MOODY'S
INVESTORS SERVICE

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 Duchess, 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.moodys.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.moodys.com/researchdocumentcontentpage.aspx?docid=PBM_1146782 . Alternatively, please see the Rating Methodologies page on www.moodys.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.moodys.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.

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