Financial Outlook for the Metropolitan Transportation Authority

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Transit Facts

- **Subway and Metro-North ridership has bounced back from the recession, but Long Island Rail Road and MTA bus ridership, as well as crossings on the MTA's bridges and tunnels, continues to fall.**
- **The MTA has raised fares and tolls by 21.4 percent since 2007 (two and a half times the inflation rate) and proposes to raise them by another 15 percent by 2015 (more than twice the inflation rate).**
- **Surplus toll revenue from bridge and tunnel crossings is expected to contribute $2.5 billion to mass transit through 2015.**
- **Spending will grow at an annual rate of 5 percent through 2015—two times faster than inflation—despite a proposed three-year wage freeze.**
- **Health and welfare costs will reach $1.8 billion by 2015—$592 million more than in 2011. Pension contributions will reach $1.4 billion in 2015, or $347 million more than projected for 2011.**
- **Energy costs doubled between 2003 and 2011, and could reach $813 million by 2015—three times higher than the costs in 2003.**
- **The MTA reduced overtime by $56 million in 2010, but heavy snowstorms, manpower shortages, and Tropical Storm Irene set back those efforts in 2011.**
- **Debt service rose from $868 million in 2003 to $2 billion in 2011 to fund capital programs that preceded the 2010-2014 capital program.**
- **If the MTA's financing proposals are approved for the 2010-2014 program, debt service could reach $3.3 billion by 2018—64 percent more than in 2011.**
- **Debt service as a percent of total revenue could rise from 16.4 percent in 2011 to 22.7 percent in 2018 without future fare and toll increases. (The burden could reach 20.5 percent in 2018 even with biennial fare and toll increases of 7.5 percent.)**
- **The total cost to the operating budget of financing the 2010-2014 capital program could reach $33 billion over the term of the loans, which is nearly $13 billion more than the currently approved financing program.**

The recession greatly weakened the finances of the Metropolitan Transportation Authority (MTA), and for nearly two years the MTA has been attempting to stabilize its finances by reducing waste, cutting services, and raising fares and tolls.

On July 27, 2011, the MTA released a revised financial plan for 2011 through 2015 (the "July Plan"). The July Plan shows balanced budgets for 2011 through 2013, and relatively small budget gaps for 2014 and 2015. The July Plan, however, faces a number of potential budget risks.

In addition to addressing the impact of Tropical Storm Irene, the most immediate challenge facing the MTA is negotiating new labor agreements with its unions. The July Plan assumes that any wage increases during the first three years of a new agreement will be offset by savings from union concessions, and that wages will increase at only the inflation rate in the following two years.

In addition, the MTA must remain steadfast in its efforts to reduce waste and inefficiencies. Actions taken so far are expected to produce recurring savings of $550 million beginning in 2012, but the MTA must be on guard against slippage. The MTA also plans additional management improvements, which are expected to produce another $270 million annually by 2015.

A critical concern for the MTA will be the pace of the economic recovery. About one-third of the MTA's resources come from economically sensitive taxes, and the use of mass transit is closely tied to employment. Wall Street, the region's economic engine, has lost about 4,000 jobs since April 2011, and the recovery is showing signs of weakening.

The MTA also needs to be prepared if New York State enacts another round of budget cuts to balance its budget. In each of the last two fiscal years, the State has reduced planned funding for mass transit.

As the MTA works to stabilize its operating budget, it must also address a $9.9 billion funding shortfall in its current five-year capital program. The MTA had been looking to its funding partners to fill the entire gap, but those partners are dealing with their own budget challenges, and the current climate offers little support for raising taxes.

Thus the MTA finds itself in a difficult situation, for it needs to complete the expansion projects it has already undertaken (e.g., East Side Access) and it also must invest in the current transit system to ensure its safety and reliability.

