Financial Outlook for the Metropolitan Transportation Authority

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Transit Trends

- **During the past five years, MTA spending has grown at an average annual rate of 7 percent, which is more than twice the inflation rate and far faster than recurring revenues.**
- **The economic recession caused a 2.8 percent decline in the use of mass transit in 2009. The MTA expects utilization to decline by another 0.8 percent in 2010.**
- **Outstanding debt currently totals $27.5 billion, 54 percent higher than five years earlier.**
- **Debt service grew from $848 million in 2004 to $1.4 billion in 2009, and will reach $2.2 billion by 2013 just to fund current and previous capital programs.**
- **Pension contributions are projected to peak in 2013 at $1.3 billion, which is four times the 2003 level because of pension fund investment shortfalls, unfunded liabilities, and benefit enhancements.**
- **Health and welfare costs are projected to reach $1.5 billion by 2013 (more than double the 2004 level) because premiums have risen far faster than inflation.**
- **Energy costs have nearly doubled over the past six years, growing from $261 million in 2003 to $498 million in 2009. Costs are projected to reach $802 million in 2013—61 percent higher than the 2009 level.**
- **The MTA has raised fares and tolls by nearly 44 percent since 2002—two times faster than the inflation rate. The MTA plans to raise fares and tolls by 15 percent over the next three years.**
- **The MTA's proposed $28 billion capital program, which has a $10 billion funding gap, was vetoed by the State Capital Program Review Board in December 2009.**

In April 2009, the Metropolitan Transportation Authority (MTA) projected a two-year budget gap of nearly $5 billion for 2009 and 2010. The gap reflected a structural imbalance in the MTA's budget as well as the effects of the economic recession, which eroded tax and farebox revenues.

In May 2009, New York State approved new taxes and fees that would help the MTA balance its operating budget of $10 billion and also would help the MTA fund its proposed five-year capital program of $28 billion. For its part, the MTA raised fare and toll revenue by 10 percent in July 2009, implemented management actions, and committed to reduce future costs and to raise fare and toll revenue by 7.5 percent in both 2011 and 2013.

In December 2009, the plan to put the MTA on sound financial footing began to unravel as the State cut funding to help balance its budget; labor costs rose because of an arbitration award; and collections from the new payroll tax, which was expected to produce $1.1 billion in 2009, fell far short of target. With only two weeks remaining in the fiscal year, the MTA faced a new budget gap of $344 million in 2009.

In total, the MTA has needed to close a combined budget gap of $756 million for 2009 and 2010. So far, the MTA has identified actions that have reduced the gap by more than half. The actions first identified by the MTA will reduce subway, bus, and commuter rail service; and phase out discounted fares for students unless it obtains additional State or City aid. More recently, the MTA has been aggressive in reviewing its operations to identify additional savings that have a minimal impact on services.

By our estimation the MTA still faces a budget gap of $319 million in 2010, and that gap could grow to $405 million depending on the success of certain gap-closing initiatives. The MTA Board has not been presented with a comprehensive plan to close the remaining gap for 2010. Moreover, we estimate that next year's budget gap already totals $537 million and could grow to $860 million. The MTA faces even larger gaps in subsequent years.

The MTA has proposed raising fare and toll revenue by 7.5 percent on January 1, 2011, which would generate $408 million in that year. Unless the MTA obtains additional intergovernmental aid, which appears unlikely, or successfully reduces costs, fares and tolls may increase sooner or faster than currently planned.

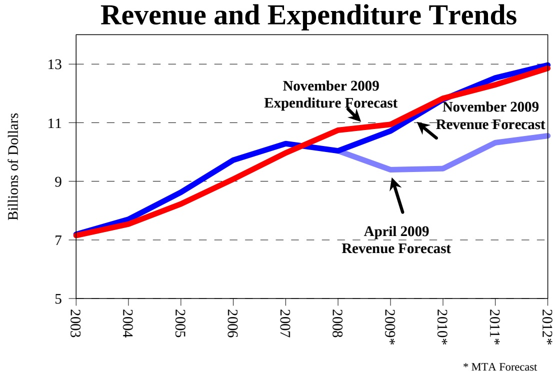
The MTA's financial plan contains reserves and other available resources, but the MTA has resisted drawing upon these resources to balance its budget. The State Comptroller believes the MTA should stay focused on reducing waste and inefficiencies, and has increased his oversight of the MTA to help reduce costs without affecting services.

The Structural Imbalance

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

Figure 1

Revenue and Expenditure Trends



Sources: Metropolitan Transportation Authority; OSC analysis

In May 2009, the State raised taxes and fees (e.g., the mobility payroll tax), and dedicated the revenues to the MTA to help address its long-term structural imbalance.[1] 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 fares and tolls by 10 percent on July 1, 2009, which is expected to generate $750 million during 2009 and 2010, and also implemented internal actions. In addition, the MTA made commitments to reduce future costs and to raise fare and toll revenue by 7.5 percent in each of calendar years 2011 and 2013.

