



# **Report to the Finance Committee**

## **Annual Report on Variable Rate Debt**

**MTA Finance Department**  
**April 29, 2024**

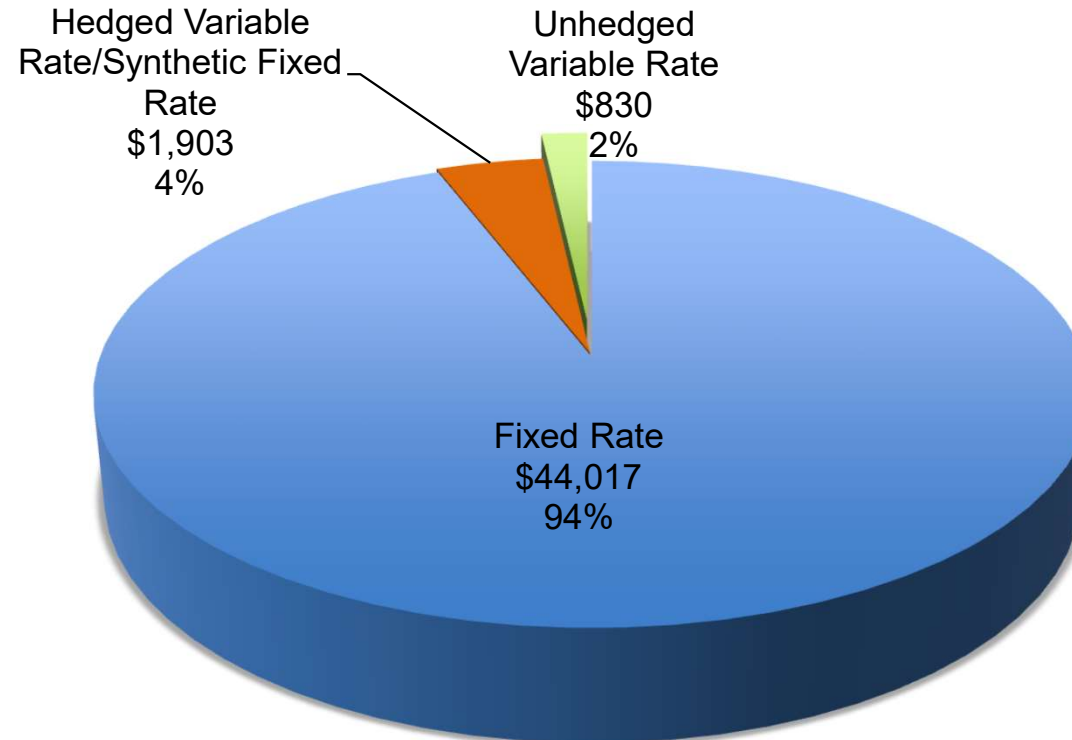


## **MTA's Variable Rate Debt Policy Sets Prudent Limits to Unhedged Variable Rate Exposure**

- Variable rate debt is generally debt with nominal long-term maturities that carry interest rates that are reset on a periodic basis (e.g. daily, weekly, etc.) and change in accordance with changes in market interest rates and credit quality of debt
- MTA hedged 70% of its Variable Rate Debt by entering into payment agreements to reduce net borrowing costs and/or reduce interest rate volatility of debt
- MTA's Variable Rate Debt policy limits the amount of outstanding unhedged variable rate debt to 25% of the aggregate principal amount of all outstanding obligations of the Authority



## Hedged and Unhedged Variable Rate Debt is a Modest 6% of Total Outstanding Debt



*\$ in millions*

- Portfolio's interest rate exposure is manageable with variable rate bonds accounting for a modest 6% of total debt
- 70% of outstanding variable rate bonds are synthetically fixed, further limiting interest rate risk

