MOODY'S RATINGS

OUTLOOK
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Mass Transit – US

Outlook revised to stable as funding and operations adapt to post-pandemic norms

The 2024 outlook for the US mass transit sector has been revised to stable from negative, given improved funding prospects from state and local governments to ensure reliable services. As return-to-office slowly gains momentum, transit operators are also luring back riders by realigning service to attract non-commuters and enhancing the riding experience. Transits will need to exercise fiscal discipline as they face growing operating and capital costs, as well as additional expectations and requirements from government partners.

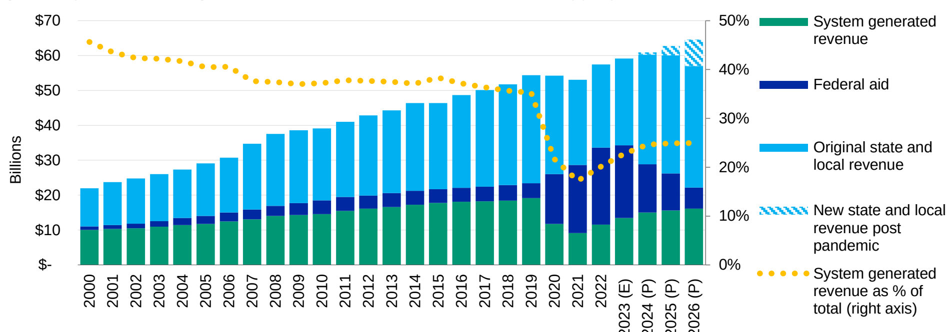
Transits will continue to benefit from increasing government support and tax subsidies

Growing government support and tax subsidies to offset lower fares, a trend that started before the pandemic, is expected to continue given the essential role transits serve in bolstering economic vitality while also promoting social cohesion and environmental sustainability. As federal pandemic aid wanes, several states and local governments have recently committed or proposed additional assistance to transits (see next page); Moody's expects new state and local sources will fill most of an estimated $8 billion (12%) operating funding gap for the sector by 2026, offsetting permanent loss in system-generated revenue post-pandemic (see Exhibit 1).

Exhibit 1

Transits will continue to become less reliant on system generated revenue, largely fares

Operating revenue composition of the US mass transit sector in aggregate



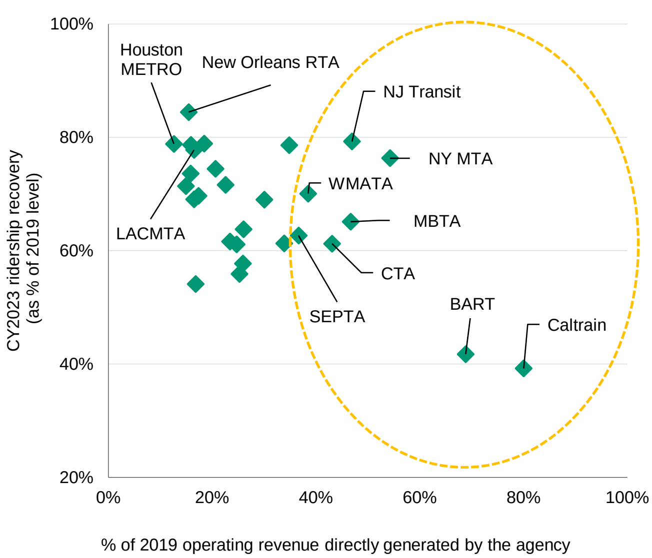
Estimates and projections by Moody's based on several assumptions:
(1) The sector's aggregate operating revenue growth will follow historical trends to maintain services
(2) System-generated revenue (such as fares, parking fees, advertising and other contractual revenue) will recover to 85% of pre-pandemic level by 2026
(3) State and local revenue (dedicated taxes and financial assistance), temporary lower during the pandemic because some systems took advantage of higher federal aid and used less than total state and local revenue available for operations, will resume to historical patterns and grow with funding enhancements
(4) $69.5 billion of total federal pandemic aid will be used by end of 2025
Sources: Federal Transit Administration and Moody's Ratings

