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Fitch: Securing Funds Key to MTA Credit in Wake of NYC Congestion Pricing Pause

Fitch Ratings-New York-11 June 2024: Fitch Ratings does not anticipate taking near-term negative rating action on the Metropolitan Transportation Authority's (MTA) 'AA'/Stable Issuer Default Rating (IDR) in response to New York State Governor Hochul's decision to pause the MTA's New York City congestion pricing plan. The governor and state legislative leaders have emphasized the state's strong commitment to support and find alternative revenue sources for the MTA. This aligns with Fitch's view that the MTA has a close fiscal relationship with the state (AA+/Stable), as assessed under our Government-Related Entities (GRE) Rating Criteria, which explicitly recognizes the likelihood of support.

The MTA's operating outlook remains stable, reflecting an improved fiscal outlook largely driven by the state's increase of the maximum rate of the Payroll Mobility Tax (PMT) last year. However, the indefinite suspension of congestion pricing creates significant uncertainty for the MTA capital program only months after the agency announced it was halting all new construction contracts due to lawsuits against congestion pricing. Extended delays in replacing the lost revenue from the congestion plan could weaken Fitch's assessment of the state's support of the MTA under the GRE criteria and negatively affect the MTA's Standalone Credit Profile and IDR.

Congestion pricing, which was to begin on June 30, 2024, was expected to raise $1 billion in annual revenue to support $15 billion in borrowing capacity, or approximately half of the approximately $30 billion of remaining project costs under the MTA's current $51.5 billion 2020-2024 capital plan. Congestion pricing as a bond financing vehicle was itself not without uncertainty, lacking a proven revenue history for a first-of-its-kind system in the U.S. Nevertheless, the delay will postpone various projects including signal upgrades and replacement, the purchase of new railcars and electric buses, and ADA accessibility projects.

Fitch does not view the loss of proceeds from congestion pricing as a near-term liquidity challenge for the MTA. Per Fitch's GRE criteria, the MTA's IDR reflects an 'extremely likely' score assessment that the state would support the MTA in case of need. However, extended delays by the state in establishing a long-term revenue solution threatens the MTA's ability to effectively execute its 2020-2024 capital program. This could have long-term ramifications for system performance and ridership, which is still only at about 70% of pre-pandemic levels on most weekdays. An extended delay could also lead Fitch to reassess the state's propensity to provide support in the future, which would result in a negative rating action on the MTA's IDR.

Long-term replacements for congestion pricing project revenues could include new or expanded state or regional taxes and fees or a limited draw on state resources. The state legislature adjourned this weekend without deciding on an alternative long-term funding source with the next regular session starting in January 2025. However, the governor can convene an extraordinary session before then.

The MTA, through its Triborough Bridge and Tunnel Authority (TBTA), has a $544 million contract

with Transcore to design, build, operate and maintain the tolling program. Congestion pricing infrastructure, including gantries and license plate readers, is already in place, supported with $193 million in TBTA bond anticipation notes (A+/Stable). Although TBTA intended to take out the bond anticipation notes with debt backed by congestion toll revenues, Fitch's rating conservatively assumes the bonds will be rolled over to long-term TBTA revenue bonds (outstanding senior and subordinate bonds rated 'AA-'/'A+' Stable).

The MTA's CEO recently stated the authority intends to continue pursuing congestion pricing, including challenging outstanding lawsuits. The governor's decision may face litigation alleging violations of the 2019 Traffic Mobility Act, which mandated that the MTA create the congestion pricing program but without an explicit deadline. The MTA board, which is scheduled to meet on June 26, has stated it cannot proceed with congestion pricing without the consent of the state under applicable federal law and regulation. This appears to address questions related to the MTA board's legal standing to suspend congestion pricing.

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