Press Release

KBRA Revises Outlook to Stable on the MTA's Transportation Revenue Bonds; Affirms AA Rating

NEW YORK (October 31, 2022) – KBRA revises the Outlook to Stable from Negative on the MTA's outstanding Transportation Revenue Bonds (TRBs) and affirms the long-term rating of AA on the TRBs.

The Outlook revision reflects the ongoing, though still slow, recovery in ridership on MTA transportation assets from the COVID-19 pandemic while operating under a more stable environment as the worst of the pandemic continues to wane. In addition, the Stable Outlook reflects how the MTA's estimated pledged revenue for CY 2022 has exceeded that of KBRA's stress scenarios developed earlier during the pandemic and that debt service requirements for the TRBs are projected to decline in CY 2022 from previously estimated levels.

The long-term rating on the TRBs reflect the following three pillars:

- 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.
- MTA leadership has consistently demonstrated its ability to navigate financial and political challenges, including its consistent willingness and ability to close outyear budget gaps through various measures.
- The MTA's transportation infrastructure is essential to the New York metropolitan area economy.

A surveillance report will follow.

Key Credit Considerations

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

Credit Positives
- Gross revenue pledge supporting robust debt service coverage.
- Critical, essential nature of MTA assets, which serve over 15 million people, and enable activities which provide the economic and social underpinning of the New York metropolitan area.
- Management's track record of ultimately achieving fiscal balance and implementing complex, multi-year capital improvement programs despite challenging economic environments and unforeseen events.

Credit Challenges
- The COVID-19 crisis presents an unprecedented challenge to the MTA's fiscal operations.
- A capital-intensive operation and high fixed costs remain impediments to achieving structural balance.
- The ability to control growth in labor-related costs during the upcoming period of contract negotiations is difficult.

Rating Sensitivities

For upgrade:
- Significant increase in revenues from non-fare revenue streams.

For downgrade:
- Inability to obtain expanded financial support from the State or Federal governments or some new revenue stream would create pressure on the MTA's long-term financial health.

To access ratings and relevant documents, click here.

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Disclosures

A description of all substantially material sources that were used to prepare the credit rating and information on the methodology(ies) (inclusive of any material models and sensitivity analyses of the relevant key rating assumptions, as applicable) used in determining the credit rating is available in the Information Disclosure Form(s) located here.

Information on the meaning of each rating category can be located here.

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Further disclosures relating to this rating action are available in the Information Disclosure Form(s) referenced above. Additional information regarding KBRA policies, methodologies, rating scales and disclosures are available at www.kbra.com.

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Metropolitan Transportation Authority (MTA)

Issuer: Metropolitan Transportation Authority		
Affirmed	**Rating(s)**	**Outlook**
Transportation Revenue Bonds	AA	Stable (*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 ▪ ESG Global Rating Methodology		

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Rating Summary: The outlook revision on the MTA's Transportation Revenue Bonds (TRBs) reflects the ongoing, though still slow, recovery in ridership on MTA transportation assets from the COVID-19 pandemic while operating under a more stable environment as the worst of the pandemic continues to wane. In addition, the stable outlook reflects how the MTA's estimated pledged revenue for CY 2022 has exceeded that of KBRA's stress scenarios developed earlier during the pandemic and that debt service requirements for the TRBs are projected to decline in CY 2022 from previously estimated levels (Figure 2).

The long-term rating on the TRBs reflect the following three pillars:

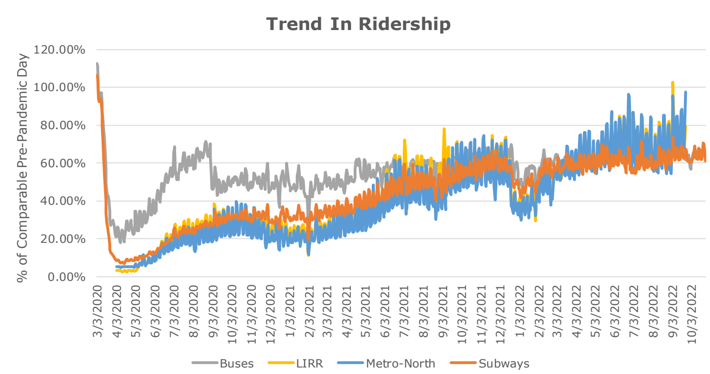
- Pledged revenues are received by the TRB trustee and used to meet pro rata monthly debt service requirements before being released for operations. KBRA does not expect any deviation from the flow of funds specified in MTA's bond documents.
- MTA leadership has consistently demonstrated its ability to navigate financial and political challenges, including its consistent willingness and ability to close outyear budget gaps through various measures.
- The MTA's transportation infrastructure is essential to the New York metropolitan area economy.

