THE BOND BUYER

Moody's revises its outlook on N.Y. MTA to positive from stable

By

Chip Barnet

Published

September 19, 2023, 3:23 p.m. EDT

Moody's Investors Service revised the outlook on the New York Metropolitan Transportation Authority to positive from stable "based on the significant increase in state tax support that will offset the post-COVID ridership losses and structurally balance projected budget gaps."

The positive outlook "reflects the significant improvement in MTA's financial forecast due to the state-authorized increase in dedicated taxes," Moody's said Tuesday.

At the same time, Moody's affirmed the A3 rating on the MTA's $20.6 billion of outstanding transportation revenue bonds (TRBs).

The N.Y. MTA is responsible for running the NYC subways and bus lines and area commuter railroads. *Chip Barnett*

Moody's said the rating on the transportation revenue bonds was based on "the system's essential service to a vast and economically robust service area and strong political and financial support from New York State (Aa1/stable), New York City (Aa2/stable) and the government of the United States of America (Aaa/stable), which have been instrumental in supporting the credit through the coronavirus pandemic and recovery."

MTA officials were happy with the latest action.

"It's great news. We were thrilled to see Moody's give us a positive outlook," Kevin Willens, the MTA's chief financial officer, told The Bond Buyer Tuesday. "We think that it really underscores what we've been saying — the package that Gov. Kathy Hochul put forward and was approved by the legislature has, on a recurring basis, solved the fiscal cliff that we and other transit agencies across the country faced due to the lower ridership post-COVID."

He said the positive outlook was a recognition by Moody's of the state's actions as well as the progress the MTA has made, such as reducing its operating expenses, bringing back riders to the system, seeing a strong operating performance and achieving fiscal balance with projections of five years of balanced budgets.

"As I said back in July, Gov. Hochul and the state Legislature delivered for riders with this year's budget, securing the MTA's current and future financial stability," said Janno Lieber, MTA CEO. "Moody's action improving their credit outlook for the MTA reflects that significant financial progress, as well as the steady return of ridership and our success beating back subway crime."

On the operating budget side, Willens said Moody's recognized the MTA has solved its deficits through the increased state taxes, such as the payroll mobility tax, increased state aid taken from its general fund, along with seeing New York City funding a greater share of para-transit expenses, and in the future — revenue from casino taxes.

On the capital budget side, the central business district tolling plan (congestion pricing) will help fund the MTA's infrastructure program.

"The MTA is a critical resource for millions of New Yorkers, and that's why I fought so hard to save them from the looming fiscal cliff," Hochul said in a statement. "The budget investments we made this year will make transit better for commuters throughout the region and I'm pleased to see Moody's recognizing these investments through the improved rating outlook."

The TRBs are one of the main types of securities the MTA issues to finance its capital programs. They are special obligations of the MTA, payable on a gross basis from transit and commuter system revenues, state and local operating subsidies, dedicated taxes, and operating surpluses of the Triborough Bridge and Tunnel Authority (TBTA senior lien Aa3/stable). Projects financed with TRBs must be approved by the state's Capital Program Review Board.

Moody's said despite a slow recovery in ridership to pre-pandemic levels, the MTA has come close to closing its projected budget gaps and stabilized its liquidity due to a large increase in state tax support, which it said was a major factor in its outlook revision.

Willens said the MTA thinks the positive outlook could be a precursor to a ratings upgrade down the line and lead to investors becoming more willing to buy MTA bonds.

Moody's said the some factors that could lead to an upgrade include more budget balancing actions to support liquidity, a continued recovery of ridership and revenues, timely implementation of the congestion pricing plan, reduced labor-related financial and operating constraints and fixed costs, continued progress with capital projects and satisfactory service performance.

"These items are really what our plan for the future is," Willens said. "I think it's a vote of confidence across all our credits."

"It's quite remarkable considering that a year ago we were sounding the alarm bells about a fiscal cliff and large deficits, and the risk that if we couldn't solve the financial issues that it could lead to cuts in service and much higher fares," he said. "And now we've gone from this pretty dramatically to a stable outlook and now an upward trajectory based on the funding plan that the governor put in place."

Still Moody's said that some budget risks remain "due to the need for biennial fare increases that yield 4% growth, operating efficiencies that generate savings of 3% of budget, continued economic growth and steady ridership recovery to fully balance the budget."

Moody's said that while the MTA's budget flexibility is constrained by high fixed costs and strong collective bargaining units, it is "enhanced by sound, proactive budget management and a history of strong support from the state and city."

The MTA bonds are rated AA by S&P Global Ratings, Fitch Ratings and Kroll Bond Rating Agency.

Since 2012, the MTA has sold almost $41 billion of bonds, with the most issuance occurring in 2012 when it offered $6.7 billion and the least in 2022 when it sold $378 million.

The MTA is a public benefit corporation of the state, created in 1965. It is responsible for creating a unified mass transportation policy for its coverage area, which includes New York City and Duchess, Nassau, Orange, Putnam, Rockland, Suffolk and Westchester counties. In addition, the MTA's service area also includes Fairfield and New Haven counties in Connecticut.

MTA operations are performed through nine different agencies, including the TBTA. The TBTA surplus left over after paying its own bills and debt service are transferred to MTA to subsidize MTA subway, bus and commuter rail operations in New York City and its environs.