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Annual Update: Metropolitan Transportation Authority's Debt Profile

Highlights

- The MTA's capital program for 2020-2024 totals $54.8 billion, by far the largest program in its history. As of December 31, 2020, only 100 of 517 projects had been completed or begun, and most of the rest of the program had been indefinitely suspended.
- As a result of the pandemic, the MTA experienced severe revenue loss, which required deficit borrowing, diverting funds meant for capital purposes, and halting most capital work.
- At the outset of 2020, the MTA set an ambitious goal of committing $13.5 billion of capital work. Despite the pandemic, the authority was able to commit $5.4 billion in 2020, mostly for federally funded projects and in-house capital work.
- The amount of outstanding long-term debt issued by the MTA more than tripled between 2000 and 2020, reaching $38 billion, and is projected to approach $47 billion by 2023 (including $2.9 billion issued for operating expenses).
- Debt service is projected to reach $3.8 billion by 2028, $1.1 billion more than in 2020. The share of total revenue needed to pay debt service is projected to reach 23 percent in 2024, after averaging 16 percent over the past decade.
- The MTA says it can no longer afford its original $9.8 billion commitment to the 2020-2024 capital program. The authority is faced with the choice of cutting the program by $2.9 billion or issuing the debt and pushing the debt burden higher.
- The MTA's projections do not include debt service on $6.9 billion of bonds it now plans to issue for the 2020-2024 capital program.
- The debt burden is likely to grow even higher, depending on the timing of bonds to be issued by the MTA to fund this $6.9 billion contribution.

As 2020 began, the Metropolitan Transportation Authority (MTA) was already facing challenges in balancing its budget, along with missed capital commitment goals, capital funding risks and escalating debt service costs. The COVID-19 pandemic has exacerbated these troubling trends. The MTA was able to balance its 2020 and 2021 budgets with federal emergency relief and funds that had been earmarked for capital purposes. The authority now faces out-year gaps it intends to close with additional federal aid and borrowed funds, and it must advance a capital program that has barely started.

The debt profile reflects these challenges and is cause for increasing concern. The MTA's outstanding debt has more than tripled in 20 years to $38 billion in 2020, and debt service has grown at a similar rate, increasing to $2.7 billion. Debt service as a percentage of total revenue (i.e., the "debt burden") is expected to grow from an average of 16 percent over the past decade to about 23 percent in 2024.

Since the MTA borrowed $2.9 billion for operating purposes, it now says that it no longer can afford to support its planned $9.8 billion contribution to the 2020-2024 capital program. As a result, in lieu of identifying new funding sources or reducing expenses, which is highly uncertain, the MTA is faced with the choice of cutting the program by $2.9 billion or issuing the debt and pushing the burden higher. Other funding risks also remain.

The MTA is expecting revenues to return to pre-pandemic levels after 2024. If that does not happen, its debt service will still have to be paid, potentially tying up funds that could be used for operations. If revenues do not return, very high debt burdens could lead to service cuts, higher-than-planned fare and toll increases, and/or disinvestment in the MTA's capital assets.

Impact of the Pandemic

As a result of the COVID-19 pandemic, the MTA experienced severe revenue losses, which required deficit borrowing, diverting funds meant for capital purposes, and halting most capital work. Utilization of the MTA's services and economic activity in the metropolitan area dropped precipitously in the second quarter of 2020. Ridership and dedicated tax revenues have rebounded as activity has begun to return, but remain below pre-pandemic levels. In March 2021, ridership was still down from pre-pandemic levels by an average of 65 percent on subways, 51 percent on buses, and more than 70 percent on commuter railroads. It is uncertain to what extent riders will return.

Dedicated tax revenue collections have also declined. As a result, the MTA's revenues have been devastated, and has only been able to balance its short-term budgets with $14.5 billion in federal aid and $2.9 billion in borrowing for operating purposes. To help deal with its financial crisis, the MTA also has used funds that had been earmarked for the capital program in its operating budget. As a result, the authority's capacity to issue new debt has been strained. In addition, it ceased most new capital work in the face of operational challenges and a weaker financial outlook. The pandemic has forced the MTA to consider whether and when revenues will return to previous projections to fund planned levels of capital spending, and the related implications for its capital program.