With few options available, in July 2011, a preliminary financing strategy was presented to the MTA Board. The strategy calls for reducing the capital program by another $2 billion for a total cut of $3.8 billion. Nearly all of the reductions are concentrated in maintenance and modernization, but the MTA intends to mitigate any adverse impact by using its capital funds more efficiently.

The MTA has also proposed borrowing $14.8 billion—the largest amount in its history. Such a heavy reliance on debt would further stress the operating budget. Debt service would reach $3.3 billion annually by 2018, or 64 percent more than in 2011, and would remain at that level through 2031. These estimates do not even consider the cost of the next capital program, which begins in 2015.

The MTA's financial plan had set aside some of the proceeds anticipated from the payroll mobility tax to fund a portion of the capital program, but collections fell short of expectations, and the recession eroded other operating budget resources. To balance the operating budget and to help fund the capital program, the MTA has undertaken an aggressive program to reduce costs.

These cost-cutting efforts, however, are unlikely to be sufficient. Even if the MTA raises fares and tolls by 7.5 percent in 2013 and 2015 as it already plans, and raises them by the same amount in 2017, it could still face budget gaps that would grow from $600 million in 2016 to $1.2 billion by 2018.

While the MTA Board has a fiduciary responsibility to ensure that the existing regional transportation system is maintained and modernized, and that the system is expanded to meet future demand, it also has a responsibility to ensure that fares and tolls remain affordable, and that services are not compromised because of rising debt service. Before approving a new financing proposal for the current capital program, the MTA Board should present the long-term implications to the public.

Background

In April 2009, the MTA faced a two-year budget gap of $5 billion, along with large recurring budget gaps, because spending, particularly health insurance, pensions, and debt service, was growing much faster than inflation, and because tax revenues and ridership had fallen because of the recession.

In May 2009, the State raised taxes (e.g., the payroll mobility tax) and fees, and dedicated the revenues to the MTA to help address its long-term structural imbalance. These actions were expected to generate $2.9 billion over the course of 2009 and 2010, and about $2 billion annually thereafter. For its part, the MTA raised fare and toll revenue by 10 percent, and committed to reduce future costs as well as to raise fare and toll revenue by 7.5 percent in both 2011 and 2013. The MTA also set aside a portion of the proceeds anticipated from the mobility tax to help fund the capital program on a pay-as-you-go basis.

These actions were expected to restore structural balance to the operating budget and help fund the capital program. Shortly thereafter, the plan to put the MTA on sound financial footing began to unravel as collections from the new payroll tax fell far short of targets; real estate tax collections were weaker than expected; labor costs rose because of an arbitration award; and New York State cut funding to help balance the State budget.

Closing the Projected Budget Gaps

As discussed below, the MTA is implementing a multiyear gap-closing program to eliminate budget gaps that ranged from $1.1 billion in 2011 to $2.7 billion by 2015. Management actions and fare and toll hikes in 2010 balanced the 2011 budget and reduced the out-year gaps by about $1 billion, leaving gaps of $500 million in 2012, $850 million in 2013, $1.3 billion in 2014, and $1.8 billion in 2015. Future actions are expected to eliminate most of the remaining gaps (Figure 1).

Figure 1
MTA Program to Eliminate the Gaps
(in millions)

	2011	2012	2013	2014	2015
2010 Management Actions					
Budget Reduction Program	198	197	205	195	195
Service Reductions	123	117	111	111	111
Administrative Savings	101	102	103	104	104
Paratransit Savings	80	80	80	80	80
Overtime Savings	25	25	25	25	25
Subtotal	**527**	**521**	**524**	**515**	**515**
2011 Management Actions	5	**36**	**36**	**38**	**38**
Future Management Actions	**46**	**124**	**220**	**245**	**270**
Fare & Toll Hikes					
December 30, 2010	411	429	434	438	442
January 1, 2013	- - -	- - -	448	465	470
January 1, 2015	- - -	- - -	- - -	- - -	493
Subtotal	**411**	**429**	**882**	**903**	**1,405**
Labor Savings	**80**	**192**	**275**	**339**	**359**
Prior Year Carry-Over	**160**	**170**	**4**	**125**	**- - -**
Surplus/(Gaps) per July 2011 Plan	**$ 170**	**$ 4**	**$ 125**	**$ (54)**	**$(178)**

