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N.Y. MTA Gives New Bondholders Haven From Subway Ridership Drop.

- **Bond sale grabs higher credit ratings than MTA farebox credit**
- **MTA eyeing another $1.3 billion PMT deal later this year**

By one estimate, one-fifth of those who used to ride the New York Metropolitan Transportation Authority's subways, buses and commuter trains everyday are unlikely to come back even after the pandemic as remote work catches on.

Yet that won't be a major risk for the buyers of $1.3 billion of bonds the MTA is selling this week.

The long-term debt will be the agency's first ever that's repaid with the revenue it receives from a payroll tax imposed on employers in New York City and surrounding counties. That insulates investors from a potential decline in toll and fare receipts, giving the new bonds credit ratings that are as much as six steps higher than the agency's debt backed by the revenue it receives from riders.

Others in the $3.9 trillion municipal-bond market have used a similar tactic to drive down their borrowing costs by providing extra security for investors. Chicago, whose credit rating was cut to junk by Moody's Investors Service, steered a share of its sales-tax revenue directly to its bonds to insulate them from the city's budget. Puerto Rico did the same.

In the MTA's case, the step follows a steep drop in ridership since the pandemic struck, which has cast uncertainty over the financial outlook of the nation's biggest public transit agency.

"It's going to be a better pricing mechanism for the MTA versus issuing through their more traditional fare-box receipts," said Howard Cure, director of municipal bond research at Evercore Wealth Management, which oversees $10.2 billion of assets, including MTA debt.

The MTA was among the hardest hit government agencies by the pandemic, which abruptly slashed its revenue as New York City became an early epicenter of the outbreak. Yields on the agency's debt soared. An MTA bond maturing in 2045 traded in early May 2020 as high as 4.98%, 298 basis points more than top-rated municipals, according to data compiled by Bloomberg.

The bonds went on to rally, however, after the agency received an influx of federal funding that cushioned the hit, with President Joe Biden's rescue plan boosting the total to about $14.5 billion. That 2045 bond traded Friday at an average yield of 2.3%, or 82 basis points above benchmark tax-exempts, Bloomberg data show.

The new payroll-tax bonds are expected to sell at lower yields than the farebox debt. A bond maturing in 2051 may price at a yield of 1.9%, according to the sale's preliminary pricing wire dated Monday. That's 34 basis points more than top-rated municipals, according to Bloomberg Barclays indexes.

MTA’s farebox collections shrunk by 62% last year, coming in at $2.39 billion in 2020 compared with $6.36 billion in 2019, according to bond documents. Subway ridership is about one-third what it was before the pandemic.

But the payroll tax has been far more resilient. The MTA in 2020 received $1.56 billion of revenue from it — the same amount as in 2019 — and $161 million more than a revised forecast, according to the bond sale’s offering documents.

The MTA’s Triborough Bridge and Tunnel Authority will sell the bonds, which will refinance the agency’s transportation revenue debt. The payroll bonds carry AA+ credit ratings and negative outlooks from S&P Global Ratings and Fitch Ratings. That’s six steps higher than S&P’s BBB+ grade and five levels above Fitch’s A- rating on MTA’s transportation revenue bonds, which are backed by fares and tolls.

The transaction will likely benefit from high demand in the overall tax-exempt market as investors continue to pour money into municipal-bond funds, said Matt Dalton, chief executive officer of Belle Haven Investments, which manages $14.5 billion of state and local debt, including MTA securities.

“Everything is so much tighter than if you look historically on a relative value between one credit and another,” Dalton said. “Everything’s crunched together because of the lack of availability of choices out there.”

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