The trend of government funding increases for transit, both implemented and proposed, has accelerated in the past year. The District of Columbia (Aaa negative), Maryland (Aaa stable) and Virginia (Aaa stable) committed additional funding to help close a budget gap for Washington Metropolitan Area Transit Authority (WMATA, not rated). Colorado (Aa1 stable) just established new fees on oil and gas production with planned allocations to state-wide transits, including Regional Transportation District, CO (Denver RTD; sales tax bonds Aa1 stable). Minnesota (Aaa stable) enacted a new 0.75% sales tax in the Twin Cities metropolitan area, primarily to fund Metropolitan Council's (Aaa stable) transit operations and capital needs. Massachusetts' (Aa1 stable) new millionaires' tax allocates $300 million annually to transits, two-thirds of which will benefit Massachusetts Bay Transportation Authority (MBTA; sales tax bonds Aa2 stable).

New Jersey (A1 stable) is considering imposing a 2.5% tax surcharge on companies with net profit over $10 million and dedicating revenue from this source to New Jersey Transit. Pennsylvania (Aa3 positive) has proposed diverting $1.5 billion of state sales tax revenue to transits over five years, which will help Southeastern Pennsylvania Transportation Authority (SEPTA; sales tax bonds Aa3 stable) avert service cuts. Lawmakers in Illinois have proposed to merge transit agencies in the Chicago area – Chicago Transit Authority, IL (CTA; sales tax bonds A1 stable), Metra, Pace and Regional Transportation Authority, IL (RTA; general obligation bonds Aa3 stable) – and funnel $1.5 billion additional annual state appropriation to the consolidated system. California (Aa2 negative) lawmakers will likely continue to propose a ballot measure in November 2026 to create a new dedicated funding source for Bay Area transits, including San Francisco Municipal Transportation Agency, CA (SFMTA; revenue bonds Aa3 stable) and San Francisco Bay Area Rapid Transit District, CA (BART; GO bonds Aaa negative), while state temporary funding support helps bridge near-term budget gaps.

Exhibit 2

Transits more reliant on fares pre-pandemic (circled)...



10 largest transits and Moody's rated transits with ridership over 10 million (pre-pandemic)

Sources: Federal Transit Administration and Moody's Ratings

Exhibit 3

...are likely to receive extra government support/ tax subsidies

	Systems	Funding enhancement	Effective	Ann. Revenue ($ million)
Approved	NY MTA	State authorized increase to mobility tax	Jul 23'	$ 1,100
Approved	NY MTA	MTA Board approved congestion pricing	Jun 24'	$ 1,000
Approved	Met Council*	State enacted 0.75% sales tax	Oct 23'	$ 450
Approved	MBTA	State millionaires' tax allocation	Jan 23'	$ 200
Approved	Caltrain	Local voter-approved 0.125% sales tax	Jul 21'	$ 120
Approved	Denver RTD	State enacted fees on oil & gas production	Jul 25'	$ 110
Approved	WMATA	Add 'l investments from DC, MD and VI	FY25	$ 463
Approved	SFMTA	State approved temporary relief	FY25	$ 150
Approved	SF BART	State approved temporary relief	FY25	$ 176
Proposed	NJ Transit	State considering dedicated tax	TBD	$ 1,000
Proposed	SEPTA	State considering add 'l sales tax allocation	TBD	$ 161
Proposed	MBTA	State considering add 'l subsidy	TBD	$ 127
Proposed	CTA, RTA, Metra, Pace	Lawmakers considering appropriation to proposed consolidated system	TBD	$ 1,500
Proposed	SF Bay Area transits	State or agency initiated regional ballot measure (dedicated tax revenue)	TBD	$ 1,000
			Total with proposed	**$ 7,557**
			Total approved	**$ 3,769**
				Ongoing
				One-time

