

The logo for Fitch Ratings, with 'Fitch' in red and 'Ratings' in black, set against a background of a city skyline at dusk. The skyline is divided into several large, overlapping diamond-shaped sections in shades of blue, grey, and red. The top section is blue, the middle is grey, and the bottom is red. The city buildings are illuminated with warm lights, and the sky is a mix of blue and orange.

Fitch Ratings

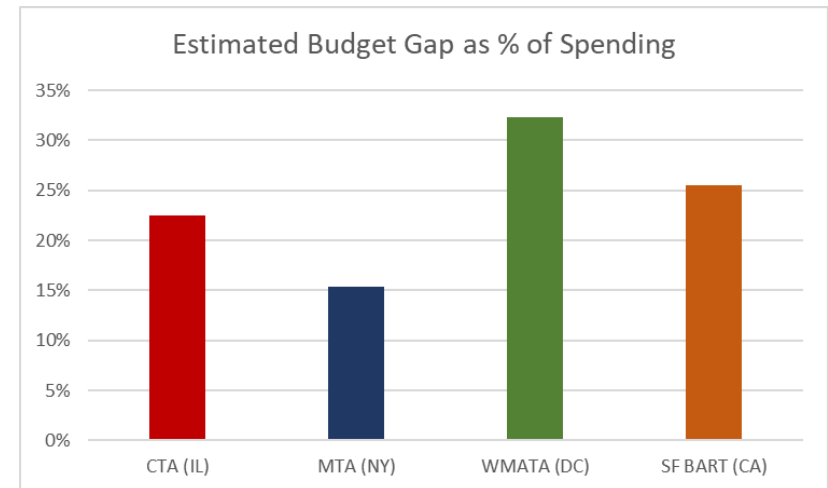
Mind the Gap

Fiscal Cliff Faces Fare-
Dependent U.S. Transit
Agencies

Andrew Ward

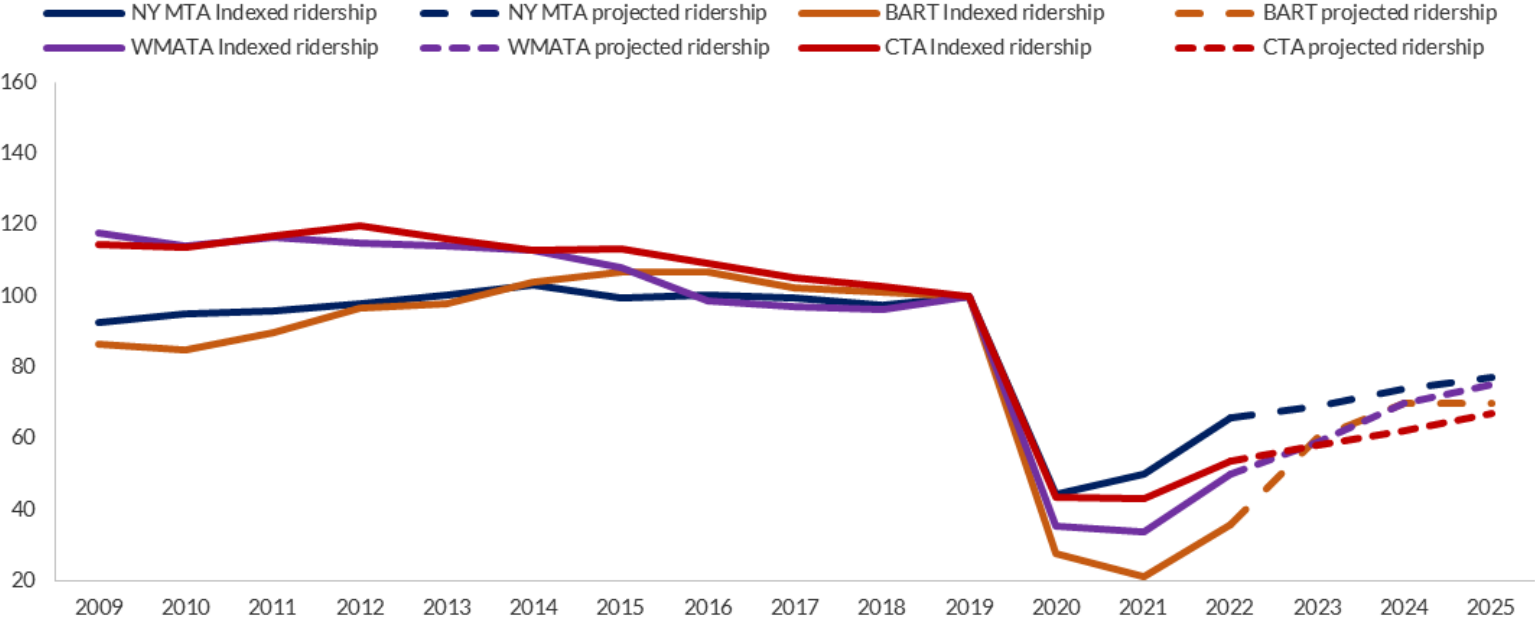
Good News: You're Not Alone

- The most fare-dependent U.S. transit agencies face **long-term fiscal gaps that are unlikely to be addressed with typical budget adjustments.**
- The three most fare dependent transit agencies in Fitch's portfolio – MTA (NY), WMATA (DC), SF BART (CA) – remain on Rating Outlook Negative as they have been since Q2 2020.
- **Fundamental mismatch post-pandemic:**
 - Revenue frameworks that are dependent on **ridership volumes**
 - Expenditure frameworks with substantial **fixed infrastructure costs** and inflexible **baseline service level needs** to support urban populations and economic recovery goals.



Good News: You're Not Alone

Ridership at Key Fare Dependent Transit Agencies
Indexed to 2019=100



Source: National Transit Database, transit system audits & budgets

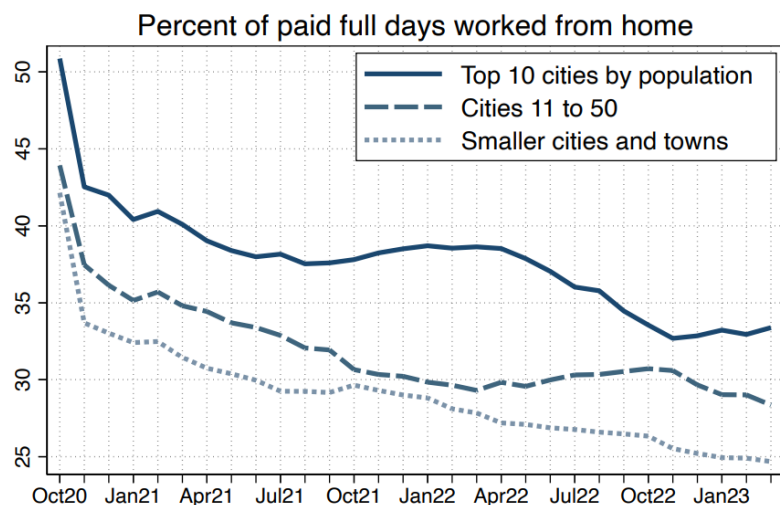
