

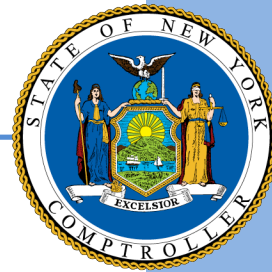
Financial Outlook for the Metropolitan Transportation Authority

Report 9-2023

OFFICE OF THE NEW YORK STATE COMPTROLLER

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Executive Summary

Over the last year, the fiscal position of the Metropolitan Transportation Authority (MTA) has deteriorated, as the trajectory of ridership has ebbed closer to the low end of the agency's forecasted range. As a result, federal relief is planned to be spent down sooner than expected, bringing into clearer focus an issue raised by the Office of the State Comptroller (OSC) last year: the agency is facing a substantial structural budgetary imbalance once one-time aid is exhausted. Beginning in 2025, the MTA's budget gaps, as shown in its July Plan, will exceed \$2.5 billion on a recurring basis, requiring a robust response from the agency and its funding partners.

The publication and recognition of the budget gaps are also the result of painful, but important budget management steps to move away from another technique to mask this imbalance: using debt to finance operations. The removal of this tactic will reduce the Authority's debt burden (share of operating revenues and subsidies towards carrying costs) and accelerate the much-needed conversation over how to close the structural budget gaps. This change means the Authority will have to provide options for new revenue, cost savings and efficiencies that will improve the sustainability of its finances over time.

[The most straightforward means for raising revenue](#) still lies in part with the MTA's ability to bring riders back to the system, even as questions over the arc of returning to offices and hybrid work remain. The MTA still has two years' worth of federal aid after 2022 to provide safe and reliable service to lure riders back to the system and raise operating revenues through its main services: transit and commuter rail. To this end, the MTA has begun to conduct regular customer satisfaction surveys in order to better understand the needs of riders. The Authority is not alone among transit systems

nationally in this effort and should be looking to peers in the U.S. and internationally for ways to bring passengers back and improve the ridership experience. The July Plan maintains two fare increases of 4 percent in 2023 and again in 2025, returning to a schedule that existed prior to the pandemic. The MTA must remain keenly focused on providing riders with high-quality service to justify those increases.

Improving revenues will be necessary to keep pace with the MTA's current projections for spending, which is slated to rise by an annual average rate of 2.9 percent from 2022 through 2026. Main drivers of growth include health and welfare costs (7.7 percent) and paratransit costs (7.3 percent). While the MTA has deferred the payment of principal on bonds in recent years to make its short-term carrying costs lower, these costs are still expected to increase by an annual average of 3.5 percent during the financial plan period.

In addition, while the MTA's projected budget gaps in 2025 and 2026 are substantial, exceeding 14 percent of combined operating revenues, taxes and other subsidies in those years, they may be understating the size of the structural budget gap facing the agency. OSC projects that other risks to the MTA's July Plan could lead to outcomes that increase the MTA's budget gaps by \$220 million in 2022, \$250 million in 2023, \$341 million in 2024, \$401 million in 2025 and \$461 million in 2026. OSC projections of the MTA's budget gaps would approach \$3 billion in both 2025 and 2026. Drivers of these risks include overtime, the inclusion of unspecified recurring savings of \$100 million and pension costs, which will rise based on actual returns compared to assumptions in City Fiscal Year 2022. The MTA has been able to achieve more than this modest amount of savings in the past and OSC

recommends increasing the savings target as much as possible without hurting services.

There are also larger macroeconomic trends that could increase recurring costs by at least \$1.6 billion annually, which would lead budget gaps to exceed \$4.6 billion in 2026. These trends could affect ridership, tax revenues and spending on labor and other costs.

While decreases in ridership revenue are less likely than last year, which OSC highlighted as a risk in our last review of the MTA's finances, they are still possible. The July Plan uses the middle point (69 percent of pre-pandemic ridership in 2023, rising to 80 percent in 2026) of the ridership forecast developed by McKinsey, the MTA's consultant. If ridership tracks more along the less optimistic scenario, which is only 73 percent of the 2019 level in 2026, then the MTA estimates that fare revenue could be lower by \$350 million annually.

In addition, there may be new revenue risks that could emerge if a recession were to occur or even if rate increases to combat inflation depress certain types of economic activity the MTA is reliant on. One impact of the pandemic that is likely to remain for some time is that the MTA is now more dependent on tax subsidies than operating revenue. Items that make up a substantial portion of the source of tax subsidies, including taxes on real estate transactions, gas and payrolls, would see a decline in a recession. In fact, the biggest risk to the MTA's finances is that a recession would further decrease tax revenues. The MTA estimates that a recession could lower dedicated tax revenues as forecasted by the State by \$500 million to \$1 billion annually.

Spending growth assumptions also do not include an extended period of inflationary cost increases or raises for its workforce that exceed projected levels. The July Plan assumes

inflation will rise by 2 percent annually, below projections from S&P Global for the metro area of 2.7 percent. Each 1 percent increase in inflation over the 2 percent assumption could also raise costs by \$150 million annually.

In addition, the Plan also assumes the Transport Workers Union pattern for 2021 through 2023 for those unions that have not agreed to contracts covering those years and 2 percent annual wage increases after those years. The MTA estimates that each 1 percent wage increase over the budgeted amount will cost \$100 million annually.

Weakness in the operating budget may also have negative implications for the Authority's 2020-2024 capital plan. Most notably, a decline in projected revenues for backing debt may require reducing bond issuances for capital expenditures in order to keep the MTA's debt burden lower than 20 percent. This could lead the MTA to miss its ambitious target of \$55 billion in capital spending for its 2020-2024 capital program. In addition, recent suggestions to use congestion pricing for operations would substantially increase the MTA's debt burden while reducing its capacity to execute on its capital plans now and in the future. A new needs assessment, due in October 2023, should help the agency guide its priorities so it can remain agile in responding to customer needs while managing its budget.

Ultimately, the budget gaps and the risks that accompany them are likely to be too large for the MTA to manage without additional funding or significant fare and toll increases that would be counterproductive to regional economic growth and the Authority's mission. The deterioration of the MTA's finances has led the MTA to request additional funding from the State by as soon as 2023. By doing so, it can use federal funding to pay down \$3.6 billion in

debt that would provide over \$4 billion in savings through 2028, enabling it to reduce future budget gaps. This proposal will need to be the first of many options the MTA provides to its board and legislators as part of a comprehensive plan to achieve long-term structural balance.

As the MTA has suggested, this additional State support would allow the MTA to narrow its outyear budget gaps and shift spending from the fixed payment of debt, creating more flexibility in funding operations. If the proposal is approved, these funds should be provided with the requirement that the MTA avoid debt practices that would contribute to structural budgetary imbalance in the future, such as structuring debt repayment where costs balloon in the outyears at the future expense of riders, toll payers and taxpayers.

In concert with this aid, the MTA must also offer a larger program to close the budget gaps. In doing so, the MTA should increase planned savings, improve non-operating revenue and suggest additional efforts to boost ridership beyond current projections and prioritize service efficiency.