Sources: Metropolitan Transportation Authority; OSC analysis

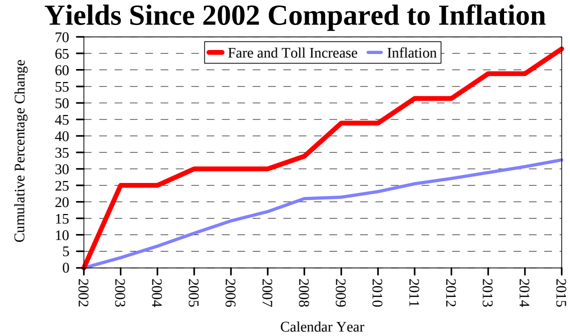
Management Actions: In 2010, the MTA cut services (the largest reduction in decades), reduced administrative staff, and pursued other initiatives to help balance the operating budget. These measures are expected to save about $520 million annually starting in 2011, with nearly 30 percent coming from actions that affect customer service. The MTA is implementing additional actions in 2011 that are expected to produce recurring annual savings of $38 million by 2014.

Future Management Actions: The July Plan assumes that future actions will generate $46 million in 2011 and $270 million by 2015. Of these amounts, new management efficiencies are expected to save $27 million in 2012 and as much as $231 million by 2015. The MTA has not yet specified most of these savings, but it has indicated that it will seek savings from additional consolidation of agency functions (e.g., office space rightsizing) and better management of its information technology systems.

The MTA also plans to achieve additional overtime savings beginning in 2011, but these savings are dependent on the outcome of collective bargaining. Beginning in 2013, the MTA will charge $1.00 for each new MetroCard as an incentive for customers to refill cards rather than buy new ones. This initiative is expected to generate $20 million annually from additional revenue and the savings from printing fewer cards.

Fares and Tolls: The MTA raised fares and tolls 7.5 percent in December 2010—the third fare increase since 2007. Two additional 7.5 percent raises are planned at the beginning of 2013 and 2015 (see Figure 2). If the MTA raises fares and tolls as planned, by 2015 fares and tolls will have increased by 66 percent since 2002, or at twice the rate of inflation (33 percent).

Figure 2
Cumulative Change in Fare and Toll Yields Since 2002 Compared to Inflation



Sources: Metropolitan Transportation Authority; OSC analysis

Labor Policy: The Governor has reached five-year agreements with the State's two largest unions that include a three-year wage freeze. The July Plan assumes that MTA workers will also agree to new collective bargaining agreements that result in no net cost to the MTA for three years. According to the MTA, any wage increase would have to be offset by savings from productivity improvements and work rule changes. The MTA has already imposed a three-year wage freeze on workers not represented by unions. The Transport Workers' Union (TWU), which represents about 50 percent of the MTA's workforce and which has a contract that expires on January 15, 2012, opposes the MTA's proposal. The MTA's agreements with other major unions have already expired.

Utilization Trends

The use of mass transit services (i.e., subway, bus, and commuter railroads) grew by 3 percent in 2008 to reach the highest level in decades, but utilization declined by 76 million riders (2.8 percent) in 2009 and by another 5 million riders (0.2 percent) in 2010 as a result of the recession and budget cuts that reduced services.

Despite continued declines in ridership on MTA buses and the Long Island Rail Road (LIRR) in 2011, the July Plan assumes that overall use of mass transit will hold steady in 2011 because of a strong rebound in subway and Metro-North Railroad ridership. Figure 3 shows usage trends for each service since 1990 (also described below).

