NY Metropolitan Transportation Authority (MTA)

March 23, 2020

What is causing the MTA's sudden and extreme ridership and revenue drop?

All-encompassing actions to control the global coronavirus pandemic, most notably business closures, work-from-home, and social distancing practices, have created acute economic disruption. These extreme but necessary controls have produced a very rapid deterioration in NY Metropolitan Transportation Authority (MTA) ridership and revenue. Last week saw rush hour ridership drop 90% on the Metro North Railroad, 67% on the Long Island Railroad, 60% on subways, and 49% on buses relative to the same week of 2019. This is unprecedented and there is very little visibility concerning how long the situation will last.

What is your view concerning MTA credit?

The MTA is a highly essential service provider to the most populous and economically vital region in the country. More than 6 million people ride the NYC subways daily under normal conditions, while the system provides 2.6 billion annual trips on subways, buses and commuter rail lines. Last Thursday, while discussing the economic impact on NY State of the Coronavirus, Gov. Cuomo strongly emphasized that the MTA is critical to the economic vitality of the State and that he considers the MTA akin to police, fire and healthcare providers.

Given the essentiality of the system, there has long been strong state, local and federal financial support, both in terms of operations and capital. This factors heavily into our credit assessment. We strongly believe this financial support will continue in order to maintain ongoing system operations.

MTA Fast Facts
Founded: 1965
Population serviced: 15.3 million
Service area: 5,000 square miles
Employees: 75,162
Serves 1/3 of US mass transit users
Serves 2/3 of US commuter rail passengers

Source: Metropolitan Transportation Authority

Is mass transit ridership and farebox revenue the MTA's sole source of revenue?

No. It is important to note that transit and commuter system revenue is only one component of the MTA's revenue. The State of NY, the City of NY, and 7 counties within the MTA's service area provide substantial operating and capital support. Dedicated taxes, including the new Congestion Pricing Tax, and operating surpluses from the Triborough Bridge and Tunnel Authority, after meeting its own debt service and operating costs, also support the MTA. These sources collectively account for 46% of the MTA's total revenue. Pledged revenues are deposited into a trustee held account and are set aside monthly for MTA debt service before becoming available for general operations.

What credit and liquidity sources does the MTA have to draw upon?

The MTA has approximately $3.86 billion in available liquidity made up of lines of credit, cash, and other readily accessible funds. These funding sources would cover about 3 months of operations and have already begun being tapped, as would be expected given today's circumstances. These resources should provide a bridge until a more permanent solution is agreed upon, most likely in collaboration with State and Federal authorities. The MTA has begun to access a $1 billion commercial paper program that is part of their existing liquidity lines and has asked the Federal Government for $4 billion in operating support. Although many questions remain concerning how much the MTA will receive, in what form, and when such resources will be forthcoming, we are confident the MTA will maintain the liquidity needed to meet its debt service and operational needs.

What other levers does the MTA have at their disposal?

The MTA has a long history of operating through challenging natural and unnatural events and has the size, operational breadth, and contingency plans needed to adapt. Along with liquidity sources, the MTA has a range of budget balancing options, many of which have been previously called upon. They can reduce service breadth, close subway lines, eliminate bus routes, shift capital reserves into operational funding, delay capital spending and projects, replace funds in the capital budget with long-term borrowing to free up what is currently "pay-as-you-go" funding, furlough and/or lay off personnel, issue additional debt, or enter into a debt restructuring that could generate about $1.8 billion in savings depending on capital market conditions at the time.

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How are the credit ratings agencies reacting?

Moody's has had an A1/negative outlook on the MTA's Transportation Revenue Bonds. The agency announced on March 19th that this credit rating was being placed under review for possible downgrade. This was in direct response to the impact of current events, including the MTA's March 18th announcement that a potential $4 billion FY 2020 shortfall may materialize if the fall in ridership and revenues extends over a six month period.

Standard and Poor's has not yet commented on MTA credit and maintains an A rating and negative outlook.

We feel it is likely the MTA is downgraded one or two notches by Moody's, but expect the credit to remain in the single-A category. We firmly believe the MTA will remain operational and do not foresee a default on the system's $45.3 billion of outstanding debt ($30.3 billion in Transportation Revenue Bonds and $15 billion in Dedicated Tax and Triborough Bridge & Tunnel debt). There would be massive economic ramifications across the Greater NY region, as well as capital market implications for both the State and the City, if authorities allowed the MTA to fail. We do not see this happening.

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