In addition, the MTA must also provide updates to the public on the pace and trajectory of revenue projections and the status of its savings programs to ensure efforts to close its budget gaps are on track and are not counterproductive to the goal of providing reliable and safe service for riders. The greater New York City region cannot achieve a full economic recovery without a financially stable mass transit system. State and local leaders must come together and work towards finding solutions to the agency's challenges so that the region's transportation infrastructure will recover and thrive.

MTA Utilization Trends

The first confirmed case of COVID-19 in New York State was identified on March 1, 2020, in New York City. Soon after, a combination of behavioral responses from the public due to the virus and limitations on nonessential activities imposed statewide by the Governor’s executive order caused steep drop-offs in MTA ridership.

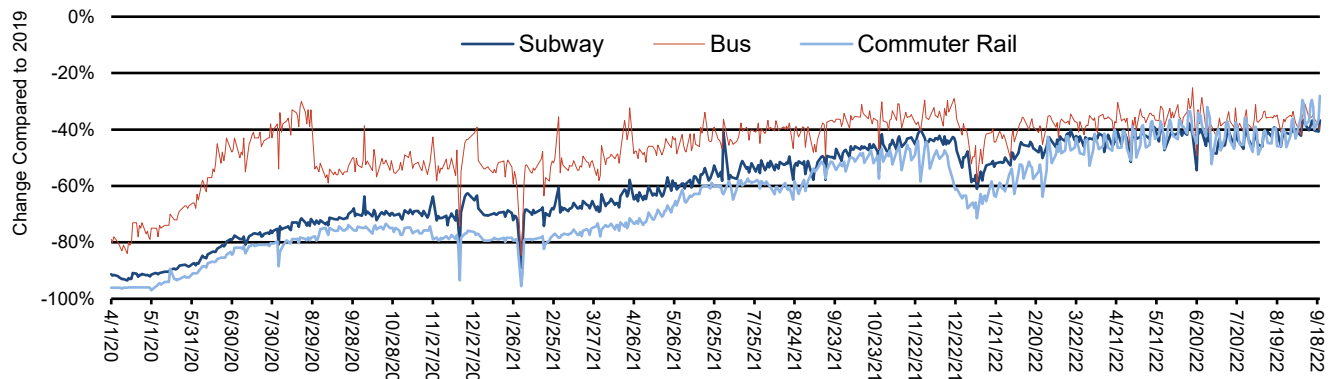
Weekday subway ridership began to return in the summer of 2020, but growth stalled in the winter as a second wave of COVID-19 began (see Figure 1). Ridership picked up as the State disaster emergency ended and restrictions were lifted, but it plummeted again in the winter of 2021 as cases caused by the Omicron COVID-19 variant rose. By the summer of 2022, ridership levels had recovered to their highest since the pandemic began and have hovered at around 40 percent lower than pre-pandemic levels since. Commuter rail and bus ridership have followed similar patterns, with both relatively stable at around 37 percent lower than pre-pandemic levels.

In September, ridership has hit post-pandemic highs multiple times reaching nearly 3.9 million subway riders or 65 percent of the 2019 level and commuter railroad ridership has exceeded 390,000 or around 70 percent of the pre-pandemic level

To reflect the actual trajectory of transit and commuter rail ridership’s return more closely, the July Plan features a new ridership analysis developed by the MTA’s consultant, McKinsey. McKinsey expects MTA-wide utilization trends to reach new baselines between 73 percent and 88 percent of pre-pandemic levels by 2026. These projections update assumptions of behavioral changes that began during the pandemic, which are now expected to persist longer than the projections included in the February 2022 financial plan such as increased remote work, concerns over COVID-19 and perceptions of safety in the subway system. The forecasts, however, do not consider the possibility of future waves of COVID-19 and their impact on economic activity.

The July Plan incorporates the midpoint of McKinsey’s forecast which expects overall ridership to not hit 80 percent of pre-pandemic levels until 2026. These projections are significantly lower than those included in the February Plan, which showed a steady midpoint of 87 percent of overall ridership returning by the end of 2024. The recent trends incorporated into the July Plan indicate that the MTA might have to recalibrate its service for this “new normal” level of ridership.

FIGURE 1
Weekday MTA Ridership Compared to Pre-Pandemic (2019) Equivalent Day



Sources: Metropolitan Transportation Authority; OSC analysis

The Office of the State Comptroller (OSC) maintains a [subway ridership dashboard](#) that shows how geographically uneven the return of ridership has been. Subway station data for August 2022 indicates that there is still some geographic variation in the use of subway service. Certain Manhattan transit hubs such as Grand Central and Penn Station had ridership that remains lower than the systemwide average. Others, including Times Square, have trended closer to the average in recent months. At stations in lower Manhattan, which were impacted heavily by the pandemic and slow to see ridership return, ridership recovery has also recovered and now exceeds the citywide average. Dozens of smaller stations, all of which are located outside the central business district, have seen ridership recover the most quickly and now post ridership numbers that are higher than their pre-pandemic levels.

After peaking at nearly 1.8 billion riders in 2015, annual MTA subway ridership experienced three years of steady decline amid deteriorating service and the growing adoption of ride-hailing apps, particularly in the outer boroughs. In the wake of much-needed repairs to the system that improved performance, ridership began to recover in 2019. But the COVID-19 pandemic caused it to drop precipitously in 2020 (see Figure 2).

The subway system served just shy of 640 million riders in 2020, a 62 percent decline compared to 2019. The July Plan assumes that riders will return to the system slowly, reaching a “new normal” ridership of 1.3 billion in 2026, which is nearly 23 percent less than in 2019.

Bus ridership, which initially recovered much more quickly than ridership on the subways or commuter rail systems, has remained mostly flat in 2022, around 40 percent below pre-pandemic levels.