The last pillar is among the reasons KBRA continues to believe there will be ongoing 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, the MTA will likely experience permanent changes to its operating and fiscal posture in the future.

The short-term rating assigned to TRB Bond Anticipation Notes (BANs) reflects KBRA's expectation that the MTA will have demonstrated market access at BAN maturity given the TRB's long-term rating.

Per the July Financial Plan (JFP), the MTA's forecast for 2022 ridership represents a decline of 40% from CY 2019. While it is less favorable than forecasted figures presented in the February Financial Plan (FFP), it reflects an improvement from an actual decline of 66% realized in CY 2020 versus CY 2019. The MTA's daily ridership[1] data shows that average monthly ridership during September 2022 recovered to roughly 65% for subways, 64% for bus[2], and 75% for LIRR/Metro-North, relative to September 2019. While the arc of recovery has been generally flat, ridership recovery exhibited somewhat favorable trends through October 2022, with Metro-North returning to 78% of the pre-pandemic levels.

Figure 1



Note: reflects rolling 3-day average. For buses and shown, figures above represent the percent of comparable pre-pandemic equivalent day (between 3/1/19 and 2/29/20). For LIRR and MNRR, figures above are compared to the 2019 monthly weekday/Saturday/Sunday average.
Source: MTA's day-to-day ridership numbers, https://new.mta.info/coronavirus/ridership, updated October 27, 2022

The loss of a significant portion of farebox revenues and the inability to substantially reduce expenses during the pandemic have created a significant, structural imbalance in the MTA's fiscal operations. Nonetheless, the MTA has continued to set aside funds on a monthly basis for debt service, as required by its indenture.

[1] Day-By-Day Ridership Numbers per MTA website retrieved October 28, 2022.
[2] Local, Limited, SBS and Express.

Since KBRA's January 19, 2022 published report, the MTA released its First Quarterly Update/supplement to the 2022 Annual Disclosure Statement and the 2023 Preliminary Budget/JFP. Highlights include:

- The ridership forecasts through CY 2026 reflect McKinsey's updated midpoint scenario. The updated projections are centered around behavioral changes that began during the pandemic and the degree to which those changes become more permanent or longer lasting.
- Projections show that ridership levels do not return to the pre-pandemic level during the plan period: estimated ridership declines of 32% for CY 2023[4], 27% for CY 2024[4], 24% for CY 2025[4], and 22% for CY 2026[4]. This trend reflects a slower recovery than shown in the prior FFP forecast.
- The biennial 4% fare increase will now occur in 2023 and 2025 versus the previously planned July 2022.
- Despite projecting lower ridership revenues, the MTA expects to balance operations through CY 2024 with the proceeds from the $7.0 billion in federal funding through the American Rescue Plan Act (ARPA).

The MTA reports liquidity resources of approximately $12.534 billion as of October 26, 2022, which includes $905 million of cash, $2.909 billion of Payroll Mobility Tax working capital BANs (including interest), and $2.487 billion of internal flexible funds. It also includes $1.2 billion of undrawn external bank lines and available ARPA receipts of approximately $5.033 billion. Additionally, the MTA is anticipating $10.5 billion of federal funding over the next 5 years from the Infrastructure Investment and Jobs Act, which will be incorporated into capital programs. The CY 2020-2024 Capital Program already assumes an allocation of $7.5 billion.

KBRA's breakeven analysis for CY 2022 assumes Special Tax-Supported Operating Subsidies at CY 2020 level ($4.1 billion) and zero revenues from other revenue categories. The analysis demonstrates that the MTA could withstand a decline of 98.8% in farebox revenues relative to CY 2019 and a decline of 97.2% relative to CY 2020 before its DSC falls below 2.50x (Figure 2). KBRA views this scenario as unlikely given that MTA's CY 2021 farebox revenue was $3.2 billion, approximately 51.4% lower than CY 2019 farebox revenues.

Per the JFP, CY 2022 DSC is expected to improve to 7.4x from 5.9x in CY 2021.