Capital Program Progress

The MTA's capital programs are critical to bring the overall system to a state of good repair, perform normal replacement of assets, and improve and expand the system to meet riders' needs. It has, however, had chronic difficulty meeting its capital commitment goals. In 2016 through 2019, it set average annual goals of $7.1 billion for capital commitments, but was able to commit only an average of $5.8 billion.

In 2020, as the 2020-2024 capital program was starting, the MTA set an ambitious goal of committing $13.5 billion for capital work. The pandemic, however, quickly forced the authority to pause most capital commitments except for those that were federally funded and those that used in-house labor. As a result, only $5.4 billion across all capital programs was able to be committed in 2020. In 2021, as the pause has been lifted, the MTA has a goal of committing $6.2 billion, nearly two-thirds of which is scheduled in the second half of the year.

The MTA's capital program for 2020-2024 totals $54.8 billion, by far the largest program in its history. As of December 31, 2020, only 100 of 517 projects had been completed or begun, and most of the rest of the program had been indefinitely suspended.

FIGURE 1
MTA 2020-2024 Capital Program Funding Sources (in millions)

Funding Source	Amount	Risks
Congestion Pricing	$15,000	Not yet approved by U.S. Department of Transportation (DOT); no revenue expected until 2023
Other Lockbox Funds	$10,000	Revenues could be lower than expected
MTA Bonds/PAYGO	$9,792	$2.9 billion already issued for operating costs
Federal Formula	$7,775	No funding authorization after September 2021
Federal New Starts	$2,905	Not yet approved by U.S. DOT
New York State	$3,000	State debt capacity issues
New York City	$3,000	Most not budgeted yet
Bridge & Tunnel Funds	$3,327	Toll revenues are lower
Total	**$54,799**	

Sources: Metropolitan Transportation Authority; OSC analysis

As shown in Figure 1, uncertainties surround all of the planned funding sources for the MTA's 2020-2024 capital program. For example, the largest source of funding, congestion pricing, requires federal approval before construction of the pricing infrastructure can proceed.[1] The MTA expects final approval sometime in 2021, yet revenue from congestion pricing is not expected to be received until 2023 at the earliest.

State legislation created a capital lockbox for the revenues from congestion pricing. The lockbox will also receive a portion of State and City sales tax collections along with taxes on certain properties in New York City, which together will generate another $10 billion for the capital program. State legislation authorizes the MTA to use these revenues during 2020 and 2021 to mitigate the impact of the pandemic on its operating budget. The MTA initially budgeted to use $965 million of these funds for operating expenses, but with the expected receipt of additional federal funding, it no longer expects to use these funds for this purpose.

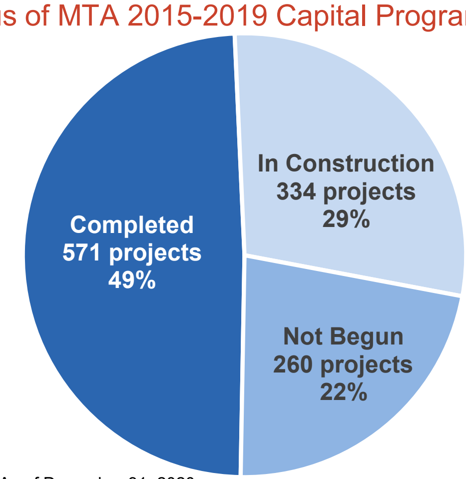
The MTA is assuming that the federal government will contribute $10.7 billion to the 2020-2024 program, including $2.9 billion for the next phase of the Second Avenue Subway. The federal government, however, has not yet agreed to contribute to this project. Further, the expected level of federal formula funding might not be forthcoming, as a new multiyear transportation authorization bill has not yet been approved. The current authorization expired in September 2020 and has been extended for one year. A new infrastructure bill proposed by President Biden would likely provide contributions for the program, but remains subject to the legislative process.

State legislation also commits the State and the City to each provide $3 billion for the 2020-2024 program. The State has appropriated the full amount and expects to issue $10 billion of its own bonds to fund this and prior commitments. However, there is a risk that the State might decide not to bond the full amount, as its own capacity under the State's debt-reform limit becomes strained. The City's commitment plan has only appropriated $200 million thus far, as it faces its own fiscal challenges.

