Metropolitan Transportation Authority

Transportation Revenue Bonds

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Executive Summary

Kroll Bond Rating Agency (KBRA) has assigned a long-term rating of AA+ with a stable outlook to the Metropolitan Transportation Authority (MTA) of New York Transportation Revenue Bonds (TRB).

This rating is based on KBRA’s U.S. Public Toll Roads, Bridges, & Tunnels Rating Methodology, published on November 1, 2012.

KBRA’s rating evaluation focuses on the following key rating determinants:

- Size and Scope of Operations
- Demand Assessment
- Management/Regulatory Framework
- Financial Profile
- Security Provisions

KBRA believes these rating determinants, which are used in the U.S. Public Toll Roads, Bridges and Tunnels Rating Methodology, accurately reflect the essential nature of large public transit systems, the various sources of public funding generally available to support these systems, and the inter-governmental relationships that exist to manage operations. Public transit systems play a critical role in the economic and social infrastructure of the service area. They provide an efficient network that enables the population to access job opportunities and meet other daily obligations. They also provide economic and environmental benefits through the reduction in traffic congestion, improvements in air quality and lower energy requirements. Historically, interruptions in these services have caused major disruptions in the service area economy and the community. However, given the capital intensive nature of these operations and the broad demands and demographics of the user base, public transit systems are rarely self-supporting. Funding for capital and operations is often derived from a variety of resources and governmental entities. In its evaluation of a transit system, KBRA balances the essentiality of the services and the inter-action and support of overlapping governmental entities, particularly as evidenced through historic funding levels, against financial and operating performance. Management’s ability to manage system assets, funding resources and relationships with its constituents and overlapping governmental entities is a critical component of our analysis.

Security

The TRB are secured from a lien on pledged revenues, which consist of: i) fares and other operating revenues from the New York City Transit, MTA Commuter and MTA Bus system, ii) surplus operating revenue from MTA Bridges and Tunnels (TBTA), iii) various State and Local government subsidies and iv) certain dedicated tax revenues.

The TRB Resolution provides that bondholders will be paid from pledged revenues, prior to the payment of operating or other expenses of MTA, New York City Transit (NYCT), Metro-North Railroad (MNR), Long Island Rail Road (LIRR), and MTA Bus. The TRB Resolution requires MTA to transfer all pledged revenues, upon receipt, to the Trustee for deposit into the Revenue Fund. KBRA views the monthly deposits of pledged revenues with the Trustee, prior to payment of operating expenses, to be a strong security feature of the TRB Resolution.

Bondholder protections are further supported by provisions in MTA governing statutes which, among other things, require MTA to maintain a balanced operating budget and to set rates and...
charges at a level sufficient to provide for coverage of all operating and debt service expenses as well as necessary reserve requirements. The statutes also include a non-impairment provision and prohibition on MTA and its Related Entities from seeking or being forced into bankruptcy, which KBRA views as positive security factors.

**KBRA’s View on Gross Lien Pledge for Large Public Transit Systems**

As part of its review, KBRA assesses the merits of a gross revenue pledge relative to a net revenue pledge of system revenues. Typically, KBRA calculates debt service coverage on enterprise revenue-supported debt net of operating expenses, regardless of whether the legal pledge is gross or net of operating expenses. This reflects the fact that most enterprise operations rely exclusively on user rates and charges from operations of the system to fund necessary operating, capital and debt service expenses. Since the central mission of large public transit systems is to provide a vital transportation network that is affordable to a broad demographic base. KBRA understands that user rates and charges, i.e. farebox revenues, will generally not be the sole source of revenues available to support operations. Instead, policy decisions are continuously made on the appropriate balance between funding from operating revenues versus other non-operating revenues. Given the significance of non-operating revenues in the form of taxes and/or government subsidies, the overall revenue structure is less directly impacted by short-term volatility in operating revenues. As a result, KBRA will recognize the gross revenue pledge as an enhancement to the security for certain large transit systems that benefit from a broad base of non-operating revenues. However, the ability to maintain consistent operating margins that provide a net revenue coverage ratio of at least 1.0x will also be an important credit factor in the rating assessment.

**Key Rating Strengths**

- MTA provides a critical transportation network for over 15 million people in the greater New York Metropolitan area, which is essential to the economic and social fabric of the area.
- MTA Board has a strong working relationship with its constituent entities and funding partners and works closely with these entities in developing its operating budget and capital plans.
- MTA has autonomy in setting rates and charges for its services.
- MTA has a well-defined governance and management structure, which includes specific policies governing the budget process, multi-year financial and capital planning and debt management.
- Disclosure requirements ensure transparency of financial and operating information for both investors and customers.
- Demand is relatively inelastic to rate increases and continues to show good growth.
- MTA management has a strong track record of balancing its operating budget over changing economic cycles and unforeseen events as well as managing complex capital programs designed to improve and expand the system.
- MTA governing statues together with the TRB Resolution provide strong bondholder protections.
- Debt service coverage from pledged revenues in 2014 was 9.4x.
**Key Rating Concerns**

- Uncertainty with respect to the sources of funding for the 2015-2019 Capital Program, which includes projects that are necessary to achieving and maintaining the network of assets in a state of good repair and to provide for required expansions and improvements to the network over time.

- MTA’s high fixed cost structure, in combination with its limited resource base, will continue to make balancing the operating budget and funding of capital requirements challenging.

- A portion of the recurring savings necessary to balance the operating budget over the period of the financial plan have not been specifically identified, and extracting greater savings may prove difficult over time.

- The ability to control growth in labor-related costs on future labor contracts.

- The lack of a debt service reserve fund and coverage requirement for the issuance of additional bonds in the security provisions supporting the TRB.

**Rating Summary**

KBRA’s rating assessment focuses on MTA’s demonstrated ability to effectively manage the operations and finances of the largest and most complex transit system in North America. In KBRA’s opinion, this is evidenced by its history of reliability over changing economic cycles and unforeseen events, including Superstorm Sandy. The rating assessment also recognizes the essentiality of the system and the interdependence between the transit system and the economies of the State and the local governments that it serves. This interdependence underscores the funding support consistently provided to subsidize operations and capital requirements.

MTA continues to balance the growing and changing service needs of its constituents with available external and internal resources. Fares and tolls have historically been set at levels that maximize revenue generation while maintaining affordability. Management continues to invest in working towards bringing the system assets into a state of good repair, while continuing to expand and improve the level of service. Management has responded to recent safety issues by making additional investments in safety equipment, training and oversight. KBRA believes that uncertainty with respect to funding of the current capital program and potential growth in future labor costs will continue to put pressure on fares and service levels.

MTA provides a critical system of transportation services for the New York metropolitan area that serves a population of 15.1 million in the 5,000-square-mile New York metropolitan area. This area includes the five boroughs of New York City, Long Island, southeastern New York State, southwestern Connecticut, and commuters in Orange and Rockland Counties in New York. In total, the system carries over 8.66 million passengers on an average weekday on its transit and commuter lines and over 806,000 vehicles on its toll bridges and tunnels. MTA has the largest subway car fleet in the world and operates more buses than any other public agency in North America. It operates a total of 2,069 track route miles, 2,816 bus route miles and 950 rail route miles. It employs 67,447 people.

KBRA views MTA’s ridership demand as strong given the long-term inelasticity of demand and stability of ridership volume. Overall ridership has increased since 1995, with fairly minimal declines in some years due primarily to recessionary conditions. During that time, farebox revenue has grown at a greater rate than ridership as a result of several fare increases. Total system volume dropped 2.9% from 2008 to 2010 due to the Global Financial Crisis of 2008, but has
rebonded levels above pre-financial crisis as of 2014. Most of the post-financial crisis increase has been on the subway and MNR lines, while LIRR and bus ridership and TBTA traffic levels are still at or below pre-financial crisis levels. MTA projects continued overall growth in ridership, which underscores the need to address capacity constraints throughout the system. MTA has addressed both capacity and safety issues throughout the system via a robust capital program that focuses both on maintaining a level of good repair and expansion.

MTA operates under a strong regulatory framework which provides detailed policies governing operations, financial and capital planning, debt and disclosure. MTA benefits from significant autonomy in managing day-to-day operations of the system and has sole authority for setting fares/tolls. The Board of Directors is appointed by the Governor with the consent of the Senate. There is an experienced and stable management team which provides continuity in operations as well as expertise in planning and implementing ongoing capital and maintenance programs. MTA works closely with New York State and jurisdictions within MTA Commuter Transportation District, including New York City, on capital programs, planning, and finances.

In KBRA’s view, MTA’s has an established track record of managing financial operations, developing and executing large and complex capital programs and managing debt issuance. Financial operations are narrowly balanced, but MTA has consistently managed to generate modest net cash balances at year end. The operating budget reflects the public purpose nature of the services provided and the need to balance limited resources against a labor and capital intensive operation. Operating revenues include farebox revenues from the Transit, Commuter and Bus systems as well as surplus revenues from the TBTA. Non-operating revenues reflect State and Local operating subsidies and specific dedicated taxes. The combination of revenues gives MTA flexibility to adjust fares/tolls and expenses in a manner that maintains affordability, without significantly impacting operations and payment of debt service. The level and diversity of non-operating revenues also provides some protection during periods of service disruptions and/or delayed government appropriations. MTA has historically acted in a timely manner to raise fares/tolls, seek additional resources and reduce operating expenses in order to maintain structural balance in its operating fund, as required by its governing statutes. Its focus on generating recurring savings in the operating budget has also enabled it to reduce the rate of recent fare/toll increases. The settlement of major labor contracts, although not as favorable as MTA had originally assumed, should help to moderate increases in labor-related expenses over time. In KBRA’s view, MTA’s high fixed-cost structure limits financial flexibility, and balancing the operating budget will continue to be a challenge.

MTA has $34.9 billion in debt outstanding as of April 2015 through four distinct credits. Approximately 60% of this is through the TRB Resolution. Outstanding debt is largely fixed rate, with unhedged variable rate debt equal to 9% of the portfolio and synthetic fixed rate debt at 7%. MTA has well-defined policies governing the issuance of variable rate and synthetic products. It is expected that debt levels will continue to increase as MTA funds ongoing capital requirements to maintain and expand the network.