FIGURE 2
Annual MTA Subway Ridership

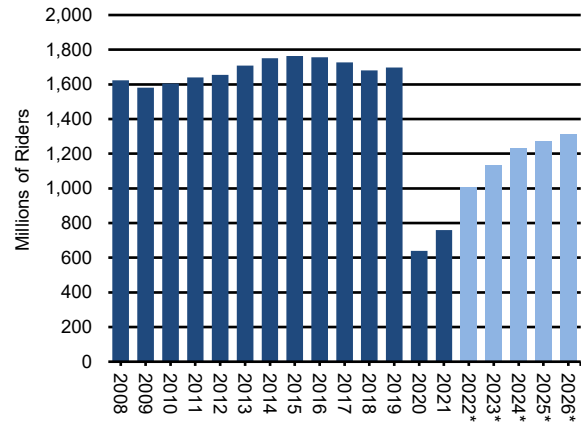


FIGURE 3
MTA Commuter Rail Ridership

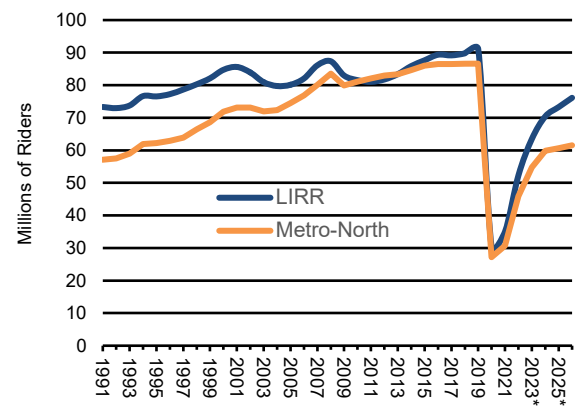
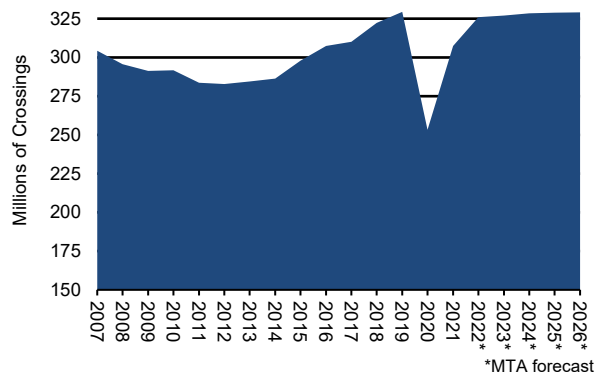


FIGURE 4
MTA Bridge and Tunnel Crossings



Source: Metropolitan Transportation Authority

*MTA forecast

The July Plan also expects it to be years before commuter rail ridership recovers to pre-pandemic levels; however, there has been some disparity between the railroads. Ridership on the Long Island Rail Road (LIRR) has recovered more quickly than Metro-North Railroad, a trend that is expected to continue.

LIRR reached 91.1 million in 2019 (see Figure 3), its highest level since the postwar record reached in 1949. However, ridership fell to 30.3 million in 2020, a 67 percent drop. The July Plan expects ridership to slowly recover, reaching 76 million in 2026, still 16 percent lower than in 2019.

Figure 3 also shows ridership trends for the Metro-North Railroad. Ridership reached a record of 86.6 million in 2019 before dropping 69 percent to 27.2 million in 2020. The July Plan expects Metro-North ridership to return more slowly than on the LIRR, reaching 61.5 million by 2026, 29 percent lower than 2019.

Prior to the pandemic, MTA Bridges and Tunnels crossings reached a record 329.4 million in 2019 in response to robust economic growth. However, crossings fell 23 percent in 2020 to 253.2 million (see Figure 4). Bridges and Tunnels crossings were less impacted by COVID-19 than other modes of transportation, as commuters returned to motor vehicles more quickly than transit at the same time that more mass transit commuters switched to driving. The July Plan expects crossings to maintain the recovery they have seen thus far, holding projected utilization near or above 2019 levels throughout the plan period.

How the Budget Gaps Grew

In February 2022, the MTA projected cash deficits before gap-closing actions of \$1.7 billion in 2022, \$1.9 billion in 2023, \$2.2 billion in 2024 and \$2.9 billion in 2025 (see Figure 5). The plan’s gaps were much lower than the gaps the year before when the anticipated gap in 2022 was \$4.8 billion (36 percent of total revenue) as the MTA revised its ridership forecast from the worst-case scenario it was forecasting and also received funding from the American Rescue Plan.

As noted earlier, ridership of the MTA’s services has not returned as quickly as expected when compared to the February Plan. As a result, farebox revenue is expected to decrease by \$1 billion in both 2022 and 2023, \$777 million in 2024 and \$655 million in 2025.

Energy costs are expected to be \$604 million higher-than-planned during the plan period due to higher prices for both electricity and fuel. The MTA plans to spend \$325 million for new needs or investments over four years, including funds

for the transfer of post-COVID cleaning functions from an outside contractor to in-house workers, increasing Metro-North service to 89 percent of pre-pandemic weekday levels and increased maintenance of M3 LIRR train cars to extend their useful life as the receipt of new M9 train cars has been delayed. [A recent audit](#) by OSC found that delivery of the M9 base order was behind schedule by almost three years.

Changes to anticipated ridership revenue and cost increases were partially offset by a variety of factors. Dedicated taxes and subsidies are projected to improve by \$1 billion during the financial plan period, driven by higher-than-expected real estate taxes in 2022 and higher-than-planned New York City subsidies for MTA Bus every year of the Plan.

Debt service is expected to be \$620 million lower over four years mostly due to the removal of debt service for bonding that could be used for operating purposes from baseline estimates and issuing debt with longer-dated

FIGURE 5
MTA Budget Changes in July Plan Since the February 2022 Financial Plan
 (in millions)

	2022	2023	2024	2025
February Cash Surplus/(Deficit)	\$ (1,746)	\$ (1,937)	\$ (2,235)	\$ (2,873)
Farebox Revenue	(1,020)	(1,067)	(777)	(655)
Energy	(197)	(173)	(127)	(107)
New Needs/Investments	(27)	(104)	(117)	(77)
Dedicated Taxes and Subsidies	348	301	222	147
Pensions	46	99	187	276
Debt Service	56	112	257	195
Other Changes	(46)	(126)	(82)	(59)
Total Changes	(840)	(957)	(438)	(282)
Deficit Before Gap-Closing	\$ (2,586)	\$ (2,894)	\$ (2,673)	\$ (3,155)

Source: Metropolitan Transportation Authority

amortizations offset somewhat by higher interest rate assumptions.

Pension contributions are expected to be \$608 million lower than planned over four years mostly due to phasing in the large investment gains from 2021. Investment losses in the City fiscal year ending June 2022 will reduce the impact of these savings, however, as shown in this report's budget risks section.

After these baseline changes, the MTA forecasts gaps (before the gap-closing program) of \$2.6 billion in 2022, \$2.9 billion in 2023, \$2.7 billion in 2024 and \$3.2 billion in 2025. The baseline gap in 2026 is forecast to be \$3.1 billion. The anticipated baseline gaps in the July Plan average 17 percent of total revenue, lower than the percentage in July 2020 but on par with the average during the Great Recession.

Operating Budget Trends

On July 27, 2022, the MTA released a midyear update to its 2022 budget and a four-year financial plan based on the preliminary budget for 2023. The July Plan projects that the MTA's operating budget will total \$19.4 billion in 2023, including debt service on bonds issued to finance the capital program and a proposed fare and toll increase in 2023.

As shown in Figure 6, 35 percent of the MTA's 2023 revenues are expected to come from fare and toll revenue (23 percent and 12 percent, respectively). By comparison, in 2019, more than half of the MTA's revenues came from fares and tolls. Pandemic-related federal aid to cover revenue losses (\$2.9 billion) is expected to contribute 15 percent of operating revenue. Before the pandemic, the last time the MTA received federal funding for its operating budget was 1997. Dedicated taxes enacted by the State will account for 37 percent of total revenue, and State and local subsidies and other funding agreements will contribute another 7 percent. Other operating revenues, such as advertising income, make up 6 percent.