The MTA committed to pay $9.8 billion for the transit and commuter railroad portions of the capital program but now suggests it can only afford to pay $6.9 billion because the remaining debt capacity was used to issue $2.9 billion for operating purposes. If revenues do not return to pre-pandemic levels or additional financial support is not secured, the MTA may be forced to cut the program by $2.9 billion or more. It may also consider extending the current program past 2024, instead of proposing its next capital program in that year.

At the same time the MTA begins work on the 2020-2024 program, it must still finish its 2015-2019 program and obtain outstanding funding for those projects. Partly as a result of the program being approved 18 months late, more than half of the 1,165 projects that make up the 2015-2019 capital program were not finished as of December 31, 2020 (see Figure 2). The MTA had completed 571 projects, but 334 (29 percent) were still in construction, and construction had not even begun on the remaining 260 projects (22 percent).

FIGURE 2
Status of MTA 2015-2019 Capital Program



Note: As of December 31, 2020.
Sources: Metropolitan Transportation Authority; OSC analysis

[1] Congestion pricing will charge fees to vehicles entering and remaining in Manhattan at 60th Street or below. The federal government has advised the MTA that it should conduct an environmental assessment of congestion pricing which requires a shorter review time than a full environmental impact statement.

Debt Outstanding

The amount of outstanding long-term debt issued by the MTA more than tripled between 2000 and 2020, rising from $11.4 billion to $38.4 billion. The MTA expects debt outstanding to reach $46.9 billion by 2023 (see Figure 3). The authority's statutory debt cap is $90.1 billion, after being raised last year to support the 2020-2024 capital program and to enable the issuance of bonds backed by sources for the capital lockbox.

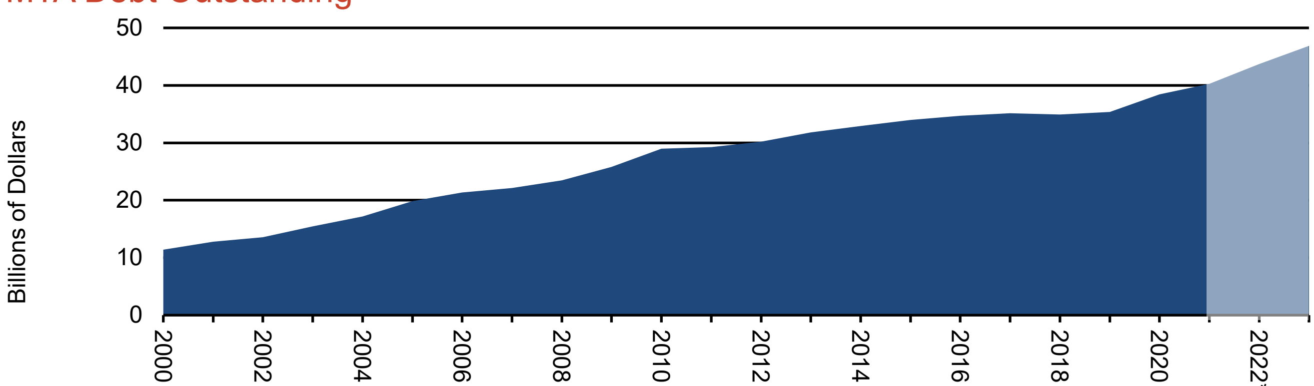
This forecast assumes that $2.4 billion in long-term bonds will be issued in 2023 to repay the bond anticipation notes (BANs) that were issued to the U.S. Federal Reserve's Municipal Liquidity Facility (MLF) to stem operating losses brought about by the pandemic. The projected amount to be paid through long-term bonds is subject to market conditions, which may carry some risk as the notes come up for payment. Deficit financing is regarded as an undesirable fiscal practice that should only be used in an emergency, since it creates a long-term liability to manage short-term needs. The practice creates more costly fixed expenses in the long run for services already rendered, and takes valuable funds away from long-term capital investments.

