Metropolitan Transportation Authority (MTA)

Issuer: Metropolitan Transportation Authority		
Downgraded and Watch Status Resolved	**Rating(s)**	**Outlook**
Transportation Revenue Bonds	AA (from AA+)	Negative (from Watch-Downgrade Status)
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:
Cindy Wu, Senior Director
(646) 731-2304
cwu@kbra.com

Jack Morrison, Associate Director
(646) 731-2410
jmorrison@kbra.com

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

William Cox, Senior Managing Director
(646) 731-2472
wcox@kbra.com

Rating Summary: The lower rating reflects the expectation that the sharp decline in ridership due to COVID-19 will continue well into 2021. The decline in ridership has caused gross debt service coverage (DSC) for FY 2020 to drop to 4.8x per the MTA's Mid-Year Forecast, from 8.0x in FY 2019 and 9.1x in FY 2018. KBRA's stress scenario, detailed below, indicates that gross DSC could fall as low as 4.3x in 2020. The lower rating also reflects uncertainty regarding the timing and amount of state and federal financial support needed to support MTA's operations and address the significantly widened budget gap.

KBRA placed the MTA TRB ratings on Watch-Downgrade on March 24, 2020 as a result of the significant operating and fiscal dislocation caused by the COVID-19 crisis. This rating action resolves the Watch Status.

Based on MTA's latest daily ridership[1] data, average ridership in September 2020 has declined by 69% for subways, 50% for bus[2], 70% for LIRR, and 73% for Metro-North, relative to the same period average in 2019. While subway ridership continues to trend favorably as New York City progresses through various phases of reopening, the increases in ridership appear to have plateaued in recent weeks.

Despite service cuts, the MTA has also faced increased operating expenses due to additional sanitization efforts to combat COVID-19. While the loss of a significant portion of farebox revenues and the inability to substantially reduce expenses have created an unsustainable imbalance in the MTA's fiscal operations, the MTA has continued to set aside funds on a monthly basis for debt service, as required by its indenture.

The MTA has $2.15 billion of bank lines expiring in 2022, with $1.6657 billion undrawn as of September 15, 2020. The MTA has exhausted $3.9 billion in CARES funding received in March for operating purposes. The MTA has requested an additional $12 billion of federal aid and is now considering additional borrowing through the Federal Municipal Liquidity Facility to close the FY 2020 budget gap. Even if additional funding materializes, it is unlikely to be enough to address the MTA's structural imbalance, which pre-dates recent events.

Since KBRA's July 7, 2020 published **report**, the MTA released its 2021 Preliminary Budget/ July Financial Plan (JFP), which includes the 2020 Mid-Year Forecast, the 2021 Preliminary Budget, and projections for FY 2022-2024. Within the JFP, the MTA assumes receipt of the additional federal funding request of $3.9 billion. Additional highlights of the JFP include:

- Estimated ridership declines of 66% for FY 2020, 49% for FY 2021[3], and a return to pre-pandemic levels in FY 2024.
- The FY 2020 deficit is projected to widen significantly to $3.2 billion from a surplus of $81 million in the February Plan. The projected deficit widens to $5.8 billion in FY 2021.

[1] Day-By-Day Ridership Numbers per MTA website | September 2020
[2] Local, Limited, SBS and Express.
[3] Relative to FY 2019.

- Deficits remain for fiscal years 2021 through 2024 even assuming the receipt of additional federal funding.
- New saving actions totaled $1.375 billion over the Plan period but are not sufficient to cover cumulative deficits[4] of $11.7 billion through FY 2024.

The three pillars that continue to support KBRA's rating of MTA's TRB bonds and BANs 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 any deviation from the flow of funds specified in MTA's 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. Regardless of the timing and magnitude of any such support, however, 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. Most recently, New York State's FY 2021 Enacted Budget has amended Public Authorities Law 553-j to allow the Central Business District Tolling Lockbox Fund (Internet Sales Tax and Mansion Tax) to fund the MTA's operating needs for 2020 and 2021. KBRA expects to see additional significant changes to the MTA's capital and debt issuance plans.

The MTA's latest BudgetWatch Report for September indicates that while the MMTOA[5] payments from the State were subsequently remitted to the MTA, payments were delayed. Additionally, the MTA is now estimating a reduction in MMTOA payments for 2020-2023 per JFP. The delay of funds is inconsistent with KBRA's expectation of uninterrupted State support of MTA operations and if sustained may lead us to re-examine this view. Furthermore, other state and local subsidies, some of which are reliant on economically sensitive taxes, are reduced due to an unprecedented pandemic. As such, the timely release of State appropriated funds is critically important.

Stress Scenario

In order to help quantify the MTA's near-term challenges, KBRA has developed a stress scenario to reflect ridership revenue declines:

- Operating Revenues (including Farebox Revenue):
  - Based on slightly improved daily ridership results through September 2020, KBRA has adjusted its stress scenario to assume a 61% ridership decline in the third quarter versus the same period in 2019. This decline assumption is slightly less severe than the 65% used in our previous stress analysis. For the fourth quarter, KBRA now assumes a ridership decline of 72% versus 4Q 2019. This assumption is more severe than the 45% decline previously utilized. The 72% decline is based on system ridership levels as of June 2020 (coincident with the first phase of reopening in NYC), and reflects our view of the potential for a pullback in reopening given the colder weather and the emergence of flu season.
  - These assumptions translate to an operating revenue decline of $3.8 billion from the 2020 Adopted Budget and $3.6 billion from 2019. In total, KBRA expects full year 2020 to experience a decline of 56% from 2019 and 57% from the 2020 Adopted Budget.
  - For FY 2021 and FY 2022, KBRA has adjusted the assumptions to reflect 50% and 40% declines, respectively. FY 2023 remains at a 10% decline. Assumptions are against FY 2020 Adopted Budget figures.
- Special Tax-Supported Operating Subsidies:
  - For FY 2020, KBRA assumes zero receipt of MMTOA funds or excess funds that flow through the TRB waterfall after payment of the Dedicated Tax Fund (DTF) bonds, including PBT[6] revenues. This assumption reflects the State's delay in transferring the MMTOA to the MTA. We further assume of no excess revenues after the payment of DTF debt service. KBRA assumes a 40% and 30% decline in other tax receipts in the second and third quarter.