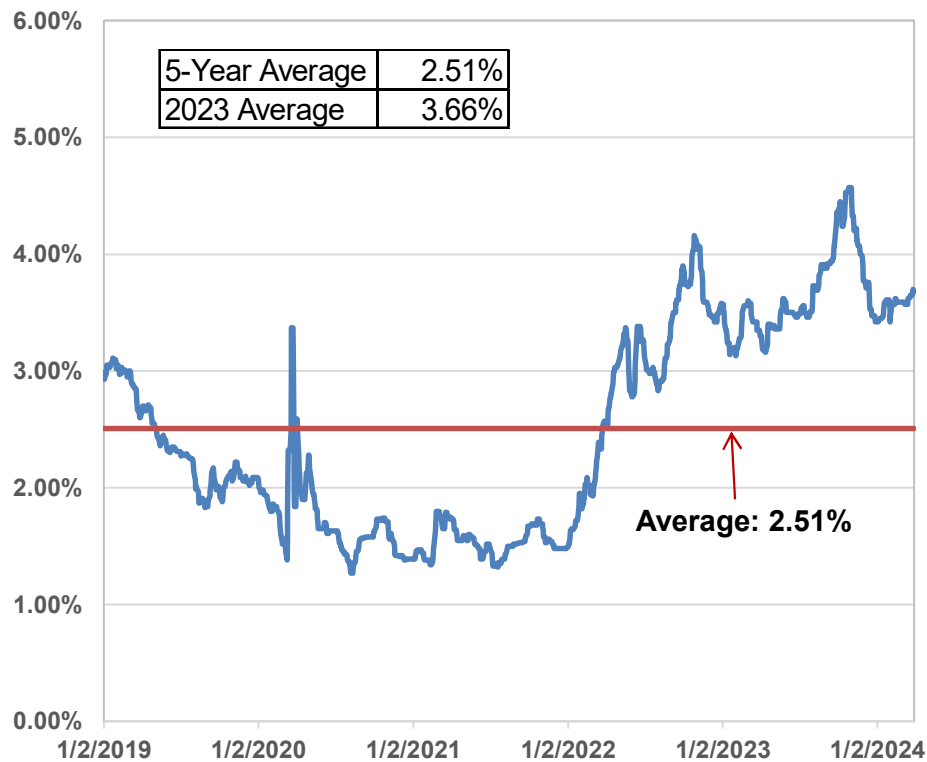
### Notes:

- (1) Fixed Rate includes \$2.7 billion Bond Anticipation Notes, \$1.2 billion Fixed Rate Balloon Obligations, and \$1.02 billion Term Rate bonds which have a fixed rate for a defined period (until the mandatory tender date) but do not have a fixed rate for the entire life of the bonds.
- (2) Excludes \$762.5 million Hudson Rail Yard Trust Obligations
- (3) Data as of 4/2/2024

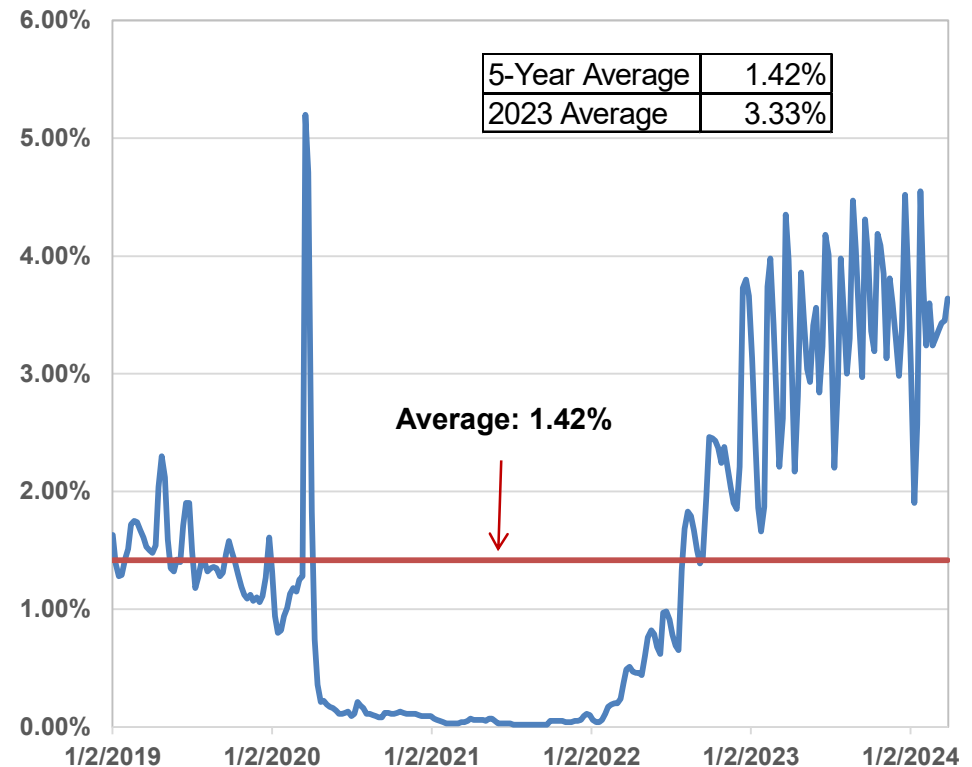


# Diminished Variable Rate Benefit and Increased Volatility in 2023

Fixed Rate Bond Benchmark Index (30-yr MMD)