The 2015-2019 Capital Program, which has not yet been approved, assumes approximately $7.0 billion in additional debt or pay-go funding from MTA. There is a $15.2 billion funding gap in the current proposal, which will require MTA to secure additional funding commitments from the government entities that benefit from its services or scale back planned capital projects. To the extent that additional MTA debt or pay-go funding is required to support the 2015-2019 Capital Program, there could be additional pressure on MTA to raise rates or reduce services. MTA’s Financial Plan forecasts debt service will increase from 16% of budget to 19% of budget by 2018. The forecast shows that an increasing portion of debt service will come from fares and tolls. The Financial Plan assumes two 4% nominal fare/toll increases over the period of the Financial Plan.
The Financial Plan remains balanced through 2017. There is a modest deficit forecast for 2018, which KBRA believes is manageable. Fixed costs associated with debt service, pension and current Other Post-Employment Benefits (OPEB) payments represent almost 30% of the operating budget. Although this is high, it is not unusual given the labor and capital intensive nature of the transit system.

KBRA views the New York State statutes, the MTA Act and the TRB financing documents as providing a clear legal framework that supports TRB debt service. The TRB Resolution specifically identifies the sources of pledged revenues and the priority for use of these revenues. It also defines the requirements of MTA with respect to rate setting, operations and maintenance of the system, and issuance of additional parity bonds. Bondholder protections are further supported by provisions in MTA governing statutes which, among other things, require MTA to maintain a balanced operating budget and set rates at a level sufficient to provide coverage of all operating and debt service expenses and necessary reserve requirements. The statutes also include a non-impairment provision and prohibition on MTA and its Related Entities from seeking or being forced into bankruptcy.

KBRA views debt service coverage on the TRB as strong at 9.4x on a gross basis and 1.14x on a net basis for 2014. Pledged revenues include a mix of operating and non-operating revenues. Coverage from non-operating revenues, alone, provided 4.8x coverage of TRB debt service in 2014. The presence of non-operating revenues provides additional protection of debt service during periods of temporary disruption in services. The Financial plan forecasts a decline in debt service coverage over the forecast period, although KBRA believes that both gross and net coverage will remain adequate.

**Outlook: Stable**

The stable outlook reflects KBRA’s expectation that MTA will continue to manage financial operations to limit fare/toll increases while maintaining necessary operating and capital requirements.

In KBRA’s view, the following factors may contribute to a rating upgrade:

- Significant increase in debt service coverage on a gross basis and net basis.
- Significant increase in required reserves to protect against potential liquidity events.

In KBRA’s view, the following factors may contribute to a rating downgrade:

- Inability to fund necessary capital projects to maintain consistent operations and continue progress towards achieving a state of good repair on system assets.
- Significant and continuous declines in available resources which are not offset or replaced with other resources and result in constraints to MTA operations.
- Significant declines in funding support from the State and jurisdictions within MTA Commuter Transportation District.
- Changes in the regional economy, which lead to declines in ridership and farebox revenue.
Key Rating Determinants

Rating Determinant 1: Size and Scope of Operations

KBRA views MTA as providing an extremely essential public transit system for the New York metropolitan area. MTA operates the largest transportation system in North America, serving a population of 15.1 million in the 5,000-square-mile New York metropolitan area. This area includes the five boroughs of New York City, Long Island, southeastern New York State, southwestern Connecticut, and northern New Jersey. In total, the system carries over 11 million passengers on an average weekday on its transit and commuter lines and over 800,000 vehicles on its toll bridges and tunnels. MTA has the largest subway car fleet in the world and operates more buses than any other public agency in North America. It operates a total of 2,069 track route miles, 2,816 bus route miles and 950 rail route miles. It employs 67,447 people.

Service Area

MTA catchment area reflects a region with a broad range of socio-economic characteristics, employment opportunities and economic activity. The New York metropolitan statistical area (MSA) has a gross metropolitan product of $1.55 trillion, the highest nationally and behind the GDP of only 12 nations. By median household income it is home to 7 of the 25 wealthiest counties in the United States. It is ranked first on the Global Cities Index based on business activity, human capital, information exchange, cultural experience and political engagement.

The population of New York City has continued to increase since 2000, increasing by 4.2% through 2010 and another 2.8% through 2013. Regional population has also grown, from 12.9 million in 1980 to 14.8 million in 2010, an increase of 1.9 million (14.7%). Overall demographics in the service area are very strong, with wealth and income levels above State and National averages. MTA projects the regional population will continue to grow to 16 million by 2035. Much of this will be in New York City, with foreign immigration an important contributor to this growth.

<table>
<thead>
<tr>
<th></th>
<th>New York City</th>
<th>New York</th>
<th>United States</th>
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<tbody>
<tr>
<td></td>
<td>2013</td>
<td>% Chg from</td>
<td>2013</td>
</tr>
<tr>
<td>Population</td>
<td>8,405,837</td>
<td>2.8%</td>
<td>19,695,680</td>
</tr>
<tr>
<td>Age Dependency Ratio</td>
<td>50.0%</td>
<td>-0.8</td>
<td>56.6%</td>
</tr>
<tr>
<td>Population with B.A. Degree or higher</td>
<td>34.5%</td>
<td>1.3</td>
<td>33.2%</td>
</tr>
<tr>
<td>Poverty Level</td>
<td>20.3%</td>
<td>1.2</td>
<td>15.3%</td>
</tr>
<tr>
<td>Income per capita</td>
<td>$32,010</td>
<td>5.0%</td>
<td>$32,382</td>
</tr>
</tbody>
</table>

Source: U.S. Census Bureau is used as the source in order to provide a consistent comparison among different

1 Age dependency ratio is the sum of the population under 18 yrs and over 65 yrs divided by persons age 18 to 64 yrs.
2 Year over year change shown as nominal change in percentage point change

Residential building activity in New York City, an indicator of economic activity, has begun to increase after a period of decline resulting from the Global Financial Crisis of 2008. From 2008 through 2009, the number of residential building permits dropped by 67.6%. Since that time, however, building activity has increased considerably with permits increasing 183.7% from 2009 through 2014, based on preliminary U.S. Census numbers. The number of residential housing permits authorized in 2013 was up 48.0% from 2012 and preliminary 2014 figures show another increase of 19.0%. Job growth throughout the region has generally been strong over the period from 1970 to 2010.
Although the decline in economic activity due to the Global Financial Crisis of 2008 resulted in rising unemployment for much of the area from 2009 through 2010, job growth recovered relatively quickly. Unemployment rates in New York City peaked at 10.0% in January 2010 and have steadily declined since then to 6.4% as of December 2014. This is lower than both the State and National rates.

Based on the foregoing, KBRA views the size and scope of MTA system as being consistent with a AAA rating, which reflects the extreme essentiality and size of MTA system to the New York metropolitan area and the strength and diversity of the service area.

**Rating Determinant 2: Demand Assessment**

KBRA views MTA’s ridership demand as strong given the long-term inelasticity of demand and stability of ridership volume. Overall ridership has increased since 1995, with fairly minimal declines in some years due primarily to recessionary conditions. During that time, farebox revenue has grown at a greater rate than ridership as a result of several fare increases. Total system volume dropped 2.9% from 2008 to 2010 due to the Global Financial Crisis of 2008, but has rebounded levels above pre-financial crisis as of 2014. Most of the post-financial crisis increase has been on the subway and MNR lines, while LIRR and bus ridership and TBT&A traffic levels are still at or below pre-financial crisis levels. MTA projects continued overall growth in ridership, which underscores the need to address capacity constraints throughout the system. MTA has addressed both capacity and safety issues throughout the system via a robust capital program that focuses both on maintaining a level of good repair and expansion.

**Ridership Volume**

Overall MTA ridership has grown by 51.4% since 1980 to 2.7 billion rides per year in 2014. This is largely attributable to the introduction of the MetroCard, increasing employment and population in the service area, and MTA’s considerable capital reinvestment in the system. MTA saw growth of 37.3 million from 2013 to 2014 (1.39%) as the economy continued to recover. Currently, MTA serves 36% of all U.S. public transit riders.
Combined bus and subway ridership has grown by 828.1 million trips since 1996 when MetroCard transfers and unlimited rides were introduced. Subway ridership was at 1.75 billion annual trips in 2014, the highest level since 1946. Bus ridership has declined slightly since 2008, partially due to traffic congestion resulting in slow travel speeds, delays in customers boarding and unloading and frequent stopping patterns. MTA has also implemented some service cuts on bus routes that it deems to be underutilized. Since 2003, subway ridership is up 23.3% and bus ridership is up 11.6%. MTA projects subway and bus ridership will increase 4.7% from 2014 levels through 2018. This reflects growth of 2.8% for buses and 5.3% for subways.

MTA commuter rail system has also experienced considerable growth, with annual ridership up by 28.2% to 37.6 million since 1990. The majority of these gains have come on MTA Metro-North Railroad, which experienced an increase of 47.3%, versus MTA Long Island Rail Road, which experienced a 14.5% increase over the same period. This reflects greater employment and population growth along the MNR lines. Since 2003, LIRR ridership is up 3.0% and MNR ridership is up 16.0%. MTA forecasts growth in ridership of 7.5% for MNR and 2.5% for LIRR through 2018.

Growth in population and employment also led to increases in traffic volume over TBTA facilities through 2007. Periods of declines in traffic have coincided with periods of economic slowdown. Traffic declined by 6.8% between 2007 and 2011 due to the financial crisis and has remained relatively flat through 2014. MTA projects that TBTA traffic volume will increase at a modest rate of 1.3% from 2014 through 2018.
Safety Issues, Capacity Constraints and Ridership Forecasting

MTA entities have faced several issues related to accidents, delays, and capacity constraints that have had an impact on MTA finances and operations. Metro-North experienced several serious accidents in 2013 that led to investigations by the National Transportation Safety Board (NTSB) and the Federal Railroad Administration (FRA). Three major safety concerns were identified in the FRA report, including: i) an overemphasis on on-time performance, ii) an ineffective safety department and poor safety culture, and iii) an ineffective training program. While MTA has not yet estimated the financial costs of implementing safety-related remedial actions, it expects that the capital and operating costs will be substantial for Metro-North and some or all of the other MTA related entities.