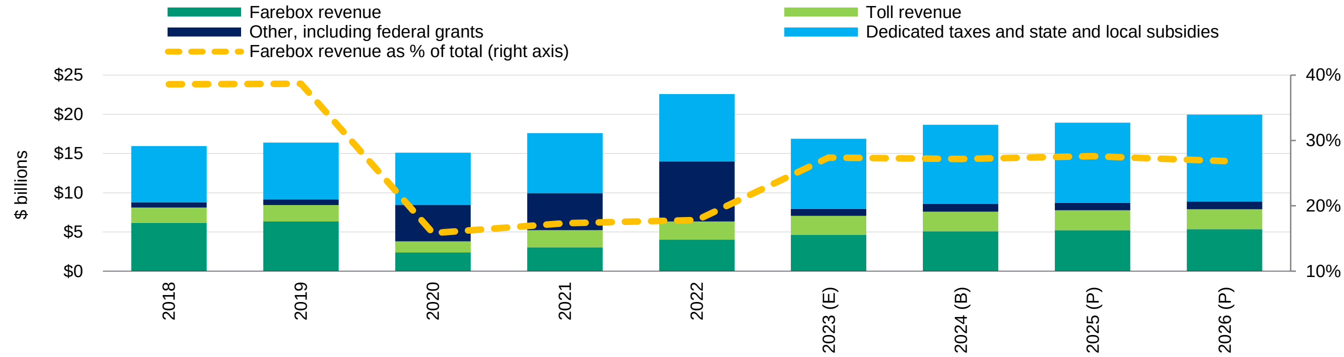
*Operates transit and sewer and wastewater system; annual revenue includes estimates and reflects pro-forma for the first full year the funding enhancement is in effect, if it's effective in the middle of a fiscal year; only a selection of funding enhancements approved/ proposed are listed in this table

Source: Transit agencies; state governments; Moody's Ratings

Metropolitan Transportation Authority, NY (NY MTA; revenue bonds A3 positive) continues to become less farebox-reliant (see Exhibit 4), thanks to a $1.1 billion increase in the Payroll Mobility Tax authorized by New York (Aa1 stable) that has essentially balanced the authority's operating budget. In Silicon Valley, revenue generated by the voter-approved 0.125% sales tax for Peninsula Corridor Joint Powers Board, CA (Caltrain; revenue bonds A1 stable) exceeded $120 million in fiscal 2023, surpassing the system's service-derived revenue before the pandemic ($113 million in fiscal 2019).

Exhibit 4

NY MTA's operating budget continues to rely less on fares, helped by an increase in state-authorized dedicated taxes in 2023



Sources: NY MTA and Moody's Ratings

Government backing and tax subsidies for transits reflect their importance in maintaining urban economic prosperity, aiding climate efforts via reducing greenhouse gas emissions and promoting social equity and housing affordability. For example, Colorado just passed several sustainability and social-related bills that will encourage transit usage, including one allowing transit agencies to apply for either an ozone-season free fare grant or a youth free fare grant[1], and another facilitating the development of housing near transits. Central Puget Sound Regional Transit Authority, WA (Sound Transit; sales and motor vehicle excise tax bonds Aaa stable) and Metro Transit Authority of Harris County, TX (Houston METRO; sales tax bonds Aa1 stable), which have long benefited from local taxes, are embarking on system expansions to support strong working-age population growth expected in coming decades. Americans are living farther from work, and reliable transits will be needed to shuttle people to and from work, even if some commute a few times a week.

Increased state and local funding for transit systems could bring greater government oversight

Many US transit systems are independent agencies, but benefit from state and local oversight and governance, which is likely to increase as the sector relies on more government funding. For instance, while New York MTA is a corporate entity separate and apart from the State of New York, all members of MTA's governing board are appointed by the state governor with advice and consent of the senate, with recommendations from New York City (Aa2 stable) and county governments in the service area. New York law governs various financial and operating requirements for MTA, including having a balanced budget requirement. The state also periodically reviews MTA's capital needs, financial outlook and debt profile [2]. The Northern Indiana Commuter Transportation District, IN (NICTD; consolidated revenue bonds A1 stable), which receives sales tax distributions from Indiana (Aaa stable), reports its financial conditions to the state annually and has a governance agreement permitting the state to assume management and operations of the system should it run deficits and deplete its cash.

