Investment and Funding Choices Facing the MTA

Report 7-2025

OFFICE OF THE NEW YORK STATE COMPTROLLER

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Introduction

On June 5, 2024, the Governor of the State of New York paused the implementation of the Central Business District Tolling Program (colloquially referred to as congestion pricing). If the $15 billion revenue loss from the program is not funded via other means, there will be substantial impact on the Metropolitan Transportation Authority's (MTA) current and future capital programs, as well as the Authority's operating budget and financial plan.

Absent replacement funding, the impact on asset conditions, operations and its budget will be informed by the choices the MTA makes now. To this end, the MTA has started reviewing financing options and begun the difficult process of selecting projects to deprioritize, which may result in cancellations or delays. These choices will also have cost implications, as much of the capital construction work will become more costly over time, an issue that has plagued capital projects in the region.

These choices must be presented and explained to the MTA board and the public for the sake of transparency; without replacement funding, a clearly explained reprioritization process is necessary and prudent. Where possible, the effects on sequencing and costs that may have implications for the next capital plan, set to be presented later this year, should also be explained to stakeholders, including the public. In selecting projects, the Authority must continue to focus on maintaining a state of good repair to ensure safety, reliability and frequency of the system does not deteriorate substantially.

Investment Choices Facing the MTA

The MTA Capital Program is, ultimately, a choice on which capital investments are needed to repair, enhance and expand the system. The absence of funding from the Central Business District Tolling Program (CBDTP) for the current (2020-2024) capital plan will require a reprioritization of projects, new funding or a combination of the two.

Type of Projects Most Impacted

The MTA has released a broad list of projects that may be excluded from the current capital plan without funding from the CBDTP. While the potential impact would be widespread, statutory requirements over the use of the money, the MTA's prudent focus on state of good repair projects and the state of completion of existing projects will impact choices over which projects are eventually funded and completed as part of the current plan. The MTA generally separates projects into four types:

- State of Good Repair, to renew assets that have surpassed their useful life;
- Normal Replacement, to renew assets that are nearing their useful life;
- System Improvement, to enhance the network, provide new capabilities or enhance customer service; and
- Network Expansion, to extend the reach of the network.

In addition, some projects have more than one purpose (various) or are administrative.

FIGURE 1
2020-2024 Capital Program by Project Work Type and Review Status

Project Work Type	Total Planned Commitments	Under Review	Largest Components Under Review
State of Good Repair	$10,480	$1,788	Line Structures, Depots and Yards
Normal Replacement	16,411	2,754	Railcars, Buses
System Improvements	10,070	5,650	Accessibility, Signal Modernization
Network Expansion	10,291	5,233	Second Avenue Subway
Admin. and Various	8,190	5,671	Signal Modernization, Communications, Power

Sources: Metropolitan Transportation Authority; OSC analysis.
Note: Under review is an estimate based on limited information from the MTA and reflects OSC assumptions on the timing of work. Administrative and various category includes projects with blank project work type.

Using the MTA's list of projects that could leverage funds from congestion pricing, OSC estimated the cost of projects under review (see Figure 1.) By amount, the largest group of projects that could be impacted would be for the various category, which includes signal modernization efforts that would bring certain assets into state of good repair and represent system improvements through improved train reliability. Signal modernization has supported improved timeliness on the 7 and L train lines since their installation.

The second largest group under review by amount of total project spending would be on system improvements. Accessibility projects alone would be more than $4.8 billion, inclusive of over $190 million on LIRR station accessibility. Nearly $559 million in train car equipment for signal modernization would also be under review.

The third largest group of projects to be impacted would be for service expansion, mostly due to the use of funds as the required local match for the Second Avenue Subway (SAS) Phase 2. MTA has suggested that SAS Phase 2 alone would make up $4 billion of the plan, inclusive of $2 billion in matching funds from the federal government. However, SAS Phase 2 makes up over $5 billion of the current capital program, inclusive of contingency reserves and other smaller project management items associated with the project.

While fewer projects would be impacted, in line with the MTA's prioritization strategy, over $4.5 billion in state of good repair and normal replacement work is also under review for being excluded from the plan if funding is unavailable. The projects include yards and depots, which OSC has noted in past reports remain in poor condition.