At the request of the Governor in 2014, MTA empaneled a Transportation Reinvention Commission to address the challenges of climate change, growth, and changing demographics facing MTA. The Commission released its report on November 25, 2014 in which it proposed a number of strategies to respond to the future challenges. One of the strategies was to “aggressively expand the capacity of the system both to alleviate constraints and to meet the needs of growing ridership.” Forecasts of future capacity constraints are derived from projections of growing population both in New York City and in the outer reaches of MTA service area. MTA also forecasts that changes in employment and work patterns will result in more demand for flexible transit service with non-traditional travel patterns intensifying. These include travel to non-Manhattan destinations, reverse peak travel out to the suburbs, growth in intra-suburban travel, more non-peak trips, and less Monday through Friday travel. Although these factors may require modifications to current services levels, they should also help to moderate congestion during peak hours, as ridership will be more evenly distributed.

MTA has identified several large capital projects to address those capacity constraints. These include expanding the LIRR East Side Access and the LIRR Main Line Third track, expanding the full-length Second Avenue Subway line, and expanding the 7-line to the west side of Manhattan. MTA expects to pursue other potential operational strategies in conjunction with capital expansion projects, including expanding service at commuter rail stations in the Bronx, Queens, and Brooklyn and introducing additional stations on rail lines at underserved commuter markets.

Addressing subway delays have been a significant component of MTA capital planning since 1982. Through the current capital plan, MTA’s investment program has been the largest public
investment program in the country’s history. Investments of nearly $115 billion through 2013 have rebuilt or replaced MTA cars and tracks, leading to a 92% decrease in subway delays and increasing the distance between breakdowns by 2,200% on subways and 470% on bus systems. Future plans to improve reliability are improving the signal system, with signal failure being the leading cause of train service delays.

MTA uses a computerized ridership forecasting model to predict system utilization. This model uses existing ridership data; census information on the location of residents, jobs, and travel modes that employees use to get to work; and future projections of population, housing, and employment. The model also incorporates regional and local socioeconomic forecasts for travel demand and models to depict the current and proposed supply of transit service. The primary model is designed to account for the system’s various routes and connections and peak capacity constraints and has the ability to predict changes in peak hour route choice with various expansion plans. The model can also provide station-by-station forecasts of commuter rail riders who would use the subway.

**Composition of Ridership**

Based on 2014 data, subway ridership was the primary contributor to overall ridership volume at 64.2%. Bus ridership comprised 24.5% of total ridership. The remaining ridership volume came from MTA Bus, Long Island Rail Road, and Metro-North Railroad.

Over the past decade, there have been several changes in employment characteristics that have had a large impact on MTA planning. Manufacturing and clerical jobs have disappeared or declined. These have been replaced, in part, by technology centers in new non-Manhattan hubs in Long Island City, Downtown Brooklyn, White Plains, Stamford, and Suffolk County. Employment increases in the retail, health care, education, and travel sectors have led to more commuting over a 7-day work week, which has increased ridership at non-traditional times. The increases in job opportunities that provide for a flexible work week have also led to changes in ridership patterns in traditionally non-peak hours. While traditional travel is still MTA’s largest market, MTA is planning for less peak and less Manhattan Central Business District-centric travel. This helps MTA meet demand increases as much of that occurs during times when the overall transit system is constrained.

Other factors that have changed the composition and overall levels of ridership include tourism and leisure travel. The impact of leisure and tourism generally can be seen in off-peak travel on Metro-North and Long Island Rail Road on weekends.
MTA Fare Structure

MTA continues to manage fares to maximize revenue generation, while maintaining a fare structure that supports affordability for certain types of customers. For NYCT, MTA Bus and Staten Island Railway, the current base MTA fare structure is $2.75 per bus and subway ride on a MetroCard, an increase from $2.50 as of March 22, 2015. MetroCards cost $1.00 to purchase, but can be refilled to avoid the $1.00 charge. Customers purchasing a MetroCard of $5.50 or more get an additional 11% added to the value of the card. MTA also sells 7-Day and 30-Day unlimited MetroCards at $31 and $116.50, respectively. A single ride ticket can be purchased for $3.00. MTA also operates express buses, which cost $6.50 per ride or $57.25 for a 7-Day unlimited pass. MTA’s Reduced-Fare rate for seniors and customers with disabilities is $1.35.

<table>
<thead>
<tr>
<th>MTA Fares</th>
<th>Fares Prior to March 22, 2015</th>
<th>Fares as of March 22, 2015</th>
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<tbody>
<tr>
<td>NYC Subway and Bus Base Fare</td>
<td>$2.50</td>
<td>$2.75</td>
</tr>
<tr>
<td>Pay-Per-Ride Bonus</td>
<td>5% on purchase over $5.00</td>
<td>11% on purchase over $5.50</td>
</tr>
<tr>
<td>7-Day Unlimited</td>
<td>$30.00</td>
<td>$31.00</td>
</tr>
<tr>
<td>30-Day Unlimited</td>
<td>$112.00</td>
<td>$116.50</td>
</tr>
<tr>
<td>Single Ride Ticket</td>
<td>$2.75</td>
<td>$3.00</td>
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<tr>
<td>Reduced Fare Ticket</td>
<td>$1.25</td>
<td>$1.35</td>
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<tr>
<td>Express Bus</td>
<td>$6.00</td>
<td>$6.50</td>
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<tr>
<td>7-Day Express Bus</td>
<td>$55.00</td>
<td>$57.25</td>
</tr>
</tbody>
</table>

Source: mta.info

As noted in the table above, MTA implemented a 4% nominal increase in fares in March 2015. The current Financial Plan assumes an additional 4% nominal fare increase in 2017, which effectively results in a 2% increase per year. The 2015 and 2017 rate increases are lower than the 7.5% increase assumed in the November 2013 Financial Plan.
MNR and LIRR fares increased between 8.6% and 9% in 2013, the first increase since 2010. TBTA tolls have also increased in recent years:

<table>
<thead>
<tr>
<th>Year</th>
<th>Henry Hudson</th>
<th>Marine Parkway &amp; Cross Bay Bridge</th>
<th>All other Crossings</th>
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<tbody>
<tr>
<td>2009</td>
<td>$3.00</td>
<td>$2.75</td>
<td>$5.50</td>
</tr>
<tr>
<td>2013</td>
<td>$4.00</td>
<td>$3.25</td>
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*Note: The Verrazano Bridge is $16.00, but only outbound from Brooklyn*

**Competition**

MTA has very limited competition from other rail and bus lines. The TBTA does have competition from several free bridges that connect Manhattan to Queens and Brooklyn. There have been several proposals to institute tolls on those bridges, which would have a significant impact on MTA.

**Price Elasticity of Demand**

MTA system ridership is relatively inelastic across the entire system. In KBRA’s view, ridership inelasticity is due to the essentiality of the system to people living in the New York metropolitan area and the lack of viable alternatives for commuting into the City. Limited and costly parking and congested roads have helped to offset the effects of fare increases. Fare revenue typically declines temporarily following a fare increase, meaning that a fare increase would have to increase more than 1% to generate a 1% increase in revenues. As a result, the 4% planned fare increase is expected to yield a revenue increase of only 3.6% annually. MTA estimates this will reduce previously forecast revenues by $25 to $29 million annually.

As previously noted, the high cost of parking in New York City contributes to the relative inelasticity of demand to MTA fare increases. Studies have shown that midtown and downtown Manhattan are the two most expensive places in the US to park, with median monthly rates exceeding $500. Taxis are another alternative, although the average taxi fare in New York City in 2013 was $13.40 for an average trip length of 2.6 miles. New, app-based taxi alternatives are potentially less expensive than taxis, depending on various factors, such as traffic, surge pricing, and the amount of tip given to a taxi driver.

Based on TBTA traffic elasticity studies, volume will decrease 0.109% to 0.358% for every 1% increase in toll rates. Facilities in close proximity to free alternatives have higher elasticity levels.

Based on the foregoing, KBRA views the demand assessment as being consistent with an AA+ rating. This rating is based on the inelasticity of ridership volume to rate increases, the relative stability of ridership trends and the impediments to the use of cars for commuting, especially in the central business district. The rating also reflects to the limited vulnerability of ridership levels to changes in economic conditions, weather and construction activity.
Rating Determinant 3: Regulatory/ Management Framework

KBRA views MTA as operating under a strong regulatory framework which provides detailed policies governing operations, financial and capital planning, debt and disclosure. MTA management team operates one of the largest and most complex transit systems in the world. It has operated the system with high degree of efficiency and safety standards across the network as a whole. This has been demonstrated through a track record of daily operations and performance during several unforeseen events such as the terrorist attacks on September 11, 2001, and Superstorm Sandy in 2012.

MTA benefits from significant autonomy in managing day-to-day operations of the system and has sole authority for setting fares. The Board of Directors is appointed by the Governor with the consent of the Senate. KBRA views there is an experienced and stable management team which provides continuity in operations as well as expertise in planning and implementing ongoing capital and maintenance programs. MTA works closely with New York State and jurisdictions within MTA Commuter Transportation District, including New York City, on capital programs, planning, and finances.

MTA and Subsidiaries

The Metropolitan Transportation Authority is a public authority created by New York State under the New York State Public Authorities Law in 1965 (Act). Pursuant to the Act, MTA is responsible for developing and implementing an integrated mass transit policy for the five counties in New York City and the seven-county region in southeastern New York State, collectively referred to as MTA Commuter Transportation District. MTA also serves two counties in southwestern Connecticut under a long-term contract with the Connecticut Department of Transportation and commuters from Orange and Rockland Counties under an agreement with the New Jersey Transit Rail Operations, Inc.

MTA is responsible for developing and implementing a single, integrated mass transportation policy for MTA Commuter Transportation District. MTA operates the transportation system through its related entities and, with the exception of the TBTA, it issues debt on behalf of these entities to finance a significant portion of their capital programs. The TBTA, which is an affiliate of MTA, is authorized to issue debt to fund capital projects for its system as well as those of the New York City Transit and Commuter Systems.