New York City Transit: In 2009, subway ridership declined by 2.7 percent—a loss of 44 million riders. Ridership increased by 24 million in 2010 (1.5 percent) as New York City regained jobs, and the July Plan assumes ridership will grow by another 25 million riders in 2011 (based on the assumption that the City will add 44,000 jobs this year). The July Plan further assumes that subway ridership will grow by 34 million in 2012 (2.1 percent) as the economic recovery accelerates; this may be overly optimistic.

Bus ridership fell by 50 million riders between 2008 and 2010 as a result of the recession and budget cuts that eliminated 33 routes and shortened others. Bus ridership is projected to fall by another 23 million riders in 2011 (by 3.3 percent), but then grow slowly in 2012 (by 1.5 percent) and in subsequent years.

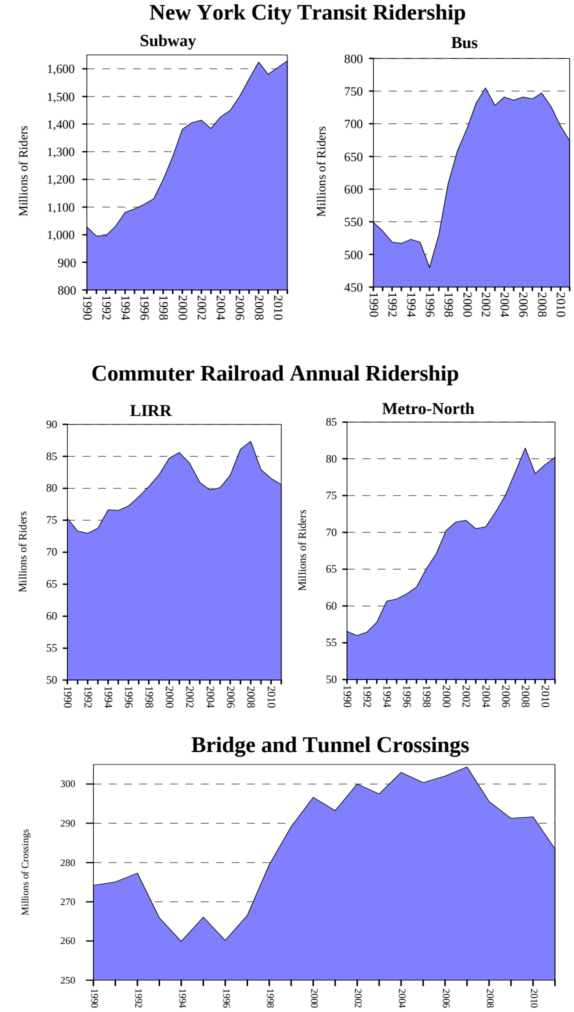
Long Island Rail Road: Ridership declined by 4.4 million riders in 2009 (5 percent)—the largest one-year decline in decades—and by another 1.4 million riders in 2010. Ridership is expected to decline by another 1 million in 2011 and then grow slowly through 2015.

Metro-North Railroad: Ridership fell by 3.7 million riders in 2009 (4.4 percent), but rose by more than 1 million riders in 2010 (1.5 percent). Ridership is expected to rise by another 1 million riders in 2011 with a growth in ridership during non-peak hours and in response to employment gains in the region.

Bridge and Tunnel Crossings: Crossings declined by 12.7 million vehicles between 2007 and 2010 (4.2 percent) in the wake of high gasoline prices. The July Plan assumes that crossings will decline by another 8 million vehicles in 2011 (2.8 percent) as a result of higher gasoline prices and tolls, and then grow by about 1 percent annually thereafter.

Figure 3

New York City Transit Ridership



Sources: Metropolitan Transportation Authority; OSC analysis

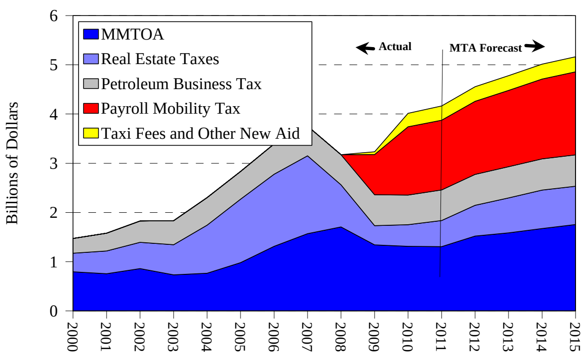
Dedicated Transit Taxes

Since 1980, New York State has imposed taxes and fees on both a regional and a statewide basis to benefit mass transit, including sales taxes, payroll taxes, real estate taxes, petroleum business taxes, and motor vehicle fees.

