the MTA's finances precipitated by the coronavirus outbreak and its unprecedented effect on system utilization and revenue. Fitch believes these pressures compound the challenges the MTA faced prior to the virus outbreak and weaken the agency's prospects for credit quality improvement through the end of 2021. The TRB note rating at 'F1' maps to the 'A+' rating on the TRBs.

The MTA still faces considerable pressure notwithstanding the expected receipt of approximately $3.8 billion under the $2 trillion Coronavirus Aid, Relief, and Economic Security (CARES) Act signed into law last week. The current period of stress is significantly greater than the rating case stresses factored into Fitch's transit ratings and a more extreme stress than transit agencies routinely plan for. Fitch expects a sharp contraction in various dedicated tax revenues and subsidies over the next several months that are not factored into the MTA's current revenue loss estimates from fares on its transit system and TBTA surplus. The MTA's various non-operating revenues account for roughly 46% of its $17.1 billion 2020 budget.

The MTA has reported acute declines in system utilization and operating revenue from fares and tolls. Ridership was down 87% on the subway system, 94% on Metro North, 71% on Long Island Rail Road, and crossings on TBTA facilities was lower by 60% measured from March 20-21 and March 23 compared to similar dates in 2019. The revenue impact from lower system utilization is significant−the MTA estimates its weekly fare revenue loss at $125 million compared to the February Financial Plan, annualized to $6.5 billion if the ridership losses were sustained for an entire year, or $4.9 billion if current ridership levels were sustained for a six-month period following by a gradual recovery to pre-outbreak levels. Fare and toll revenues were estimated at $8.6 billion for 2020 as of the February Plan. The estimated TBTA revenue decline of nearly $1.3 billion annualized would eliminate the surplus that is legally required to be transferred to the MTA for the operation of its transit and commuter system

These acute revenue pressures represent a near-term risk to the MTA's liquidity profile. MTA reported current liquidity resources of $3.75 billion as of March 25 which includes a cash balance of $1.24 billion, internal available flexible funds of $1.2 billion, commercial bank lines of credit of $1 billion (which were fully drawn on March 20), and $320 million of reserves set aside for other post-employment benefits. The MTA has been authorized to secure an additional $2 billion in bank liquidity, pending market conditions.

Fitch continues to expect the MTA will take whatever measures are possible and necessary to continue to meet its financial obligations in a full and timely manner during this challenging period. This may require cash flow conservation measures not typically deployed through normal economic cycles including capital market solutions and workforce reduction given the significance of this spending area to the total budget−an estimated $11.9 billion in 2020 or roughly $230 per week (on a cash basis including benefits). The MTA has not enacted employee layoffs or furloughs to date, although it recently instituted service reductions that primarily target off-peak hours to ensure the continuity of service of essential travel. The unprecedented nature of the MTA's revenue stress exacerbates its pre-outbreak fiscal condition, which was characterized by operating margins equal to or slightly weaker than sum-sufficiency, and estimated annual deficits ranging from $415 million in 2021 to $901 million in 2023.

The 'A+' rating on the TRBs reflects the benefit of statutory provisions that explicitly prevent the MTA or any of its subsidiary corporations from filing a voluntary petition for bankruptcy protection so long as the MTA has TRBs outstanding. Fitch believes this statutory framework combined with bondholders' gross lien on TRB pledged revenues tempers risk to the MTA's otherwise high leverage position and capital needs. Fitch's public transit ratings assume a degree of higher level government support to maintain system solvency due to the strategic importance of transit to local economies and other public policy goals, including the mobility of public health and safety workers in the current health crisis. Furthermore, Fitch continues to believe that the MTA benefits from greater support from its sponsoring governments than typical U.S. transit agencies and has the highest strategic and economic importance among its peer group.

Revenue Defensibility: Stronger

The strategic importance of the MTA transit system, bridges and tunnels to the economy of the New York region is the cornerstone of the 'stronger' revenue defensibility assessment. It supports an expectation for ongoing financial support from the state and the city, including periodic authorization of new recurring revenue sources, to fund the MTA's operating and capital budget.