In total, these actions were sufficient to restore structural balance (see Figure 1) and to help fund the first two years of the MTA's proposed capital program for 2010-2014**.**

A New Budget Crisis Develops

In December 2009, the MTA faced a new budget crisis as the State reduced funding to the MTA as part of its efforts to close the State's budget gap; a labor arbitration panel ruled against the MTA; and it became clear that the new mobility tax, which was expected to generate $1.1 billion in 2009, would fall short of the target. On December 14, 2009, only two weeks before the start of the new fiscal year, the MTA estimated that these developments had created a $344 million budget gap for 2009 (see Figure 2). The MTA subsequently estimated that these developments created a $412 million budget gap for 2010 and raised the out-year budget gaps as well.

Figure 2
Sources of the Current Budget Crisis
(in millions)

	2009	2010
November MTA Forecast	**$ 28**	**$ (23)**
Mobility Tax Shortfall	(229)	(207)
State Budget Cut	(143)	- - -
Transit Arbitration Award	- - -	(91)
Dedicated Tax Reestimates	- - -	(91)
Subtotal	**(372)**	**(389)**
Revised Gap Forecast	**$ (344)**	**$ (412)**

Sources: Metropolitan Transportation Authority; OSC analysis

Closing the Budget Gaps

As shown in Figure 3, the MTA balanced the 2009 budget, on a cash basis, by drawing down reserves ($113 million); delaying a scheduled pension contribution ($100 million); and reestimating expenses, including debt service ($162 million). Most of these actions, however, only shifted the problem to 2010, when the MTA would have more time to develop a lasting solution.

The MTA has since identified additional cost-reduction actions (discussed below), but most focus on reducing services.[2] Even with these actions, which will generate $239 million in savings in 2010 and higher amounts in subsequent years, a gap of $319 million still remains in 2010.

[1] For a detailed discussion of the new taxes and fees, see our report 4-2010, *Financial Outlook for the Metropolitan Transportation Authority*, June 2009.

[2] The adopted budget for 2010 already includes $70 million in gap-closing actions, such as reductions in maintenance, which could adversely affect services.

Service Cuts: The MTA will reduce services for savings of $60 million in 2010 and $121 million in 2011. New York City Transit, which accounts for 77 percent of the savings, plans to lay off 450 station agents, reduce the frequency of weekend and off-peak subways, eliminate the V and W lines, reduce service on the M and G lines, and curtail express and local bus service. The Long Island Rail Road will shorten and reduce the frequency of peak and off-peak trains, and will eliminate night service to Brooklyn on the Atlantic branch and between Ronkonkoma and Greenport, except on weekends during the summer. Metro-North Railroad will also reduce peak and off-peak train service.

Paratransit Savings: The MTA hopes to generate savings of $40 million in 2010 and $80 million in subsequent years by restricting access to paratransit services. The program served 8.5 million riders in 2009 at a cost of $370 million. The MTA intends to realize savings by restricting access and replacing door-to-door service with service to and from fixed-route transit (e.g., buses and subways). The MTA also hopes to realize savings from non-service-related actions, such as improved scheduling and the increased use of vouchers for taxi and car services.

Administrative Savings: The MTA will generate savings of $108 million in 2010, $96 million in 2011, and $65 million annually thereafter by reducing administrative staff by 680 positions (15 percent), eliminating or deferring projects, and reducing vendor costs. The MTA has offered severance incentives of up to $20,000 to minimize the number of layoffs.

Student Fares: The MTA will charge students market rate fares (phased in over two years), unless the State or City provide additional funding.

Figure 3
Closing the 2009 Budget Gap
(in millions)

	2009	2010
Revised Gap Forecast	**$ (344)**	**$ (412)**
Drawdown of Reserves	113	- - -
Spending Reestimates	106	(71)
Delay of Pension Contribution	100	(106)
Debt Service Savings	56	- - -
Administrative Savings	- - -	108
Service Cuts	- - -	60
Paratransit Savings	- - -	40
Student Fares	- - -	31
Subtotal	**375**	**62**
Transfer 2009 Cash Balance	(31)	31
Current Gap Estimate	**$ - - -**	**$ (319)**

Sources: Metropolitan Transportation Authority; OSC analysis

Risk Assessment

As previously mentioned, the MTA still faces a budget gap of $319 million in 2010. Although the MTA has not updated its gap estimates for calendar years 2011 through 2013, we estimate that the MTA faces budget gaps that could range from $537 million in 2011 to $967 million in 2013 (excluding MTA-proposed fare and toll increases). These estimates reflect the MTA's revised forecast of collections from the mobility tax, which now anticipates $150 million less than expected in the MTA financial plan beginning in 2011, and recently announced additional administrative savings.

Our review has identified three gap-closing initiatives for 2010 that require close monitoring because of their size and potential for slippage (see Figure 4). Failure to obtain all of the anticipated resources could increase the 2010 budget gap by $86 million to $405 million. The MTA is also counting on savings of $557 million during calendar years 2011 through 2013 from unspecified actions. Unless these savings and other planned cost reductions are achieved, the 2011 budget gap could grow from $537 million to $860 million. Even if the MTA raises fare and toll revenue by 7.5 percent as planned, a budget gap of $452 million could still remain in 2011.

