S&P: Mass Transit Agencies' Priority Lien Revenue Bond Outlooks Revised To Negative On Anticipated COVID-19 Pressures

CENTENNIAL (S&P Global Ratings) March 27, 2020–S&P Global Ratings revised its outlook to negative from stable on several long-term and underlying ratings on bonds issued by mass transit agencies and secured by priority lien tax revenue pledges. The negative outlooks provide notification to market participants that the affected credits face at least a one-in-three likelihood of a negative rating action over the intermediate term (generally up to two years).

This action applies to the ratings of approximately 20 issuers, and 215 unique ratings.

We simultaneously published an outlook revision for all ratings in scope of our Mass Transit criteria (see our article published March 26, 2020). We believe that there is at least a one-in-three chance that the general creditworthiness of the transit obligors could be downgraded in the intermediate term, which could pressure the associated priority lien ratings on bonds issued by mass transit agencies.

As the COVID-19 virus spreads and social distancing efforts intended to slow the infection rate and flatten the curve of the virus slows local economies to a virtual halt, S&P Global Ratings is of the view that the nation and world have entered a recession, with firmer projections under our base case forecasts for a slowdown in global GDP growth, and 1.3% decline in U.S. GDP in 2020 (please see our articles "It's Game Over For The Record U.S. Run; The Timing Of A Restart Remains Uncertain", published March 27, 2020 on RatingsDirect, and "Global Macroeconomic Update, March 24: A Massive Hit To World Economic Growth", published March 24, 2020 on RatingsDirect.) The outlook revisions reflect our view that the emerging recession and social distancing-driven declines in activity levels will likely place material pressure on the credit profiles of priority lien tax revenue bonds issued by mass transit operators.

Per our priority-lien criteria, we assign issue ratings based on both the strength and stability of the pledged revenue, as well as the obligor's general credit quality. For the credits included in this outlook revision, we assess the obligor's general credit quality by applying our criteria, Mass Transit Enterprise Ratings: Methodology and Assumptions.

The mass transit operators that we rate under "priority-lien" criteria derive a significant share, and often a substantial majority of total revenue from taxes, typically locally levied sales with a minor portion from other dedicated taxes. We believe potential rating actions or outlook revisions may occur and will likely be driven by the magnitude of several factors, each of which may pressure pledged revenue streams and obligors' general creditworthiness. These may include:

- Significant declines in pledged tax revenue caused by the abrupt and sharp decline in economic activity driven by COVID-19 and related social distancing efforts;
- Extreme declines in mass transit ridership levels, with an uncertain timeline for a resumption of normal activity;

- Expenditure pressure, as many transit operators incur unexpected additional costs for intensive cleaning of buses and rail cars;
- Budgetary strain as many operators have reduced or eliminated fares, while maintaining normal or near-normal service levels in the first few weeks of declining ridership.

The prospect for state and federal aid, in addition to these issuers' generally strong credit profiles may limit downside pressure for some or all of these credits. In addition, we view favorably the $2 trillion federal stimulus package, which identifies a total of $25 billion for transit operators expected to be administered through existing Federal Transit Administration using fiscal 2020 formula funding mechanisms. While there is potential that the stimulus bill could positively affect this portfolio, we will be evaluating the implications for individual transit operators as part of our ongoing reviews.