FitchRatings

RATING ACTION COMMENTARY

Fitch Upgrades MTA, NY's Transportation Rev Bonds to 'A'; Outlook Stable

Wed 25 Oct, 2023 - 12:04 PM ET

Fitch Ratings - New York - 25 Oct 2023: Fitch Ratings has upgraded the Metropolitan Transportation Authority, NY's outstanding

transportation revenue bonds (TRBs) to 'A' from 'A-'. The Rating Outlook is Stable.

RATING ACTIONS

ENTITY / DEBT		RATING		PRIOR
Metropolitan Transportation Authority (NY) [General Government]				
Metropolitan Transportation Authority (NY) /Transportation Revenues/1 LT	LT	A Rating Outlook Stable	Upgrade	A- Rating Outlook Negative

VIEW ADDITIONAL RATING DETAILS

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 MTA Bridges and Tunnels.

KEY RATING DRIVERS

The upgrade of the rating on the TRB's to 'A' from 'A-' reflects a material improvement in the MTA's fiscal outlook, which was largely driven by New York State increasing the maximum rate of the Payroll Mobility Tax (PMT). This resulted in a substantial increase in recurring revenues for the operating budget. The MTA-reported out-year gaps through 2027 have been eliminated by the PMT increase, continued ridership recovery and fare and toll rate increases, identified operating efficiencies, and the use of remaining federal pandemic aid to support pre-payments of debt service and retiree benefit costs.

Plausible downside risks to the MTA forecast center on the adverse impact on dedicated tax revenue from slower than expected economic growth and reversion of recent ridership gains. The 'A' rating incorporates the exceptional franchise strength of the MTA system and its importance to the regional and national economy, as evidenced by the PMT increase and the substantial federal commitment to the MTA following the onset of the pandemic.

REVENUE DEFENSIBILITY: STRONGER

The strategic importance of the MTA transit and commuter systems and bridges and tunnels to the economy of the New York region is the cornerstone of the 'stronger' revenue defensibility assessment and expectations for ongoing financial support from sponsoring governments to fund the MTA's operating and capital budget. MTA ridership appears to have stabilized, albeit at levels below pre-pandemic trend, and is tracking close to the midpoint forecast that underpins it financial plans.

The MTA has broad fare and toll rate-setting authority, which provides a mechanism to recover increased costs of service over time. The MTA is highly dependent on various dedicated tax revenues assessed on a broad range of activities unrelated to its functions, which mitigates price and demand risk to a degree. Dedicated taxes have outperformed earlier expectations post- pandemic but remain sensitive to periods of high volatility beyond the MTA's control.

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. Labor-related expenses are driven by contractually bargained agreements, which serve to limit the MTA's overall expenditure flexibility. Service reductions and layoffs within the MTA's authority represent the most meaningful of the agency's cost-cutting tools, but Fitch views these as difficult to implement given prospects for consumer, political and labor push back. Debt service and retiree benefit costs have risen substantially over the past decade and are expected to remain a pressure on the operating budget.

FINANCIAL PROFILE: STRONGER

The financial profile assessment of 'stronger' is considered within the context of pledged gross TRB revenues rather than cash flow available for debt service (CFADS) pursuant to Fitch's Public-Sector, Revenue Supported Entities Master Criteria. This alternative view of financial leverage is based on and the protection afforded to 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. Gross TRB revenue totaled $12.8 billion in 2022 or approximately 3.6x total MTA outstanding net debt and Fitch-adjusted net pension liabilities. Long-term capital needs are significant, resulting in almost constant debt issuance pressures that will require ongoing management to balance the need to fund safety and reliability investments against available resources for debt service.

RATING SENSITIVITIES

Factors that could, individually or collectively, lead to positive rating action/upgrade:

--Revenue and ridership projections that exceed the MTA forecast resulting in expectations for improved liquidity and overall financial flexibility.

Factors that could, individually or collectively, lead to negative rating action/downgrade:

--A sustained setback or stall in ridership, lower than expected tax revenue performance or the inability to manage recurring spending against available resources that trigger large out-year fiscal gaps.

--Failure to sustain capital investment and a credible financing strategy necessary to maintain the integrity and safety of the MTA system, while maintaining Fitch-calculated long-term liabilities from rising above 8x gross TRB

revenues on a sustained basis.

CREDIT PROFILE

State Tax Revenue Support a Key Driver of Improved Fiscal Outlook

The MTA's July Financial Plan (FP) reflects the elimination of the February FP's $6.5 billion aggregate deficit over the five-year period ending 2027. The key driver of the deficit reduction is an estimated $1.1 billion in new annual operating revenue ($6.6 billion over the plan period) from New York State's increase in the maximum rate of the PMT. The state's action underscores its strong support for the MTA (a component unit of the state whose board is appointed by the governor). The stated enacted the PMT in June 2009 to support the agency following the Great Financial Crisis.

The state's enacted budget also provides $300 million in one-time aid to the MTA in 2023 and directed an estimated $500 million in casino license fees in both 2026 and 2027 from the awarding of up to three downstate casinos. The MTA will receive an additional $500 million from a third license plus a portion of recurring gaming taxes not within the scope of the July FP. The state budget also included an extension of New York City's contribution to MTA paratransit costs, estimated at $165 million annually through June 30, 2030.

MTA gap-closing actions include a 4.0% and 5.5% fare and toll revenue increases, respectively, that went into effect in August and are projected to generate $1.2 billion over the plan period. The MTA had previously delayed fare increases in 2021 and 2022 to incentivize ridership. The July FP assumes the continuation of biennial fare and toll increases going forward. The MTA has also committed $400 million in operating efficiencies beginning in 2024 (less than 3% of the budget) increasing to $500 million in 2025. The MTA reports these savings targets have largely been identified and will not affect service or headcount.