MTA operates the transportation system through seven related agencies and subsidiaries (the Related Entities) including:

- The New York City Transit Authority (NYCTA)
- The Manhattan and Bronx Surface Transit Operating Authority (MabSTOA)
- The Long Island Rail Road (LIRR) which operates commuter rail services between Long Island and New York City and within Long Island
- Metro-North Commuter Railroad Company (MNR) which operates commuter rail service between New York City and the northern suburban counties of Westchester, Putnam, and Dutchess, Orange and Rockland counties in New York State, the southern portion of Connecticut and certain suburbs of northern New Jersey. Its operations in the State of Connecticut are pursuant to an agreement with the Connecticut Department of Transportation and commuters from Orange and Rockland Counties under an agreement with the New Jersey Transit Rail Operations, Inc.
- Staten Island Rapid Transit Authority (SIR) which operates a single rapid transit line from the State Island Ferry Terminal to the southern tip of Staten Island,
• MTA Bus Company (MTA Bus) which operates certain bus routes in New York City that were formerly served by the remaining seven private bus operators pursuant to franchise agreements with New York City.

• The Triborough Bridge and Tunnel Authority (TBTA) is an affiliate of MTA and operates all nine of the intra-City toll bridges and tunnels connecting the boroughs of New York City to Manhattan.

MTA Board

MTA is governed by a 22-member Board consisting of the Chairman and 21 members. The membership includes 16 voting members, two non-voting members, and four alternate non-voting members. Members from the counties of Dutchess, Orange, Putnam, and Rockland cast one collective vote. All members are appointed by the Governor with the consent of the Senate and serve a 6-year-term. Members of the Board are ex-officio members of each MTA affiliate and subsidiary. However, each of the affiliates and subsidiaries has its own management and is responsible for its own day-to-day operations.

Members of MTA Board have extensive working experience in their area of expertise, including public service/administrations, legal, engineering, financial services/management, labor relations, and real estate/infrastructure development. The Board establishes policy and provides oversight to MTA and each of the operating agencies through the Governance Committees. The Board also oversees matters related to finance, audit, safety, diversity, corporate governance, and capital construction. The Board meets eleven times a year. The meetings are open to the general public with live broadcast, which are recorded and posted to MTA website.

Management Team

MTA’s management team is led by the Chairman and CEO, currently Mr. Thomas F. Prendergast. Mr. Prendergast has 39 years of experience in public transit and related experience. Prior his role as the head of MTA, Mr. Prendergast was the CEO of TransLink, the public transportation system in Vancouver, B.C. He held various positions in the transportation sector including the Chicago Transit Authority, Department of Transportation in Washington D.C. and the New York City Transit and Long Island Rail Road. His appointment as the CEO of MTA began on June 20, 2013 and will expire on June 30, 2015. The Governor recently recommended the reappointment of Mr. Prendergast as the CEO of MTA. Formal approval is still required by the State Senate. MTA Management Team consists of eleven senior members in addition to the CEO. Each of the six MTA Agencies is led by an Agency President. The Agency Presidents are responsible for day-to-day activities of their respective agencies and collectively achieve goals set by the CEO.

As previously noted, MTA has had several safety-related incidents over the last few years that were attributed to various factors, including an emphasis on reducing train delays and system capacity constraints that pushed forth the need for improved coordination and oversight of safety-related issues. MTA responded to these issues with the creation of a Chief Safety Officer position at MTA Headquarters and the formation of a Safety Committee within MTA Board to oversee and coordinate safety policies, which KBRA views as a positive factor. There is also an increase in safety-related spending in the 2015-2019 Capital Program.

KBRA views that MTA has demonstrated strong control over operations through risk management, needs assessment and planning, and fiscal management. In addition, MTA has exhibited the ability to recover from severe external threats, such as terrorist attacks and weather events. For example, its recovery from Superstorm Sandy was reflective of its emergency preparedness protocols. Prior to the arrival of the storm, management moved trains and buses to safe areas in the system and
tunnels and bridges were closed. This allowed the system to get close to full capacity where power was restored within 48 hours of the storm subsiding.

Financial Management Policies
MTA is required to prepare multi-year financial plans which reflect the current fiscal year budget and forecasts for the next succeeding three fiscal years. MTA is also required to adopt a balanced budget and to report on its financial progress four times during the year. MTA’s fiscal year begins on January 1 and ends on December 31. Its operating budget must be balanced on a budgetary basis, at year end. Each of MTA Agencies is responsible for preparing its own four-year projections.

The consolidated MTA Financial Plan is published and updated in February, July, November and December of each year. The February Plan includes the adopted budget and the respective allocation of the budget for each month. This becomes the basis against which monthly financial performance is compared. The July and November Plan include updated actual results against budget, a re-forecasting of the current and out-years based on new information, and any proposed revisions to the Financial Plan that may be required to maintain the budget in balance. The July Plan includes a preliminary presentation of the budget for the following year. The November Plan also includes a proposed budget for the upcoming fiscal year, which is updated in December and presented to MTA Board for review and approval. Between the December Plan and the actual adoption of the budget, MTA holds budget hearings with the public. As part of the budget process, MTA is required to present the public with different fare increase scenarios and seek feedback on the proposed increases. All the budget and finance-related information is readily available to the public on MTA website.

Rate Setting
MTA sets rates of fares charged to users of the subway, buses, and Transit System. Each system determines the fare levels necessary to cover debt service and operating expenses net of projected governmental subsidies and tax revenues. While the autonomy to set rate is a positive credit factor, on average approximately 40% of MTA’s revenue comes from governmental subsidies and tax revenues. Therefore, MTA’s overall financial condition still hinges on the financial condition of the Federal, State and Local governments that provide subsidies through appropriations, tax revenues, and grants.

MTA has covenanted to impose fares and other charges such that operating revenues, together with other available resources, are sufficient to cover debt service as well as operating and maintenance expenses of the system. MTA’s comprehensive forecasting and needs assessments are important components of the rate setting process, as is regular communication with the various government entities in the Transportation District and the State. MTA has a strong track record of balancing available resources to minimize necessary fare increases and maintain the affordability of services.

Long Term Capital Policies
Given the capital intensive nature of its system, capital planning occurs on a regular basis. A six-member committee is responsible for the oversight of various actions and activities relating to the capital programs. Under the MTA Act, MTA is required to prepare a Twenty-Year Capital Needs Assessment that is updated every five years. The Needs Assessment identifies projects to address current trends and support future growth, which includes programs to rebuild and replace existing capital infrastructures as well as ways to enhance and expand the system network.
The Needs Assessment forms the basis for MTA’s five-year capital program which must be prepared and submitted to the Capital Program Review Board (CPRB), a State-level review board, by October 1 of each year. The CPRB has four voting members representing the Governor, State Senate, State Assembly, and the New York City Mayor. The Capital Programs associated with the Transit and Commuter systems require approval by the CPRB. The Capital Program for the TBTA does not require CPRB approval. MTA capital program committee maintains frequent communication with the CPRB and the State officials responsible for defining priorities within various capital plans. MTA has consistently submitted its capital plan on time.

**Debt Management and Investment Policies**

In KBRA’s view, MTA continues to manage its debt portfolio in a way that minimizes liquidity risks and keeps costs of financing low. MTA has a comprehensive Debt Management Policy to govern various aspects in new money and refunding bond issuance, variable rate debt and derivative exposures, and investment management.

Bonds can only be issued for projects approved by the CPRB as part of the Capital Program. New money issuances usually have leveled amortization schedules over 30-years while refunding bonds are required to achieve an overall net present value (NPV) savings of 3%. Unhedged exposure to variable rate debt is limited to 25% of aggregated principal. Currently, approximately 8% of MTA’s aggregated principal outstanding is comprised of unhedged variable rate debt. MTA and TBTA Swap Guidelines established threshold credit quality requirements for counterparties and limit gross negative mark-to-market (MTM) exposures to swaps at 2%, at issuance.

The Treasury Division of MTA is in charge of the execution and management of all operating and capital program investment activities of the Related Entities. MTA’s investment principals are to safeguard its investment principal, meet expected cash flow requirements, and maximize yield. As of December 31, 2013 MTA invested $1.6 billion of non-capital funds and $1.4 billion of operating and working capital of the Related Entities in various securities including certificates of deposit, U.S. Treasury obligations, and commercial paper.

**Insurance**

MTA Department of Risk and Insurance Management (MTA RIM) administers the insurance programs for MTA and its subsidiaries and affiliates. MTA employs Marsh, USA as the master insurance broker and Marsh Management Services, Inc. as the captive manager for the First Mutual Transportation Assurance Company (FMTAC). FMTAC provides coverage for general liability, auto liability, protective liability, owner controlled insurance, stations and force liability, property and terrorism, excess loss, and builder’s risk. FMTAC is a wholly owned subsidiary of MTA and is a pure captive insurance company. FMTAC is regulated under the State’s Financial Services Department.

The U.S. government’s reinsurance of FMTAC’s direct coverage of MTA for losses due to terrorism acts expired on December 21, 2014 when Congress did not reauthorize the Terrorism Risk Insurance Program Reauthorization Act of 2007. FMTAC secured stand-alone coverage during the interim period between January 1, 2015 and January 7, 2015, when the Federal Terrorism Insurance Program was extended for six years. Also, MTA has hedged against future storm surges through the issuance of a $125 million catastrophe bond through its reinsurance broker that could cover some costs from a rainstorm or hurricane. Under this arrangement, MTA would recoup the outstanding principal from the bonds in the event a named storm generates a storm surge of at least 8.5 feet in the Battery, Sandy Hook, or Rockaway Inlet or a 15.5 foot surge in the tidal gauge in the East Creek and Kings Point.
As of December 2014, MTA maintained 9 major insurance programs for its subsidiaries and affiliates.