As in 2019, about 60 percent of the MTA's 2023 operating budget is devoted to personnel costs, including payroll, overtime and fringe benefits (see Figure 7). Debt service represents 18 percent of the budget, while other nonlabor costs, such as maintenance contracts, materials and supplies, and energy costs, make up 24 percent of the budget.

Looking beyond 2023, on an accrual basis of accounting, revenues are expected to flatten out as federal funding runs out in 2025. At the same time, baseline spending is projected to increase at an average annual rate of 2.9 percent between 2022 and 2026. This rate does not take into account any spending pressures the MTA might face, mentioned later in this report, such as higher pension and

FIGURE 6
Sources of Revenue (2023)

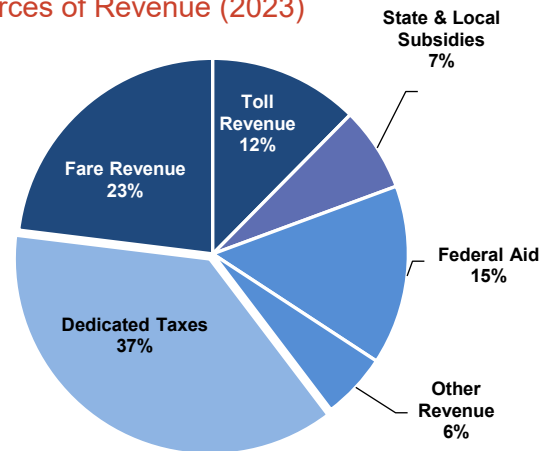


FIGURE 7
Planned Spending (2023)

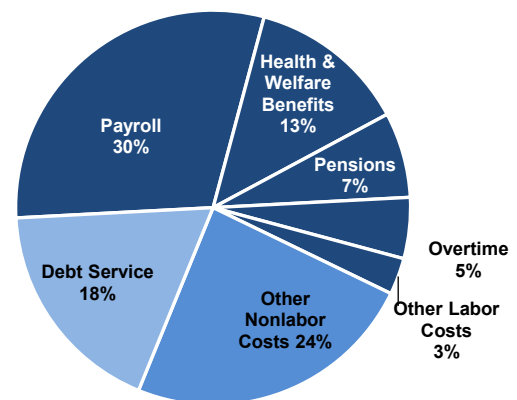
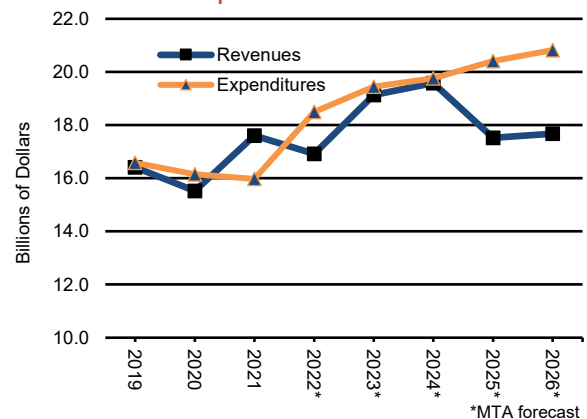


FIGURE 8
Revenue and Expenditure Trends



Source: Metropolitan Transportation Authority

overtime costs or higher-than-expected inflation. Although slower than the 3.7 percent rate between 2022 and 2025 forecasted in the July 2021 financial plan, it is still faster than the S&P Global projected regional inflation rate (2.7 percent annually). Whether inflation will be at that lower level is uncertain as inflation in the NYC metro region is expected to rise by 7.1 percent in 2022 and by 4.8 percent in 2023. Appendix A shows detailed forecasts for MTA revenues and expenditures for calendar years 2022 through 2026.

Revenue Trends

Revenues (including federal funds that have yet to be baselined) are expected to decrease by an average of 0.1 percent annually between 2022 and 2026 as the impact of declining federal funding is felt (see Figure 8). The July Plan expects revenues to decrease by 3.9 percent in 2022, as fare revenues increase by 26 percent, at the same time the use of federal aid drops from \$4.1 billion in 2021 to \$1.5 billion in 2022. In 2023, revenues are expected to rise by 13 percent to \$19.1 billion as farebox revenue is expected to rise at the same rate. The MTA anticipates that farebox revenues will increase by 4.6 percent annually between 2023 and 2026 (not including projected fare increases), but the 2026 level would still be 22 percent below 2019.

Tax revenue dedicated to the MTA is expected to increase 8 percent in 2022, then increase 3.4 percent in 2023, before increasing by an average of 1.9 percent annually between 2023 and 2026. Collections from the largest dedicated tax source to the MTA, the Metropolitan Mass Transportation Operating Assistance (MMTOA) account, are expected to increase by 15.7 percent in 2022 and

6.2 percent in 2023 as increased economic activity led to the State forecasting more MMTOA aid. Collections are then expected to be flat through 2026. This forecast follows the enacted State budget projection which does not take into account a possible recession. The State has already lowered its income tax and corporation franchise tax projections in its first quarter budget update.

Payroll mobility tax revenue is expected to provide \$2 billion in 2022 and increase by 1.6 percent annually between 2022 and 2026. Collections from real estate transaction taxes are projected to increase 2 percent in 2022, but then drop by 4.7 percent in 2023 from lower commercial real estate activity in New York City, before increasing by 1.6 percent annually through 2026.¹ The MTA uses the City's projections for the City portion of the real estate taxes in its budget, but the City's projections are somewhat conservative so there is potential for higher collections in 2022 and 2023.

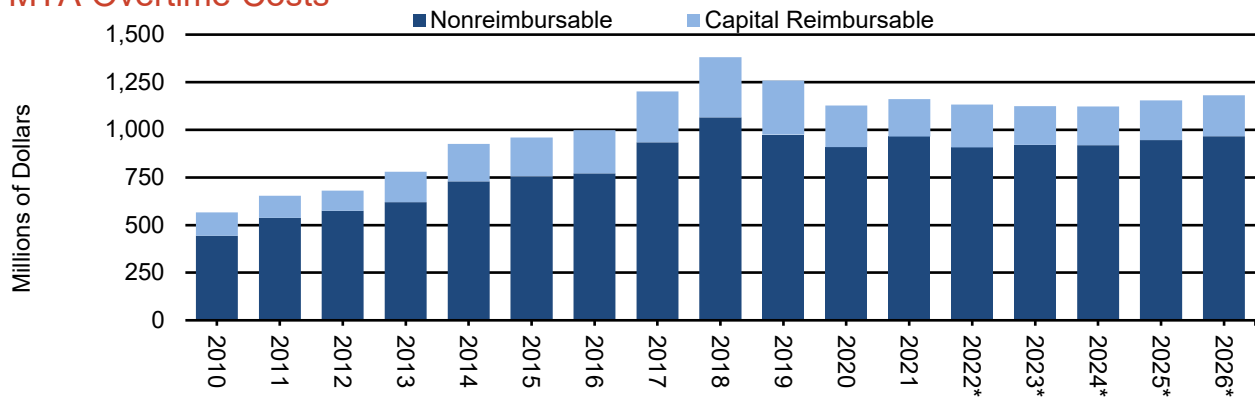
Expenditure Trends

Baseline expenditures are expected to increase by 2.9 percent annually between 2022 and 2026, driven by an average annual increase of 7.7 percent in health and welfare costs for active employees and retirees, which is more than three times faster than the projected inflation rate. Another factor in the growth of expenditures is a 3.5 percent annual increase in debt service, as projected borrowing for the capital program increases.

