MTA EMMA Filing – Material Event Notice – Ratings Change on Certain Variable Rate Bonds

On June 7, 2017, Fitch Ratings upgraded its underlying ratings on MTA's Transportation Revenue Bonds to 'AA-' from 'A'. This resulted in upgrades to the subseries on outstanding variable rate demand bonds (VRDBs). The Fitch Ratings specific upgrades on outstanding TRB VRDBs, as a result of the upgrade to the underlying ratings, were as follows:

- TRB Subseries 2005D-2 (CUSIP 59259YAE9) long-term rating was upgraded to AA+ from AA.
- TRB Subseries 2015E-2 (CUSIP 59259Y7B9) long-term rating was upgraded by Fitch to AA+ from AA-.
- TRB Subseries 2015E-3 (CUSIP 59259Y7C7) long-term rating was upgraded by Fitch to AA+ from AA.
- TRB Subseries 2015E-4 (CUSIP 59259Y7E3) long-term rating was upgraded by Fitch to AA+ from AA-.
- TRB Subseries 2005D-1 (CUSIP 59259YAG4) long-term rating was upgraded to AA+ from AA.

Metropolitan Transportation Authority
June 12, 2017

FitchRatings

Fitch Upgrades Metropolitan Transportation Authority's (NY) Transportation Revs to 'AA-'/'F1+'

Fitch Ratings-New York-07 June 2017: Fitch Ratings has assigned an 'F1+' rating to the Metropolitan Transportation Authority (MTA), NY's approximately $700 million transportation revenue bond anticipation notes (BANs) series 2017B due Feb. 1, 2018.

Fitch has also upgraded the following ratings:
--Approximately $21 billion of outstanding MTA transportation revenue bonds to 'AA-' from 'A';
--Approximately $700 million of outstanding transportation revenue BANS to 'F1+' from 'F1'.

The Rating Outlook is Stable.

Fitch expects to publish a new issue report on the MTA the week of June 12.

SECURITY

The BANs are payable from the proceeds of other notes or transportation revenue bond obligations. The transportation revenue bonds are backed by a gross lien on the MTA's operating revenues, which include, among other sources, fares received from the subway and bus systems operated by the MTA NYC Transit and Manhattan and Bronx Surface Transit Operating Authority (MaBSTOA), the commuter railroads operated by MTA Long Island Rail Road and MTA Metro-North Railroad, and buses operated by MTA Bus. Bondholders are also backed by a gross lien on operating subsidies from the State of New York (NYS), New York City (NYC), and MTA Bridges and Tunnels surplus.

KEY RATING DRIVERS

Analytical Conclusion: The rating upgrade reflects the application of Fitch's Public Sector Revenue-Supported Debt criteria published on June 5, 2017. Specifically, the upgrade reflects an enhanced assessment of the MTA's leverage profile and statutory provisions that explicitly prevent the MTA or any of its subsidiary corporations to file for bankruptcy protection so long as the MTA has transportation revenue bonds outstanding. Fitch believes this statutory framework combined with bondholder's gross lien on transportation resolution pledged revenues tempers risk to the MTA's otherwise high leverage position and extremely large capital needs.

Revenue Defensibility - Stronger: The strategic importance of the MTA transit network to the economy of the New York region supports Fitch's expectation for lower volatility user-based demand. The MTA's receipt of significant additional tax sources from the state of New York in prior periods of fiscal stress underpins Fitch's view of the MTA's supportive regulatory regime. MTA ridership levels are expected to remain fairly stable over time given the strong economic fundamentals of the service area. Growth is expected to be modest however reflecting the mature nature of the system. Major system construction projects are oriented toward congestion relief and reliability improvement opposed to ridership growth. Price risk factors are considered low given the MTA quasi-monopolistic position and its broad legal control over transit fares and vehicle tolls.

Operating Risk - Midrange: Labor wages and benefits and the financing of its significant capital investment needs, drive the MTA's cost of operations. MTA has a moderate level of legal flexibility to address dispute resolution and labor spending pressures and has effectively produced near-term solutions for its operating needs in the past. Capital needs are expected to remain extremely large over time given the demand placed on system assets due to age and continued ridership growth. The MTA is expected to contribute roughly $9.9 billion in new debt to fund a $32.5 billion 2015 to 2019 capital program mostly driven by safety and reliability improvements.

Financial Profile - Stronger: MTA operations are expected to be balanced over time taking into account subsidies from state and local governmental entities in the form of certain dedicated taxes, regional taxes and other fees. Rising debt and pension costs and vulnerability to shifts in dedicated tax performance through economic cycles are tempered to some degree by the MTA's broad legal control to adjust fare and toll tariffs and to modify service levels to help control spending. Fitch's financial leverage assessment reflects the protection afforded bondholders from the gross lien on revenue and statutory provisions that restrict the MTA from filing for bankruptcy protection.

Transportation resolution pledged revenues in 2016 were approximately $13.1 billion or more than 8x maximum annual debt service on outstanding parity debt. Comparing the MTA's net debt to gross transportation resolution pledged revenues yields a leverage metric of roughly 3.7x. The 'AA-' rating reflects this additional measure of financial leverage balanced against the MTA's net debt to cash flow available for debt service, which is significantly higher at roughly 13x and 20x in the Fitch base case and rating case scenarios, respectively. The MTA's financial plan is balanced over the next several years and it is required to provide a balanced current year budget pursuant to state law. The MTA has sufficient budgetary tools to generate stable financial results with debt service coverage ratios (DSCR) expected to be at or near sum-sufficient over time.

Short-term Rating: The 'F1+' rating on the MTA's series 2017B notes are based on the rating assigned to the transportation revenue bonds and low expected market access risk.

RATING SENSITIVITIES

Shift in Leverage: An increase in the MTA's overall leverage through the issuance of new debt or higher pension liabilities that diminish its overall risk profile when viewed in the context of cyclical economic downturns could pressure the rating on the transportation revenue bonds.

Lower Operating Subsidies: Receipts in dedicated tax subsidies that are measurably below forecast levels could pressure the rating on the transportation revenue bonds absent commensurate offsetting actions.

System Maintenance and Ridership Stability: The rating is also sensitive to the MTA's ability to maintain an ongoing state of good repair and other elements of the capital program. Long-term shifts in ridership or other factors that may serve to dilute our view of the system's essentiality would pressure the rating.

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In addition to the sources of information identified in Fitch's applicable criteria specified below, this action was informed by information from Lumesis and InvestorTools.

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Additional information is available on www.fitchratings.com

Applicable Criteria
Rating Criteria for Public Sector Revenue-Supported Debt (pub. 05 Jun 2017) (https://www.fitchratings.com/site/re/898969)
Rating U.S. Public Finance Short-Term Debt (pub. 08 Feb 2017) (https://www.fitchratings.com/site/re/893974)

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