This forecast does not include $6.9 billion of debt the MTA now expects to bond for projects in the transit and commuter portions of the 2020-2024 capital program, and as much as $24.6 billion in future bonding backed by the capital lockbox. To date, the MTA has identified only $356 million in assumed lockbox bonding, which would replace BANs that are backed by Triborough Bridge and Tunnel Authority (TBTA) revenue to fund the installation of the infrastructure needed for congestion pricing. In total, the MTA could borrow up to $34.4 billion in additional debt for its prior and current capital programs. Projected borrowing for any future capital programs after the 2020-2024 program is also not included in this forecast.

The State committed to fund $7.3 billion of the MTA's 2015-2019 capital plan and $3 billion of the MTA's 2020-2024 capital program, but the sources of State funding had not been identified at the time. In the interim, the MTA issued BANs to fund a portion of the State's share and expected the State to reimburse it for the debt service on the long-term bonds issued to repay the BANs.

However, the State budget for SFY 2022 assumes that the State will finance both contributions with State bonding instead of reimbursing the MTA for the debt service on its bonds. As a result, the MTA would be relieved from potentially having to bond these amounts. The MTA currently assumes it will issue $700 million in bonds in 2022 to repay a BAN that was issued to fund the State's share, and that it will be reimbursed by the State for the debt service on that bond. The State and the MTA have not finalized a decision on which entity will pay for this issuance.

FIGURE 3
MTA Debt Outstanding



Note: Excludes bond anticipation notes.
Sources: Metropolitan Transportation Authority; OSC analysis

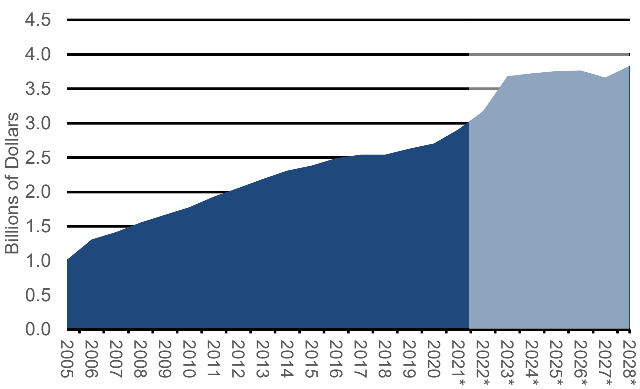
*MTA forecast

Debt Service and Debt Burden

Debt service is projected to reach $3.8 billion by 2028, $1.1 billion (42 percent) more than in 2020, inclusive of projected debt service for the bonds that will be issued to repay the BANs issued to the MLF. The MTA expects the debt service on these bonds to cost $121 million in 2024, rising to $195 million by 2034 as principal payments would be deferred for 10 years, continuing a recent practice of delaying principal payments.

The MTA's debt service forecast would be higher if the issuance of the $6.9 billion in anticipated debt for the 2020-2024 program was included. The MTA does not anticipate issuing these bonds until all other funding sources are committed.

FIGURE 4
MTA Debt Service



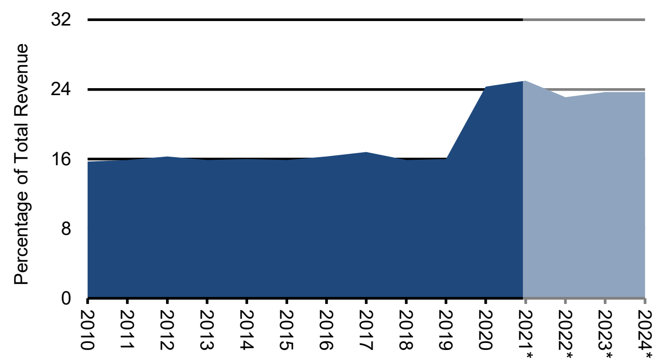
Sources: Metropolitan Transportation Authority; OSC analysis *MTA forecast

While the MTA's debt service forecast will also increase once up to $25 billion in anticipated capital lockbox bonding is fully realized, such debt service will be paid from the lockbox, which is separate from the MTA's operating budget and thus has no budgetary impact.

The MTA has recently structured its bond sales to defer the payment of principal for more than 20 years, which would result in lower debt service costs as the authority deals with its financial crisis. However, this approach, known as "backloading," relies on a timeframe that greatly exceeds the duration of the MTA's expected revenue recovery, locks in higher costs for the next generation of riders and taxpayers, and exacerbates debt-related risks in its already highly leveraged future. It should also be noted that the MTA's practice of avoiding amortizing debt for a number of years preceded the onset of the COVID-19 fiscal crisis, and is a significant contributor to expectations that its future position will be more highly leveraged.