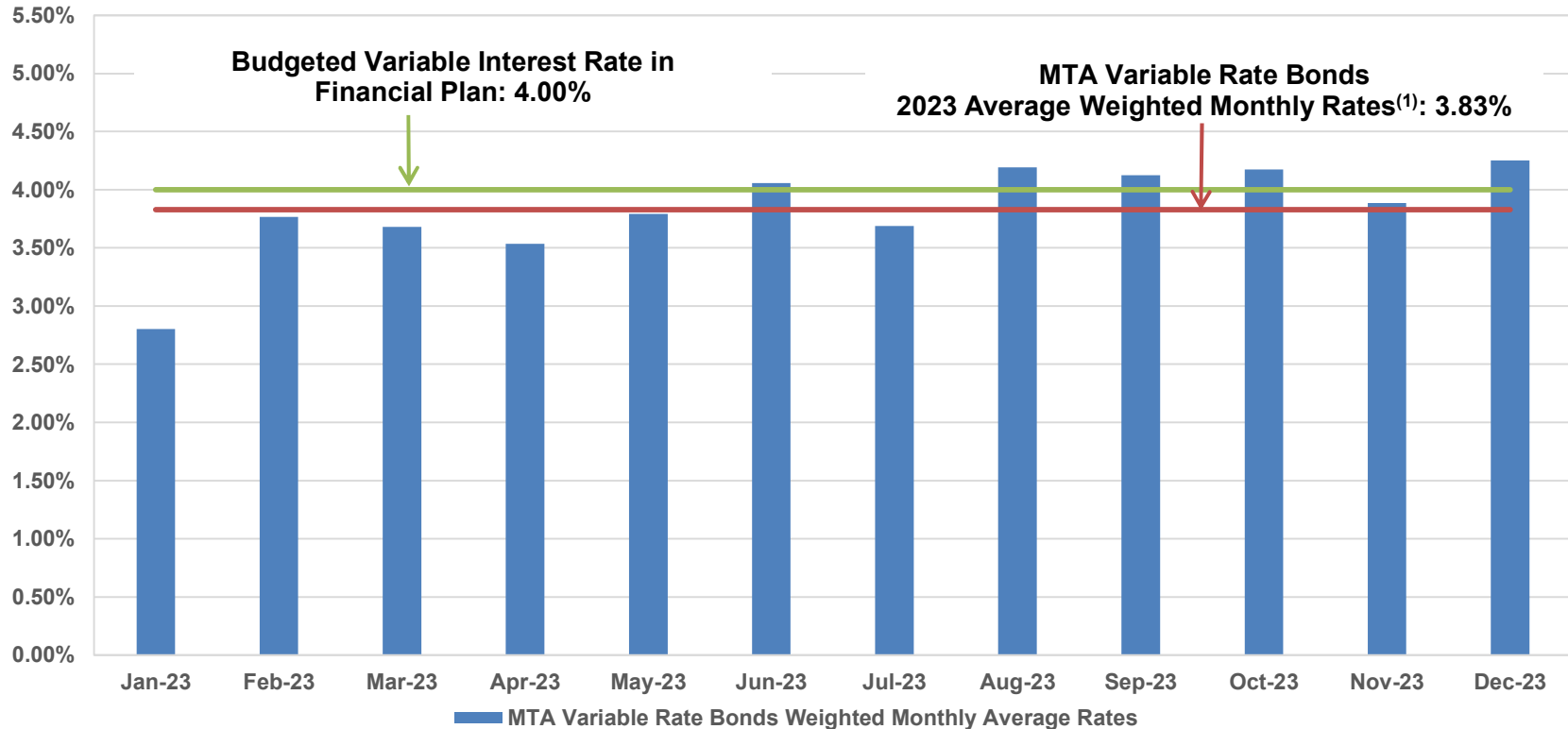
Variable Rate Bond Benchmark Index (SIFMA)