Dedicated taxes and fees will produce nearly $4.2 billion in 2011 and $5.2 billion by 2015, an increase of 24 percent (see Figure 4). The payroll mobility tax, which is the MTA's largest source of tax revenue, is expected to generate $1.4 billion in 2011 and nearly $1.7 billion by 2015. A number of suburban counties and school districts, however, are challenging the constitutionality of the payroll mobility tax and are seeking its repeal.

Figure 4

MTA Dedicated Tax Revenues



Sources: Metropolitan Transportation Authority; OSC analysis

Tax collections from real estate transactions contributed $1.6 billion to the MTA at its peak in 2007, but declined to less than $400 million in 2009 as the real estate market collapsed. While the residential real estate market remains weak, the commercial market has begun to improve.

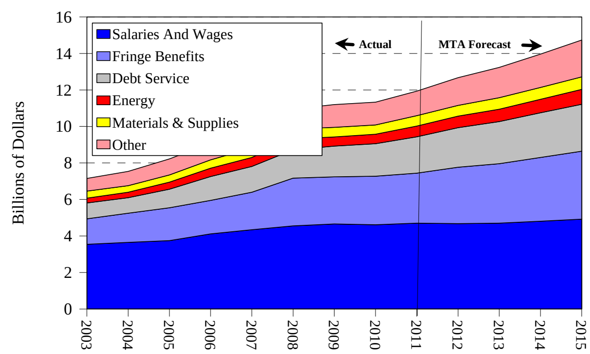
The July Plan assumes that real estate tax collections will increase by 47 percent over the next three years to $782 million by 2014, which is still half the level in 2007. Although collections could increase quickly if the recovery accelerates or if foreign investors take advantage of the weak dollar to purchase commercial real estate—which would provide an unanticipated windfall for the MTA—these prospects remain uncertain given the volatility in the global economy.

Expenditure Trends

Between 2003 and 2011, spending rose by 67 percent from $7.2 billion to $11.9 billion (see Figure 5). This represents an average annual growth rate of 6.6 percent, more than twice the annual inflation rate during this period (2.8 percent). The July Plan assumes that, despite a three-year wage freeze, spending will grow at an annual rate of 5.1 percent through 2015 (twice the projected inflation rate). The relatively rapid rate of growth reflects rising costs for health insurance, pensions, debt service, and services for disabled commuters who are unable to use public bus or subway services (i.e., the paratransit program).

Figure 5

MTA Expenditures



Sources: Metropolitan Transportation Authority; OSC analysis

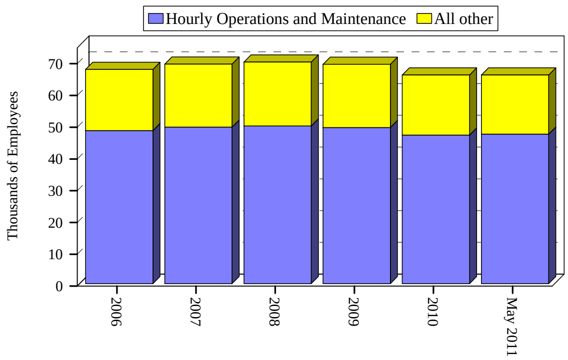
Salaries and wages, which account for 40 percent of the MTA's budget, will grow from $3.6 billion in 2003 to $4.7 billion in 2011, an average annual rate of 3.6 percent, which exceeds the inflation rate (2.8 percent). Such costs are projected to remain flat through 2013, based on the assumption of a three-year wage freeze, but then grow at the projected inflation rate during 2014 and 2015 (an average of 1.9 percent).