- Major U.S. public transit agencies expect limited **ridership recoveries in the 60% - 75% range** relative to pre-pandemic over the near term.
- Recovery paths remain uncertain, but we've almost certainly **passed the time where we can reasonably hope for riders to come rushing back in mass.**

But You're On Your Own

- **Action has shifted to state and local levels** after a period of extraordinary federal aid that kept transit agencies operating during the pandemic crisis.
- Federal budget constraints and political environment suggest that **local solutions are likely to predominate** in addressing long-term solvency issues.
- **Clock is Ticking:** With federal pandemic aid running down, state and local officials are taking action to solve these gaps. From the perspective of ratings, we need to see meaningful movement toward closing these gaps before returning to Stable Outlooks, and downgrade risks grow as time progresses.
- **NY Moving on Problem:** Budget action proposed in NY makes a healthy down payment on the MTA's gap with a combination state and local tax dollars. Incremental approach could close the gap over 3-4 years if sustained.

Part of a Much Bigger Problem: The Future of Cities

- Metro regions buffeted by broad post-pandemic pressures:
 - Population loss,
 - Plunging office occupancy/usage rates and looming tax base implications,
 - Sluggish recovery of travel and tourism activity in urban areas,
 - Shifting retail consumption habits &
 - Public safety and quality of life concerns.