Operating Risk: Midrange

The MTA's operating profile is driven by its cost of labor, including fringe benefits for existing and retired employees, and the financing of its extensive capital program. The MTA has been the beneficiary of new funding sources for both its operating and capital plan in recent history, but thus far it has failed to achieve meaningful labor reforms that Fitch considers critical to eliminating out-year budget imbalances. The MTA has consistently produced near-term solutions to its budgetary challenges in the past via a combination of fare increases, cost saving programs and non-recurring measures.

Financial Profile: Stronger

The MTA's ability to maintain financial leverage metrics consistent with its operating risk profile is an important long-term rating consideration. Fitch expects the MTA will adjust the implementation of non-essential capital investment in response to its current liquidity crisis, which may have adverse consequences on system performance and ridership over the intermediate term. Leverage pressures may materialize from financial market instability resulting in increases in the MTA's net pension liabilities, or the incurrence of additional long-term debt to replace programmed pay-as-you-go capital given its decline in revenue and near-term liquidity risk. Fitch's leverage analysis focuses on pledged gross TRB revenues rather than cash flow available for debt service. This alternative view of financial leverage is based on the protection afforded bondholders from the gross lien on pledged TRB revenues, statutory provisions that restrict the MTA from filing for bankruptcy protection, and a covenant of New York State not to change the law to permit the MTA to file such a petition as long as any TRBs are outstanding.

ESG Considerations

The Metropolitan Transportation Authority (NY) has an ESG Relevance Score of '4' for Labor Relations and Practices due to the challenging labor environment in which the MTA operates and its high cost of labor including fringe benefits for existing and retired employees, which has a negative impact on the credit profile and is relevant to the rating in conjunction with other factors.

RATING SENSITIVITIES

Developments that May, Individually or Collectively, Lead to Negative Rating Action:

--The insufficiency of state and federal policy tools and emergency assistance, which could lead to a multi-notch downgrade;

--The inability of the MTA to maintain liquidity resources to meet its near and intermediate term operating needs;

--An increase in near and intermediate term financial pressure from a substantial decline in non-fare revenues absent commensurate measures to lower spending;

--A sustained reduction in ridership and revenues in the post-crisis recovery period.

Developments that May, Individually or Collectively, Lead to Positive Rating Action:

--The Rating Outlook could be revised to Stable and the ratings affirmed if Fitch sees sustained recovery in ridership and revenues due to an easing of health concerns and gradual resumption of economic activity, and/or federal or state action that convincingly stabilizes the MTA's finances.

BEST/WORST CASE RATING SCENARIO

Ratings of Public Finance issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of three notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings please visit https://www.fitchratings.com/site/re/10111579.

CREDIT PROFILE

The MTA was created by special New York State legislation in 1965 as a public benefit corporation, separate and apart from the state without any power of taxation. The MTA is responsible for developing and implementing a single, integrated mass transportation policy for its designated service area and its governing body is appointed by the New York State governor with the advice and consent of the state senate.

The MTA carries out its operating responsibilities through its subsidiary and affiliate entities: New York City Transit Authority and its subsidiary, the Manhattan and Bronx Surface Transit Operating Authority; Staten Island Rapid Transit Operating Authority; Long Island Rail Road Company; Metro-North Commuter Railroad Company; MTA Bus Company; and MTA Construction and Development. The MTA Bridges and Tunnels, another affiliate of MTA, is a public benefit corporation empowered to construct and operate toll bridges and tunnels and other public facilities in New York City. The MTA Bridges and Tunnels' surplus amounts are used to fund certain transit and commuter operations and capital projects of the MTA.

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

ESG CONSIDERATIONS

The Metropolitan Transportation Authority (NY) has an ESG Relevance Score of '4' for Labor Relations and Practices due to the challenging labor environment in which the MTA operates and its high cost of labor including fringe benefits for existing and retired employees, which has a negative impact on the credit profile and is relevant to the rating in conjunction with other factors.