Payroll costs are expected to increase by 2.9 percent annually during this period, reflecting projected wage increases of 2 percent annually for the next round of collective bargaining. Wage increases for the non-

¹ These tax estimates exclude newly authorized taxes for the 2020-2024 capital program.

FIGURE 9
MTA Overtime Costs



Sources: Metropolitan Transportation Authority; OSC analysis

* MTA forecast

represented workforce are also assumed to be 2 percent. Nonlabor costs are expected to grow by 7.7 percent annually during this period, driven by higher costs for paratransit contracts (7.3 percent annually) as the plan assumes the return to the paratransit ridership level in 2019 by 2023 and then 5 percent growth annually thereafter.

The July Plan assumes overtime (including overtime reimbursed by the capital budget) will decrease by 6 percent in 2022 to below the 2017 level, as hirings pick up reducing the need for overtime, but then increase by 1.6 percent annually from 2023 through 2026. MTA overtime spending grew by 143 percent between 2010 and 2018, reaching a record of nearly \$1.4 billion (including costs reimbursed by the capital budget; see Figure 9). The increase was mainly driven by the Subway Action Plan, the LIRR’s corrective action plan and to cover positional vacancies.

In 2019, the former Governor and the MTA Chairman called for an investigation into fraud and overtime abuse after large overtime payments to some workers were publicized. The law firm hired by the MTA to examine its usage of overtime found that the MTA was

unable to determine whether there had been widespread overtime fraud because it lacked many of the basic systems necessary to track overtime.

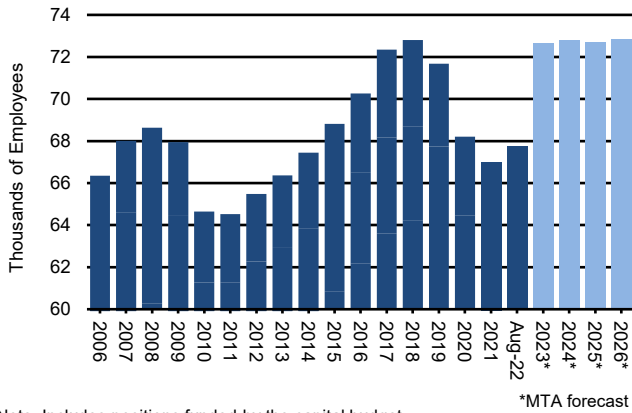
In 2019, overtime declined by 9 percent to nearly \$1.3 billion as the MTA began to better manage its overtime, and in 2020 it fell another 10 percent to \$1.1 billion as better management continued while services and construction work were reduced during the pandemic. In 2021, overtime increased by 3 percent largely as a result of high staff vacancy levels at New York City Transit (NYCT). As shown in this report’s risks section, it is likely that overtime will continue to be higher than planned.

Staffing Levels

Between 2008 and 2011, the MTA cut its work force by 4,116 employees to offset a sharp drop in revenues because of the Great Recession. The work force then gradually increased by 8,277 (mostly operations and maintenance personnel), peaking at 72,800 in December 2018 (see Figure 10).

In 2019, the number of employees dropped by more than 1,100 positions as the MTA instituted a hiring freeze on administrative and

FIGURE 10
MTA Staffing Levels



Note: Includes positions funded by the capital budget.
Sources: Metropolitan Transportation Authority; OSC analysis

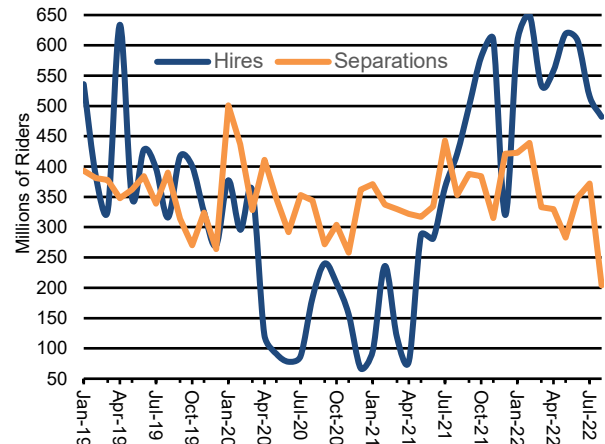
nonoperational positions. In 2020, the work force dropped further by nearly 3,500 positions as the hiring freeze continued and was expanded to operational positions as a result of the MTA’s financial crisis during the pandemic.

The hiring freeze on operational positions was lifted in February 2021 as the MTA’s budget pressures eased, but the MTA struggled to hire as fast as employees were retiring or leaving. In December 2021, the workforce was more than 1,200 employees lower than the year before. In the first eight months of 2022, the MTA has added 771 positions as hiring has picked up.

As of August 2022, the MTA work force totaled 67,763 employees, 5,037 fewer than at the end of 2018. The number of operational and maintenance positions that month totaled 60,496, 3,741 fewer than in 2018 and still lower than in December 2020.

Hiring of operational and maintenance positions has exceeded separations in 12 of the last 13 months (see Figure 11). Nevertheless, the MTA’s operational and maintenance positions are understaffed when compared to pre-pandemic levels which have led to service delays. A high number of subway trips continue

FIGURE 11
MTA Operations & Maintenance Staffing



Sources: Metropolitan Transportation Authority; OSC analysis

to be canceled because of the lack of worker availability. The weekday subway percentage of scheduled service delivered in August was 93 percent, better than the low point reached in August 2021 (89 percent) but lower than the August 2019 level of 97 percent. If lower service levels continue, they could hinder the region’s recovery from the pandemic. The July Plan forecast for operational and maintenance positions in 2026 (64,042) would be slightly lower than the peak in 2018.

Administrative positions in August 2022 declined by nearly 1,000 since December 2018, but the July Plan authorizes the MTA to hire 832 by the end of 2023. Public safety positions are expected to increase by 516 positions by December 2023 mostly to complete the hiring of 500 additional MTA Police officers to support efforts to reduce fare evasion and quality of life infractions throughout the MTA system. Capital and engineering positions are expected to increase by 316 between August 2022 and December 2023.

The July Plan authorizes the MTA to hire 4,867 employees between August 2022 and December 2023 (including 3,203 operational

and maintenance positions) to reach 72,630 employees (see Appendix B). The MTA then expects the number of staff to reach the 2018 level of 72,800 employees in 2024, drop slightly in 2025 as administrative positions are reduced and then reach 72,800 again in 2026.