[4] Inclusive of $3.9 billion additional federal funding for FY 2020.

[5] 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.

[6] Petroleum Business Tax (PBT) is a business privilege tax which includes both a base tax and a supplemental tax, imposed on petroleum businesses operating in the State. The base of the PBT is the quantity of various petroleum products refunded or sold in the State or imported. Rates are taxes at cents per gallon.

  - The FY 2021 estimate is based on JFP, reflecting a 27% from 2020 Adopted Budget.
  - For FY 2022 – FY 2023, KBRA assumes a decline of 15% and 10%, respectively, of total operating subsidies including key taxes/fees such as MMTOA, PBT, PMT[7], and For-Hire Vehicle Surcharge due to the lingering economic impact caused by the COVID-19 crisis.
- Revenues from TBTA Surplus:
  - For FY 2020, KBRA assumes traffic declines of 27%, which translates to a reduction in TBTA surplus by approximately 61% from the FY 2020 Adopted Budget. Please see **TBTA report** published on September 18.
- This stress scenario excludes potential savings from the MTA's Transformation Plan and any additional federal support the MTA may receive. KBRA assumes non-operating revenues, agency operating subsidies, expenses, and debt service remain as projected in the 2020 Adopted Budget and JFP.

FYE December 31 ($ in millions)	2019	2020 Adopted Budget	2020 Mid-Year Forecast	KBRA Stress Case			
				2020	2021	2022	2023
Operating Revenues (including Farebox Revenue)	6,638	6,776	2,506	2,996	3,388	4,065	6,098
Special Tax-Supported Operating Subsidies	4,888	5,234	3,853	2,252	3,834	4,449	4,711
Non-Operating Revenues	1,366	1,156	1,246	1,246	1,497	1,156	1,156
Revenues from TBTA Surplus	788	879	37	342	113	639	672
Agency Operating Subsidies	340	460	411	411	376	460	460
Total Transportation Resolution Pledged Revenues (Gross Revenues)	**14,020**	**14,412**	**8,053**	**7,247**	**9,208**	**10,769**	**13,096**
Gross Revenues as a % chg. vs 2019	-	*2.8%*	*-42.6%*	*-48.3%*	*-34.3%*	*-23.2%*	*-6.6%*
Gross Revenues as a % chg. vs 2020 Adopted Budget	-	-	*-44.1%*	*-49.7%*	*-36.1%*	*-25.3%*	*-9.1%*
TRB Debt Service	1,751	1,696	1,683	1,683	1,902	2,223	2,599
DSCR (Gross)	**8.0x**	**8.5x**	**4.8x**	**4.3x**	**4.8x**	**4.8x**	**5.0x**
Total Operating Expenses	*13,952*	*14,654*	*14,867*	*14,867*	*15,064*	*15,603*	*15,991*
Surplus (Deficit) after Debt Service and Operating Expenses	(1,683)	(1,938)	(8,497)	(9,303)	(7,759)	(7,057)	(5,494)

Source: Metropolitan Transportation Authority Offering Statement | 2020 February and July Financial Plan | KBRA's Analysis

This stress scenario demonstrates that while pledged revenue can withstand the COVID-19 triggered crisis, debt service coverage is expected to drop significantly and to remain depressed with a prolonged ridership decline before returning to the pre-pandemic level. Additionally, it is KBRA's view that the MTA's near to medium-term structural imbalance will remain significant without further action by the board and by federal, state, and local funding partners.

The Negative Outlook reflects KBRA's expectation of a prolonged reduction and slow recovery in ridership to pre-pandemic levels, as well as the uncertain timing and amount of federal and state support to address the worsening operating gap.

Key Credit Considerations

KBRA continues to monitor the direct and indirect impacts of the COVID-19 virus. Click **here** to access KBRA's ongoing research on the topic.

The rating actions reflect the following key credit considerations:

Credit Positives

- The gross revenue pledge that supports debt service.
- The 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.	-

[7] Payroll Mobility Tax (PMT) is a 0.34% tax imposed on the payroll expense of employers and the net earnings of self-employed individuals engaging in business within the five boroughs, and the counties of Rockland, Nassau, Suffolk, Orange, Putnam, Dutchess, and Westchester.

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**. Please refer to the **MTA report** for discussions.

Full list of Affirmed Outstanding Transportation Revenue Bond Anticipation Notes

Affirmed	Rating(s)	Outlook
Transportation Revenue Bond Anticipation Notes, Series 2018B, Subseries 2018B-2 (maturing 5/15/2021)	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 2019D, Subseries 2019D-1 (maturing 9/1/2022)	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
Transportation Revenue Bond Anticipation Notes, Series 2020B (maturing 8/1/2023)	K1+	n/a