

Rating Action: Moody's downgrades MTA, NY's Transportation Revenue Bonds to A2 from A1; outlook is negative

16 Apr 2020

\$22.8 billion TRB bonds and \$7.5 billion of TRB BANs affected

New York, April 16, 2020 -- Moody's Investors Service has downgraded to A2 from A1 the rating on the Metropolitan Transportation Authority's, NY (MTA) Transportation Revenue Bonds. The outlook has been revised to negative. Moody's has also downgraded to MIG 2 from MIG 1 the rating on MTA's Transportation Revenue Bond Anticipation Notes.

This action concludes the rating review initiated on 19 March 2020, following MTA's March 18 announcement of a \$4 billion revenue shortfall in fiscal 2020 prompted by the very sharp decline in ridership and toll revenues since the outbreak of coronavirus in the US.

RATINGS RATIONALE

The downgrade of the Transportation Revenue Bond ratings to A2 from A1 and negative outlook reflect the impact of the coronavirus crisis on system utilization and the regional economy, which will weaken financial and debt metrics well beyond the end of the economic disruption. The sharp drop in fiscal 2020 fares and tax revenue will create cash flow challenges, exacerbate risks from MTA's high short-term debt exposure, and create large structural budget gaps that will be difficult to resolve given MTA's already-narrow financial position and high fixed costs. While MTA has identified sufficient resources to resolve its budget gaps over the next two years, most of these solutions will be one-time in nature and/or result in higher-than-expected debt leverage. In addition, this period of economic disruption will alter the timing and implementation of MTA's \$55 billion capital program, which would diminish asset condition and service quality.

The MTA's financial pressures are balanced by bondholder protection provided by strong governance and a gross pledge of the authority's diverse revenue sources, the system's essential service to a vast and economically robust service area, and strong political and financial support from New York State (Aa1 negative), New York City (Aa1 negative) and the US Government (Aaa stable). Recent support includes state legislation that created new budget flexibility and authorized \$10 billion of MTA deficit financing, and substantial federal emergency assistance, including a \$3.8 billion grant for operations, approval for additional FEMA reimbursements, and the potential for Federal Reserve Bank lending through the State of New York. MTA will also benefit from federal economic assistance to the New York region, which will bolster household income and spending and therefore dedicated tax revenue.

The rapid and widening spread of the coronavirus outbreak, deteriorating global economic outlook, falling oil prices, and financial market declines are creating a severe and extensive credit shock across many sectors, regions and markets. The combined credit effects of these developments are unprecedented. We regard the coronavirus outbreak as a social risk under our ESG framework, given the substantial implications for public health and safety. In the longer term, MTA will also be challenged by social risks such as growing and relatively inflexible labor costs, and environmental risks (particularly from natural disasters), although the latter is partially mitigated by MTA's significant resiliency investments and the availability of private insurance and federal disaster recovery assistance.

The downgrade of the rating on MTA's Transportation Revenue Bond (TRB) Anticipation Notes to MIG 2 from MIG 1 is based on the downgrade of the long-term TRB rating to A2 with a negative outlook. The minimum long-term rating threshold for a MIG 1 rating is A2 stable.

The MIG 2 rating on the BANs reflects the expectation that MTA will have adequate market access at BAN maturity given the MTA TRB's satisfactory long-term credit quality (A2 negative), strong BAN takeout management plans, and the MTA's status as a sophisticated, frequent issuer of bonds and notes. Moreover, in the unlikely event of a market dislocation that impedes timely long-term debt issuance, sufficient liquidity will likely be available to redeem the BANs when external liquidity sources and pending grants proceeds are included.

RATING OUTLOOK

The negative outlook is based on the expectation that steep coronavirus related revenue losses will recover gradually over at least several years, creating large budget gaps through a gradual and incomplete recovery period. The gaps will be challenging to resolve without further weakening financial and debt metrics, or negatively affecting MTA's service delivery and capital plans. Continued support from state, local or federal governments is highly likely given MTA's essentiality to the regional and national economy. However, the depth and duration of our forecasted MTA budget gaps will test the timing and strength of support from parent governments who will also be experiencing economic and financial strain as a result of the coronavirus crisis.