Health and welfare costs are projected to grow at an annual average rate of 10.8 percent to reach $1.8 billion by 2015 ($592 million more than in 2011), reflecting the growth in health insurance premiums.

Pension contributions are projected to reach $1.4 billion in 2015, which is $347 million more than in 2011, reflecting recent investment performance and expected changes in actuarial assumptions, such as a reduction in the annual investment earnings assumption from 8 percent to 7.5 percent.

The number of MTA employees peaked at 69,756 in 2008 (see Figure 6), but declined by 6 percent by the end of 2010 as the MTA implemented deep cuts in services, maintenance, and administration, and laid off more than 1,000 employees.

Figure 6
MTA Staffing



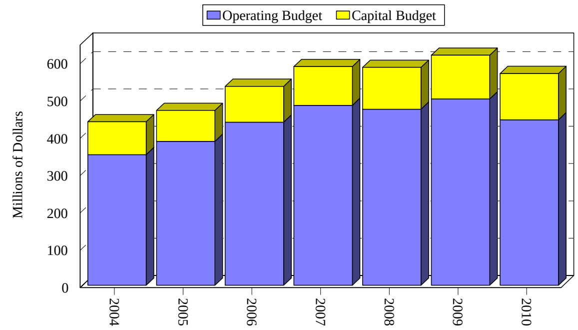
Sources: Metropolitan Transportation Authority; OSC analysis

The number of hourly operation and maintenance personnel fell by 2,885 employees between December 2008 and December 2010. During the first five months of 2011, the number of personnel grew to 47,098 as the MTA hired 325 employees, including some that had been laid off, but staffing was still 368 below the planned level for May 2011. The MTA plans to hire another 980 employees by 2015.

The number of other employees (e.g., supervisory, professional, technical, clerical, and non-operations/non-maintenance hourly titles) declined by 1,510 positions (7.5 percent) between December 2008 and May 2011. Headquarters was required to reduce administrative staffing by 20 percent in 2010, and each operating agency was required to reduce staffing by 15 percent.

As shown in Figure 7, overtime costs at the operating agencies have grown steadily each year since 2004, and peaked at $499 million in 2009 (or $616 million, when costs associated with the capital program are included). In 2010, the MTA successfully reduced overtime by $49 million (or $56 million, when costs associated with the capital program are included)—a reduction of 9.8 percent. While the MTA has continued its efforts to reduce overtime, it has experienced setbacks in 2011 from heavy winter snowstorms, a shortage of operation and maintenance personnel as a result of budget cuts, and Tropical Storm Irene. As of May 2011, overtime was $17 million over budget.

Figure 7
MTA Overtime



Sources: Metropolitan Transportation Authority; OSC analysis

Risk Assessment

The July Plan shows year-end cash balances of $170 million in 2011, $4 million in 2012, and $125 million in 2013, and then relatively small deficits for 2014 ($54 million) and 2015 ($178 million). The major risks to the July Plan are discussed below.

The July Plan could not have anticipated Tropical Storm Irene, which caused service disruptions and damage to physical assets. The MTA is still assessing the impact, but insurance and federal aid is expected to cover much of the cost.

Besides addressing the impact of Tropical Storm Irene, the most immediate challenge facing the MTA is negotiating new labor agreements with its unions. Most of the MTA's employees are working with expired contracts, or their contracts will expire in the next few months. The July Plan assumes that the next round of collective bargaining will have no net cost to the MTA for the first three years, with the cost of any wage increases offset by union concessions. Wage increases at the inflation rate for union-represented workers without offsetting savings would cost $62 million in 2011, rising to $327 million by 2015. The July Plan assumes that wages will rise at the inflation rate after the expiration of the three-year wage freeze.

