Metropolitan Transportation Authority (MTA)

Issuer: Metropolitan Transportation Authority		
Assigned	**Rating**	**Outlook**
Transportation Revenue Bonds, Series 2020C	AA+	Watch-Downgrade
	Ratings	**Outlook**
Transportation Revenue Bonds	AA+	Watch-Downgrade (from Negative)
Transportation Revenue Bond Anticipation Notes	K1+	n/a

For mapping of the long-term rating to the short-term rating, please refer to the **short-term KBRA Rating Scale**.

Methodology:

U.S. Public Toll Roads, Bridges & Tunnels Revenue Bond Rating Methodology

Analytical Contacts:

Alice Cheng, Director
(646) 731-2403
acheng@kbra.com

Cindy Wu, Senior Director
(646) 731-2304
cwu@kbra.com

Karen Daly, Senior Managing Director
(646) 731-2347
kdaly@kbra.com

William Cox, Global Head of Corporate, Financial and Government Ratings
(646) 731-2472
wcox@kbra.com

Rating Summary: The Transportation Revenue Bonds (TRBs), Series 2020C will be issued to retire the Transportation Bond Anticipation Notes, Subseries 2018B-1 and Subseries 2019B-2 maturing on May 15, 2020. KBRA has placed the long-term rating on MTA's TRB's on Watch-Downgrade to reflect the significant operating and financial dislocation caused by the COVID-19 crisis.

Based on MTA's latest Disclosure[1], ridership on subways and buses[2] is down by 59.86% and 48.87%, respectively; and ridership on the commuter rails, LIRR and Metro-North, are down 67% and 90%, respectively. Meanwhile, MTA operating expenses have increased because of sanitizing efforts. The loss of farebox revenues and the inability to substantially reduce expenses has created an unsustainable imbalance in the MTA's fiscal operations. MTA's management indicates they are seeking to bolster liquidity through expansion of bank lines, amongst other measures. Current bank lines of $ 1 billion expire on August 24, 2022. In addition, federal legislation wending its way through congress appears likely to provide substantial grant funds to America's urban transit systems including the MTA. While likely significant and very helpful, the federal relief funds are unlikely to be enough to close the MTA's structural imbalance, which has been widened by recent events. KBRA expects ridership declines to continue for some time and we also expect that state and local subsidies – some of which are derived from economically sensitive taxes – will decline in coming months because of the looming COVID-19 recession.

The three pillars that continue to support MTA's credit rating are:

- Pledged revenues are received by the TRB trustee and used to meet pro rata monthly debt service requirements before being released for operations. KBRA does not expect to see any deviation from the MTA's flow of funds as specified in its bond documents
- The strong management team has consistently demonstrated its ability to navigate financial and political challenges; and
- The essential nature of the MTA's transportation infrastructure to the New York metropolitan area economy.

The last pillar is among the reasons KBRA continues to believe there will be financial support from the State and or federal governments to help MTA bridge its near term operating and liquidity challenges. Nevertheless, the MTA will likely experience permanent changes to its operating and fiscal posture that remain hard to dimension at this time. For example, it is unlikely that the implementation of the nation's first congestion tolling system (please refer to KBRA's **Congestion Pricing…What It Means for the MTA and TBTA**) will proceed according to the original timeline. Likewise, KBRA would expect to see significant changes to the MTA's capital and debt issuing plans. In order to help quantify the near-term challenges, KBRA has developed the following stress scenario:

- Operating revenues:
    - Based on current ridership declines, KBRA expects farebox revenues to decline by 16% for the first quarter versus the 2020 budget; and then we assume worst case 85%, 65%, and 45% declines in the second

[1] MTA Annual Disclosure Statement Supplement dated March 18, 2020; data reflects year-over-year change on March 16.

[2] Reflects MTA Bus declined by 51.31% and NYCT Bus declined by 48.33%.

through fourth quarters, respectively. This translates to an operating revenue decline of $3.4 billion from Adopted Budget 2020 (51% decline).
  - For FY 2021 to FY 2023, KBRA assumes a 10% decline from budgeted FY 2020 figures.
- Special Tax-Supported Operating Subsidies:
  - For FY 2020, KBRA assumes a 25% decline on all the tax receipts for the period between April to December, which was roughly the level of decline that MMTOA Receipts[3] experienced during the great recession.
  - For FY 2021 – FY 2023, KBRA assumes a decline of 25%, 15%, and 10%, respectively, due to the lingering economic impact caused by the COVID-19 crisis.
- Revenues from TBTA Surplus:
  - For FY 2020, KBRA assumes that TBTA traffic declines by 50% in the second quarter 2020, 25% in the third quarter from budgeted FY 2020 figures, and fully recovers by the last quarter. This translates to a reduction in TBTA surplus by approximately $330 million from the FY 2020 Adopted Budget (43% decline).
- Operating expenses:
  - For FY 2020 expenses, KBRA includes an increase of $300 million due to sanitizing efforts.
  - FY 2021- FY 2023 expenses remain as projected based on the Adopted Budget 2020.
- This stress scenario excludes potential savings from the MTA's Transformation Plan.