The short-term BAN rating does not carry an outlook.

FACTORS THAT COULD LEAD TO AN UPGRADE OF THE RATINGS

For the long-term TRB rating:

- Implementation of sustainable, structural budget solutions, that increase debt service coverage and liquidity above the historic 3-year average
- Sustained recovery of ridership and revenues to historic levels
- Reduced short-term debt risk and evidence that projected debt leverage metrics will stabilize at or below 3.5x
- 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

For the short-term BAN rating:

- An upgrade of MTA's Transportation Revenue Bond rating (the expected takeout bond), combined with improved internal liquidity position

FACTORS THAT COULD LEAD TO A DOWNGRADE OF THE RATINGS

For the long-term TRB rating:

- Longer-than-expected economic and ridership disruption that leads to larger revenue losses and budget gaps
- Inability to structurally balance the budget after the crisis subsides that leads to significant reduction in liquidity and/or debt service coverage by net revenues that averages less than 1x
- 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

For the short-term BAN rating:

- Significant decline in available liquidity to levels that would provide less than 50% coverage of maturing BANs
- Evidence of very limited market access for long-term bonds
- Sustained pattern of tight timing between takeout pricing and BAN maturity
- Downgrade of the long-term TRB rating below Baa1 stable

LEGAL SECURITY

TRB 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. The BANs are payable from proceeds of previously-authorized TRB notes and/or long-term TRB bonds, and the interest portion is further secured by a subordinate pledge of the transportation revenue bond pledged revenues.

BAN Security

The BANs are secured by the proceeds of other Transportation Revenue Bond anticipation notes, the proceeds of Transportation Revenue Bonds and, with respect to interest payable on the notes, amounts available for payment of subordinated indebtedness.

BANs are not secured by available cash and investments, however MTA could use these resources to redeem the notes in the event of a market dislocation that impedes timely long-term debt issuance to redeem the BANs. Based on cash and unrestricted investments available on February 29, 2020 and our liquidity forecast, MTA's available resources would provide ample coverage of all maturing BANs plus other BANs and FRNs being remarketed in the two prior months.

BAN credit quality would be negatively affected if MTA's liquidity levels decline dramatically over the next two years and/or additional market access-dependent debt is issued that matures in the two months prior to a BAN maturity.

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 Dutchess, 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, NY (Sr lien Aa3 negative). TBTA profits, 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 the long-term ratings was Mass Transit Enterprises Methodology published in December 2017 and available at https://www.moody.com/researchdocumentcontentpage.aspx?docid=PBM_1105431. The principal methodology used in the short-term ratings was US Bond Anticipation Notes and Related Instruments Methodology published in October 2019 and available at https://www.moody.com/researchdocumentcontentpage.aspx?docid=PBM_1146782. Alternatively, please see the Rating Methodologies page on www.moody.com for a copy of these methodologies.

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.moody.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_1133569.

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.

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.
7 World Trade Center
250 Greenwich Street
New York 10007
US
JOURNALISTS: 1 212 553 0376
Client Service: 1 212 553 1653

Marcia Van Wagner
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

© 2020 Moody's Corporation, Moody's Investors Service, Inc., Moody's Analytics, Inc. and/or their licensors and affiliates (collectively, "MOODY'S"). All rights reserved.

