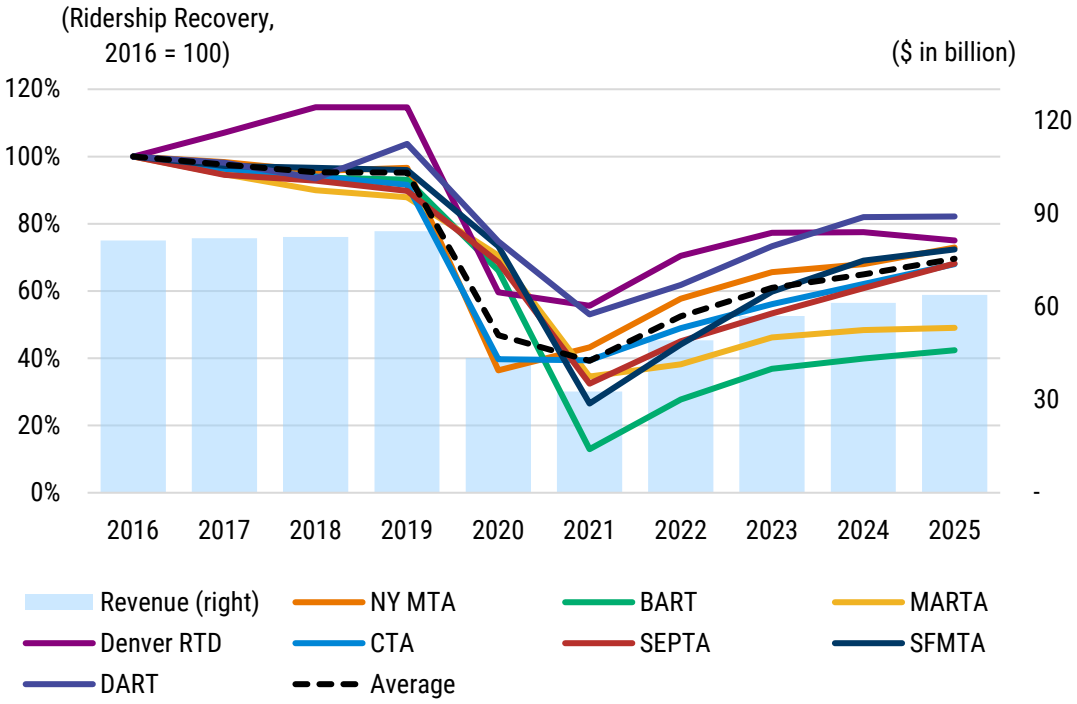
Mass Transit Bonds: The Revenue Behind the Ride

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Mass Transit Ridership: The Path to a 75% Recovery

Transit systems across the country have not recovered the ridership lost to the COVID-19 pandemic. Fundamental changes in passenger behavior, such as remote work schedules and increased use of ride-share, have been some of the key drivers behind weaker ridership across the sector. Analyzing eight of the largest and most frequent municipal bond issuers as a proxy for the sector [1], we note passenger volumes reaching about 75% of pre-pandemic levels in 2025. After declining almost 48% on average in 2020-2021, ridership seems to have stabilized in 2025, potentially setting a new baseline.

Exhibit 1: Mass Transit Ridership and Aggregate Farebox Revenue



Source: Ridership data from transit agency websites, as of FY2025.

Farebox Revenues Need All the Help They Can Get

Farebox revenues are typically not enough to cover operating expenses, debt service and capital expenditures, and that source has weakened with declining ridership. Farebox revenues can account for less than 20% of total revenues, leaving transit agencies increasingly reliant on other revenue sources to meet debt repayment and operating and maintenance (O&M) obligations.

[1] NY MTA - New York Metropolitan Transportation Authority; BART - San Francisco Bay Area Rapid Transit District; MARTA - Metropolitan Atlanta Rapid Transit Authority; Denver RTD - Denver Regional Transportation District; CTA -Chicago Transit Authority; SEPTA -Southeastern Pennsylvania Transportation Authority; SFMTA -San Francisco Municipal Transportation Agency; and DART -Dallas Area Rapid Transit.