In addition, the MTA must remain steadfast in its efforts to reduce waste, which have begun to produce results. Excluding cuts in service, the MTA has implemented initiatives that are expected to save about $400 million annually. Not only must the MTA avoid slippage in these initiatives, but it must implement additional management improvements to generate anticipated annual savings of $270 million by 2015.

About one-third of the MTA's resources come from economically sensitive taxes, so the pace of the recovery, which has slowed, is a key concern.

Another risk is the possibility of further cuts in State support. The State reduced funding to the MTA's operating budget by $160 million in 2009 and 2010, and $170 million in 2011. (To ease the impact, the MTA reallocated $70 million in the operating budget that had been set aside to help fund the capital budget.) A bill to make it more difficult to reduce State funding to the MTA was approved by the Legislature but has not yet been sent to the Governor.

On a positive note, debt service could be about $50 million less in 2012 and 2013 because interest rates are likely to remain low through 2013. The MTA also could save about $200 million through 2015 if the federal government approves an $800 million low-interest loan to refinance outstanding MTA debt. While the MTA will realize savings from higher pension fund investment earnings during the 12-month period ending on June 30, 2011, these savings could be offset by subsequent investment shortfalls.

Reserves and Other Resources

The MTA's financial plan sets aside operating resources for purposes other than balancing the budget. In general, these purposes are fiscally prudent and will help the MTA's long-term financial position, but could be redirected by the MTA Board for other purposes.

The MTA created a trust to help fund future post-employment benefits other than pensions (i.e., OPEBs). The balance in the fund will grow from $270 million in 2011 to $609 million by 2015, assuming the MTA repays $270 million that was borrowed in prior years to balance the operating budget. The July Plan also sets aside $900 million in operating revenues through 2015 to fund capital projects on a pay-as-you-go (PAYGO) basis.

To meet its cash flow needs in past years, the MTA has borrowed from its capital fund, but it now proposes to set aside $500 million in operating resources over five years to repay this loan and to help with cash flow. The MTA should also consider short-term loans to meet its cash flow needs given current interest rates.

Financing the Capital Program

The transportation system operated by the MTA has improved greatly since 1982 (when the system was on the verge of collapse), as the result of a capital investment of $80 billion through 2009. Despite this progress, many parts of the system are still in need of repair and modernization, and the system has not been expanded in decades.

In August 2009, the MTA proposed a $28 billion capital program for 2010-2014 to continue the restoration and modernization of the existing system, and to complete the East Side Access project and the first phase of the Second Avenue Subway.

An assessment by the Office of the State Comptroller (OSC) in September 2009 found that the proposed program had a funding shortfall of $9.9 billion; funded only 67 percent of the capital needs identified by the operating agencies to maintain the existing system in a state of good repair; and expected a large increase in federal funding, which was optimistic.

The 2010-2014 capital program was initially vetoed by the New York State Capital Program Review Board (CPRB), but the program was later approved after the MTA cut back spending by $1.8 billion to reflect a more realistic level of federal funding for the first two years. The remaining three years of the capital program have a funding gap of $9.9 billion.

The MTA had been looking to its funding partners to fill the funding gap, but those partners are contending with their own fiscal challenges, and there appears to be little support for raising taxes, especially so soon after the State approved the payroll mobility tax in May 2009.

With few options available, in July 2011 a preliminary financing strategy was presented to the MTA Board. The proposal calls for reducing the capital program by another $2 billion for a total cut of $3.8 billion. Nearly all of the reductions are concentrated in maintenance and modernization, but the MTA intends to mitigate any adverse impact by using its capital resources more efficiently.

The MTA is also proposing the largest borrowing program in its history. It proposes to borrow an additional $6.3 billion, for a total of $14.8 billion, compared to $8.5 billion in the approved financing program (see Figure 8). The MTA would issue $12.6 billion of its own debt, and is seeking approval from the federal government to borrow $2.2 billion under a low-interest loan program for railroads to complete the East Side Access project.