Review of Impact on 2020-2024 Capital Program Investment

Inclusive of the federal match for SAS Phase 2, the MTA will likely need to remove approximately $17 billion in projects from its current capital plan under its reprioritization efforts. The total program would decline from $52.1 billion (not including MTA Bridges and Tunnels, which is self-funding) to $35.1 billion. Adjusted for inflation, the amount would be smaller than the preceding 2015-2019 capital program (excluding MTA Bridges and Tunnels), which would be equal to $38.9 billion, using 2024 inflation adjusted dollars. It is notable that the amount would be smaller despite further aging of system assets and an expansion of assets added since the beginning of the 2020-2024 capital plan.

In addition, the sequencing of projects in the 2020-2024 capital plan, and their potential delay, would require a resequencing of projects in the next plan. As an example, ADA accessibility investments at certain stations would be moved out of the current plan but included in the next capital plan, thus deferring ADA investments in stations that were originally expected to be completed as part of the next capital plan further into the future. The MTA has also paused work on two accessibility projects on the LIRR that have already started. If the MTA were to pause construction, or cancel, in-flight projects, the costs of such projects are likely to rise when they are restarted. Construction cost assumptions would also need to be updated when the project is revisited.

Funding Choices Facing the MTA

The current capital program is funded at $55.4 billion, prior to amendments set to be introduced once the MTA is prepared to present these choices to its board. About $3.2 billion of the $55.4 billion is for MTA Bridges and Tunnels projects, none of which included planned funding from the CBDTP. The amount remaining is $52.1 billion. The CBDTP made up $15 billion of this total, nearly 30 percent of the total amount, the largest contribution of any funding source. Significant alterations of the plan would be required to match available funds if the funds do not eventually materialize (see Figure 2.)

FIGURE 2
MTA Capital Program Funding (less TBTA)
(in millions)

	2000-2004	2005-2009	2010-2014	2015-2019	2020-2024
Federal Funding	$7,454	$7,723	$14,179	$6,801	$13,072
New York State	- - -	1,450	770	9,064	3,007
New York City	516	2,833	745	2,666	3,101
MTA Bonds	8,770	5,100	8,293	12,060	7,394
Dedicated Tax Bonds	3,796	5,624	- - -	- - -	- - -
Payroll Mobility Tax MTA Bonds	- - -	- - -	6,000	- - -	- - -
CBDTP Bonds/Cash (PAYGO)	- - -	- - -	- - -	- - -	15,000
Sales Tax and Mansion Tax	- - -	- - -	- - -	- - -	10,000
MTA Asset Sales and Other	1,127	1,630	1,717	3,321	542
Total	**$21,654**	**$24,360**	**$31,704**	**$33,913**	**$52,115**
CBDTP Bonds/Cash					**($15,000)**
Federal Match					**($2,000)**
Remaining Funds					**$35,115**

Note: 2020-2014 program includes funding for Superstorm Sandy projects.
Sources: Metropolitan Transportation Authority; OSC analysis

Federal Funding

OSC notes a portion of federal matching funds come in the form of block grants, which the MTA should be able to leverage in its current capital plan, although these choices should be made clear to the MTA board. Less assured are matching funds from federal grants for specific projects over a longer period, including accessibility projects. These projects may remain funded, but outside of the current capital plan, delaying these projects and the receipt of matching funds. Most notably, the SAS Phase 2 project, if chosen for delay, will require working closely with federal partners to ensure matching funds of $2 billion remain granted.