MBTA also benefits from strong support from the Commonwealth of Massachusetts financially and operationally. The commonwealth guarantees a minimum amount of the dedicated sales tax it allocates to MBTA, a key protection against revenue volatility. In 2015, the commonwealth established a Fiscal and Management Control Board to oversee MBTA's operations that has resulted in improved business practices. In California, SFMTA and SF BART now face requirements to address fare evasions as part of last year's state transit subsidy deal. Colorado's enabling legislation for the new oil and gas production fee with planned allocations to Denver RTD requires it to prioritize the completion of two rail lines.

Systems are luring back riders, key to maintaining political support and additional funding

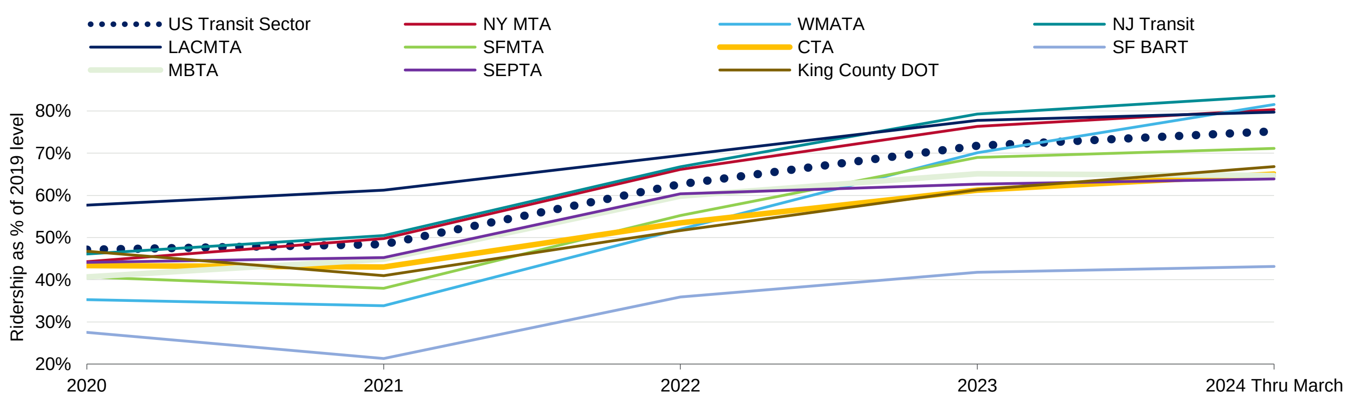
Transit agencies are strategically increasing ridership by realigning services and innovating to improve the user experience.

By March 2024, public transit ridership in the US had rebounded to 79% of pre-pandemic levels, surpassing office occupancy recovery rates [3] and suggesting transit agencies are having success in attracting non-commuter riders. San Francisco MTA, for instance, has pivoted to focus on connecting the city's neighborhoods and has reported ridership recovering to well above pre-pandemic levels for select routes. MBTA doubled ridership on its Worcester-to-Boston line after introducing more local stops. WMATA took advantage of federal pandemic aid to reduce fares on weekends, contributing to weekend ridership surpassing pre-pandemic levels by 17% on Saturdays and 28% on Sundays earlier this year. Triborough Bridge and Tunnel Authority, NY (MTA Bridges and Tunnels; general revenue bonds Aa3 stable)'s congestion pricing program for vehicles entering the central business district, planned to be effective June 30, 2024 [4], will likely boost transit ridership for NY MTA in addition to providing capital funding to modernize MTA's subways, buses and commuter rails.

Customer perception of systems has improved for several agencies, which will attract more riders and garner public support for transit funding. San Francisco MTA and BART in 2023 both reported their highest customer satisfaction ratings in 10 years, attributable to efforts to enhance reliability, cleanliness and public safety. CTA also reported gains in rider satisfaction in 2023, largely driven by improvements in security. Among the ten largest systems [5], four have ridership recovery at or exceeding 80% of pre-pandemic level so far this year (see Exhibit 5).

