

MOODY'S

RATINGS

Rating Action: Moody's Ratings affirms Southeastern Pennsylvania Transportation Authority's special tax ratings; outlook revised to negative

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New York, September 03, 2025 -- Moody's Ratings (Moody's) has affirmed its Aa3 ratings on the Southeastern Pennsylvania Transportation Authority's (SEPTA) \$501 million of Asset Improvement Program (AIP) revenue bonds and \$42 million Public Transportation Assistance Fund (PTAF) revenue bonds. We have also affirmed the A3 ratings on the authority's \$138 million outstanding capital grants receipts Bonds (GARVEEs). The outlook has been revised to negative from stable because of the constraints on SEPTA's ability to balance its budget amid the Commonwealth of Pennsylvania's protracted budget impasse and a recent court ruling preventing SEPTA from implementing fare increases and service cuts.

RATINGS RATIONALE

The Aa3 rating on SEPTA's AIP and PTAF revenue bonds incorporates the strong, broad tax bases generating pledged revenues, high debt service coverage, and presently healthy liquidity from cash flow and reserves, and sound governance that provides structural protections for its various bond indentures. The rating also incorporates the role the Commonwealth of Pennsylvania (Aa2 stable) plays in collecting pledged tax revenue and allocating that revenue directly to the bond trustee. Despite the Commonwealth's lack of fiscal 2026 budget, it continues to collect the revenue pledged to SEPTA's AIP and PTAF bonds and transfer the revenue to the bond trustee. State statute requires the revenue pledged to SEPTA's bonds be used only for transportation purposes. Commonwealth statute also prohibits the issuance of additional PTAF revenue bonds with a claim on the dedicated revenue stream.

SEPTA is currently under significant operating stress linked to uncertainty around increased state transit funding and an August 29 court ruling that prevented the agency from implementing a 21% fare increases and further service cuts. These actions were part of SEPTA's plan to balance an estimated 13% (\$213 million) budget gap left unfilled by the Commonwealth's budget impasse. If this injunction becomes permanent, and the commonwealth does not provide additional funding, then SEPTA would have to rely on reserves to balance its budget, resulting in a stark decline in liquidity.

If the injunction is lifted and fare increases and service cuts remain necessary, they may need to be steeper than originally planned to satisfy operations. In addition, while fare increases and service cuts improve near-term budget balance, over the long run changes of this magnitude can lead to weaker fiscal health, asset condition and operating performance. SEPTA's reduced service levels could lead to credit negative weakening in political and public support for the system. Despite institutional and legal supports for bond payments, deteriorated finances would be negative for bondholders.

The A3 ratings on SEPTA's Series 2020 GARVEEs (Section 5307 grants) and its Series 2017 GARVEEs (Section 5337 grants) incorporate strong debt service coverage by pledged and currently authorized federal grant revenues, the early set aside of pledged revenues in support of debt service payments, and satisfactory additional bonds tests. The ratings further incorporate credit challenges related to GARVEE bonds, including the short duration of federal funding reauthorizations, the possibility that more frequent reauthorizations could disrupt or reduce the funds available to pay the bonds, and the long-term structural imbalance of the federal Highway Trust Fund, which further increases programmatic risks for GARVEEs.

RATING OUTLOOK

The negative outlook reflects SEPTA's sizeable structural budget gap that will be difficult to resolve without

further financial support from the commonwealth or significant adjustments to operations. In the event the court ruling is reversed and SEPTA enacts fare increases and service cuts, the resulting ridership losses could create persistent budget gaps that weaken operations, asset quality and leverage metrics over time.

FACTORS THAT COULD LEAD TO AN UPGRADE OF THE RATINGS

- Resolution of SEPTA's structural budget gap that stabilizes service levels and liquidity and resolution of the commonwealth's operating and capital funding for transit
- The GARVEEs could be upgraded if debt service coverage remains strong and future federal transit funding is more clear and predictable

FACTORS THAT COULD LEAD TO A DOWNGRADE OF THE RATINGS

- Sustained structural budget gaps that erode service levels and liquidity, and continued uncertainty around the commonwealth's operating and capital funding for transit
- The AIP and PTAF bonds could be downgraded if debt service coverage declines significantly
- The GARVEEs could be downgraded with a lengthy interruption in the flow of federal transit grants or an indication of a reduced federal role in transit funding

PROFILE

SEPTA provides public bus, light rail, commuter rail and subway service in the City of Philadelphia (A1 stable) and the surrounding region. The authority is an instrumentality of the Commonwealth of Pennsylvania, governed by a 15-member board. Ten board members are appointed by the member counties (Bucks, Chester, Delaware, and Montgomery) and the City of Philadelphia (each appoints two board members) and five members are appointed by the governor and legislature of the commonwealth. The board has independent authority to approve SEPTA's operating and capital budget and adopt fare increases.

METHODOLOGY

The principal methodology used in these ratings was US Public Finance Special Tax Debt published in July 2024 and available at <https://ratings.moodys.com/rmc-documents/425427>. Alternatively, please see the Rating Methodologies page on <https://ratings.moodys.com> for a copy of this methodology.

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