Role of Debt Financing

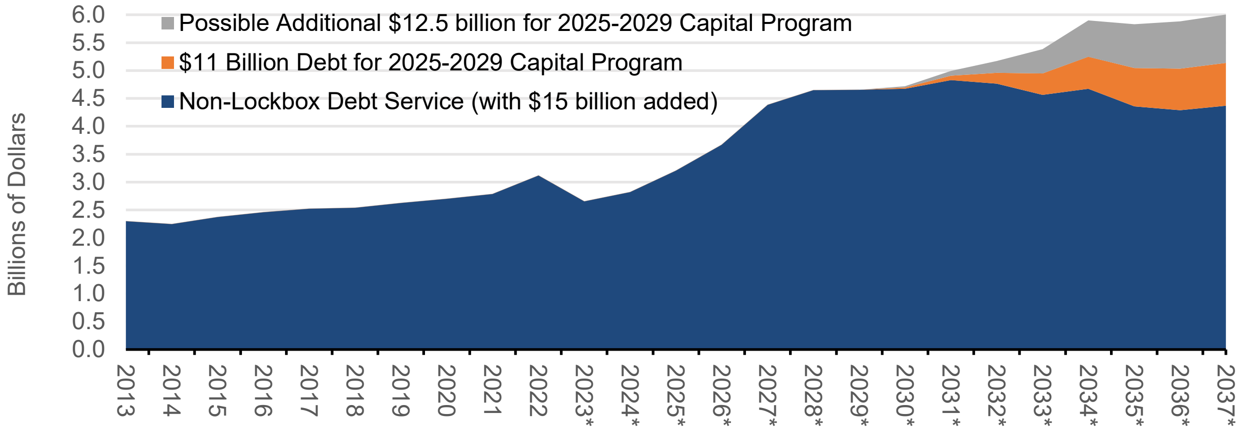
At this time, the MTA has suggested that it does not intend to increase the use of bonds funded by existing revenue sources, which are paid from a variety of revenues including those which fund the operating budget, to fund the $15 billion funding shortfall. While this is a difficult decision, it is likely a prudent one.

There would be important implications for the Authority's bond ratings if the agency were to use existing revenue sources to issue additional, unanticipated debt. Declines in the Authority's bond ratings would not only result in higher borrowing costs but create additional costs for future capital programs.

The issuance of debt using existing funding sources to fill the $15 billion funding shortfall and to help fund the 2025-2029 capital program would also impact the Authority's operating budget, a portion of which is used to pay for debt, called debt service. Currently, 15 cents of every dollar the MTA collects and has for its operating spending goes towards debt, leaving 85 cents to pay for its operating costs, including workers who operate and maintain the trains, buses, and other fleet, headquarter operations, and for contracts, which provide services such as paratransit.

Filling the $15 billion funding shortfall for the 2020-2024 capital program with debt paid from the operating budget would require approximately $1 billion in annual funding. In combination with MTA bond financing options for the next capital plan, laid out in a prior OSC report, where it could need to bond as much as $23.5 billion without other resources to fund the next plan, debt service would increase by $3.3 billion between 2023 and 2037, reaching $6 billion that year (see Figure 3.) An increase in the MTA's debt servicing costs to pay for additional debt would likely fuel debt service costs to breach 20 percent of the Authority's revenues as a result of funding both plans with additional MTA bonds, an important threshold for bond rating agencies, and reduce the remaining amount for operations and maintenance that undergird service quality, as the cost of providing the services rise over time.

FIGURE 3
Projected Impact of Addressing Funding Gaps on MTA Debt Service



Note: Non-lockbox debt service as of the MTA's February 2024 Financial Plan. *MTA forecast
Sources: Metropolitan Transportation Authority; OSC analysis

The MTA could also choose to reduce service in response, which may lower costs, but also comes at a cost of ridership revenue. Recent federal approvals of the CBDTP suggest ridership is likely to be slightly lower than planned by the Authority. The MTA's consultant, McKinsey, had anticipated that some improvement in ridership revenue was linked to changes in commuting behavior, which will likely need to be removed from revenue projections from the Authority's operating budget. The MTA could also raise fares and tolls, which would likely come from the same pool of fare and toll payers that would have been subject to the CBDTP.

The MTA has indicated that it will now accelerate the issuance of $8.1 billion it expected to bond for projects in the transit and commuter railroad portions of the 2020-2024 capital program. The MTA had planned to issue this debt after the bonds backed by congestion pricing revenues were issued. The early issuance is expected to increase debt service costs in the short term by more than $100 million annually.

Capital Funding Sources (2025-2029 Capital Program)

As noted in OSC's last annual update on the MTA's Debt Profile, the 2025-2029 Capital Program will be influenced by choices made in the current plan. Based on earlier analyses of need, the MTA likely required at least $69 billion in the 10-year period starting in 2015 to maintain state of good repair. In that report, OSC acknowledged a number of expansion projects that may be funded. If the MTA continues to prioritize state of good repair and normal replacement over other projects, it could lower the size of its plan to approximately $43 billion. However, as the Authority attempts to identify new revenue sources for the next program, regardless of the size, discussions over funding of the current plan with alternative sources is likely to create pressure over revenue available for the next plan.

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