The MTA's debt service projection includes proceeds from its MLF borrowing and federal aid in its revenue base when calculating the burden. As a result, the plan projects the debt burden in 2021 at 16.6 percent, whereas when these funds are excluded, the debt burden is 25 percent. Since proceeds from MLF borrowing are not being used to pay debt service, excluding them gives a clearer picture of how much of the MTA's available recurring operating revenue is being used for debt service.

FIGURE 5
MTA Debt Burden



Note: Federal aid and MLF proceeds excluded from revenue. *MTA forecast
Sources: Metropolitan Transportation Authority; OSC analysis

The share of total revenue (excluding operating federal aid and borrowing from the MLF) needed to fund debt service averaged 16.1 percent from 2010 through 2019 (see Figure 5). As a result of losses in revenues due to the pandemic, the debt burden is now projected to be 25.0 percent in 2021 before declining slightly to 22.7 percent in 2024. The debt burden will still be relatively high after the effects of the pandemic begin to lessen, as projected debt service continues to rise. As noted, the issuance of $6.9 billion for the transit and commuter railroad portions of the 2020-2024 capital program could increase the burden further, depending on timing of debt issuance.

There is also a risk that the MTA could be left to fund some or all of the debt service on the bonds issued to cover $10.3 billion of the State's contribution to the MTA's capital programs if the State reaches its statutory debt limit and cannot afford to make its payments. The State has issued $1.2 billion in bonds for its portion of the 2015-2019 capital program.

FIGURE 6
2021 MTA Debt Affordability

Bond Credit	Pledged Revenue (in millions)	Debt Service (in millions)	Debt Service as Share of Pledged Revenues
Transportation	$8,431	$1,663	20%
Dedicated Tax Fund	565	390	69%
TBTA General	856	602	70%
TBTA Subordinate	254	102	40%

Sources: Metropolitan Transportation Authority; OSC analysis

As shown in Figure 6, the MTA uses four main credits for its bonding program. Transportation Revenue Bonds (TRBs) are most used because the majority of MTA revenue is pledged toward debt service payments. In 2021, following the drop in revenues, 20 percent is being used for debt service, up from 11 percent in 2019. As a result of the MTA's financial crisis, TRBs have been downgraded seven times by four rating agencies since the beginning of the pandemic.

The MTA Dedicated Tax Fund (DTF) Bonds are backed mostly by petroleum business taxes. In 2021, 69 percent of these revenues are going toward debt service. By 2024, 75 percent is expected to be unavailable for operating expenses.

The debt capacity of TBTA bonds has been hurt by lower available toll revenue in 2021, but debt service as a percentage of pledged revenue is expected to improve in 2022 to 45 percent for TBTA General Revenue Bonds and 13 percent for Subordinate Revenue Bonds.

This month, MTA is using payroll mobility taxes as a new primary source of revenue pledged to issue bonds. This new credit, first utilized with the MLF borrowing, is expected to increase the MTA's debt capacity.

The MTA projects budget gaps of $3.1 billion in 2022 and $2.4 billion in each of 2023 and 2024. These estimates assume service reductions starting in 2023, an increase in fare and toll yields in each of 2021 and 2023, and the success of its transformation plan. The MTA is expected to receive at least $6.5 billion from the latest federal COVID-19 relief bill, but the receipt of that aid will not help improve its debt burden or close its structural imbalance.

Conclusion

The MTA is faced with cutting its capital program by $2.9 billion if revenues do not return to pre-pandemic levels and it does not receive additional financial support and/or reduce expenses. The MTA could need additional federal capital aid to help close this funding gap. The State already expects to bond more than $10 billion for the MTA's capital programs, and may not be able to accommodate any increases in borrowing.

In a scenario with low ridership and no new capital assistance, the MTA may also be forced to reprioritize its capital program, thus pushing much-needed repairs and modernizations further into the future. A reduction in the program would risk undoing progress in making the MTA safe, accessible and reliable. All MTA stakeholders must come together to address these challenges and ensure that the system remains in a state of good repair and continues to provide services needed for the region's economy to recover and prosper in the years ahead.

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