



U.S. Municipal Bond Market

Mass Transit - From Here to There

Pressures of COVID-19 Environment on Mass Transportation Systems

There is perhaps no municipal sector that has been hit as severely as U.S. mass transit as a result of social distancing and shelter-in-place measures instituted to minimize the spread of the coronavirus (COVID-19). There is no better illustration of this severity than the drop of New York Metropolitan Transportation Authority's (MTA or NYMTA) ridership in recent weeks. New York City subway ridership dropped 87% and Metro-North usage fell 94%.¹ "The impacts of the pandemic on MTA's financial condition are clearly severe, and may deteriorate further," said MTA CFO Bob Foran.² Other systems have also been reporting extreme declines that are financially unsustainable. In order to assess where U.S. mass transit is positioned now, at the beginning of April, and at a point that is still likely to be considered only in the beginning stage of this mass slowdown, we will consider the following factors as relevant:

- **Revenue streams:** While direct transit, or turnstile, revenue is taking a hit, you can see in the page 2 table that all systems have a collection of revenue streams, and in most cases the majority of revenue comes from a combination of "subsidies" and "direct taxes." In our sample, the average of the two is 71% combined. The NYMTA (40%) and Bay Area Rapid Transit (BART) (41%) have the highest concentration from "fares." Therefore, it is important to understand this breakdown for each individual system. Also, historically debt service coverage ratios in this sector have been strong to extremely strong. However, this sector strength could deteriorate depending upon the weakening of the supporting tax, or fare revenues, and how long social distancing remains a policy.
- **Balance sheet leverage, fixed (and some rising) costs:** Mass transit is a capital improvement intensive sector. As such, these systems would be expected to maintain relatively high fixed costs in the form of debt. But, some of the largest transit systems also have pension and OPEB leverage on their balance sheets. We expressed these categories as a percent of gross revenues in our sample. Right now, retirement benefits are less than 15% of expenses for most of the largest systems, but these numbers are rising and will continue rising as a result of recent market losses.³
- **CARES ACT Federal Aid for Transit Falls Short:** Last week's \$2.2 trillion CARES Act allocated \$25 billion to mass transit nationwide. Trouble is, the aid is being distributed proportionally according to a FTA ratio that allocates money nationwide, watering down the total potential impact to the largest systems.⁴ \$4.35 billion was allocated to New York state and \$3.8 billion earmarked for NYMTA. "MTA needs significantly more than \$4 billion to survive this crisis," according to MTA chairman Patrick Foye.⁵ MTA could lose as much as \$6.5 billion if ridership levels continue as is.⁶ Advocacy for more relief from the federal government will likely continue. "In the coming months, the MTA will need more help than the \$3.8 billion set aside in this bill," Riders Alliance Executive Director Betsy Plum indicated. "In whatever relief comes next, New Yorkers, who make up 38% of transit riders nationwide, deserve better than 15% of federal transit rescue dollars."⁷ We have not yet seen a detailed breakdown of the remaining amounts of federal

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relief, but expect it to also fall short of making a substantial impact to mass transit system credit profiles.

- **Mass Transit Ridership has been falling since 2014:** Much of the mass transit ridership is concentrated in the nation's largest urban areas. But, total nationwide ridership has been trending down. Between 2008 and 2018, nationwide ridership declined by 6% according to data from the American Public Transportation Association.⁸

Recent Mass Transit and Related Rating Agency Actions

Moody's Investor Service Mass Transit Related Actions:

- Moody's revised its outlook to "Negative" on New York State and New York City, April 1, 2020;
- U.S. Heat Map: Coronavirus will have broad effects across U.S. Public Finance, March 20, 2020.

S&P Global Mass Transit Related Actions:

- S&P lowered its outlooks on all other public finance sectors to "Negative" on Wednesday April 1, 2020.
- S&P assigned ["Negative" outlooks on mass transit agencies priority lien revenue bonds due to anticipated COVID-19 pressures](#), March 27, 2020.

Fitch Ratings on Mass Transit:

- CARES Act Bolsters US Public Transit, Challenges Remain, March 31, 2020
- Fitch Ratings [placed five major transit systems \(NYMTA, BART, WMATA, MARTA and Denver's RTD on Rating Watch Negative due to COVID-19 concerns](#), March 20, 2020.

Kroll Bond Rating Agency on Mass Transit:

- Kroll published [Coronavirus \(COVID-19\): Mass Transit Bonds Backed by Sales Taxes and Gross Revenues are a Mixed Bag](#), March 27, 2020.

Summary of Select U.S. Transit Systems

Transit System	Abbrev.	Moody's Rating	Main Service City	Debt Pledge	Breakdown of FY18 Revenues Operating Rev. and Cap. Grants pre-CARES Act				Ridership Annually pre COVID-19 (millions)	Debt Outstanding (FY18, \$ in millions)	Additional Balance Sheet Leverage % of Gross Revenues			
					Fares	Subsidies	Direct Taxes	Other			Debt	Net Adj. Pension Liability	Net Adj. OPEB Liability	Total Leverage
New York Metropolitan Trans Auth	NYMTA	A1	NYC	Transit revenue	40%	23%	32%	5%	2,381	40,522	255%	130%	135%	520%
Chicago Transit Auth	CTA	A3	Chicago	Sales tax	30%	39%	26%	4%	461	4,400	313%	233%	11%	557%
Los Angeles County Met Trans Auth	LACMTA	Aa1	LA	Sales tax	5%	30%	61%	4%	380	5,592	175%	50%	38%	263%
Washington Met Area Transit Auth	WMATA	Aa3	DC	Transit revenue	26%	71%	0%	2%	353	938	50%	196%	109%	355%
Massachusetts Bay Trans Auth	MBTA	Aa2	Boston	Sales tax	24%	31%	49%	4%	336	5,408	234%	118%	84%	436%
Southeastern Pennsylvania Trans Auth	SEPTA	A1	Phil/NJ	State taxes	24%	72%	0%	3%	259	671	55%	132%	85%	272%
San Fran Municipal Trans Ag	SFMTA	Aa2	San Fran	Transit revenue	12%	67%	0%	21%	223	344	-	-	-	-
San Fran Bay Area Rapid Transit Dist	BART	Aaa	San Fran	GO	41%	21%	32%	6%	127	1,367	138%	198%	59%	395%
Metro Atlanta Rapid Transit Auth	MARTA	Aa2	Atlanta	Sales tax	17%	13%	63%	7%	114	2,291	293%	54%	22%	369%
Tri-County Met Trans Dist of Oregon	TriMet	Aaa	Portland	Payroll tax	16%	31%	49%	4%	97	829	146%	67%	123%	336%
				Average	24%	40%	31%	6%	473	6,236	184%	131%	74%	389%

Source: Moody's and HilltopSecurities.

¹ Kaske, Michelle; [New York MTA Ups Its Short-Term Loan Capacity to \\$3 Billion](#); Bloomberg; March 25, 2020.

² Ibid.

³ [Pensions and retiree healthcare challenge some of the largest mass transit enterprises](#); Moody's; April 11, 2019.

⁴ [CARES Act Provides \\$25 billion for Public Transit](#); American Public Transportation Association; March 26, 2020.

⁵ Kessler, Eve; [Experts: Senate Bill's \\$25B for Transit Won't Be Enough](#); Streetsblog; March 25, 2020.

⁶ Ibid.

⁷ Ibid.

⁸ [Public Transit Ridership Continues to Decline](#); EveryCRSReport; Oct. 16, 2019.

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- [Bracing for Zero](#), March 5, 2020

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