The MTA historically does not hire up to its authorized level, so it is unlikely that all those positions will be filled. For example, staffing in August 2022 was 4,065 positions below the July Plan forecast. The July Plan has added authorization starting in 2023 to hire more than 1,000 more employees than in the February Plan. As a result, there is potential for substantial savings if the MTA does not pick up its pace of hiring.

Balancing the Budget

The July Plan’s strategy to close the budget gaps from 2022 through 2026 relies on three main elements: pandemic-related federal aid, higher fares and tolls, and unspecified savings actions (see Figure 12). Because budget gaps have increased since February, the MTA has accelerated the use of federal funding to maintain operations, leaving larger gaps in 2025 and 2026.

The MTA expects to use \$7 billion of federal operating aid, \$705 million from FEMA COVID-19 reimbursements, \$1.5 billion from fare and toll increases and \$100 million annually from unspecified savings actions to close the gaps through 2024 and leave budget gaps of \$2.5 billion in both 2025 and 2026. The MTA estimates the gap would grow to \$2.8 billion in

2028. Each of these gap-closing actions pose budgetary risks and are discussed below.

In addition, the MTA has started to present options to its board, the public and legislators on how if the State were to provide a recurring source of revenue as early as 2023, the MTA would be able to use \$3.5 billion of the federal funding to pre-pay debt. This would save \$3.9 billion during the 2023 through 2028 period and avoid the long-term cost of deficit borrowing which would save \$938 million between 2024 and 2028. The remaining \$3.4 billion of federal funding would then bring the budget gaps to \$795 million in 2023 and \$1.6 billion annually starting in 2024, or more than \$1 billion less than if the federal funding was used before starting to deal with the MTA’s fiscal cliff in

FIGURE 12
MTA July 2022 Gap-Closing Program
 (in millions)

	2022	2023	2024	2025	2026
Projected Baseline Cash	\$ (2,586)	\$ (2,894)	\$ (2,673)	\$ (3,155)	\$ (3,057)
Fare/Toll Increases:					
March 2023	---	208	263	255	261
March 2025	---	---	---	<u>227</u>	<u>297</u>
Subtotal:	---	208	263	482	539
Unspecified Savings	---	100	100	100	100
Federal ARPA Assistance	1,498	2,642	2,526	126	201
FEMA COVID Reimbursement	---	235	235	235	---
Deficit Financing Debt Service	---	---	(178)	(190)	(190)
Other Adjustments	(78)	(292)	(272)	(56)	(52)
Total Gap-Closing Program	\$ 1,420	\$ 2,894	\$ 2,673	\$ 698	\$ 599
Prior-Year Carryover	1,166	---	---	---	---
Residual Cash Surplus/(Deficit)	\$ ---	\$ ---	\$ ---	\$ (2,457)	\$ (2,458)

Source: Metropolitan Transportation Authority

2025. OSC has strongly recommended that the MTA not use deficit financing in its operating budget since doing so increases funds available for operations rather than paying debt service on the financing for as long as 30 years to help fund one or two years of services.

Federal Assistance

In 2020, as the pandemic drastically reduced MTA ridership and revenues, the MTA received \$4 billion from the federal Coronavirus Aid, Relief and Economic Security (CARES) Act, which was signed in March 2020, to help support it through the year. The MTA quickly determined that it needed additional federal aid to help it balance its operating budgets over the next five years.

In December 2020, Congress passed the Coronavirus Response and Relief Supplemental Appropriations Act which provided the MTA with \$4.1 billion, \$3.4 billion of which was used to balance the 2021 budget with the remainder used in 2022.

In March 2021, Congress passed the American Rescue Plan Act, which is expected to provide another \$7 billion for the MTA's operating budget. The MTA is expecting to use \$1.5 billion of these funds in 2022, \$2.6 billion in 2023, \$2.5 billion in 2024, \$126 million in 2025 and \$201 million in 2026. In all, federal operating assistance makes up 23 percent of the MTA's total revenue in 2023, but only 2 percent in 2025. Federal operating aid accounts for almost all of the gap-closing program in 2023 and 2024.

The MTA also expects to receive \$235 million annually from 2023 through 2025 from the Federal Emergency Management Agency for reimbursement of direct COVID-19-related expenses incurred from the start of the pandemic through June 2022.

Fare and Toll Increases

The July Plan assumes a fare and toll yield increase of 4 percent in both March 2023 and March 2025. (Toll yields were increased by 6 percent in April 2021, but a fare increase was deferred at that time.) The 2023 combined fare and toll yield increase is expected to bring in \$270 million annually and the 2025 increase is expected to bring in another \$286 million annually. If the increases are not implemented, the gaps would increase by around \$500 million annually starting in 2025.

OSC has noted that fare increases should take into consideration the impact on ridership and the larger impact on the regional recovery. A proper balance between ensuring the long-term fiscal health of the public transit system and supporting the region's recovery must be achieved so that fare increases do not threaten the long-term health of the system, especially through more permanent shifts in rider composition and behavior.

MTA Savings Plans

On July 24, 2019, the MTA board approved its transformation plan. The plan was mandated by Section 1279-e of the Public Authorities Law. The plan recommended, among other things, that the MTA refocus its agencies on core safety, operations and maintenance; and centralize core functions by consolidating more than 40 functional groups within the agencies to six departments.

The plan estimated that when fully implemented, it would eliminate between 1,900 and 2,700 mostly administrative positions. The MTA included the transformation plan in its November 2019 financial plan with estimated savings of \$2.1 billion over four years. In 2020, after the pandemic began, the MTA announced that it would be pausing transformation plan activities that required cash or capital outlays.

As shown [in last year's overview of the MTA budget](#), most of the 2,700 eliminated positions achieved through attrition were not administrative positions as recommended by AlixPartners (a global consulting firm that helped develop the transformation plan), but were operational and maintenance positions that have a direct impact on service.

The MTA's February Plan still had a goal of achieving an additional \$150 million annually from the transformation plan starting in 2022 but this has been replaced by a "fiscal baseline reset" which will generate \$100 million annually in unidentified efficiencies starting in 2023. The MTA has indicated that it will achieve these savings without changing service levels.

That the savings goal was reduced by \$300 million during the plan period is concerning given the MTA's financial predicament. The MTA has shown in the past that it is able to implement savings that exceed this modest goal of \$100 million annually. For example, in 2019, the MTA proposed a savings program that averaged \$292 million annually over five years. OSC recommends that the MTA identify the options it may take to achieve savings as soon as possible and look to achieve more than the current goal.

Deficit Financing

As the pandemic began in 2020, the MTA was given authority by the State to borrow up to \$10 billion for operating purposes through December 2022. In December 2020, the MTA borrowed \$2.9 billion, from the Federal Reserve's Municipal Liquidity Facility (MLF) before the MLF's lending window expired at the end of 2020. At the time, the MTA was unsure if

it would receive additional federal funding to help it balance its operating budgets.