The July FP incorporates an additional $1.15 billion in costs through 2027 over the amount assumed in the February FP from the June negotiated settlement with TWU Local 100. The MTA had assumed a 2.0% annual wage increase, whereas the ratified agreement includes annual increases of 3.0% for the first two years and 3.5% for the third year, which are relatively consistent with recent state and city labor agreements.

Remaining Stimulus Primarily Used to Pre-fund Expenses

The infusion of approximately $7.0 billion under the American Recovery Plan Act (ARPA) positioned the MTA to close post-pandemic budget gaps while avoiding deep service cuts and layoffs. The July FP reflects the use of $1.24 billion in local subsidies to close the 2023 deficit available as a result of the application of federal funds to pre-pay a portion of pension expenses through 2025 and debt service through 2026. Remaining stimulus funds will also fund a $1.32 billion deposit to the OPEB trust to help cover future payments, primarily in years beyond the July FP.

Ridership Stabilization Evident

Ridership risk remains a key rating sensitivity but more stable with recent weekday New York City Transit subway ridership in the low-70S% range relative to 2019 levels, an increase of roughly 10% year-over-year. The July FP assumes an increase to a new normal ridership level equivalent to 80% of pre-pandemic levels by 2027, which Fitch views as reasonable. Commuter rails (LIRR and Metro North) report comparable ridership data to the subway system, while bridge and tunnel crossings have essentially fully recovered to pre-pandemic norm. Subway fares and tolls from MTA bridge and tunnels represent the largest sources of MTA non-tax operating revenue forecast at $2.9 billion and $2.5 billion, respectively, in 2024.

Liquidity Remains Satisfactory

Liquidity resources are satisfactory with the MTA reporting approximately $8.1 billion available as of July 26 (relative to the $19.78 billion 2024 budget), consisting of a current running cash balance of $700.6 million, internal available funds and reserves of $3.2 billion, related funds from PMT Municipal Liquidity Fund BANs plus interest totaling $3.0 billion, and undrawn commercial bank lines or credit totaling $1.2 billion.

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 highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit https://www.fitchratings.com/topics/esg/products#esg-relevance-scores.

FITCH RATINGS ANALYSTS

Michael Rinaldi
Senior Director
Primary Rating Analyst
+1 212 908 0833
michael.rinaldi@fitchratings.com
Fitch Ratings, Inc.
Hearst Tower 300 W. 57th Street New York, NY 10019

Kevin Dolan
Director
Secondary Rating Analyst
+1 212 908 0538
kevin.dolan@fitchratings.com

Pascal St Gerard
Senior Director
Committee Chairperson
+1 415 732 7577
pascal.stgerard@fitchratings.com

MEDIA CONTACTS

Sandro Scenga
New York
+1 212 908 0278
sandro.scenga@thefitchgroup.com

Additional information is available on www.fitchratings.com

PARTICIPATION STATUS

The rated entity (and/or its agents) or, in the case of structured finance, one or more of the transaction parties participated in the rating process except that the following issuer(s), if any, did not participate in the rating process, or provide additional information, beyond the issuer's available public disclosure.

APPLICABLE CRITERIA

Public Sector, Revenue-Supported Entities Rating Criteria (pub. 27 Apr 2023) (including rating assumption sensitivity)

ADDITIONAL DISCLOSURES

Dodd-Frank Rating Information Disclosure Form

Solicitation Status

Endorsement Policy

ENDORSEMENT STATUS

Metropolitan Transportation Authority (NY)	EU Endorsed, UK Endorsed

DISCLAIMER & DISCLOSURES

All Fitch Ratings (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/rating-definitions-document details Fitch's rating definitions for each rating scale and rating categories, including definitions relating to default. ESMA and the FCA are required to publish historical default rates in a central repository in accordance with Articles 11(2) of Regulation (EC) No 1060/2009 of the European Parliament and of the Council of 16 September 2009 and The Credit Rating Agencies (Amendment etc.) (EU Exit) Regulations 2019 respectively.

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 or ancillary service to the rated entity or its related third parties. Details of permissible or ancillary service(s) for which the lead analyst is based in an ESMA- or FCA-registered Fitch Ratings company (or branch of such a company) can be found on the entity summary page for this issuer on the Fitch Ratings website.

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 complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Fitch also provides information on best-case rating upgrade scenarios and worst-case rating downgrade scenarios (defined as the 99th percentile of rating transitions, measured in each direction) for international credit ratings, based on historical performance. A simple average across asset classes presents best-case upgrades of 4 notches and worst-case downgrades of 8 notches at the 99th percentile. Sector-specific best- and worst-case scenario credit ratings are listed in more detail at https://www.fitchratings.com/site/re/10238496

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.

dv01, a Fitch Solutions company, and an affiliate of Fitch Ratings, may from time to time serve as loan data agent on certain structured finance transactions rated by Fitch Ratings.

READ LESS

SOLICITATION STATUS

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

ENDORSEMENT POLICY

Fitch's international credit ratings produced outside the EU or the UK, as the case may be, are endorsed for use by regulated entities within the EU or the UK, respectively, for regulatory purposes, pursuant to the terms of the EU CRA Regulation or the UK Credit Rating Agencies (Amendment etc.) (EU Exit) Regulations 2019, as the case may be. Fitch's approach to endorsement in the EU and the UK can be found on Fitch's Regulatory Affairs page on Fitch's website. The endorsement status of international credit ratings is provided within the entity summary page for each rated entity and in the transaction detail pages for structured finance transactions on the Fitch website. These disclosures are updated on a daily basis.