- In 2023, the average benefit between short-term rates (SIFMA) and long-term rates (MMD) narrowed to approximately one third of a percentage point
- Short-term rates also continued to experience greater volatility driven by significant periodic inflows and outflows of assets into the market for tax-exempt variable rate securities



# 2023 Variable Rate Bonds Came in Slightly Under Budget



**2023 Performance:** MTA's Variable Rate Bonds weighted monthly average rates fluctuated significantly in 2023, consistent with the volatility of the SIFMA index, from a low of 2.80% in January to a high of 4.25% in December. The Average Weighted Monthly Rate in 2023 was 3.83%<sup>(1)</sup>, below the MTA's budgeted variable interest rate of 4% in the Financial Plan. Variable rate savings in 2023 were approximately \$1 million

**2024 YTD Performance:** MTA's Variable Rate Bonds weighted daily average rates continued to be volatile in the first quarter of 2024. The Average Weighted Monthly Rate in the first quarter of 2024 was 3.75%<sup>(1)</sup>

Notes:

(1) Weighted Monthly Average Rates are inclusive of remarketing and LOC fees

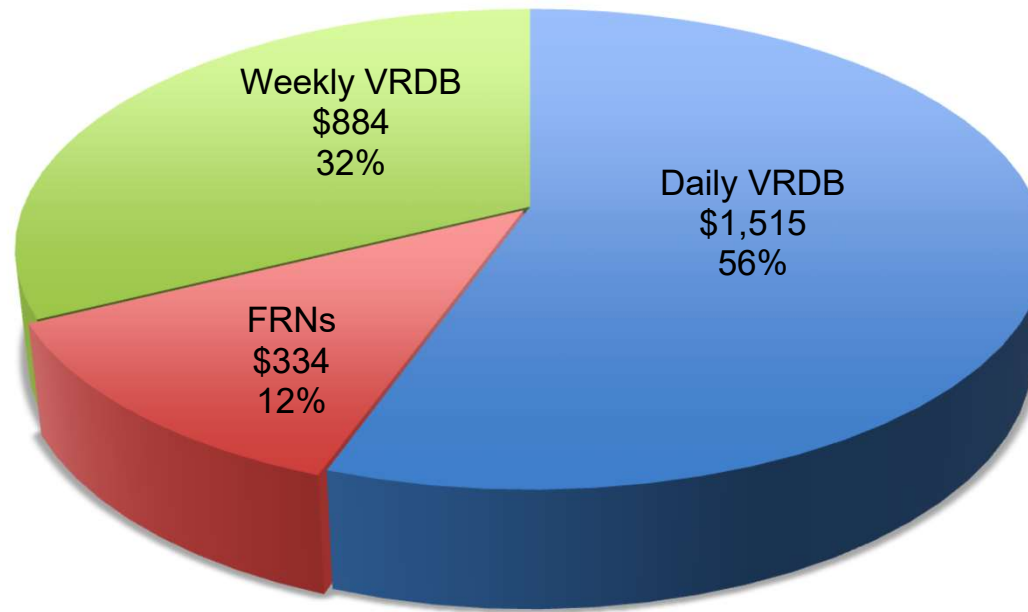


# Appendix



# Most of MTA's Variable Rate Debt Portfolio is Structured as Variable Rate Demand Bonds

- **Variable Rate Demand Bonds (“VRDBs”), \$2.398 billion outstanding**
  - Interest rate is determined daily or weekly, depending on the interest rate mode; Remarketing Agent markets bonds tendered, and sets the interest rate on each reset date
  - VRDBs are supported by bank Letters of Credit (LOCs)
- **Floating Rate Notes (“FRNs”), \$334 million outstanding**
  - Interest rate is determined based on a set spread to a floating index (SIFMA or a % of SOFR)