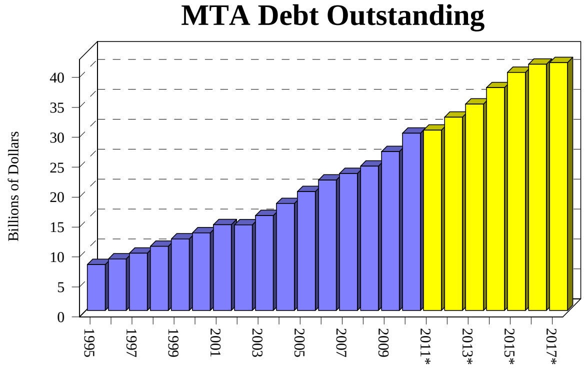
Figure 8
MTA 2010-2014 Capital Program
Sources of Funding
(in millions)

	Approved	Proposed	(More)/ Less
Borrowing	8,453	14,782	(6,329)
Federal Funds	6,768	6,437	331
PAYGO	150	790	(640)
Other Sources			
New York City	500	750	(250)
New York State	- - -	770	(770)
Other	482	745	(263)
Subtotal	982	2,265	(1,283)
Unfunded	9,912	- - -	9,912
Total	**$26,265**	**$24,274**	**$1,991**

Sources: Metropolitan Transportation Authority; OSC analysis

If approved, borrowing would account for more than 60 percent of the funding for the 2010-2014 program. Debt service on these bonds would reach nearly $1.1 billion annually beginning in 2019. With such a high level of borrowing, outstanding debt would rise from $30 billion at the end of 2010 to $41 billion in 2017 (see Figure 9) even as $5 billion in existing debt is retired.

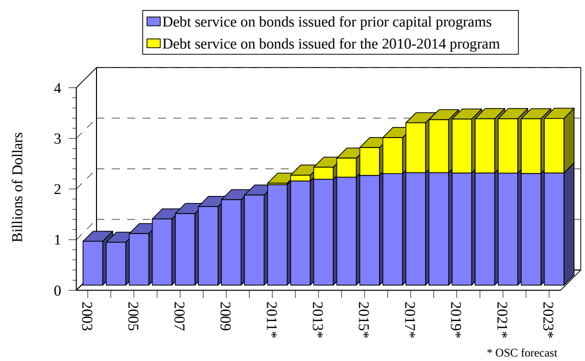
Figure 9
MTA Debt Outstanding



Sources: Metropolitan Transportation Authority; OSC analysis

Such a heavy reliance on debt would place a huge burden on the operating budget, just as heavy borrowing in the past has contributed to the MTA's current problems. In total, debt service would reach $3.3 billion by 2018 (see Figure 10)—64 percent more than in 2011. Debt service as a percent of total revenue could rise from 16.4 percent in 2011 to 22.7 percent in 2018 without further fare and toll increases. (The burden could reach 20.5 percent in 2018 even with biennial fare and toll increases of 7.5 percent.)

Figure 10
MTA Debt Service



Sources: Metropolitan Transportation Authority; OSC analysis

The MTA also proposes to use $790 million in operating resources to finance the 2010-2014 capital program on a PAYGO basis. In total, the proposed financing program could cost the operating budget $33 billion over the term of the loans, or nearly $13 billion more than the approved financing program.

The MTA's financial plan had set aside some of the proceeds anticipated from the payroll mobility tax to fund a portion of the capital program, but collections fell short of expectations and the recession eroded other operating budget resources. To balance the operating budget and to help fund the capital program, the MTA has undertaken an aggressive program to reduce costs.

These efforts, however, may be insufficient. Even with biennial fare and toll increases of 7.5 percent in 2013, 2015, and 2017, the MTA could still face budget gaps that would rise from $600 million in 2016 to $1.2 billion in 2018.

The capital financing program also counts on additional State and City funding, which has not yet been approved, and a level of funding from the federal government and from the sale of real estate assets ($250 million) that may not materialize.

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