



RATING ACTION COMMENTARY

Fitch Rates MTA, NY's \$1B TRB Rfd Ser 2024A 'AA'; Upgrades Outstanding to 'AA' on Criteria Change

Thu 07 Mar, 2024 - 3:18 PM ET

Fitch Ratings - New York - 07 Mar 2024: Fitch Ratings has assigned a rating of 'AA' to \$1 billion of transportation revenue refunding green bonds, series 2024A (climate bond certified) to be issued by the Metropolitan Transportation Authority, NY. The bonds are expected to price on March 18 and 19. Proceeds will refund certain of the MTA's outstanding transportation revenue bonds (TRBs) and the Triborough Bridge and Tunnel Authority's (TBTA) outstanding payroll mobility tax senior lien refunding bonds, subseries 2021A-2 (tax-exempt mandatory tender bonds) for debt service savings.

Concurrently, Fitch has upgraded the MTA's outstanding TRBs to 'AA' from 'A' based on review of the credit under Fitch's revised Government-Related Entities (GRE) Rating Criteria. The ratings have been removed from Under Criteria Observation (UCO).

Fitch has also assigned the MTA an 'AA' Issuer Default Rating (IDR) and assesses its Standalone Credit Profile (SCP) at 'bbb+'.

The Rating Outlook is Stable.

RATING ACTIONS

ENTITY / DEBT ↕	RATING ↕		PRIOR ↕
Metropolitan Transportation Authority (NY) [General Government]	LT IDR	AA Rating Outlook Stable	New Rating
Metropolitan Transportation Authority (NY) /Issuer Default Rating - General Government/1 LT	LT	AA Rating Outlook Stable	New Rating

Metropolitan Transportation Authority (NY) /Transportation Revenues/1 LT	LT	AA Rating Outlook Stable	Upgrade	A Rating Outlook Stable
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The upgrade of the TRB rating reflects application of Fitch's revised GRE criteria, which explicitly recognizes the likelihood of support from New York State (NYS) to the MTA. Under new criteria framework, Fitch has assessed the MTA's SCP at 'bbb+' representing our view of the MTA's creditworthiness absent extraordinary support from NYS, which, combined with a support score of 'extremely likely' under our GRE criteria, leads to an MTA IDR and TRB rating one notch below the NYS IDR (AA+/Stable).

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 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 (LIRR) and MTA Metro-North; and buses operated by MTA Bus. The TRBs are also backed by a gross lien on operating subsidies from NYS and New York City, as well as surplus from the operations of MTA Bridges and Tunnels.

KEY RATING DRIVERS

Support Score Assessment: 'Extremely Likely'

We consider that extraordinary support from NYS to MTA, a component unit of the state, would be extremely likely in case of need, reflecting a support score of 35 (out of a maximum 60) under Fitch's GRE criteria. This reflects a combination of various responsibility to support and incentive to support factor assessments as described below.

Responsibility to Support

Decision Making and Oversight: 'Strong'

As a component unit of NYS whose board members are appointed by the governor, the MTA's operational activities, financial performance and capital plan are subject to significant oversight and decision-making influence of the state. Although NYS does not have direct authority over the MTA operating or capital budget, it does have the authority to approve various dedicated tax revenues that account for a substantial portion of MTA resources. Fitch expects NYS to play an active role in the oversight of MTA functions in the event its financial situation was to deteriorate.

Precedent of Support: 'Very Strong'

NYS has demonstrated consistent and meaningful financial support to the MTA during prior periods of stress allowing the MTA to maintain a sufficiently strong financial profile. Evidence of NYS's support includes the recent increase in the maximum rate of the Payroll Mobility Tax (PMT). The PMT is projected to generate an additional \$1.1 billion in recurring revenues for the operating budget and significant subsidies for the capital plan, including congestion pricing, internet sales tax and mansion tax (the state temporarily authorized use of the latter two revenue sources for operating expenses during the pandemic).

Incentive to Support

Preservation of Government Policy Role: 'Strong'

The MTA operates strategically important assets that provide 24/7 service to a population of approximately 15 million within surrounding New York City, Long Island, southeastern NYS, and Connecticut. MTA's extensive transit and commuter network is larger than all other U.S. mass transit systems combined. Fitch believes that a failure of the MTA would have a direct material impact on public health and safety within its service area, in addition to economic activity across the state, region and nation along with significant political repercussions (the New York-Newark-New Jersey metropolitan statistical area accounts for approximately 9% of the national economy).

Contagion Risk: 'Strong'

In Fitch's view, the MTA is among the most high-profile component unit debt issuers of NYS and one of the largest municipal debt issuers in the U.S. with approximately \$47 billion in debt outstanding. A default of MTA on its debt could disrupt the access and increase the cost of debt issued by NYS given its close governance linkage and history of fiscal support for the MTA.