**New York State and MTA**

The State and MTA have ongoing discussions about ways to improve the transit system. On May 7, 2014, Governor Cuomo recommended the formation of a Transportation Reinvention Commission to examine MTA’s existing network and to develop a plan to meet the system’s future needs and expectations. The Commission is made up of 24 members, who are international transportation experts selected by MTA and appointed by Governor Cuomo. The Governor’s current focus is on challenges the System may face due to dramatic climate changes and shifts in population and demographics, key factors that will affect future ridership. In November, the Commission released MTA Reinvention Report. The report identifies the key challenges facing the region and outlines a strategic vision for MTA. The report also provides various recommendations to MTA for consideration.

As previously noted, the State and MTA work closely on capital programs and planning. They also work closely on funding related issues. Historically, the State has responded to MTA’s financial needs fairly quickly to ensure the System’s operation and maintenance of fares at affordable levels. This is evidenced by the State’s implementation of the Payroll Mobility Tax (PMT) and MTA Aid in 2009, to offset the declines in the real-estate based taxes that support MTA operations. This had the effect of supplementing operating revenue and providing a more stable revenue stream to support the operation going forward. Had the State not reacted quickly to address the revenue shortfalls, MTA would have had to offset the loss in non-operating revenues with a combination of fare increases and service reductions.

![Historic Special Tax-Supported Operating Subsidies and New State Taxes to the MTA](image-url)
Government Assistance and Service Reimbursements

MTA also has a close working and funding relationship with New York City and each of the jurisdictions within MTA Commuter Transportation District (MCTD). MTA is responsible for the maintenance of commuter stations located in each respective jurisdiction. Each of the jurisdictions reimburses MTA for the cost of operating and maintaining the stations. MTA receives matching subsidies for transit services from the State and the City. It also receives subsidies for commuter services from the State and the City and the seven counties within the MCTD subsidies that match the amount from the State. The Connecticut Department of Transportation (CDOT) pays MTA for its share of Metro-North Railroad operating deficit relating to the New Haven Line.

In addition to funding, New York City also provides public safety service to the Transit System in the form of policing of subway stations and contributions to support MTA New York City Transit’s paratransit, senior citizen and school children reduced-fare programs.

As mentioned earlier, due to a significant amount of MTA’s funding comes from various local government subsidies, therefore MTA’s overall financial condition can be affected by the financial condition the State and local governments that provide subsidies through appropriations, tax revenues and grants.

Bankruptcy Assessment

Under Section 1269, subsection 9 of the MTA Act (New York State Public Authorities Act) MTA does not have the ability to file for bankruptcy protection under Chapter 9 of the federal bankruptcy code, nor can it be forced into bankruptcy. Section 1271 of the MTA Act further states that New York State cannot alter the rights and remedies of bondholders in a way that would impair such holders with respect to MTA filing a Chapter 9 bankruptcy.

Based on the foregoing, KBRA views MTA’s regulatory/management framework as being consistent with a AA+ rating. This rating reflects strong governance and detailed operating policies which define management of the operating budget, capital planning and debt. MTA has autonomy over setting fares and tolls for its services and has historically balanced its operating budget to minimize necessary rate increases. There is considerable depth in MTA management’s expertise as reflected in its ability to manage an extremely large and complex system and capital program over changing economic cycles and through recent external weather and terrorist events.

Rating Determinant 4: Financial Profile

KBRA views MTA’s track record of managing financial operations, capital planning and debt as positive. Financial operations are narrowly balanced, but MTA has consistently managed to generate modest net cash balances at year end. The operating budget reflects the public purpose nature of the services provided and the need to balance limited resources against a labor and capital intensive operation. Operating revenues include farebox revenues from the Transit, Commuter and Bus systems as well as surplus revenues from the TBTA. Non-operating revenues primarily reflect State and Local operating subsidies and specific dedicated taxes. The combination of revenues gives MTA flexibility to adjust fares and expenses in a manner that maintains affordability, without significantly impacting operations and payment of debt service coverage. The level and diversity in non-operating revenues also provide some protection during periods of service disruptions and/or delayed government appropriations. MTA has historically acted in a timely manner to raise fares, seek additional resources and reduce operating expenses in order to maintain structural balance in its operating fund, as required by its governing statutes. Its focus on generating recurring savings in the operating budget has also enabled it to reduce the rate of
recent fare increases. The settlement of major labor contracts, although not as favorable as MTA had originally assumed, should help to moderate increases in labor-related expenses over time.

MTA has $34.9 billion in debt outstanding as of April 2015 through four distinct credits. Approximately 60% of this is through the TRB Resolution. Outstanding debt is largely fixed rate, with unhedged variable rate debt equal to 9% of the portfolio and synthetic fixed rate debt at 7%. MTA has well-defined policies governing the issuance of variable rate and synthetic products. It is expected that debt levels will continue to increase as MTA funds ongoing capital requirements to maintain and expand the network.

The 2015-2019 Capital Program, which has not yet been approved, assumes approximately $7.0 billion in additional debt or pay-go funding from MTA. There is a $15.2 billion funding gap in the current proposal, which will require MTA to secure additional funding commitments from the government entities that benefit from its services or scale back planned capital projects. To the extent that additional MTA debt or pay-go funding is required to support the 2015-2019 Capital Program, there could be additional pressure on MTA to raise rates or reduce services. MTA Financial Plan forecasts debt service will increase from 16% of budget to 19% of budget by 2018. The forecast shows that an increasing portion of debt service will come from fares and tolls. The Financial Plan assumes two 4% nominal fare/toll increases over the period of the Financial Plan. The Financial Plan remains balanced through 2017. There is a modest deficit forecast for 2018, which KBRA believes is manageable. Fixed costs associated with debt service, pension and current OPEB payments represent almost 30% of the operating budget. Although this is high, it is not unusual given the labor and capital intensive nature of the transit system.

Debt service coverage on the TRBs remains strong at 9.4x on a gross basis. Coverage net of operating expenses has been 1.14x. Although coverage is expected to decline slightly over the forecast period, both gross and net coverage remain adequate. KBRA notes that coverage from non-operating revenues provided 4.8x coverage of TRB debt service, protecting bondholders during periods of temporary disruption in services.

Operating Revenues
Operating revenues represented just over 56% of total revenues in 2014. Operating revenues include farebox revenues from the New York City Transit, Commuter and Bus systems, toll revenues from the TBTA and other income from advertising, concessions and interest. Operating revenues have shown consistent year-on-year growth over the last decade. Farebox revenues account for the bulk of operating revenues, or approximately 71%. They have increased at an average rate of 5.2% per year since 2004, reflecting both fare increases and increases in ridership. The Transit system is the largest component of farebox revenues, accounting for 73% of the total in 2014. The Commuter system accounted for 23% of farebox revenues in 2014, and MTA Bus and Staten Island Railway accounted for almost 4%. Each component of farebox revenues has shown consistent growth. Consolidated farebox operating recovery ratios consistently exceed 50%. NYC Transit and Metro North have the highest recovery ratios at 58.2% and 56.1%, respectively for 2014. The Staten Island Railway has the lowest recovery ratio at 16.8%.
Farebox Revenues

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<tr>
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<td>58.2%</td>
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<td>56.1%</td>
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<td>34.4%</td>
<td>32.2%</td>
<td>34.0%</td>
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Source: MTA February Plan

Toll revenues from the TBTA contributed 21% of operating revenues and 12% of total revenues in 2014. This revenue stream has increased at an average rate of 12% per year since 2009. Income from advertising, concessions, rent and other miscellaneous sources remains relatively small at approximately 8% of operating revenues.

Non-operating Revenues

MTA receives a variety of State and Local operating subsidies and dedicated taxes to support operations. These revenues represented 44% of total revenues in 2014. They are divided between State and Local operating subsidies, which account for 8% of total revenues and Dedicated Taxes, which account for 36% of total revenues. State and local operating subsidies are subject to appropriation from the respective government entity and may fluctuate during periods of financial stress. Similarly, the dedicated tax revenue streams are economically sensitive and will exhibit volatility during periods of economic stress, as evidenced over the last financial crisis. Dedicated tax revenues include a variety of petroleum, motor vehicle, business and payroll taxes as well as the real-estate transaction taxes.

State and Local General Operating Subsidies include payments pursuant to the Section 18-b Program and local subsidies for station maintenance and service reimbursements (including the NYC subsidy for MTA bus and Staten Island Railway and MNR subsidy from Connecticut DOT). The Section 18-b Program is a statewide program that provides operating assistance for mass transit. Subsidies are not allocated on a formula basis. They are subject to specific appropriation by the State Legislature on an annual basis, with disbursements made to MTA on a quarterly basis. New York City and the counties served by the Commuter system are required to provide matching payments. Aggregate State and Local operating subsidies represented approximately 17% of non-operating revenues, on an accrual basis, in fiscal year 2014. Although Section 18-b subsidies have been essentially flat, local subsidies and reimbursements have grown at a rate generally commensurate with overall operating expenses.

Dedicated taxes represented 83% of non-operating revenues. The Payroll Mobility Tax and the Metropolitan Mass Transit Operating Assistance Funds (MMTOA), which consists of a variety of sale and business taxes levied in the Transportation District, each account for 25% of non-operating revenues. As previously noted, the Payroll Mobility Tax was enacted by the State in 2009 to provide additional funding support for MTA following declines in other dedicated taxes during the Global Financial Crisis of 2008. Several challenges were brought against the payroll tax, but these have since been resolved. MTA has noted that it may choose to leverage the PMT as a separate credit source. KBRA would expect that this would provide a relative offset to debt issued under the TRB. Mortgage recording taxes contribute an additional 6% to non-operating revenues, and the
excess petroleum-based and other taxes used to support MTA’s Dedicated Tax Revenue Bonds contribute an additional 4%.

Overall non-operating revenues have increased consistently since 2004, reflecting underlying growth in economic activity supporting tax revenues and additional funding support provided by State and local governments within the Transportation District. There is adequate diversity in the sources of revenue, which helps to provide stability in the overall revenue stream.

