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 aid.
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:**

**Summary of Select U.S. Transit Systems**

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

Source: Moody's and HilltopSecurities.
Recent HilltopSecurities COVID-19 Municipal Commentary

- Public Higher Education - A Closer Look, April 1, 2020
- Private Higher Education - Impact from Social Distancing, March 31, 2020
- U.S. Airport Sector View - A Month into COVID-19, March 30, 2020
- Four Weeks in March, March 27, 2020
- House Speaker Pelosi Wants More for State and Local Governments in Potential Fourth Phase, March 26, 2020
- Agreement on the $2+ Trillion CARES Act, Not Nearly Enough for State and Local Governments, March 25, 2020
- Still Waiting on Congress, Looking for State and Local Government Stimulus, March 24, 2020
- $12 Billion Flows Out of Municipal Funds, Recent Monetary & Fiscal Policy, March 19, 2020
- March 18 Market Activity – A Focus on the Significant Pressure in the VRDO Market, March 18, 2020
- March 17 Market Activity, March 17, 2020
- March 16 Market Activity: HilltopSecurities Lowers Credit Outlooks Due to Unprecedented Steps, Taken to Contain COVID-19, March 16, 2020
- Municipal Market Update: Week of March 16 Playbook, March 16, 2020
- Lowered Airport Sector Outlook: Recent COVID-19 Impact, March 11, 2020
- Falling Confidence and No Federal Stimulus Increase to Start the Week, March 9, 2020
- Uncertainty – What the Municipal Market Knows and Doesn’t Know About COVID-19, March 4, 2020
- Bracing for the Worst; the Coronavirus Market Effect – Status of the Coronavirus Impact on the US Municipal Bond Market (page 2), Feb 26, 2020

Recent HilltopSecurities COVID-19 Economic Commentary

- Sifting Through Irrelevant Data, April 1, 2020
- Help is on the Way as Massive Relief Bill Passes the Senate, March 26, 2020
- Staying Afloat Until the Storm Passes, March 23, 2020
- Government Goes Big on Latest Rescue Plan, March 19, 2020
- Serious Support on the Horizon, March 16, 2020
- Waiting on Fiscal Policy as Aggressive Fed Move Falls Flat, March 16, 2020
- Stocks Rebound as Central Banks Respond, March 13, 2020
- On the Edge of Recession, March 12, 2020
- Central Banks Rush to Mitigate Pandemic Fallout, March 11, 2020
- Untying the Knot, March 10, 2020
- Runaway Markets Ignore Massive Payroll Number, March 6, 2020
- Bracing for Zero, March 5, 2020

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