**\$ in millions**

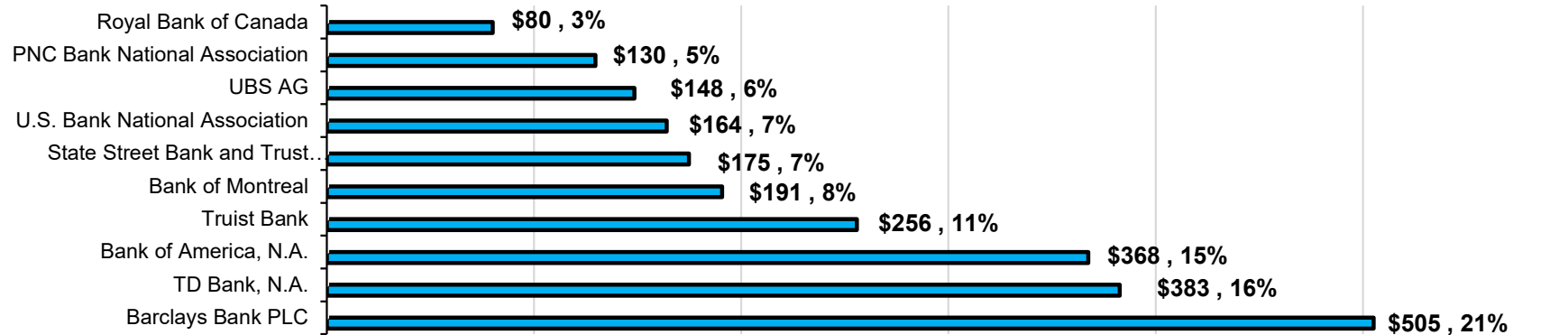
Notes:

(1) Data as of 4/2/2024

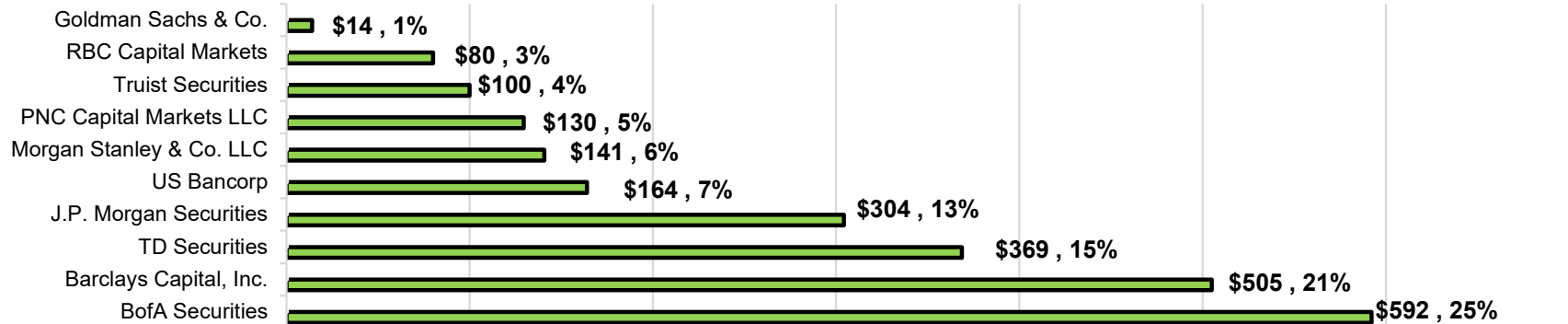


# Variable Rate Demand Bonds Are Supported and Remarketed by a Diverse Group of Banks and Remarketing Agents

## LOC Providers



## Remarketing Agents



**\$ in millions**

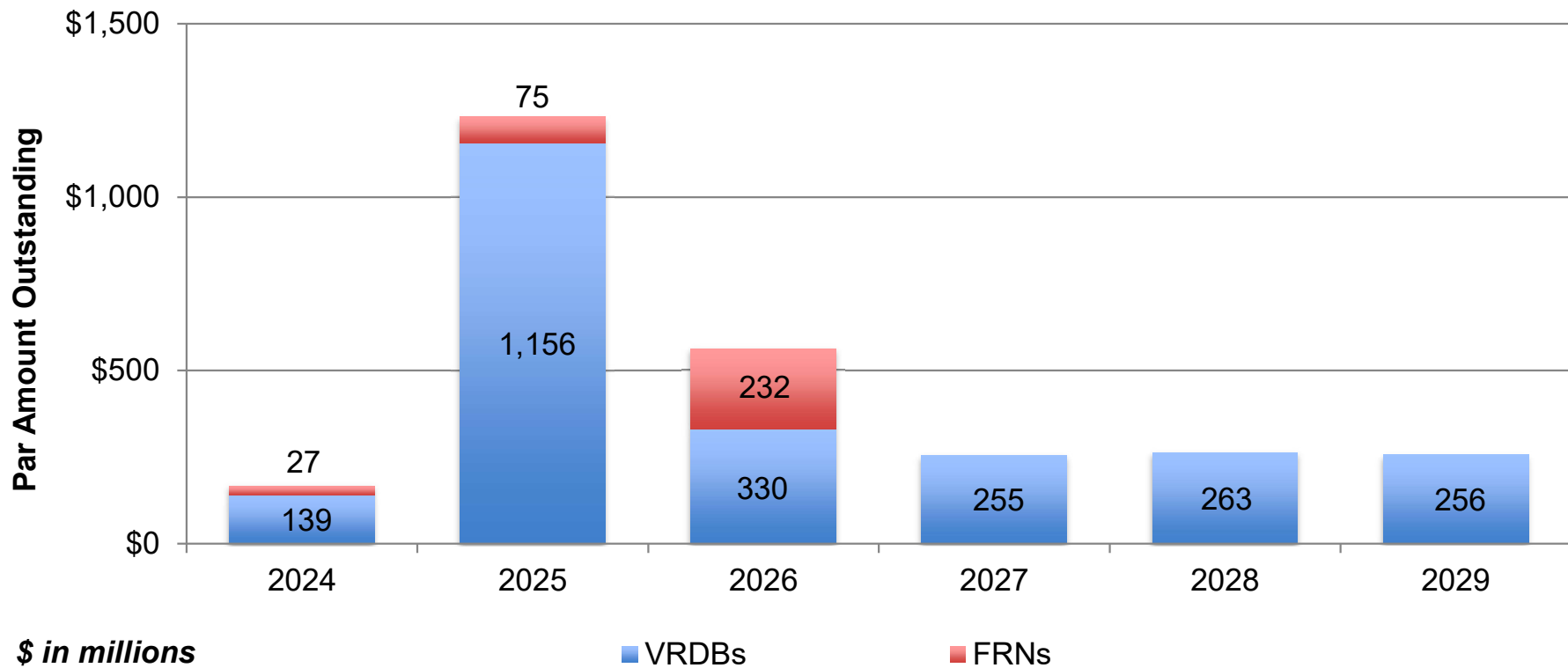
Notes:

(1) Data as of 4/2/24





## VRDB LOC Expiration Dates and FRN Put Dates



**2024 Calendar:** \$139 million VRDBs with expiring LOCs and \$27 million FRNs with put dates for the remainder of 2024

Notes:

(1) Data as of 4/2/2024



# Outstanding Counterparty Exposure is Diversified Across Multiple Counterparties

Swap Counterparty	Ratings Moody's/S&P/Fitch	Notional Amount (\$000)	% of Total Notional	Mark-to-Market (\$000)
AIG Financial Products <sup>(1)</sup>	Baa2/BBB+/BBB+	\$70,560	4%	-\$3,524
Bank of New York	Aa2/AA-/AA	\$232,695	12%	-\$5,031
BNP Paribas <sup>(2)</sup>	Aa3+/A+/AA-	\$174,700	9%	-\$3,817
Citibank NA	Aa3+/A+/A+	\$174,700	9%	-\$3,817
JP Morgan Chase Bank NA	Aa2/A+/AA	\$729,300	38%	-\$48,588
UBS	Aa3/A+/A+	\$386,380	20%	-\$14,391
US Bank NA	A2/A+/A+	\$67,375	4%	-\$1,130
Wells Fargo Bank NA	Aa2/A+/AA-	\$67,375	4%	-\$1,130
<b>Total</b>		<b>\$1,903,085</b>		<b>-\$81,429</b>

- Mark-to-Market (MTM) values represent the theoretical mid-market termination amounts as of a given valuation date and do not impact capital or operating budgeting. MTM of the MTA swap portfolio improved by over 45% over the last year from negative \$147.5 million.

Notes:

<sup>1</sup> Guaranteed by AIG Inc. (AIG Financial Products Corp. parent company).

<sup>2</sup> Guaranteed by BNP Paribas

Data from Mohanty Gargiulo LLC Interest Swap Portfolio Report 3/31/2024

Totals may not add due to rounding