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The MTA Is Developing Plans to Cut Costs and Borrow From Fed. Its Bonds Have Rallied.

The Metropolitan Transportation Authority next month will be discussing cutting service by up to 40%, laying off thousands of workers and increasing fares, as it weighs options to offset sliding revenues from the pandemic.

Officials reiterated the need for federal funding at a Wednesday meeting, and said deep cuts to service and jobs will be necessary if Congress doesn't offer aid.

Yet the market seems to be taking a slightly less downbeat perspective than it was before. Yields on some MTA bonds have declined since the U.S. presidential election and news of a vaccine: A two-year bond yield, for example, was trading at 3.5% Tuesday, down from 4.6% on Nov. 6, according to Bloomberg data. Prices and yields move oppositely.

MTA officials have requested \$12 billion in grants from Washington, and forecast deficits of more than \$15 billion in the next three years without any steps to reduce that gap. The deficits will total about \$7 billion if the MTA takes deficit-reduction steps that aren't service or jobs cuts.

The four-year "worst case" budget plan introduced Wednesday reflects no deficit spending, though the state has recently passed a law that allows the MTA to borrow up to \$10 billion to cover pandemic-related costs in coming years.

To be sure, MTA bond yields are still well above their levels from the start of this year, when the two-year bond traded around 1.4%. The coronavirus pandemic prompted the yield to soar as high as 7.9% in March. Last week, subway ridership was down as much as 70% compared to similar days last year.

So the moderate decline in bond yields is likely the result of investor optimism about federal aid. Help from Congress likely won't arrive until at least next year, however, and the possibility of Republican control of the Senate may hamper the amount of aid received.

So to help fill this year's budget gap, MTA officials are working on an application to tap the Federal Reserve's Municipal Liquidity Facility for the maximum \$2.9 billion available. The process is under way, said Robert Foran, the MTA's chief financial officer, in Wednesday's board meeting. That should allow the MTA to access the facility by the end of this year.

The MTA's board will take action on its 2021 budget proposal at next month's meeting.

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