**2014 Revenues Final Estimate ($ Millions)**

**Expenses**

MTA’s operating budget for FY 2014 was $13.9 billion, including debt service. The major components of the budget are labor-related expenses and debt service, which represented 61% and 16% of the 2014 operating budget, respectively. Labor expenses include costs related to standard payroll, overtime, pensions and benefits. Total labor costs have risen at an average rate of 4.3% per year since 2008. During the Global Financial Crisis of 2008, growth in payroll was relatively flat, reflecting MTA’s actions to freeze wages following revenue losses during that period. MTA’s workforce was essentially flat for the period from 2009 through 2012. Since that time, however, payroll has increased almost 12% and the headcount has increased from 65,955 in 2012 to 67,447 in 2014. Annual payroll, which accounts for 55% of labor costs, has increased at a moderate rate of 2.4% per year. Costs relating to overtime expenses are identified separately. These costs have fluctuated from year to year, reflecting differences in weather conditions, absenteeism and sick time. They represented 8.6% of labor costs in 2014, but have increased at a much faster rate than other expenses averaging 8.3% per year since 2008. MTA continues its efforts to reduce overtime costs by improving controllable overtime cost that result from vacancies, absenteeism, and unscheduled service requirements.
Pension expense represents 16% of labor costs and has increased at an average rate of 7.5% per year since 2008. The current portion of OPEB payments and other health, welfare and fringe benefit expenses represent 25% of labor costs. KBRA considers the rate of growth in both areas to be high. MTA expects the rate of growth in these costs to moderate as a result of recently approved labor contracts which establish new, less expensive pension tiers for new employees of the New York City Employee’s Retirement System (NYCERS) and the New York State and Local Employee’s Retirement System (NYSLERS). KBRA notes that MTA consistently makes its actuarially required pension payments and the current portion of its OPEB payment.

Non-labor operating expenses represented 22% of the operating budget and have grown at a relatively moderate rate of 3.3% per year since 2008. Non labor expenses include electric power and fuel purchases, insurance costs and expenses associated with paratransit services, supplies, materials, maintenance and other operating contracts. MTA hedges a portion of their fuel costs through a detailed and well-managed hedging program designed to minimize the effect of volatile fuel prices on its budget.

Debt service represented 16% of the operating budget in 2014, and has been relatively consistent since 2008. As part of the Financial Plan, MTA prepares an annual Debt Affordability Statement which illustrates the effect of current and forecast borrowing on the operating budget and on fares/tolls. The February Financial Plan shows that annual debt service expense is forecast to increase from 28% of fares/tolls to 34% by 2018. Similarly, annual debt service is expected to increase from 16% of operating revenues to 19% in 2018.

Fixed costs associated with debt service, pension and current OPEB payments represent almost 30% of the operating budget. KBRA views this level as high and reflective of the labor and capital intensive nature of a transit system.

**Operating Performance**

Financial operations have been consistently well managed, although narrowly balanced on an annual basis. MTA is required, by law, to have a balanced budget at year end. Operating expenses have increased at a level generally commensurate with total revenues, and MTA has demonstrated an ability and willingness to raise fares/toll or reduce expenditures, as necessary to maintain balance. The combination of operating and non-operating revenues gives MTA flexibility to adjust
fares and expenses in a manner that maintains affordability, without significantly impacting operations and payment of debt service coverage. Fares/tolls have been managed to produce a farebox recovery ratio of at least 40%. To manage expenditure growth, MTA set a target in 2010 for recurring savings of $1.3 billion in the operating budget by 2017. Annually recurring savings reached $1.1 billion in 2014, and these savings were a factor in MTA’s ability to reduce the current fare/toll increase from 7.5% to 4.0%. As part of the 2015-2018 Financial Plan, MTA increased the target to $1.6 billion by 2018. To help reach those targets, MTA has assigned targets of $40 million to each of its agencies. Net of these required targets, MTA must still identify savings of $16 million in 2015, $102 million in 2016 and $131 million in 2017 and $168 million in 2018.

### Consolidated Statement of Operations

<table>
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<tr>
<th>Budgetary Basis ($millions)</th>
<th>2014 (Final Est.)</th>
<th>% Chg 2013</th>
<th>% Chg 2012</th>
<th>% Chg 2011</th>
<th>% Chg 2010</th>
<th>% Chg 2009</th>
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<tbody>
<tr>
<td>Farebox Revenues</td>
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<td>4,886</td>
<td>4,350</td>
</tr>
<tr>
<td>Toll Revenues</td>
<td>1,669</td>
<td>1,545</td>
<td>1,491</td>
<td>1,502</td>
<td>1,477</td>
<td>1,332</td>
</tr>
<tr>
<td>Other Revenues</td>
<td>674</td>
<td>754</td>
<td>564</td>
<td>510</td>
<td>491</td>
<td>461</td>
</tr>
<tr>
<td><strong>Total Operating Revenues</strong></td>
<td><strong>8,045</strong></td>
<td><strong>7,906</strong></td>
<td><strong>7,134</strong></td>
<td><strong>7,011</strong></td>
<td><strong>6,949</strong></td>
<td><strong>6,143</strong></td>
</tr>
<tr>
<td>Dedicated Taxes and State/Local Subsidies</td>
<td>6,229</td>
<td>5,898</td>
<td>5,492</td>
<td>5,151</td>
<td>4,914</td>
<td>4,137</td>
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<tr>
<td><strong>Total Revenues</strong></td>
<td><strong>14,274</strong></td>
<td><strong>13,804</strong></td>
<td><strong>12,626</strong></td>
<td><strong>12,162</strong></td>
<td><strong>11,408</strong></td>
<td><strong>10,280</strong></td>
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<tr>
<td>Labor</td>
<td>8,545</td>
<td>7,997</td>
<td>7,663</td>
<td>7,235</td>
<td>6,933</td>
<td>6,914</td>
</tr>
<tr>
<td>Non-Labor</td>
<td>3,094</td>
<td>2,894</td>
<td>2,530</td>
<td>2,704</td>
<td>2,636</td>
<td>2,612</td>
</tr>
<tr>
<td>Other</td>
<td>46</td>
<td>46</td>
<td>53</td>
<td>(2)</td>
<td>(18)</td>
<td>(15)</td>
</tr>
<tr>
<td><strong>Total Operating Expenses</strong></td>
<td><strong>11,685</strong></td>
<td><strong>10,937</strong></td>
<td><strong>10,256</strong></td>
<td><strong>9,937</strong></td>
<td><strong>9,551</strong></td>
<td><strong>9,511</strong></td>
</tr>
<tr>
<td>Debt Service</td>
<td>2,264</td>
<td>2,299</td>
<td>2,058</td>
<td>1,934</td>
<td>1,781</td>
<td>1,404</td>
</tr>
<tr>
<td><strong>Total Operating Expenses + D/S</strong></td>
<td><strong>13,949</strong></td>
<td><strong>13,236</strong></td>
<td><strong>12,314</strong></td>
<td><strong>11,871</strong></td>
<td><strong>11,332</strong></td>
<td><strong>10,915</strong></td>
</tr>
<tr>
<td>Net Surplus (Deficit)</td>
<td>325</td>
<td>568</td>
<td>312</td>
<td>291</td>
<td>76</td>
<td>(3,718)</td>
</tr>
<tr>
<td>Adjustments/ Carryover</td>
<td>314</td>
<td>229</td>
<td>297</td>
<td>160</td>
<td>130</td>
<td>263</td>
</tr>
<tr>
<td><strong>Net Cash Balance</strong></td>
<td><strong>158</strong></td>
<td><strong>314</strong></td>
<td><strong>229</strong></td>
<td><strong>297</strong></td>
<td><strong>160</strong></td>
<td><strong>130</strong></td>
</tr>
</tbody>
</table>

(Source: February Financial Plan (Historic)

### Reserves and Liquidity

MTA’s December 31, 2013 audit shows consolidated unrestricted cash and investments of $3.35 billion, or 105 days cash on hand, which KBRA considers adequate. This is an increase from prior periods. In accordance with Board approved policy, MTA maintains a General Reserve equal to 1% of operating expenses to manage unexpected costs during the year. The General Reserve is budgeted at $140 million for 2015. MTA drew down the General Reserve to fund Superstorm Sandy-related expenses in 2012 and 2013 and again in 2014 to reduce the unfunded pension liabilities under the LIRR Additional Pension Plan. The additional funding for LIRR pension is expected to result in reduced annual pension expense of approximately $9 million over time.

MTA also has a $350 million liquidity facility with Royal Bank of Canada, which is available to fund operating needs. This facility is scheduled to expire in June 2017. To fund Superstorm Sandy-related projects in advance of insurance and FEMA receipts, MTA also obtained approximately $1.0 billion of capacity under various credit facilities. It drew down less than half of the available capacity and has since paid off all facilities. MTA has established strong and consistent access to the capital markets for short-term funding requirements as evidenced through several recent natural disasters and terrorist-related events. KBRA believes that this market access and the likely financial support it would receive from State and local government resources provide strong protections against short-term liquidity events.

### MTA 2015 Budget and February Financial Plan 2015-2018

changes to the November Plan. The February Plan is balanced through fiscal year 2017, with a modest cash deficit of $305 million forecast for 2018, respectively. The Plan assumes use of prior-year cash balances in each of the years 2015 through 2017. MTA has historically managed to close deficits forecast in prior years, reflecting their ability and willingness to raise fares/toll and seek cuts in expenditures to the extent necessary to keep the budget in balance.

Overall growth in revenues is expected to average 2.2% per year through the period of the Financial Plan. This reflects modest growth in both operating and non-operating revenues averaging 1.9% and 2.6% per year through 2018. The Plan reflects implementation of a 4% fare/toll increase in March 2015 that will contribute an estimated $260 million to operating revenues on an annualized basis. This reflects a net yield of 3.6%. The implementation of the 2015 fare increase was delayed from March 1st to March 22nd due to technical issues implementing the fare increase, which resulted in a reduction of $14 million in 2015 revenue. The annualized increase in revenues is $12 million greater than assumed in the November Plan. KBRA notes that the required fare/toll increase is significantly lower than the 7.5% increase assumed in the November 2013 Plan. This reflects underlying improvement in the economy as well as MTA’s ability to generate recurring savings in the operating budget.