Figure 4
OSC Risk Assessment
(in millions)

	2010	2011	2012	2013
Current Gap Estimate	**$ (319)**	**$ (537)**	**$ (763)**	**$ (967)**
Paratransit Savings	(40)	(80)	(80)	(80)
Student Fares	(31)	(62)	(170)	(170)
Federal Actions	(15)	(62)	(63)	(66)
Unspecified Savings	- - -	(90)	(188)	(279)
Labor Costs	- - -	(29)	(62)	(74)
Business Center	- - -	- - -	(29)	(29)
Subtotal	**(86)**	**(323)**	**(592)**	**(698)**
Potential Gaps	**(405)**	**(860)**	**(1,355)**	**(1,665)**
7.5% Fare & Toll Hikes	**- - -**	**408**	**425**	**878**
Remaining Gaps	**$ (405)**	**$ (452)**	**$ (930)**	**$ (787)**

Sources: Metropolitan Transportation Authority; OSC analysis

Paratransit Savings: The MTA intends to reduce the cost of this program and still comply with the federal Americans with Disabilities Act, but this initiative could face legal challenges or other obstacles.

Student Fares: The State Senate approved a budget resolution that includes an additional $41 million for the student fare program, but the Assembly included only $10 million more in its resolution (one-third of the MTA's request for $31 million). It remains to be seen whether the adopted State budget will include additional funding—and if not, whether the MTA Board will approve the staff recommendation to raise student fares to market rates. The MTA is seeking $402 million over the following three years.

Federal Actions: In July 2008, the MTA proposed changes in federal law that would eliminate certain fringe benefit mandates for commuter railroad employees, but that initiative—which was expected to save more than $60 million annually beginning in 2010—still has not been approved.

Labor Costs: A recent arbitration award granted a three-year wage increase of 11 percent to employees represented by the Transport Workers Union (TWU). The MTA's financial plan assumes that all other employees of New York City Transit and Bridges and Tunnels will receive similar increases, but the MTA also expects that the unions that represent the commuter railroads—whose agreements expire on June 15, 2010—will agree to a three-year wage increase of only 5 percent.

Business Center: The MTA intends to spend $210 million through 2012 (including $145 million for consulting fees) to create a business service center that would streamline certain administrative operations, such as human resources transactions, payroll, and some accounting transactions. The first net savings ($29 million) are not expected until 2012—eight years after the State Comptroller identified the potential for such savings.

Unquantified Risks and Offsets: Tax collections remain weak, and could be lower than even the MTA's revised forecasts. Mobility tax collections were $72 million less than anticipated during the first quarter—which was consistent with expectations—but the MTA forecasts higher collections in April and May, and these may not materialize. Real estate tax collections fell $19 million short of target during the first quarter, but these losses could be offset by increased transaction activity. According to Cushman & Wakefield, Manhattan transactions valued at $10 million or more totaled $3.3 billion during the first quarter, only slightly less than the amount for all of 2009.

Spending has been $55 million lower than anticipated during the first two months of the year, reflecting pressure from top management to hold down costs. The savings may reflect management's efforts to develop additional cost-reduction actions that would reduce procurement and overtime costs, and defer planned purchases.

The Governor has proposed increasing the payroll tax (currently 0.34 percent of payroll for all counties within the 12-county MTA district) to 0.54 percent for New York City employers, while reducing the rate to 0.17 percent for employers elsewhere in the district. This proposal would shift the burden from the suburbs to the City, and would generate an additional $230 million for the MTA in 2010 and $200 million annually thereafter. Neither the State Senate nor the State Assembly, however, included the Governor's proposal in their budget resolutions.

The State has not approved additional borrowing for the MTA's proposed capital program for 2010-2014, which has a $9.9 billion funding shortfall. Meanwhile, the program is progressing with available funds. The State may reconsider the implementation of tolls on the East River bridges, which could help fund both the operating and capital budgets. The federal government has not approved a new five-year transportation funding program, but it has extended current funding until January 1, 2011.

Reserves and Other Resources

The MTA's financial plan includes reserves and other resources that could be used to help close projected budget gaps (see Figure 5). Besides the annual general reserve, the MTA has set aside resources to help fund the future cost of post-employment benefits other than pensions (i.e., OPEBs). The MTA, like New York City, intends to draw upon such resources to close projected budget gaps in 2010. In addition, the MTA has set aside operating budget resources in its financial plan to fund its capital program on a pay-as-you-go basis, even though these resources could be used to balance the operating budget. Although the American Recovery and Reinvestment Act of 2009 permitted transit operators to use up to 10 percent of allocated capital funds in their operating budget, the MTA chose not to do so.

Figure 5
Reserves and Other Resources Available to Fund the MTA Operating Budget
(in millions)

	2010	2011	2012	2013
OPEB Fund Balance	$ 124	$ 318	$ 515	$ 580
General Reserve	75	75	75	75
Downsizing Reserve	41	- - -	- - -	- - -
PAYGO Capital Financing	50	154	194	256
Total	**$ 290**	**$ 547**	**$ 784**	**$ 911**

Sources: Metropolitan Transportation Authority; OSC analysis

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