Figure 2

FYE December 31 ($ in millions)	2019	2020	2021	2022 Mid-Year Forecast	2022 KBRA Stress Case Developed in 2020	2022 KBRA Break-Even Analysis
Operating Revenues (including Farebox Revenue)	6,641	2,763	3,230	4,101	4,065	77
% chg. vs 2019	-	*-58.4%*	*-51.4%*	*-38.2%*	*-38.8%*	*-98.8%*
% chg. vs 2020		-	*16.9%*	*48.4%*	*47.1%*	*-97.2%*
% chg. vs 2021 Forecast	-	-	-	*27.0%*	*25.9%*	*-97.6%*
Special Tax-Supported Operating Subsidies	4,888	4,139	5,111	5,488	4,449	4,139
Non-Operating Revenues	1,366	1,014	1,255	1,303	1,156	-
Revenues from TBTA Surplus	788	495	928	1,153	639	-
Agency Operating Subsidies	340	365	408	376	460	-
NYC Transportation Assistance Fund General Transportation Account	-	2	2	3	-	-
Total Transportation Resolution Pledged Revenues (Gross Revenues)	**14,023**	**8,778**	**10,934**	**12,424**	**10,769**	**4,216**
Gross Revenues as a % chg. vs 2019	-	*-37.4%*	*-22.0%*	*-11.4%*	*-23.2%*	*-69.9%*
Gross Revenues as a % chg. vs 2020	-	-	*24.6%*	*41.5%*	*22.7%*	*-52.0%*
Gross Revenues as a % chg. vs 2021	-	-	-	*13.6%*	*-1.5%*	*-61.4%*
TRB Debt Service	1,751	1,989	1,852	1,686	2,223	1,686
DSCR (Gross)	**8.0x**	**4.4x**	**5.9x**	**7.4x**	**4.8x**	**2.5x**

Source: MTA TRBs Subseries 2005D-2a and 2012G-4 Remarketing Circular | KBRA's Analysis
Notes: Totals may not add due to rounding.

Key Credit Considerations

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

Credit Positives

- Gross revenue pledge supporting robust debt service coverage.
- Critical, essential nature of MTA assets, which serve over 15 million people, and enable activities which provide the economic and social underpinning of the New York metropolitan area.
- Management's track record of ultimately achieving fiscal balance and implementing complex, multi-year capital improvement programs despite challenging economic environments and unforeseen events.

Credit Challenges

- The COVID-19 crisis presents an unprecedented challenge to the MTA's fiscal operations.
- A capital-intensive operation and high fixed costs remain impediments to achieving structural balance.
- The ability to control growth in labor-related costs during the upcoming period of contract negotiations is difficult.

Rating Sensitivities

Significant increase in revenues from non-fare revenue streams.	+
Inability to obtain expanded financial support from the State or Federal governments or some new revenue stream would create pressure on the MTA's long-term financial health.	-

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-

A detailed discussion of each of the abovementioned RDs is provided in KBRA's report dated February 2, 2021.

Bankruptcy Analysis

KBRA has consulted with external counsel regarding the statutory framework for municipal bankruptcy in New York State. KBRA understands that to be a debtor under the municipal bankruptcy provisions of the U.S. Bankruptcy Code ("Chapter 9"), an entity must, among other things, qualify under the definition of "municipality" in the Bankruptcy Code and must be specifically authorized to file a municipal bankruptcy petition by the State in which it is located. It is KBRA's understanding that the MTA likely meets the definition of "municipality" contained in the Bankruptcy Code. KBRA further understands, however, that a public benefit corporation, such as the MTA, is not specifically authorized under New York State law to file a petition under Chapter 9. Additionally, KBRA understands that New York State law further restricts the power of the MTA to file a Chapter 9 petition under Section 1269 of the New York Public Authorities Law, which does not allow a Chapter 9 filing by the MTA so long as bonds or other obligations issued by the MTA pursuant to Section 1269 or 1266-c of the New York Public Authorities Law are outstanding. Furthermore, pursuant to section 1271 of the New York Public Authorities Law, the State of New York has pledged to not alter the rights and remedies of bondholders in a way that would impair such holders, including altering the prohibition against the MTA filing a Chapter 9 petition included in Section 1269.

ESG Management

KBRA typically analyzes Environmental, Social, and Governance (ESG) factors through the lens of how issuers plan for and manage relevant ESG risks and opportunities. More information on KBRA's approach to ESG risk management in public finance ratings can be found here. Over the medium-term, public finance issuers will likely need to prioritize ESG risk management and disclosure with the likelihood of expansions in ESG-related regulation and rising investor focus on ESG issues.

Please refer to KBRA's January 19, 2022 report for MTA's ESG Management.

Full list of Affirmed Outstanding Transportation Revenue Bond Anticipation Notes

Affirmed	Rating(s)	Outlook
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

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