Operating expenses are forecast to grow an average of 3.0% per year, which is lower than growth in recent years. This reflects significant increases in health and benefit costs, which are somewhat offset by a lower rate of growth in payroll, declines in overtime costs, and modest growth in pension contributions. The overall increase in labor costs averages 2.5% per year over the Plan. The increase in non-labor costs averages 3.4% per year. Debt service is forecast to increase from $2.4 billion in 2015 to $2.9 billion in 2018, an average rate of growth equal to 6.7% per year, a higher rate of growth than prior plans.

In response to several rail incidents that have occurred over the last two years, the Plan includes safety-related investments of $442 million over the Plan period. MTA has taken a variety of steps to improve system safety including the creation a Chief Safety Officer function and a Safety Committee at MTA Board level to review and coordinate safety practices and procedures. A Blue Ribbon Panel was also formed to review MTA’s safety culture and practices and make recommendations for further improvements. The Financial Plan includes investments in training, safety programs and technology and provides funding to support implementation of Positive Train Control.

Service adjustments, including new and/or restored service on certain lines totals $172 million over the Plan. Funding for operational and maintenance improvements total $133 million, reflecting investment in its fleet of older buses and railcars, as well as track maintenance and increases in employee training. Combined investment in information technology systems that will be used to support operations and asset management will total $143 million.

The Financial Plan includes $290 million in annual pay-go capital for the 2015-2019 Capital Program. The pay-go spending provides a level of flexibility to balance operations if savings from other areas are not realized or if revenues fall short of expectations over time.

The February Plan continues MTA’s strategy of seeking annually recurring savings to offset necessary fare/toll increases. The February Plan raises the annual target to $1.6 billion in 2018. A portion of the annual targets have been assigned $40 million to each Agency, and the balance remains unidentified. MTA’s ability to meet these targets is an important component of the Financial Plan, and the failure of MTA to meet specified targets would further restrict operating flexibility.
Labor Update
In 2014, MTA reached agreement on new labor contracts with almost all of its labor unions. The terms of the agreements are generally similar, requiring larger than anticipated wage increase in the early years, somewhat offset by increases in employee age for reaching top salaries and increases contributions for health insurance and pension. MTA had assumed a net zero wage growth followed by annual increases at the projected rate of inflation, so funding of these settlements will require MTA to divert funds originally targeted for OPB and other long-term liabilities. MTA estimates that the labor settlements will have a cost of $1.5 billion over the period from 2014 through 2018. To offset these costs, MTA drew down $254 million of the OPEB Trust reserves, suspended approximately $120 million in planned annual OPEB contribution through 2017, eliminated approximately $25 million in planned supplemental pension contributions, and reduced pay-go capital spending by $80 per year. (The OPEB Trust, which funds health care benefits for future retirees, still contains $300 million, and MTA expects that contributions will resume in 2018.) The current labor agreements begin to expire in 2016, which will require MTA to negotiate comparable agreements going forward in order to remain within the budget expectation of the Financial Plan.

Pensions
Employees of MTA LIRR, MTA MaBSTOA and Metro-North participate in single-employer defined benefit plans. All employees of TBTA and most employees of NYCT are members of NYCERS, and certain employees of MTA Headquarters and MTA Capital Construction Company are members of (NYSLRS), both of which are cost-sharing multi-employer retirement plan managed by the City and State, respectively. MTA continues to make its annually required pension contribution to each of these plans. The funding level for Metro-North plan is over 100%, and the funding ratio for MaBSTOA is 65.3%. The funding ratio for the LIRR plan, which is now closed, is the lowest of all the funds at 24.1%. MTA has continued to make annual and supplemental contributions to this Plan to increase the funding ratio. Pension contributions, which represented 9% of operating expenses in 2014, had been growing rapidly since 2000. Better-than-expected investments returns over recent years should help to moderate growth in pension costs over the near term.

Capital Program
On September 24, 2014, MTA Board authorized submission of its 2015-2019 Capital Program proposed $32.0 billion Transit and Commuter Capital Program. This is up over 30% from the approved 2010-2014 Capital Program. The 2015-2019 Capital Program focuses on renewing and replacing existing stations and fleets, enhancing customer experience by installing real time information boards and a new fare payment system, and expanding the current system network by continuing on projects related to the East Side Access, Second Avenue Subway, and Penn Access. The 2015-2019 Capital Program also includes $3.1 billion in capital projects for the TBTA, which is not subject to review and approval by the Capital Review Board.

System safety, resiliency, and reliability are the priorities of MTA as they made up almost 70% or $22.2 billion of the $32.1 billion overall Capital Program. Customer experience, service/system improvements, and network expansion represented roughly 30% or $9.8 billion of the proposed Capital Program.

Funding for the Transit and Commuter Capital Program is expected to come from a variety of Federal, State and local sources as well as MTA pay-go capital and proceeds from new bond issuance. A funding gap of $15.2 billion is projected in the Transit and Commuter Capital Program, which MTA will have to address either through reductions to proposed projects or increased funding sources, including additional debt. MTA debt and pay-go funding (including TBTA) is expected to
represent approximately 22% of total requirements, or $7.0 billion. MTA’s share of funding for the 2010-2014 Capital Program was 42%, or $10.0 billion.

In October 2014, the Capital Review Board rejected the Transit and Commuter Capital Program. While there is no statutory deadline to approve the Capital Program, discussions between MTA and the Review Board regarding the funding matter are ongoing, and MTA will continue to work with its funding partners to close the funding gap through a combination of alternative public and private funding sources and/or the use of public private partnership to fund new projects. TBTA’s portion of the Capital Program will be funded through with pay-go capital and the proceeds from new bond issues.

As previously noted, the MTA Transportation Reinvention Commission’s report also proposes a variety of strategies for addressing longer-term challenges. The MTA Transportation Reinvention Commission is a 24-member group formed by Governor Cuomo in 2014 to consider the challenges of climate change, growth and changing demographics facing MTA and how MTA can become a more resilient system. Its report was released on November 25, 2014.

Since the Board has not approved the proposed 2015-2019 Capital Program, no funding for the projects in that Program can occur. However, MTA continues to manage the projects associated with the 2010-2014 Capital Program, for which expenditures occur over a multi-year timeframe. Delays in adopting the 2015-2019 Capital Program are not expected to have a material impact on the long-term capital program.

Debt

MTA has issued debt for approved capital projects under four separate credits, i) the Transportation Revenue Bonds (TRB), ii) the Dedicated Tax Fund Bonds (DTF), iii) the Triborough Bridge and Tunnel Authority (TBTA) Senior Resolution Bonds and iv) the TBTA Subordinate Resolutions Bonds. Approximately 60% of the outstanding bonds are supported by the TRB credit, 14% by the DTF credit and 25% is related to the TBTA. MTA has also issued State Contract Bonds, which are supported by State annual appropriations and are not a direct debt of MTA, and Certificates of Participation, which are secured by lease payments for its headquarters building. Together, these represent less than 1% of the total bonds outstanding. Typically, the State Legislature imposes a cap on the amount of debt issued for MTA’s five-year capital plans. The current cap is $41.9 billion. The amount of debt subject to this cap is $31.7 billion.

As of April 2015, MTA had $34.9 billion in debt outstanding. This is an increase of almost 80% over the last ten years and reflects MTA’s significant capital investment in the system during this period. Outstanding debt is largely fixed rate, with unhedged variable rate debt equal to 9% of the portfolio and synthetic fixed rate debt at only 7%. MTA has well defined policies governing the issuance of variable rate and synthetic products. MTA’s aggregated mark-to-market on approximately $2.5 billion in notional debt outstanding, was negative $591.3 million as of March 31, 2015.

Since 2004, MTA has invested almost $48 billion in its network of transit facilities. An increasing portion of these investments are being made to fund normal replacement and network expansion, relative to investments made in the 1980’s and 1990’s which were necessary to bring the system into a state of good repair. The 2015-2019 Capital Program, although not yet approved, includes almost $7 billion in debt financing. Although some of the new debt will be offset with amortization of existing debt, overall debt levels are expected to increase over the period of the Financial Plan.
Debt service associated with outstanding debt represents 16% of the operating budget, a slight increase from 2008. The February Financial Plan shows debt service will rise to 18% of the operating budget, offset by slower relative growth in forecast labor costs.

TRB Debt Service Coverage

Revenues pledged under the TRB Resolution include i) fares and other operating revenues from the New York City Transit, MTA Commuter and MTA Bus system, ii) surplus operating revenue from MTA Bridges and Tunnels (TBTA), iii) various State and Local government subsidies and iv) certain dedicated tax revenues. The sources of revenues are the same as those for MTA’s operating budget, although the cash flow will differ since portions of the Dedicated Taxes and the TBTA operating revenues are used first to support debt service on MTA Dedicated Tax bonds and the TBTA Senior and Subordinated lien resolutions.

The TRB Resolution provides that bondholders will be paid from pledged revenues, prior to the payment of operating or other expenses of MTA, New York City Transit (NYCT), Metro-North Railroad (MNR), Long Island Rail Road (LIRR), and MTA Bus. The TRB Resolution requires MTA to transfer all pledged revenues, upon receipt, to the Trustee for deposit into the Revenue Fund. KBRA views the monthly deposits of pledged revenues with the Trustee, prior to payment of operating expenses, to be a strong security feature of the TRB Resolution.

Pursuant to its authorizing statutes, the TBTA is required to transfer its entire operating surplus (toll revenues net of TBTA operating expenses, other deductions and debt service for TBTA bonds) to MTA to support operating and capital costs of transit and commuter facilities. In the last 10 years, the amount of TBTA surplus funds transferred annually has been in the range of $248.2 million (2002) to $527.7 million (2011). These transfers represent a significant source of funding for New York City Transit and commuter operations and capital expenditures. The use of TBTA surpluses to subsidize transit and commuter operations has been an integral part of MTA structure since 1968 and represents a public policy decision by the NYS Legislature on funding mass transit. As such, the Board has maintained toll rates at levels sufficient to provide meaningful levels of surplus to MTA, after provision for TBTA operating and debt service expenses and required reserve deposits. KBRA views these transfers as a net benefit to the system, enabling MTA to optimize the use of available revenues for system-wide purposes.
Pledged revenues provided 9.4x coverage of annual debt service on TRB in 2014 on a gross basis. Coverage from non-operating revenues alone provided 4.9x coverage and protects bondholders during periods of service disruptions. Coverage of annual debt service net of operating expenses is 1.14x. Although debt service coverage levels are expected to decline over the period of the Financial Plan, gross coverage is expected to remain above 8.0x, while net coverage is expected to remain over 1.0x, consistent with the requirements of the governing statutes and the TRB Resolution.