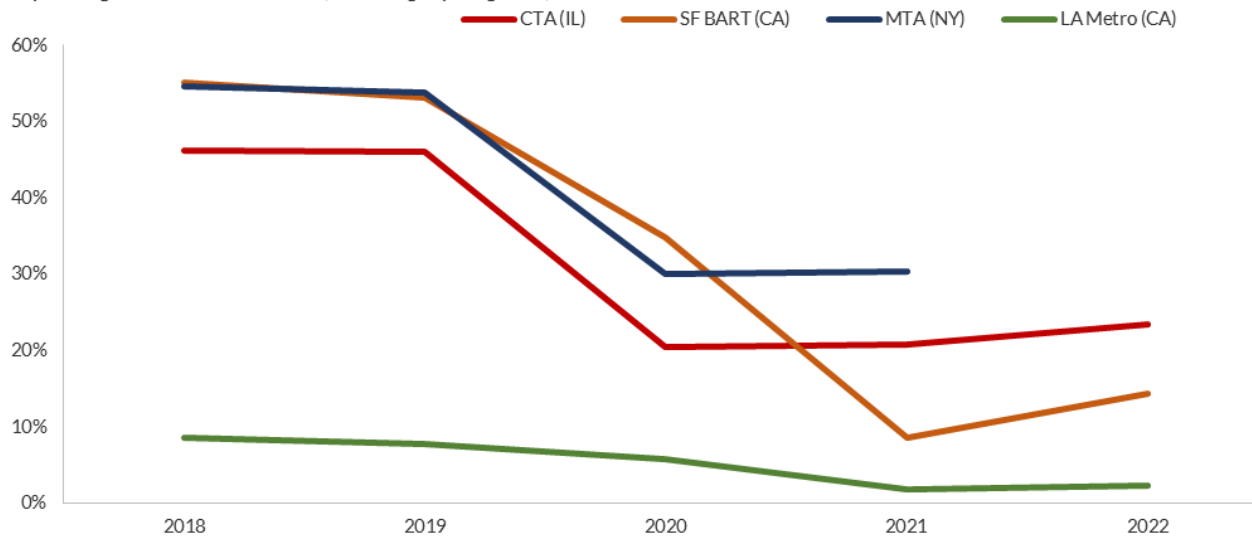
Source: Barrero, Jose Maria, Nicholas Bloom, and Steven J. Davis, 2021. "Why working from home will stick," National Bureau of Economic Research Working Paper 28731. www.wfhresearch.com

Worst Population Losses Counties >500K Population	Change Since 2020
San Francisco County (CA)	-7.5%
Bronx County (NY)	-6.3%
New York County (NY)	-5.8%
Kings County (NY)	-5.3%
Queens County (NY)	-5.3%
San Mateo County (CA)	-4.6%
Suffolk County (MA)	-4.0%
Santa Clara County (CA)	-3.4%
Alameda County (CA)	-3.2%
Cook County (IL)	-3.2%

Transit Funding Gap Is Not Universal

Operating Revenue Dependence at Selected U.S. Transit Agencies

Operating revenue as a % of total (excluding capital grants)



Sources: Fitch Ratings, Transit agency audit reports & budgets

The most affected U.S. transit agencies ...

- Face **more work from home** than U.S. or international peers.
- Received **more fares and less tax** revenue as proportion of budgets than smaller and/or newer U.S. peers.
- Are among the **most essential U.S. transit agencies** to local economies.

Fitch's Base Case

Our **base case** is that ...

- State, local governments and transit agencies restore fiscal balance for transit agencies primarily through **revenue enhancements** with quite **modest fare hikes** (calibrated to keep the ridership recovery on track) and **spending cuts where possible** (while maintaining robust baseline service levels to support urban residents and economic recovery).

Because...

- Public transit is **essential and strategically important** to highly productive metropolitan economies.
- **Transit serves key policy goals** beyond the provision of transportation services, including environmental, congestion management, equity and economic development.
- The **scale of the problem is quite manageable relative to the economic resource bases** served. Combined gaps are less than 0.1% of GDP in metro areas like Chicagoland.
- Policymakers and voters around the U.S. have a long track record of providing support for transit when it's really needed.

Downside Risks to Rebalancing

What could go wrong?

- Assuming the problem is temporary
- Overestimating ridership recoveries
- Delaying until a recession makes the problem harder to solve for policymakers at higher levels of government
- Inability to achieve political consensus, particularly where governance and support frameworks are fragmented and/or government is deeply divided
- Failure to adjust service levels to stay within the subsidy levels that transit agencies can achieve
- Creating new revenue concentrations
- Forgetting the full lifecycle costs of transit agency infrastructure
- Thinking we've solved the problem once and for all
- Making progress on transit without addressing the other issues facing cities

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