Standalone Credit Profile

MTA's 'bbb+' SCP results from the combination of a 'stronger' revenue defensibility assessment, 'midrange' operating risk assessment and a financial profile assessed in the 'bbb' category, with a leverage ratio (net adjusted debt to funds available for debt service) expected to range from 12x to 14x in our stress/rating case scenario.

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. MTA ridership is averaging approximately 70% of pre-pandemic trends and is tracking close to the midpoint forecast that underpins its 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. The

long-term rate of growth in dedicated taxes is solid but year-over-year performance remains sensitive to periods of high volatility beyond the MTA's control.

Operating Risk - 'Midrange'

The 'midrange' assessment reflects an expectation for ongoing labor cost pressures, including fringe benefits for existing and retired employees. Labor-related expenses are driven by contractually bargained agreements, which serve to limit the MTA's overall expenditure flexibility. Service reductions and layoffs are difficult to implement given prospects for consumer, political and labor pushback. The assessment also reflects the MTA's significant capital demands resulting in almost constant debt issuance pressures, which could become more acute if revenue from the MTA's congestion pricing plan are not realized.

Fitch expects the MTA to balance the need to fund safety and reliability investments against fluctuations in available resources for debt service. Debt service and retiree benefit costs have risen substantially over the past decade and are expected to remain a pressure on the operating budget. Fitch views capital planning and management as a negative consideration in the MTA's operating risk assessment given the history of lengthy project delays, sizable cost overruns and the substantial scope of critical investment needs and uncertain cost recovery from recurring resources.

Financial Profile - 'Midrange'

Fitch-adjusted leverage was a low 3.8x in 2022, reflecting the substantial amount of federal fiscal stimulus enhancing MTA's funds available for debt service (FADS), whereas leverage ranged from 8.0x to 13.0x over the five-year period ending 2019. In Fitch's stress/rating case scenario, the leverage ratio is expected to range from 12x to 14x, which is consistent with a midrange, 'bbb' assessment. The increasing leverage trend assumes the MTA will incur additional debt to finance the MTA's sizeable capital plan, which may be deferred or not incurred altogether. The liquidity profile is neutral to the overall assessment.

Asymmetric Additional Risk Considerations

Fitch assesses all asymmetric factors as 'neutral' to the rating.

RATING SENSITIVITIES

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

--Negative rating action on NYS.

--The ratings could also be downgraded if the MTA's SCP is lowered to 'bb' (assuming no change in NYS's IDR). The SCP could be lowered due to expectations for Fitch-calculated leverage to rise above 15x on a sustained basis, which may be driven by the increase in leverage absent commensurate growth in MTA resources, and/or a revision of the revenue defensibility assessment to 'midrange' from 'stronger' due to declining demand or pricing characteristics including a sustained setback in ridership.

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

--Positive rating action on NYS.

--The ratings could also be upgraded if the MTA's SCP is raised to 'a+', which may be due to revenue and ridership projections that exceed the MTA forecast, resulting in expectations for improved leverage below 12x on a sustained basis.

PROFILE

The MTA is a component unit of NYS whose board consists of a chairperson and 16 voting members, 2 non-voting members and four alternate non-voting members. All board members are appointed by the NYS governor, some on the recommendation of city and county officials in the MTA service region. The chairperson is by statute also the CEO of the MTA and its related entities.

The MTA is the largest mass transit system in the U.S. by a wide margin. The MTA's operating agencies include New York City Transit, MTA Bus, Long Island Rail Road (LIRR), Metro-North Railroad, and Bridges and Tunnels. The subway system consists of more than 665 miles of track, serving 472 stations across the boroughs of Manhattan, Brooklyn, Queens, and the Bronx, and it operates 24 hours a day, seven days a week. The MTA bus fleet includes over 5,850 buses that provide local and express service. The LIRR covers more than 526 miles of track that spans Manhattan's Penn Station and Grand Central Madison to the easternmost tip of Long Island. Metro-North connects commuters from the northern suburbs of New York City, extending into NYS and Connecticut covering over 880 route miles. Bridges and Tunnels operates seven bridges and two tunnels in New York City, including the Hugh L. Carey Tunnel, the Queens Midtown Tunnel, the Verrazzano-Narrows Bridge, the Queens Midtown Tunnel, and the Robert F. Kennedy (Triborough) Bridge, among others.

Sources of Information

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

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>.

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APPLICABLE CRITERIA

[U.S. Public Sector, Revenue-Supported Entities Rating Criteria \(pub. 12 Jan 2024\) \(including rating assumption sensitivity\)](#)

[Government-Related Entities Rating Criteria \(pub. 12 Jan 2024\)](#)

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