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Planes and boats and trains – Airport bonds (Part 3 of 3)

October 3, 2016

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Mass transit systems are essential services for large cities. Without them, traffic jams and automobile accidents would cripple the ebb and flow of commuters and businesses. Despite this demand, mass transit is rarely profitable.

For example, take New York City. A $2.50 subway ticket will get you anywhere in the sprawling five boroughs; you could actually ride the subway 24 hours a day to the Bronx, Manhattan, Queens and Brooklyn forever without spending another dime. In Chicago, the same service costs $5. So how can NYC pay for its millions of expenses each year?

The simple answer is it can't. Most cities support mass transit with taxes, or surplus transfers from other enterprises.

I grew up in New York City in the 1960s. In 1969, the toll to travel from Queens to the Bronx was a mere 25 cents. Today, the one-way toll is $8. Believe it or not, that's a 3,200% increase in the last 56 years. Where does that money go?

The answer is that buses and subways in NYC are subsidized by the surpluses of bridges and tunnels to and from Manhattan and the other boroughs. At $8 a pop, these thoroughfares can generate enough money in a single year to pay for the original construction costs of facilities like the Whitestone Bridge, or the Verrazano Narrows Bridge – from Brooklyn to Staten Island! Bridge and tunnel maintenance costs can be expensive – but not that prohibitive!

If you own mass transit bonds, make sure that subsidies are secure with a long track record. If not, your investments are merely an accident waiting to happen.

About the Author

RICHARD P. LARKIN, Stoever Glass & Co., Inc.

Richard Larkin, a recognized 40 year industry veteran, has joined SG & Co. as Director of Municipal Credit Analysis. Mr. Larkin began his career in credit rating analysis at Standard & Poor's in 1975. After rising through the ranks in various analytical and management positions, Dick left S&P as its Chief Municipal Rating Officer, responsible for municipal rating policy, practices, governance and criteria. In 1998, Mr. Larkin joined Fitch Ratings as Chairman of its Public Finance Criteria Committee. He ultimately left to take leading roles in municipal hi-yield analysis at firms JB Hanauer & HJ Sims.

"Dick will be a unique resource to Stoever Glass' municipal clients. His knowledge in specific issues and areas of the municipal bond industry will aid our representatives and their clients in making educated decisions, in a sector where this type of research is unique," said Roland Stoever of Stoever Glass.