Except for the matters discussed above, the highest level of ESG credit relevance, if present, is a score of 3. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity(ies), either due to their nature or to the way in which they are being managed by the entity(ies). For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg

RATING ACTIONS

ENTITY/DEBT	RATING			PRIOR
Metropolitan Transportation Authority (NY) [General Government]				
• Metropolitan Transportation Authority (NY) /Transportation Revenues/1 LT	LT	A+	Downgrade	AA-
• Metropolitan Transportation Authority (NY) /Transportation Revenues/1 ST	ST	F1	Downgrade	F1+

VIEW ADDITIONAL RATING DETAILS

Additional information is available on www.fitchratings.com

APPLICABLE CRITERIA

Public Sector, Revenue-Supported Entities Rating Criteria (pub. 27 Mar 2020) (including rating assumption sensitivity)

ADDITIONAL DISCLOSURES

Dodd-Frank Rating Information Disclosure Form

Solicitation Status

Endorsement Policy

ENDORSEMENT STATUS

Metropolitan Transportation Authority (NY)	EU Endorsed

DISCLAIMER

ALL FITCH CREDIT RATINGS ARE SUBJECT TO CERTAIN LIMITATIONS AND DISCLAIMERS. PLEASE READ THESE LIMITATIONS AND DISCLAIMERS BY FOLLOWING THIS LINK: HTTPS://WWW.FITCHRATINGS.COM/UNDERSTANDINGCREDITRATINGS. IN ADDITION, THE FOLLOWING https://www.fitchratings.com/site/dam/jcr:6b03c4cd-611d-47ec-b8f1-183c01b51b08/Rating%20Definitions%20-%203%20May%202019%20v3%206-11-19.pdf DETAILS FITCH'S RATING DEFINITIONS FOR EACH RATING SCALE AND RATING CATEGORIES, INCLUDING DEFINITIONS RELATING TO DEFAULT. PUBLISHED RATINGS, CRITERIA, AND METHODOLOGIES ARE AVAILABLE FROM THIS SITE AT ALL TIMES. FITCH'S CODE OF CONDUCT, CONFIDENTIALITY, CONFLICTS OF INTEREST, AFFILIATE FIREWALL, COMPLIANCE, AND OTHER RELEVANT POLICIES AND PROCEDURES ARE ALSO AVAILABLE FROM THE CODE OF CONDUCT SECTION OF THIS SITE. DIRECTORS AND SHAREHOLDERS RELEVANT INTERESTS ARE AVAILABLE AT HTTPS://WWW.FITCHRATINGS.COM/SITE/REGULATORY. FITCH MAY HAVE PROVIDED ANOTHER PERMISSIBLE SERVICE TO THE RATED ENTITY OR ITS RELATED THIRD PARTIES. DETAILS OF THIS SERVICE FOR RATINGS FOR WHICH THE LEAD ANALYST IS BASED IN AN EU-REGISTERED ENTITY CAN BE FOUND ON THE ENTITY SUMMARY PAGE FOR THIS ISSUER ON THE FITCH WEBSITE.

READ LESS

COPYRIGHT

Copyright © 2020 by Fitch Ratings, Inc., Fitch Ratings Ltd. and its subsidiaries. 33 Whitehall Street, NY, NY 10004. Telephone: 1-800-753-4824, (212) 908-0500. Fax: (212) 480-4435. Reproduction or retransmission in whole or in part is prohibited except by permission. All rights reserved. In issuing and maintaining its ratings and in making other reports (including forecast information), Fitch relies on factual information it receives from issuers and underwriters and from other sources Fitch believes to be credible. Fitch conducts a reasonable investigation of the factual information relied upon by it in accordance with its ratings methodology, and obtains reasonable verification of that information from independent sources, to the extent such sources are available for a given security or in a given jurisdiction. The manner of Fitch's factual investigation and the scope of the third-party verification it obtains will vary depending on the nature of the rated security and its issuer, the requirements and practices in the jurisdiction in which the rated security is offered and sold and/or the issuer is located, the availability and nature of relevant public information, access to the management of the issuer and its advisers, the availability of pre-existing third-party verifications such as audit reports, agreed-upon procedures letters, appraisals, actuarial reports, engineering reports, legal opinions and other reports provided by third parties, the availability of independent and competent third- party verification sources with respect to the particular security or in the particular jurisdiction of the issuer, and a variety of other factors. Users of Fitch's ratings and reports should understand that neither an enhanced factual investigation nor any third-party verification can ensure that all of the information Fitch relies on in connection with a rating or a report will be accurate and complete. Ultimately, the issuer and its advisers are responsible for the accuracy of the information they provide to Fitch and to the market in offering documents and other reports. In issuing its ratings and its reports, Fitch must rely on the work of experts, including independent auditors with respect to financial statements and attorneys with respect to legal and tax matters. Further, ratings and forecasts of financial and other information are inherently forward-looking and embody assumptions and predictions about future events that by their nature cannot be verified as facts. As a result, despite any verification of current facts, ratings and forecasts can be affected by future events or conditions that were not anticipated at the time a rating or forecast was issued or affirmed.

