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Fitch: New York Transit System Risk Remains Despite Government Stimulus

Fitch Ratings-New York-05 January 2021: The $908 billion coronavirus stimulus package includes funding that will tide the New York Metropolitan Transportation Authority (MTA) over in 2021, but financial challenges will remain in future years, absent a strong recovery in ridership, according to Fitch Ratings. The infusion of funding should be sufficient to balance the MTA's 2021 budget, temporarily staving off substantial service reductions and layoffs, but without ridership improvement or additional aid some cuts will still likely be needed by next year, as the MTA reports a nearly $8 billion budget gap for 2022-2024.

The bill, signed into law on Dec. 27, includes $14 billion for transit systems with more than $4 billion going to the MTA, according to Senator Charles Schumer of New York. The MTA received a similar amount of funding in the Coronavirus Aid, Relief and Economic Security (CARES) Act, passed in March. Without the new aid, the MTA was projecting the need for 40% service reductions in subway and bus systems and 50% in commuter rail lines, resulting in an estimated 9,400 layoffs.

Fitch believes the service and workforce reductions proposed by the MTA would be difficult to implement, given the need for essential workers and others to travel by mass transit. Other gap closing actions, such as increased deficit borrowing, deferring capital spending or use of any remaining reserves could further weaken the authority's credit profile. Fitch downgraded MTA's Long-Term IDR (A-/Negative) multiple times in 2020. To close its 2020 budget gap the MTA tapped more than $500 million in reserves and $424 million in capital lockbox funds, and exhausted its borrowing capacity under the Municipal Liquidity Facility with the issuance of $2.9 billion in deficit financing notes in December.

The additional federal aid does not address the MTA's fundamental ridership problem. Subway ridership was down a drastic 64% as of Dec. 30, 2020 from last year and bus ridership was down 44%. Ridership growth has flattened after an initial boost coincided with the partial reopening of the economy during the early summer, as restrictions on public gatherings and significant work-fro--home levels continue. The MTA is forecasting a return to a 'new normal' ridership level — the equivalent of 90% of the pre-pandemic trend — by 2024 in the best-case scenario. Fitch expects ridership to remain highly sensitive to the effective distribution of coronavirus vaccines and widespread inoculation, and the permanency of the transition to remote work and migration to lower-density suburbs.

The MTA fared better in relative terms under the new bill than in the CARES Act. The agency will receive about 30% of transit aid in this bill, compared with only 16% in the earlier one. Transit ridership among the MTA's constituent agencies, responsible for subways, buses and commuter rail, represented 37% of all transit passenger trips in 2018 in the U.S., according to the American Public Transportation Association's 2020 Public Transportation Fact Book.

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