CREDIT RATINGS ISSUED BY MOODY'S INVESTORS SERVICE, INC. AND/OR ITS CREDIT RATINGS AFFILIATES ARE MOODY'S CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES, AND MATERIALS, PRODUCTS, SERVICES AND INFORMATION PUBLISHED BY MOODY'S (COLLECTIVELY, "PUBLICATIONS") MAY INCLUDE SUCH CURRENT OPINIONS. MOODY'S INVESTORS SERVICE DEFINES CREDIT RISK AS THE RISK THAT AN ENTITY MAY NOT MEET ITS CONTRACTUAL FINANCIAL OBLIGATIONS AS THEY COME DUE AND ANY ESTIMATED FINANCIAL LOSS IN THE EVENT OF DEFAULT OR IMPAIRMENT. SEE MOODY'S RATING SYMBOLS AND DEFINITIONS PUBLICATION FOR INFORMATION ON THE TYPES OF CONTRACTUAL FINANCIAL OBLIGATIONS ADDRESSED BY MOODY'S INVESTORS SERVICE CREDIT RATINGS. CREDIT RATINGS DO NOT ADDRESS ANY OTHER RISK, INCLUDING BUT NOT LIMITED TO: LIQUIDITY RISK, MARKET VALUE RISK, OR PRICE VOLATILITY. CREDIT RATINGS, NON-CREDIT ASSESSMENTS ("ASSESSMENTS"), AND OTHER OPINIONS INCLUDED IN MOODY'S PUBLICATIONS ARE NOT STATEMENTS OF CURRENT OR HISTORICAL FACT. MOODY'S PUBLICATIONS MAY ALSO INCLUDE QUANTITATIVE MODEL-BASED ESTIMATES OF CREDIT RISK AND RELATED OPINIONS OR COMMENTARY PUBLISHED BY MOODY'S ANALYTICS, INC. AND/OR ITS AFFILIATES. MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS DO NOT CONSTITUTE OR PROVIDE INVESTMENT OR FINANCIAL ADVICE, AND MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS ARE NOT AND DO NOT PROVIDE RECOMMENDATIONS TO PURCHASE, SELL, OR HOLD PARTICULAR SECURITIES. MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS DO NOT COMMENT ON THE SUITABILITY OF AN INVESTMENT FOR ANY PARTICULAR INVESTOR. MOODY'S ISSUES ITS CREDIT RATINGS, ASSESSMENTS AND OTHER OPINIONS AND PUBLISHES ITS PUBLICATIONS WITH THE EXPECTATION AND UNDERSTANDING THAT EACH INVESTOR WILL, WITH DUE CARE, MAKE ITS OWN STUDY AND EVALUATION OF EACH SECURITY THAT IS UNDER CONSIDERATION FOR PURCHASE, HOLDING, OR SALE.

MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS, AND PUBLICATIONS ARE NOT INTENDED FOR USE BY RETAIL INVESTORS AND IT WOULD BE RECKLESS AND INAPPROPRIATE FOR RETAIL INVESTORS TO USE MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS OR PUBLICATIONS WHEN MAKING AN INVESTMENT DECISION. IF IN DOUBT YOU SHOULD CONTACT YOUR FINANCIAL OR OTHER PROFESSIONAL ADVISER.

ALL INFORMATION CONTAINED HEREIN IS PROTECTED BY LAW, INCLUDING BUT NOT LIMITED TO, COPYRIGHT LAW, AND NONE OF SUCH INFORMATION MAY BE COPIED OR OTHERWISE REPRODUCED, REPACKAGED, FURTHER TRANSMITTED, TRANSFERRED, DISSEMINATED, REDISTRIBUTED OR RESOLD, OR STORED FOR SUBSEQUENT USE FOR ANY SUCH PURPOSE, IN WHOLE OR IN PART, IN ANY FORM OR MANNER OR BY ANY MEANS WHATSOEVER, BY ANY PERSON WITHOUT MOODY'S PRIOR WRITTEN CONSENT.

MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS ARE NOT INTENDED FOR USE BY ANY PERSON AS A BENCHMARK AS THAT TERM IS DEFINED FOR REGULATORY PURPOSES AND MUST NOT BE USED IN ANY WAY THAT COULD RESULT IN THEM BEING CONSIDERED A BENCHMARK.