The information in this report is provided "as is" without any representation or warranty of any kind, and Fitch does not represent or warrant that the report or any of its contents will meet any of the requirements of a recipient of the report. A Fitch rating is an opinion as to the creditworthiness of a security. This opinion and reports made by Fitch are based on established criteria and methodologies that Fitch is continuously evaluating and updating. Therefore, ratings and reports are the collective work product of Fitch and no individual, or group of individuals, is solely responsible for a rating or a report. The rating does not address the risk of loss due to risks other than credit risk, unless such risk is specifically mentioned. Fitch is not engaged in the offer or sale of any security. All Fitch reports have shared authorship. Individuals identified in a Fitch report were involved in, but are not solely responsible for, the opinions stated therein. The individuals are named for contact purposes only. A report providing a Fitch rating is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents in connection with the sale of the securities. Ratings may be changed or withdrawn at any time for any reason in the sole discretion of Fitch. Fitch does not provide investment advice of any sort. Ratings are not a recommendation to buy, sell, or hold any security. Ratings do not comment on the adequacy of market price, the suitability of any security for a particular investor, or the tax-exempt nature or taxability of payments made in respect to any security. Fitch receives fees from issuers, insurers, guarantors, other obligors, and underwriters for rating securities. Such fees generally vary from US$1,000 to US$750,000 (or the applicable currency equivalent) per issue. In certain cases, Fitch will rate all or a number of issues issued by a particular issuer, or insured or guaranteed by a particular insurer or guarantor, for a single annual fee. Such fees are expected to vary from US$10,000 to US$1,500,000 (or the applicable currency equivalent). The assignment, publication, or dissemination of a rating by Fitch shall not constitute a consent by Fitch to use its name as an expert in connection with any registration statement filed under the United States securities laws, the Financial Services and Markets Act of 2000 of the United Kingdom, or the securities laws of any particular jurisdiction. Due to the relative efficiency of electronic publishing and distribution, Fitch research may be available to electronic subscribers up to three days earlier than to print subscribers.

For Australia, New Zealand, Taiwan and South Korea only: Fitch Australia Pty Ltd holds an Australian financial services license (AFS license no. 337123) which authorizes it to provide credit ratings to wholesale clients only. Credit ratings information published by Fitch is not intended to be used by persons who are retail clients within the meaning of the Corporations Act 2001

Fitch Ratings, Inc. is registered with the U.S. Securities and Exchange Commission as a Nationally Recognized Statistical Rating Organization (the "NRSRO"). While certain of the NRSRO's credit rating subsidiaries are listed on Item 3 of Form NRSRO and as such are authorized to issue credit ratings on behalf of the NRSRO (see https://www.fitchratings.com/site/regulatory), other credit rating subsidiaries are not listed on Form NRSRO (the "non-NRSROs") and therefore credit ratings issued by those subsidiaries are not issued on behalf of the NRSRO. However, non-NRSRO personnel may participate in determining credit ratings issued by or on behalf of the NRSRO.

READ LESS

SOLICITATION STATUS

The ratings above were solicited and assigned or maintained at the request of the rated entity/issuer or a related third party. Any exceptions follow below.

ENDORSEMENT POLICY

Fitch's approach to ratings endorsement so that ratings produced outside the EU may be used by regulated entities within the EU for regulatory purposes, pursuant to the terms of the EU Regulation with respect to credit rating agencies, can be found on the EU Regulatory Disclosures page. The endorsement status of all International ratings is provided within the entity summary page for each rated entity and in the transaction detail pages for all structured finance transactions on the Fitch website. These disclosures are updated on a daily basis.

US Public Finance North America United States