			KBRA Stress Case			
	Final Estimate 2019	Adopted Budget 2020	2020	2021	2022	2023
Operating Revenues (including Farebox Revenue)	6,655	6,729	3,327	6,056	6,056	6,056
Special Tax-Supported Operating Subsidies	4,866	4,968	4,037	3,726	4,223	4,471
Non-Operating Revenues	1,282	1,149	1,149	1,149	1,149	1,149
Revenues from TBTA Surplus	783	776	446	1,328	1,266	1,093
Agency Operating Subsidies	376	460	460	460	460	460
Total Transportation Resolution Pledged Revenues	13,962	14,082	9,418	12,719	13,154	13,229
% Chg. vs FY 2020 Adopted Budget	-	-	*-33.1%*	*-9.7%*	*-6.6%*	*-6.1%*
TRB Debt Service	1,604	1,725	1,696	1,928	2,199	2,496
DSCR (Gross)	**8.7x**	**8.2x**	**5.6x**	**6.6x**	**6.0x**	**5.3x**
Total Operating Expenses	14,335	14,654	14,954	14,922	15,276	15,662
Surplus (Deficit)	(373)	(572)	(5,536)	(2,203)	(2,122)	(2,433)

Source: Metropolitan Transportation Authority

This extreme stress scenario demonstrates that pledged revenue can withstand the COVID-19 triggered crisis and produce ample debt service coverage. However, it is KBRA's view that the MTA's near to medium term structural balance will remain significant without further action by the board and by state and local funding partners.

The Watch Downgrade reflects the uncertainty regarding the timing and amount of state and federal financial support needed to help MTA.

Key Credit Considerations

The rating was assigned and affirmed because of the following key credit considerations:

Credit Positives
- The gross revenue pledge that supports debt service.
- MTA provides a critical transportation network for over 15 million people in the greater New York metropolitan area, which is essential to the economic and social fabric of the region.
- MTA management has a strong track record of balancing its operating budget over changing economic cycles and unforeseen events as well as managing complex capital programs designed to improve and expand the System.

Credit Challenges
- The COVID-19 crisis presents unprecedented challenges to the MTA's fiscal operations.
- MTA's high fixed cost structure will continue to challenge its ability to balance operating and capital budgets.
- MTA's ability to control growth in labor-related costs during the upcoming period of contract negotiations.

Rating Sensitivities

• Significant increase in revenues from non-fare revenue streams.	+
• Inability to obtain emergency financial support from the State or Federal government would create unsustainable liquidity pressure on the MTA and threaten its long-term viability.	-

[3] Metropolitan Mass Transportation Operating Assistance (MMTOA) receipts, comprised of 0.375% regional sales tax, regional franchise tax surcharge, a portion of taxes on certain transportation and transmission companies, and an additional portion of the business privilege tax imposed on petroleum businesses.

ESG Considerations
When relevant to credit, ESG factors are incorporated into the credit analysis in the same manner as all other credit-relevant factors. Among the ESG factors that have impact on this rating analysis are:

- Discussions in RD 3 and 4 reflect Governance Factors. KBRA considered the MTA's Regulatory/Management Framework, financial profiles, and its rate-setting authority as criteria to support ongoing debt service.
- Discussions in RD 1 and 2 reflect Social Factors. KBRA has examined the following areas for this credit: trends in population and demographic changes, income, employment, unemployment, and the potential impact of the COVID-19 crisis.

More information on ESG Considerations for the Public Finance sector can be found **here**.

Rating Determinants (RD)	
1. Size and Scope of Operations	AAA
2. Demand Assessment	AA+
3. Regulatory/Management Framework	AA+
4. Financial Profile	AA
5. Security Provisions	AA-

There has been no new update to the above-mentioned rating determinants since KBRA's report published on August 2, 2019. To access the more detailed discussion, please click **here**. This report focuses on the ridership impact from COVID-19.

Full list of Affirmed Outstanding Transportation Revenue Bond Anticipation Notes

Issuer: Metropolitan Transportation Authority (MTA)		
Affirmed	**Ratings**	**Outlook**
Transportation Revenue Bond Anticipation Notes, Series 2018B Subseries 2018B-1 (maturing 5/15/2020)	K1+	n/a
Transportation Revenue Bond Anticipation Notes, Series 2018B Subseries 2018B-2 (maturing 5/15/2021)	K1+	n/a
Transportation Revenue Bond Anticipation Notes, Series 2018C-1 (maturing 9/1/2020)	K1+	n/a
Transportation Revenue Bond Anticipation Notes, Series 2018C-2 (maturing 9/1/2021)	K1+	n/a
Transportation Revenue Bond Anticipation Notes, Series 2019B Subseries 2019B-1 (maturing 5/15/2022)	K1+	n/a
Transportation Revenue Bond Anticipation Notes, Series 2019B Subseries 2019B-2 (maturing 5/15/2020)	K1+	n/a
Transportation Revenue Bond Anticipation Notes, Series 2019C (maturing 7/1/2020)	K1+	n/a
Transportation Revenue Bond Anticipation Notes, Series 2019D (maturing 9/1/2022)	K1+	n/a
Transportation Revenue Bond Anticipation Notes, Series 2019E (maturing 9/1/2020)	K1+	n/a
Transportation Revenue Bond Anticipation Notes, Series 2019F (maturing 11/15/2022)	K1+	n/a
Transportation Revenue Bond Anticipation Notes, Series 2020A, Subseries 2020A-1 (maturing 2/1/2023)	K1+	n/a
Transportation Revenue Bond Anticipation Notes, Series 2020A, Subseries 2020A-2S (maturing 2/1/2022)	K1+	n/a