All information contained herein is obtained by MOODY'S from sources believed by it to be accurate and reliable. Because of the possibility of human or mechanical error as well as other factors, however, all information contained herein is provided "AS IS" without warranty of any kind. MOODY'S adopts all necessary measures so that the information it uses in assigning a credit rating is of sufficient quality and from sources MOODY'S considers to be reliable including, when appropriate, independent third-party sources. However, MOODY'S is not an auditor and cannot in every instance independently verify or validate information received in the rating process or in preparing its Publications.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability to any person or entity for any indirect, special, consequential, or

incidental losses or damages whatsoever arising from or in connection with the information contained herein or the use of or inability to use any such information, even if MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers is advised in advance of the possibility of such losses or damages, including but not limited to: (a) any loss of present or prospective profits or (b) any loss or damage arising where the relevant financial instrument is not the subject of a particular credit rating assigned by MOODY'S.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability for any direct or compensatory losses or damages caused to any person or entity, including but not limited to by any negligence (but excluding fraud, willful misconduct or any other type of liability that, for the avoidance of doubt, by law cannot be excluded) on the part of, or any contingency within or beyond the control of, MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers, arising from or in connection with the information contained herein or the use of or inability to use any such information.

NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY CREDIT RATING, ASSESSMENT, OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY MOODY'S IN ANY FORM OR MANNER WHATSOEVER.

Moody's Investors Service, Inc., a wholly-owned credit rating agency subsidiary of Moody's Corporation ("MCO"), hereby discloses that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by Moody's Investors Service, Inc. have, prior to assignment of any credit rating, agreed to pay to Moody's Investors Service, Inc. for credit ratings opinions and services rendered by it fees ranging from \$1,000 to approximately \$2,700,000. MCO and Moody's investors Service also maintain policies and procedures to address the independence of Moody's Investors Service credit ratings and credit rating processes. Information regarding certain affiliations that may exist between directors of MCO and rated entities, and between entities who hold credit ratings from Moody's Investors Service and have also publicly reported to the SEC an ownership interest in MCO of more than 5%, is posted annually at www.moodys.com under the heading "Investor Relations — Corporate Governance — Director and Shareholder Affiliation Policy."

Additional terms for Australia only: Any publication into Australia of this document is pursuant to the Australian Financial Services License of MOODY'S affiliate, Moody's Investors Service Pty Limited ABN 61 003 399 657AFSL 336969 and/or Moody's Analytics Australia Pty Ltd ABN 94 105 136 972 AFSL 383569 (as applicable). This document is intended to be provided only to "wholesale clients" within the meaning of section 761G of the Corporations Act 2001. By continuing to access this document from within Australia, you represent to MOODY'S that you are, or are accessing the document as a representative of, a "wholesale client" and that neither you nor the entity you represent will directly or indirectly disseminate this document or its contents to "retail clients" within the meaning of section 761G of the Corporations Act 2001. MOODY'S credit rating is an opinion as to the creditworthiness of a debt obligation of the issuer, not on the equity securities of the issuer or any form of security that is available to retail investors.

Additional terms for Japan only: Moody's Japan K.K. ("MJKK") is a wholly-owned credit rating agency subsidiary of Moody's Group Japan G.K., which is wholly-owned by Moody's Overseas Holdings Inc., a wholly-owned subsidiary of MCO. Moody's SF Japan K.K. ("MSFJ") is a wholly-owned credit rating agency subsidiary of MJKK. MSFJ is not a Nationally Recognized Statistical Rating Organization ("NRSRO"). Therefore, credit ratings assigned by MSFJ are Non-NRSRO Credit Ratings. Non-NRSRO Credit Ratings are assigned by an entity that is not a NRSRO and, consequently, the rated obligation will not qualify for certain types of treatment under U.S. laws. MJKK and MSFJ are credit rating agencies registered with the Japan Financial Services Agency and their registration numbers are FSA Commissioner (Ratings) No. 2 and 3 respectively.

MJKK or MSFJ (as applicable) hereby disclose that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by MJKK or MSFJ (as applicable) have, prior to assignment of any credit rating, agreed to pay to MJKK or MSFJ (as applicable) for credit ratings opinions and services rendered by it fees ranging from JPY125,000 to approximately JPY250,000,000.

MJKK and MSFJ also maintain policies and procedures to address Japanese regulatory requirements.