
New York MTA Bonds Rally While Agency Seeks Federal Funds.

- **MTA debt sold this week rallied and yield spreads narrowed**
- **Transit agency issued $900 million of debt this week**

Debt sold this week by New York's Metropolitan Transportation Authority has rallied even as the agency warns that it will impose drastic service cuts and layoffs without $12 billion of additional federal funds.

The MTA, the largest U.S. mass-transit system, sold through competitive bid Tuesday $900 million of bonds backed by fare box and toll revenue and government subsidies. The bonds have rallied since then while yields in the overall tax-exempt market are relatively unchanged.

MTA's sale is the latest example of investors seeing quick gains on their bets after participating early on when troubled borrowers hit by the coronavirus outbreak sell bonds. Municipal debt backed by Delta Air Lines Inc. and bonds sold by the Chicago Transit Authority, which like the MTA has seen its ridership plunge, rallied this month after their initial sales.

MTA bonds with a 4% coupon and maturing in 2048, the most-actively traded MTA security in the past week, changed hands Friday at an average yield of 4.11%, down from 4.41% when the debt sold on Tuesday, according to data compiled by Bloomberg. The additional yield that investors demand to hold the bonds rather than top-rated tax-exempts shrunk Friday to an average 256 basis points from 285 basis points at Tuesday's sale.

The MTA borrowed through the capital markets as it's weathered multiple cuts to its credit rating, including a downgrade last week from Moody's Investors Service. It's also seeking $12 billion of additional federal aid to cover budget gaps this year and next.

Given the size of the deal and the MTA's financial challenges, the bonds at Tuesday's sale needed to price attractively, said Howard Cure, managing director for municipal-bond research at Evercore Wealth Management, which has $9.1 billion of assets under management.

"$900 million is a lot of paper to move and they wanted to make sure there was a market for this," Cure said about the financial institutions that won the deal. "So they bid on it accordingly so the banks wouldn't have excess inventory."

Bank of America Corp. won $600 million of the sale while JPMorgan Chase & Co. was awarded $300 million.

The MTA, which had $45.4 billion of debt as of July 8, warned its subway car manufacturers, bus makers and other vendors on Thursday that contracts are in jeopardy absent federal help. The MTA has said it may be forced to cut subway and bus service by 40% and slash commuter-rail service by 50% without federal assistance. Its multi-year $51.5 billion capital plan is already on hold and major infrastructure projects and upgrades are at risk.

“The MTA is in a tough position,” Cure said. “They’re trying to sell their bonds as economically as they can while at the same time pleading for money and threatening draconian cuts if they don’t get it.”

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By Michelle Kaske

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— With assistance by Amanda Albright