Moody's
INVESTORS SERVICE

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

06 Apr 2021

**$25 billion of TRB debt affected**

New York, April 06, 2021 -- Moody's Investors Service has affirmed the A3 rating on the Metropolitan Transportation Authority, NY's (MTA) Transportation Revenue Bonds. The rating outlook has been revised to stable from negative.

RATINGS RATIONALE

The affirmation of the A3 rating on Metropolitan Transportation Authority's (MTA) Transportation Revenue Bonds reflects our expectation that ridership and revenue will recover slowly from the effects of the coronavirus pandemic, especially given uncertainty about the timing of business and tourism recovery and work-from-home trends in New York City (Aa2 negative). Lower revenues will lead to higher leverage metrics, significant capital program deferrals, and large structural budget gaps starting in fiscal 2024, when federal stimulus aid will be exhausted. The fiscal 2020 and 2021 budget gaps have been balanced with deficit financing bonds and substantial federal aid, which have significantly improved liquidity but increased MTA's debt load and left large structural gaps near 20% of own-source revenue. The rating also considers additional uncertainty surrounding MTA's future capital and debt plans. The timing and future borrowing for the adopted $55 billion 2020-2024 capital program is still being determined and could further increase the leverage forecast. We expect strong political and financial support will continue from New York State (Aa2 stable), New York City and the US Government (Aaa stable), which were instrumental in supporting the credit through the coronavirus pandemic.

The current coronavirus epidemic constitutes a social risk under our ESG framework, given the substantial implications for public health and safety. The longer term impact will depend on both the severity and duration of the crisis. Our view incorporates the impact of COVID-19 to date, but the pandemic and its long-term credit implications remain fluid.

RATING OUTLOOK

The revision of the outlook to stable reflects the significant improvement in MTA's budget flexibility and liquidity position for the next 18-24 months, due to its receipt of substantial federal aid for coronavirus relief and recovery. However, we expect that once federal aid has been exhausted, MTA's significant budget pressures will return due to the slow, incomplete ridership and revenue recovery, unless it makes material adjustments to better match its operations to future revenue levels. Out-year budget gaps will be challenging to resolve without further weakening financial and debt metrics, or negatively affecting MTA's service delivery and capital plans.

FACTORS THAT COULD LEAD TO AN UPGRADE OF THE RATINGS

- Sustained recovery of ridership and revenues toward historic levels, or structural service and budget changes that match new, lower ridership levels

- Reduced short-term debt risk and evidence that projected debt leverage metrics will stabilize and begin to improve

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

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

FACTORS THAT COULD LEAD TO A DOWNGRADE OF THE RATINGS

- Longer-than-expected economic and ridership disruption that leads to larger revenue losses, budget gaps, and liquidity pressure

- Greater than expected rise in leverage position and associated fixed costs, or increased short-term debt risk

- Declines in service performance 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 negative) after operating and maintenance requirements 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 and 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. 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 negative). TBTA profit, after paying its own O&M and debt service, 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://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBM_1105431. Alternatively, please see the Rating Methodologies page on www.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 at: https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_79004.

For ratings issued on a program, series, category/class of debt or security this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series, category/class of debt, security or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the credit rating action on the support provider and in relation to each particular credit rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moodys.com.

The ratings have been disclosed to the rated entity or its designated agent(s) and issued with no amendment resulting from that disclosure.

These ratings are solicited. Please refer to Moody's Policy for Designating and Assigning Unsolicited Credit Ratings available on its website www.moodys.com.

Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

Moody's general principles for assessing environmental, social and governance (ESG) risks in our credit analysis can be found at https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1243406 .

At least one ESG consideration was material to the credit rating action(s) announced and described above.

The Global Scale Credit Rating on this Credit Rating Announcement was issued by one of Moody's affiliates outside the EU and is endorsed by Moody's Deutschland GmbH, An der Welle 5, Frankfurt am Main 60322, Germany, in accordance with Art.4 paragraph 3 of the Regulation (EC) No 1060/2009 on Credit Rating Agencies. Further information on the EU endorsement status and on the Moody's office that issued the credit rating is available on www.moodys.com.

The Global Scale Credit Rating on this Credit Rating Announcement was issued by one of Moody's affiliates outside the UK and is endorsed by Moody's Investors Service Limited, One Canada Square, Canary Wharf, London E14 5FA under the law applicable to credit rating agencies in the UK. Further information on the UK endorsement status and on the Moody's office that issued the credit rating is available on www.moodys.com.

Please see www.moodys.com for any updates on changes to the lead rating analyst and to the Moody's legal entity that has issued the rating.

Please see the ratings tab on the issuer/entity page on www.moodys.com for additional regulatory disclosures for each credit rating.

Baye Larsen
Lead Analyst
State Ratings
Moody's Investors Service, Inc.
One Stamford Plaza
263 Tresser Boulevard
Stamford 06901
US
JOURNALISTS: 1 212 553 0376
Client Service: 1 212 553 1653

Nicholas Samuels
Additional Contact
State Ratings
JOURNALISTS: 1 212 553 0376
Client Service: 1 212 553 1653

Releasing Office:
Moody's Investors Service, Inc.
250 Greenwich Street
New York, NY 10007
U.S.A
JOURNALISTS: 1 212 553 0376
Client Service: 1 212 553 1653

MOODY'S
INVESTORS SERVICE