Exhibit 5

Among the ten largest systems, ridership recovery reached or exceeds 80% of pre-pandemic levels for NY MTA, WMATA, NJ Transit and LACMTA in 2024 so far

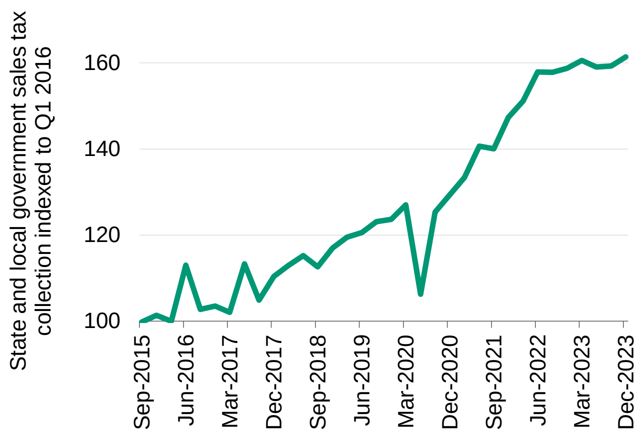


Ten largest systems by pre-pandemic ridership
Source: National Transit Database; Moody's Ratings

Navigating rising costs amid cooled tax revenue growth will require fiscal prudence

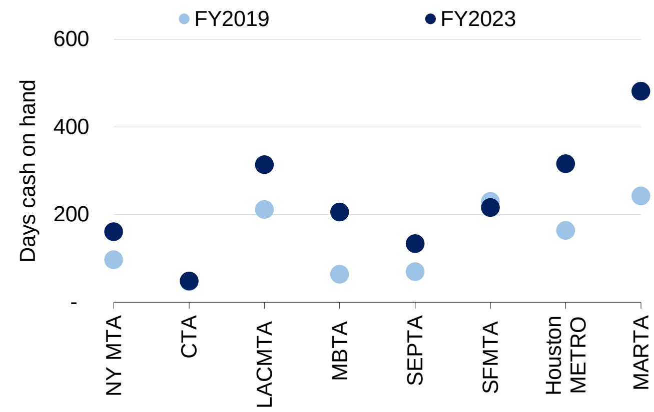
Transits are disproportionally impacted by growing costs for labor, fuel, construction and insurance. However, sales taxes, the most common tax subsidy source for transits, have grown sharply in recent years before leveling off (see Exhibit 6). Several transit agencies are also sitting on stronger liquidity than before the pandemic (see Exhibit 7), bolstered by federal pandemic aid and better-than-expected tax revenue growth, which will help buffer growing costs. In addition, some systems, such as Sound Transit and Los Angeles County Metropolitan Transportation Authority, CA (LACMTA; sales tax bonds Aa1 stable), have flexibility to align capital spending plans with available resources, as most of their voter-approved local taxes do not automatically sunset.

Exhibit 6
Collections of sales tax, a key tax subsidy source for transits, have grown sharply in recent years



Sources: US Census Quarterly Summary of State & Local Tax Revenue; Moody's Ratings

Exhibit 7
Several transits' liquidity positions are stronger than before the pandemic



Sources: Issuer audits or unaudited actual reportings; Moody's Rating calculations

Liabilities in the sector are also down from pre-pandemic levels, helped by higher interest rates discounting accrued liabilities for pension and other post-employment benefits (OPEBs), as well as moderation in debt issuances for some issuers. For example, Houston METRO's borrowing plan under the METRONext program, with $3.5 billion voter-approved debt authorization, has been deferred largely because of robust sales tax growth and the infusion of federal pandemic aid, allowing more pay-go funding.

What could change the outlook

We could revise the outlook to negative if additional state and local government support or tax subsidies for transits fall short of expectations, or if construction and labor cost growth accelerate significantly. A revision of the outlook to positive is not likely in the outlook period.

Sector outlook definition

The stable outlook reflects our view of credit fundamentals in the US mass transit sector in 2024. Sector outlooks are distinct from rating outlooks, which, in addition to sector dynamics, also reflect issuers' specific characteristics and actions. A sector outlook does not represent a sum of upgrades, downgrades or ratings under review, or an average of rating outlooks.

Endnotes

1 Denver RTD is only eligible for the youth free fare program
2 Source: Office of the New York State Comptroller audit reports
3 Source: The American Public Transportation Association
4 Subject to Federal Highway Administration's completion of its reevaluation of the adopted toll rate schedule and execution of an agreement authorizing tolling under the Value Pricing Pilot Program
5 Based on pre-pandemic ridership

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