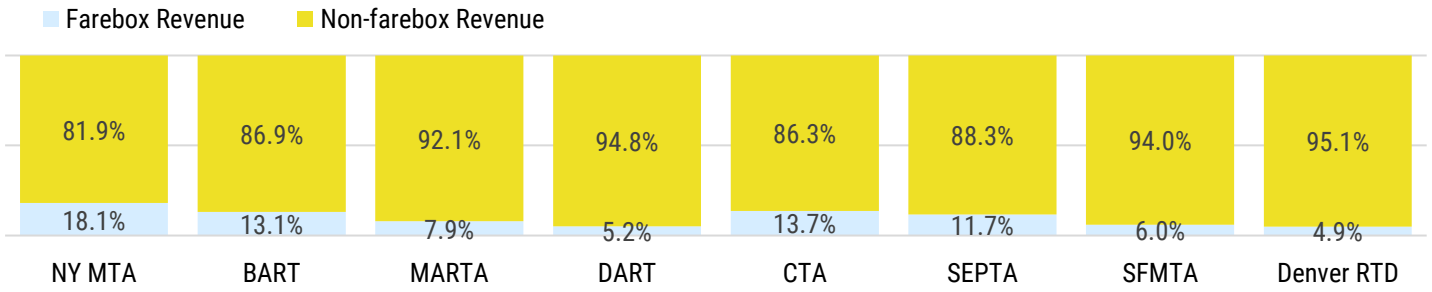


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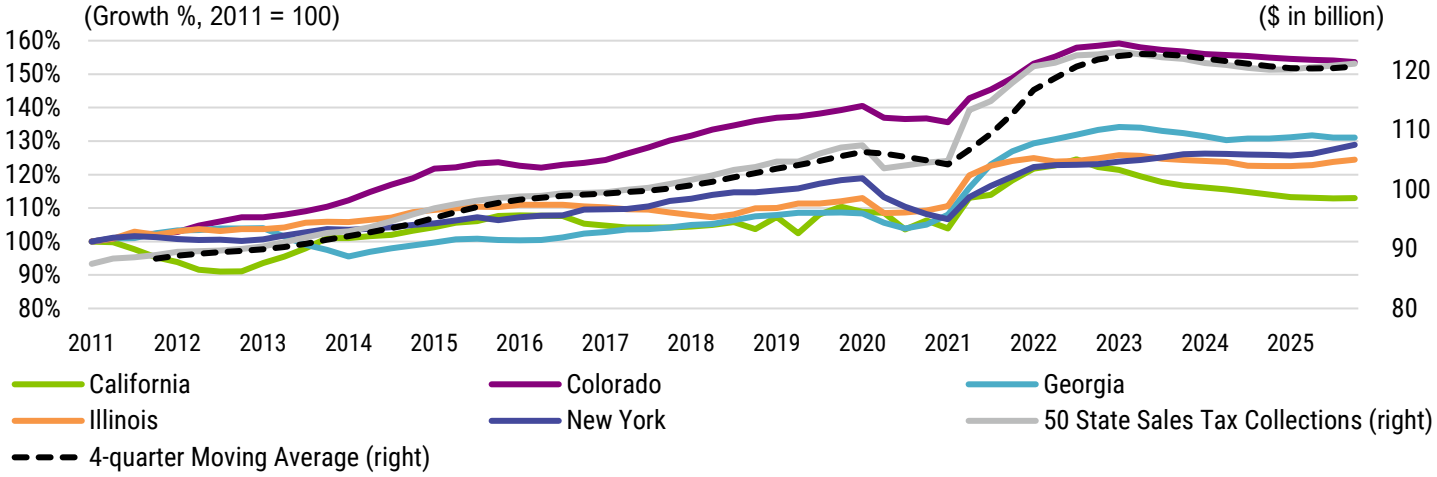
Exhibit 2: Transit Agency Revenue Profile



Source: Audited Comprehensive Financial Reports. As of FY2025.

Sales taxes have become the primary revenue stream pledged to municipal bonds because they are part of a long-term funding solution for these systems. Although sales taxes are still exposed to consumer spending, which is influenced by prevailing economic cycles, transit issuers whose repayment of bonds is de-coupled from farebox revenues are more likely to meet debt repayment schedules because of increased financial flexibility. Non-farebox revenue (sales tax, payroll tax, motor vehicle tax, property tax as examples) can be stickier, less volatile, and therefore relatively more predictable for budgeting purposes. Sales tax collections across all 50 states have demonstrated resilience since the lifting of pandemic shutdowns.

Exhibit 3: State Sales Tax Collections



Source: Pew Research, as of December 2025.

Supportive Credit Features

Transit systems backed by a non-farebox dedicated revenue source fall higher on the credit rating spectrum, especially larger systems serving major metro areas. The dedicated tax revenue that supports these systems can provide a significant buffer between revenues and financial obligations. It is not uncommon to see pledged revenues exceed debt service requirements by 4.0x to 5.0x or more[2] . The maximum revenue decline to breakeven on debt service for any given year — amount dedicated revenue can drop and still support debt service — can range from 75% to 95% depending on the credit[3]. Furthermore, these systems usually include security features, like an additional bonds test (ABT) that require issuers to pass prior to taking on more debt. ABT levels can typically range from 135% to 300%[4], meaning that revenues must exceed debt requirements by at least that much on a retrospective and go-forward basis (including new debt).

Source: Audited Comprehensive Financial Reports and Annual Reports.
[2] Debt service coverage metrics as of FY2025.
[3] Maximum revenue decline is a PTAM calculated metric. The breakeven decline is the maximum decline for any given year.
[4] ABTs from bond Official Statements.

Overcoming Complacency - Key Takeaways

The municipal landscape continues to evolve as new uncertainties are introduced, and existing stresses are magnified. Our research team maintains that through a rigorous analytical approach and credit selection, we are able to uncover nuances unique to certain credits and identify those that may be best suited to manage through economic, political, and social volatility.

- For systems where non-farebox revenues represent a substantial portion of total operating and non-operating revenues, the risk tied to ridership performance is de-coupled from bond repayment.
- Structural protections can enhance bondholder security through revenue pledges that benefit from features such as direct transfers to the trustee or lockboxes, statutory liens, restrictive additional debt issuance tests, and cash flow cushions that provide downside protection should revenues decline.
- A narrower revenue pledge may carry greater exposure to consumer activity and transit system capital spending requirements. Significant capital requirements can pressure available cash flow.

Research & Analysis



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Risks and Other Important Considerations

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