Based on the foregoing, KBRA views the Financial Profile of MTA as consistent with a AA rating. This rating reflects consistent management of the operating budget to maintain structural balance, overall revenue growth, adequate liquidity and strong coverage of debt service from pledged revenues.

**Rating Determinant 5: Security Provisions**

KBRA views the New York State statutes, the MTA Act and the TRB financing documents as providing a clear legal framework that supports the TRB bonds. The TRB Resolution specifically identifies the sources of pledged revenues and the priority for use of these revenues. It also defines the requirements of MTA with respect to rate setting, operations and maintenance of the system, and issuance of additional parity bonds. Bondholder protections are further supported by provisions in MTA governing statutes which, among other things, require MTA to maintain a balanced operating budget and set rates at a level sufficient to provide coverage of all operating and debt service expenses and necessary reserve requirements. The statutes also include a non-impairment provision and prohibition on MTA and its Related Entities from seeking or being forced into bankruptcy.

**Flow of Funds**

Pursuant to the TRB Resolution, MTA is required to transfer all pledged revenues, upon receipt, to the Trustee for deposit into the Revenue Fund. The Trustee is required to make deposits into the debt service accounts equal to the amount of debt service that will accrue on outstanding TRB parity obligations through the end of the current calendar month. Excess revenues are released to MTA upon satisfaction of the monthly debt service requirements. This ensures that debt service on
TRB obligations are satisfied prior to payment of system operating expenses. The flow of funds also reduces the magnitude of any shortfalls in the debt service accounts that occur from revenue deficiencies later in the revenue period. KBRA views the monthly deposits to debt service accounts held with the Trustee as a positive security feature.

**Rate Covenant**
The New York State Public Authorities Law requires MTA to be self-sustaining and gives it control over setting rates which in their judgment produces sufficient revenues to pay principal and interest on outstanding obligations as well as operating expenses and maintenance of reserves. MTA also covenants in the TRB Resolution to charge fares, which together with other available revenues, are sufficient to meet all debt service requirements as well as operating and maintenance expenses of the system. The Resolution also includes a covenant that requires MTA to operate and maintain system assets in good repair and working condition.

**Additional Bonds Test**
There is no coverage requirement for the issuance of parity bonds, which KBRA considers a weakness in the security provisions. However, the issuance of additional bonds is subject to approval by the State Capital Program Review Board in conjunction with MTA’s Capital Program and must be accompanied by a certification that the rate covenant will be met for the succeeding fiscal year.

**Debt Service Reserve Fund**
The TRB resolution does not provide for funding of a debt service reserve fund, which KBRA also views as a weakness in the security provisions. However, MTA does maintain a General Reserve Policy equal to 1% of operating expenses, which helps to offset liquidity risk. It also currently maintains a $350 million liquidity facility to address potential liquidity issues. The monthly deposit of pledged revenues into the debt service account further help to offset potential liquidity concerns for TRB bondholders.

**Other Provisions**
New York State law includes certain provisions that KBRA views as providing additional protection of bondholders’ interest. These include a pledge by the State not to alter the powers or rights of MTA in a way that would impair bondholders’ interests and a prohibition on the ability of MTA or its related entities from seeking or being forced into Chapter 9 bankruptcy under the U.S. Bankruptcy Code.

KBRA views the security provisions supporting the TRB as being consistent with a AA- rating. This reflects bondholder protections in the TRB Resolution as well as protections included in MTA authorizing law. The TRB Resolution clearly identifies the Pledged Revenues and the flow of funds provides that debt service is paid prior to operating expenses. The segregation of debt service accounts with a Trustee is also viewed by KBRA as a credit strength. The lack of a funded debt service reserve account and the lack of a coverage requirement for issuance of additional bonds are viewed by KBRA as weaknesses in the security provisions, although the requirements in MTA governing statutes with respect to rate setting and maintenance of balanced budget help to offset these weaknesses. KBRA also notes the non-impairment provision in the statutes and the inability of MTA, which includes the Related Entities, to seek, or be forced into bankruptcy as additional security strengths.
KBRA LONG-TERM RATING: AA+
OUTLOOK: STABLE

Issuance
KBRA’s most recent rating report on Metropolitan Transportation Authority Transportation Revenue Bonds was published on May 8, 2015.

Security
The TRB are secured from a lien on pledged revenues, which consist of: i) fares and other operating revenues from the New York City Transit, MTA Commuter and MTA Bus system, ii) surplus operating revenue from MTA Bridges and Tunnels (TBTA), iii) various State and Local government subsidies and iv) certain dedicated tax revenues.

The TRB Resolution provides that bondholders will be paid from pledged revenues, prior to the payment of operating or other expenses of MTA, New York City Transit (NYCT), Metro-North Railroad (MNR), Long Island Rail Road (LIRR), and MTA Bus. The TRB Resolution requires MTA to transfer all pledged revenues, upon receipt, to the Trustee for deposit into the Revenue Fund. KBRA views the monthly deposits of pledged revenues with the Trustee, prior to payment of operating expenses, to be a strong security feature of the TRB Resolution.

Bondholder protections are further supported by provisions in MTA governing statutes which, among other things, require MTA to maintain a balanced operating budget and to set rates and charges at a level sufficient to provide for coverage of all operating and debt service expenses as well as necessary reserve requirements. The statutes also include a non-impairment provision and prohibition on MTA and its Related Entities from seeking or being forced into bankruptcy, which KBRA views as positive security factors.

Key Rating Strengths

- MTA provides a critical transportation network for over 15 million people in the greater New York Metropolitan area, which is essential to the economic and social fabric of the area.
- MTA Board has a strong working relationship with its constituent entities and funding partners and works closely with these entities in developing its operating budget and capital plans.
- MTA has autonomy in setting rates and charges for its services.
- MTA has a well-defined governance and management structure, which includes specific policies governing the budget process, multi-year financial and capital planning and debt management.
- Disclosure requirements ensure transparency of financial and operating information for both investors and customers.
- Demand is relatively inelastic to rate increases and continues to show good growth.
- MTA management has a strong track record of balancing its operating budget over changing economic cycles and unforeseen events as well as managing complex capital programs designed to improve and expand the system.
- MTA governing statues together with the TRB Resolution provide strong bondholder protections.
- Debt service coverage from pledged revenues in 2014 was 9.4x.

Key Rating Concerns

- Uncertainty with respect to the sources of funding for the 2015-2019 Capital Program, which includes projects that are necessary to achieving and maintaining the network of assets in a state of good repair and to provide for required expansions and improvements to the network over time.
- MTA’s high fixed cost structure, in combination with its limited resource base, will continue to make balancing the operating budget and funding of capital requirements challenging.
- A portion of the recurring savings necessary to balance the operating budget over the period of the financial plan have not been specifically identified, and extracting greater savings may prove difficult over time.
- The ability to control growth in labor-related costs on future labor contracts.
KBRA’s rating assessment focuses on MTA’s demonstrated ability to effectively manage the operations and finances of the largest and most complex transit system in North America. In KBRA’s opinion, this is evidenced by its history of reliability over changing economic cycles and unforeseen events, including Superstorm Sandy. The rating assessment also recognizes the essentiality of the system and the interdependence between the transit system and the economies of the State and the local governments that it serves. This interdependence underscores the funding support consistently provided to subsidize operations and capital requirements.

MTA continues to balance the growing and changing service needs of its constituents with available external and internal resources. Fares and tolls have historically been set at levels that maximize revenue generation while maintaining affordability. Management continues to invest in working towards bringing the system assets into a state of good repair, while continuing to expand and improve the level of service. Management has responded to recent safety issues by making additional investments in safety equipment, training and oversight. KBRA believes that uncertainty with respect to funding of the current capital program and potential growth in future labor costs will continue to put pressure on fares and service levels.

KBRA views MTA’s ridership demand as strong given the long-term inelasticity of demand and stability of ridership volume. Overall ridership has increased since 1995, with fairly minimal declines in some years due primarily to recessionary conditions. During that time, farebox revenue has grown at a greater rate than ridership as a result of several fare increases. Total system volume dropped 2.9% from 2008 to 2010 due to the Global Financial Crisis of 2008, but has rebounded levels above pre-financial crisis as of 2014. Most of the post-financial crisis increase has been on the subway and MNR lines, while LIRR and bus ridership and TBTA traffic levels are still at or below pre-financial crisis levels. MTA projects continued overall growth in ridership, which underscores the need to address capacity constraints throughout the system. MTA has addressed both capacity and safety issues through the system via a robust capital program that focuses both on maintaining a level of good repair and expansion.

MTA operates under a strong regulatory framework which provides detailed policies governing operations, financial and capital planning, debt and disclosure. MTA benefits from significant autonomy in managing day-to-day operations of the system and has sole authority for setting fares/tolls. The Board of Directors is appointed by the Governor with the consent of the Senate. There is an experienced and stable management team which provides continuity in operations as well as expertise in planning and implementing ongoing capital and maintenance programs. MTA works closely with New York State and jurisdictions within MTA Commuter Transportation District, including New York City, on capital programs, planning, and finances.

KBRA views the New York State statutes, the MTA Act and the TRB financing documents as providing a clear legal framework that supports TRB debt service. The TRB Resolution specifically identifies the sources of pledged revenues and the priority for use of these revenues. It also defines the requirements of MTA with respect to rate setting, operations and maintenance of the system, and issuance of additional parity bonds. Bondholder protections are further supported by provisions in MTA governing statutes which, among other things, require MTA to maintain a balanced operating budget and set rates at a level sufficient to provide coverage of all operating and debt service expenses and necessary reserve requirements. The statutes also include a non-impairment provision and prohibition on MTA and its Related Entities from seeking or being forced into bankruptcy.

Please refer to the following link to review KBRA’s copyright information.

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