To its credit, the MTA reduced its assumed use of deficit financing in its budgets from \$2.9 billion in 2020 to \$499 million in 2025 and now no longer assumes the proceeds will be used in the plan period. The MTA has noted that deficit financing is a last resort while stressing the need to find alternative ways to close its budget gaps.

As noted in [OSC's recent report on the MTA's debt profile](#), the MLF loan is due to be repaid in 2023; the MTA plans to issue long-term bonds that year to repay the Federal Reserve.² The debt service to re-pay the loan is included in the July Plan and is expected to cost \$190 million annually starting in 2025. The MTA has suggested policymakers consider providing funds to pay down this debt and avoid associated debt service costs.

² OSC, *Annual Update: Metropolitan Transportation Authority's Debt Profile*, Report 1-2023, April 2022, at

<https://www.osc.state.ny.us/files/reports/osdc/pdf/report-1-2023.pdf>.

Potential Budget Risks

The MTA has identified various risks to its financial plan that include inflation, a recession and ridership not returning as quickly as it forecasts. OSC projects that other risks to the MTA's July Plan could lead to outcomes that increase the MTA's budget gaps by \$220 million in 2022, \$250 million in 2023, \$341 million in 2024, \$401 million in 2025 and \$461 million in 2026 (see Figure 13). Gaps would approach \$3 billion in both 2025 and 2026.

OSC forecasts higher pension costs for the MTA. All MTA Bridge and Tunnel employees and two-thirds of NYCT employees are members of the New York City Employees' Retirement System (NYCERS). These agencies make pension contributions as billed by NYCERS. Since NYCERS assumes a 7 percent return on investment and reported an 8.39 percent loss in the fiscal year ending June 30, 2022, OSC estimates that the MTA's pension contribution to NYCERS will be higher by \$70 million in 2023, rising to \$326 million in 2026.

MTA overtime costs paid out of its operating budget through August 2022 were \$754 million, \$158 million higher than forecast in the July Plan for the same period. Overtime spending would have to average \$39 million each month for the remainder of 2022 to meet the budgeted amount of \$908 million when it averaged \$94 million a month in the first eight months of the year. Since vacancies and availability challenges are still leading to higher-than-planned overtime at NYCT, this may be unrealistic. As a result, OSC forecasts that overtime costs could be at least \$220 million higher than planned in 2022 with the risk declining to \$35 million in 2026.

Even with the increased overtime, given the MTA's slower than expected hiring, there is

potential for offsetting payroll savings. Although the MTA is starting to ramp up hiring, staffing in August 2022 was 4,065 positions below the July Plan forecast. Through August, payroll and health and welfare costs were already \$217 million lower than the July Plan.

The MTA does not expect to receive any further savings from the transformation plan. Instead, it expects to achieve \$100 million annually in efficiencies across its agencies starting in 2023. However, the savings have not yet been identified and there are no guarantees that the MTA will achieve the desired savings. The MTA could apply vacancy savings to this goal as it did to achieve most of its transformation plan savings but that is not something that would make the MTA more efficient or provide recurring savings.

The MTA's self-identified risks concern macroeconomic trends that would increase recurring costs. The biggest risk to the MTA's finances is that a recession would further adversely impact ridership and tax revenues. The MTA estimates that a recession could lower dedicated tax revenues as forecasted by the State by \$500 million to \$1 billion annually.

Each 1 percent increase in inflation over the 2 percent assumption could also raise costs by \$150 million annually. S&P Global forecasts inflation from 2022 through 2026 increasing at an annual rate of 2.7 percent. If inflation did increase at that rate across all of the MTA's budget, then costs would be \$100 million higher annually.

Even if the economy improves as quickly as the MTA expects, there is a risk that ridership will not return to planned levels. The July Plan uses the middle point (69 percent of pre-pandemic ridership in 2023 rising to 80 percent in 2026) of McKinsey's ridership forecast. If ridership tracks more along the less optimistic scenario, which

FIGURE 13
OSC Risk Assessment of MTA July Plan
(in millions)

	2022	2023	2024	2025	2026
Projected Cash Balance	\$ ---	\$ ---	\$ ---	\$ (2,457)	\$ (2,458)
NYCERS Pension Contributions	---	(70)	(161)	(246)	(326)
Overtime	(220)	(80)	(80)	(55)	(35)
Unidentified Savings	---	(100)	(100)	(100)	(100)
Total Risks and Offsets	(220)	(250)	(341)	(401)	(461)
OSC Adjusted Surplus/(Deficit)	\$ (220)	\$ (250)	\$ (341)	\$ (2,858)	\$ (2,919)
MTA-Identified Risks					
State Tax Revenue		(1,000)	(1,000)	(1,000)	(1,000)
Low Case Ridership Scenario		(350)	(350)	(350)	(350)
Each 1% More for Inflation		(150)	(150)	(150)	(150)
Each 1% More for Labor		(100)	(100)	(100)	(100)

Source: Metropolitan Transportation Authority; OSC analysis

is only 73 percent of the 2019 level in 2026, then the MTA estimates that fare revenue could be lower by \$350 million annually.

Another uncertainty is the outcome of collective bargaining negotiations. In December 2019, the MTA and the Transport Workers Union (TWU), the authority's largest union, reached a labor agreement covering May 2019 through May 2023. The agreement called for annual wage increases over the four-year period of 2 percent, 2.25 percent, 2.5 percent and 2.75 percent. The agreement includes health insurance savings and initiatives designed to increase employee availability.

As the pandemic started in 2020, the MTA paused negotiations with its remaining unions in light of financial uncertainty and logistical issues. In March 2021, at the time the American Rescue Plan Act was enacted, negotiations resumed. The MTA has come to agreements with 90 percent of the LIRR's represented employees and 70 percent of Metro-North's

represented employees. Seventy percent of the LIRR's and 35 percent of Metro-North's represented workforce have agreed to four-year contracts matching the TWU pattern. The remainder of those who settled agreed to two-year contracts covering 2019 and 2020 but lack a contract for years after 2020.

The July Plan assumes the TWU pattern for 2021 through 2023 for those unions that have not agreed to contracts covering those years and 2 percent annual wage increases after those years. The MTA estimates that each 1 percent wage increase over the budgeted amount will cost \$100 million annually.

These risks might be offset by other savings or reserves. The July Plan includes an annual general reserve of 1 percent of operating expenses (excluding debt service) to be used in each year. In 2023, the reserve is \$185 million, rising to \$205 million in 2026. As much as \$388 million that has been set aside for bridge

and tunnel capital projects can also be used for operating purposes, if needed.

The State authorizes the MTA to borrow up to \$10 billion during calendar years 2020 through 2022 to offset decreases in revenue or increases in operating costs that are due, in whole or in part, to the pandemic. As noted above, in December 2020, the MTA borrowed \$2.9 billion from the MLF before the MLF lending window expired at the end of 2020. The MTA does not plan to use these proceeds in the financial plan period but retains it as an option to use as a last resort if additional revenue sources are not obtained.

