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# Are NYC Transit Bonds Running Out of Steam?

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SEI Fixed Income Portfolio Management (SEI FIPM) manages fixed-income strategies for SEI's Managed Account Solutions (MAS).

**Snapshot**

- New York City's Metropolitan Transit Authority (MTA) has faced devastating declines in ridership following the COVID-19 shutdown in late March, resulting in significant loss of revenue.
- $13.5 billion of the MTA's total $41 billion debt load must be repaid in the next three years.[1]
- Despite the authority's financial struggles, we remain comfortable owning its bonds at this time.

[1] Source: MTA as of July 8, 2020

A city's public transit system performs a similar role to the human body's vascular system. Just as the vascular system is responsible for delivering important nutrients to all areas of the human body, the transit system is responsible for delivering people across all areas of a city.

The Metropolitan Transportation Authority (MTA) is the lifeblood of the New York City region. It is the largest public transit authority in the U.S., providing rail, bus and subway services to millions of daily commuters, as well as managing a number of toll bridges and tunnels that service New York, New Jersey and Connecticut.

## Recap

On March 20, 2020, New York Governor Andrew Cuomo ordered all non-essential businesses in the city to close as COVID-19 cases soared across the region. The MTA faced an abrupt, unprecedented decline in revenue. Subway trips declined by more than 90% at the peak of the lockdown compared to pre-pandemic ridership.[2] Fares and tolls, which make up a significant portion of the MTAs revenues, plummeted as non-essential workers sheltered in place. To make matters worse, the remaining revenues, which come from a dedicated package of economically-sensitive taxes and subsidies, also fell significantly.

In a recent Bloomberg TV interview, MTA Chairman and Chief Executive Officer Pat Foye noted that the MTA is facing a once-in-a-century "fiscal tsunami" that has destroyed 40% of its revenues. Mr. Foye said that the MTA will need at least $3.9 billion more in aid this year alone—on top of the almost $4 billion that it already received and spent.

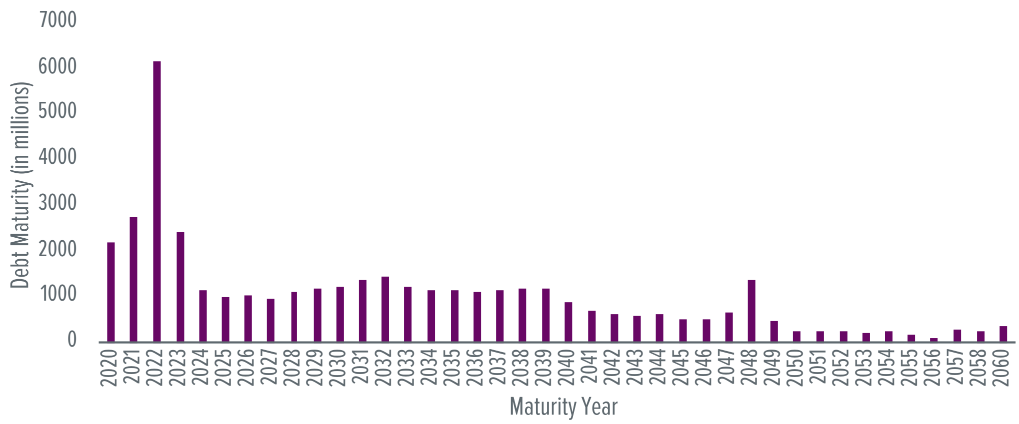
## Cause for Concern...

The MTA is highly levered with a total debt load in excess of $41 billion. Over $13.5 billion of it must be either refinanced or repaid over the next three years.

[2] nytimes.com/2020/04/20/nyregion/nyc-mta-subway-coronavirus.html

Exhibit 1 offers a compelling visual representation of just how much debt is coming due over the next few years; particularly in 2022, as over $6.15 billion in debt will come due then. Coupled with elevated funding costs, the next few years are likely to be challenging for the MTA.

**Exhibit 1: MTA Debt Maturity**




Source: MTA, Bloomberg. As of August 31, 2020.

## ...But All is Not Lost

As bleak a situation as it seems, we see two reasons for optimism.

First, the MTA is legally barred from filing for Chapter 9 bankruptcy protection. According to the provision from a recent MTA bond sale, state law specifically prohibits the MTA, its Transit System affiliates, its Commuter System subsidiaries or MTA Bus Company from filing a bankruptcy petition under Chapter 9 of the U.S. Federal Bankruptcy Code. As long as any transportation revenue bonds are outstanding, New York has agreed not to change the law to permit the MTA or its affiliates or subsidiaries to file such a petition.

Second, the MTA has access to capital. The authority recently sought to borrow $465 million for three years from a number of Wall Street banks, which offered to lend the MTA money at a 2.79% interest rate. The MTA opted to tap the Federal Municipal Liquidity Facility (MLF) instead and was able to borrow at a much lower rate of 1.92%, saving 82 basis points in interest compared to bank loans.

## Our View

We acknowledge the significance of the events that are unfolding in real time within the MTA; however, our view on the issuer remains constructive.

Aside from being legally barred to declare bankruptcy and having adequate access to capital, the MTA is a key piece of infrastructure to the New York City region. MTA passengers account for about one-third of the entire country's mass-transit population.

Additionally, there are other options the MTA may pursue to help address its fiscal issues. Cost-cutting is typically the first action most companies take, and there are a number of ways the MTA can slash its expenses. Reducing bus and subway service by as much as forty percent is already an action under consideration.

The MTA is also discussing scaling back Metro North and Long Island railroad service by up to fifty percent. While not ideal, the MTA may also choose to lay off a portion of its 70,000+ workforce and/or impose wage freezes to help further mitigate expenses.

The revenue side of the equation is more straightforward: fare and toll hikes may also be considered as a means to increase revenue. Admittedly, none of these options alone would be sufficient to solve the problem; however, taken together, they should have a significant impact.

In addition to possible actions that the MTA may take, there are things outside of its influence that would help. The first would be an approved vaccine for COVID-19 which would enable employees to return to work and eliminate the primary cause of the MTA's revenue decline. Assistance from the federal government in the form of additional financial aid is also a potential option that cannot be ruled out.

## Our Strategies

Our portfolios have a minimal amount of exposure to MTA bonds. The long-term credit ratings for these bonds remain well into investment-grade territory, as the issuer maintains mid-single A ratings from both Moody's and Fitch. S&P rates the issuer slightly lower at BBB+.

The MTA is undoubtedly in a difficult situation and will continue to face a bumpy road in the near term. Despite the challenges, we remain comfortable owning MTA bonds at this time.