The MTA, however, must close its gaps through other means and pay back the MLF the funds it has borrowed or, at the very least, re-dedicate the MLF funds for its 2020 to 2024 capital program. Using the borrowed funds for the operating budget only puts off the difficult choices that must be made to achieve balanced budgets in 2025 and the years after.

Through August, farebox revenue is \$97 million higher than the July Plan forecast driven by a higher than planned average fare suggesting more commuters are returning but not riding as regularly and thus not receiving a discounted fare. Ridership in August was at the high case ridership scenario developed by McKinsey. If these ridership gains continue, the MTA could receive significant budget relief.

Status of MTA Capital Programs

The MTA’s 2020-2024 capital program is the largest in the MTA’s history. First approved at \$54.8 billion in December 2019, the program has been amended twice since then and is now \$643 million larger at \$55.4 billion. The core program which includes non-expansion projects, including bridge and tunnel projects, has been reduced by \$972 million as detailed below. Expansion projects, however, have been allocated another \$1.6 billion (see Figure 14).

FIGURE 14
MTA 2020-2024 Capital Program
 (dollars in millions)

	Original Program	Total Amendments	Current Program
NYC Transit	\$35,389	\$ (779)	\$34,610
LIRR	3,757	(114)	3,623
Metro-North	3,558	(101)	3,457
MTA Bus	871	(1)	870
MTA Interagency	119	23	142
Bridges and Tunnels	3,327	- - -	3,327
Total Core Program	47,001	(972)	46,030
Expansion Projects	7,798	1,615	9,413
Total	\$54,799	\$643	\$55,442

Source: Metropolitan Transportation Authority; OSC analysis

Capital commitments for NYCT are expected to be reduced by a net total of \$779 million when compared to the original proposal. Those categories showing net decreases in commitments are subway cars, traction power, signals and communications, service vehicles, line equipment, shops and yards, and Staten Island Railway for a total of \$2.7 billion. Most of the net reduction (\$1.4 billion) is from rescheduling the purchase of “A” Division subway cars because of contractor delays in delivering the cars. Traction power projects will be reduced by \$808 million mostly from \$1 billion

of power improvements on the Lexington Avenue line being rescheduled to a future capital program. The signals and communications element is showing a reduction of \$376 million largely due to a \$494 million reduction in signal work. This is mostly because communication-based train control projects on the Lexington line and the Astoria line that were needed based on forecasted ridership increases before the pandemic are now not needed in the short-term and have been deferred to a later program.

Those categories at NYCT showing a net increase in expenditures include line structures, passenger stations, buses and depots and total nearly \$2 billion. The \$621 million increase for line structure projects is primarily due to current market conditions and inflation changing the scope of repairs, which are more expensive than forecast. Included in the increase for line structures is \$55 million for storm water mitigation at various stations which assist in reducing flooding in severe rainfall events. The \$574 million increase for passenger stations is primarily due to \$210 million for new initiatives including \$25 million for flood mitigation and \$261 million for station/component renewal projects.

The proposed amendment lowers capital commitments for the Long Island Rail Road by a net total of \$114 million when compared to the original proposal. Those categories showing net decreases in commitments include power, rolling stock, stations, line structures, and shops and yards totaling \$261 million. Most of the \$113 million net reduction for power projects is from the removal of the central branch electrification project (\$230 million), with funds shifted to high priority capital needs such as substation replacement and other new projects to account for higher estimates and the effects of inflation. The \$87 million reduction for rolling stock is due to the dual-mode locomotives project being phased in to reflect revised timing

of unit purchases with the funding being re-directed to the Penn Station Access project. Those categories showing a net increase in expenditures are communication and signals and track, totaling \$147 million including \$118 million for new signal and interlocking projects.

The proposed amendment lowers capital commitments for the Metro-North Railroad by a net total of \$101 million when compared to the original proposal. Those categories showing net decreases in commitments include stations, rolling stock, power, and shops and yards for a total of \$439 million including the deferral of \$272 million for improvements at Grand Central Station and the Grand Central Station train shed. The net reduction of \$127 million for rolling stock reflects \$87 million being transferred to the Penn Station Access project and \$40 million to support the state of good repair needs on the Port Jervis line. Those categories showing a net increase in expenditures are track and structures and communication and signals totaling \$339 million, including \$212 million for the expansion of the Park Avenue viaduct project (an additional eight blocks) as well as to perform priority steel repairs on the viaduct.

The proposed amendment increases capital commitments for expansion projects by a net total of \$1.6 billion when compared to the original proposal mostly for the Penn Station Access project because of an extended project schedule due to limitation on track outages and labor support committed to by Amtrak, additional work required by Amtrak (fourth track, expanded power and communications upgrades), and market price increases in labor and construction materials. The amendment adds \$100 million (funded by the State) for engineering and consulting services for the reconstruction of Penn Station.

The MTA's capital programs, which generally span five-year periods, are critical to bringing the

overall system to a state of good repair, maintaining normal replacement of assets, and improving and expanding the system to meet its riders' needs. Historically, the MTA has multiple capital programs active at the same time. In the past, it has taken more than five years to commit or award all the projects in a capital program (the MTA cites seven years as a target) and even more time to complete the work (the MTA cites 10 years as a target). These characteristics make it difficult for stakeholders to get a clear and comprehensive picture of the MTA's progress.

As of August 1, 2022, the MTA's capital programs since 2010 have a total of \$52.5 billion which still must be committed. According to the MTA capital dashboard, as of June 30, 2022, 340 of 698 projects in the 2020-2024 capital program had been completed or begun, with most activity starting in the spring of 2021 after the capital spending pause was lifted (see Figure 15). As in the past, the MTA is expected to split projects into smaller projects during the life of the program. As of August 1, 2022, \$9.7 billion of the program has been committed, leaving \$45.6 billion still to be committed.

At the same time the MTA begins work on its 2020-2024 capital program, it must still finish its 2015-2019 and prior programs. Partly due to the 2015-2019 program being approved 18 months late due to a funding dispute between the State and the City, 35 percent of the 1,166 projects that make up the 2015-2019 capital program were not finished as of June 30, 2022 (see Figure 16). The MTA had completed 748 projects, but 249 (21 percent) were still in construction, and construction had not begun on the remaining 169 projects (14 percent). Most of the remaining work relates to Phase 2 of the Second Avenue Subway, which was delayed while awaiting federal approval to enter engineering, and the construction award of nine subway station

renewals. As of August 1, 2022, \$4.4 billion (12.8 percent) of this \$33.9 billion program still must be committed.

The 2010-2014 program has completed 88 percent of the 1,308 projects in the program, with 153 projects left to be completed (see Figure 17). Most of the outstanding projects are for Superstorm Sandy-related work, the completion of East Side Access, commuter railroad rolling stock purchases and improvements at NYCT, including the new fare payment system. As of August 1, 2022, of this \$31.7 billion program, about \$2.5 billion still must be committed.

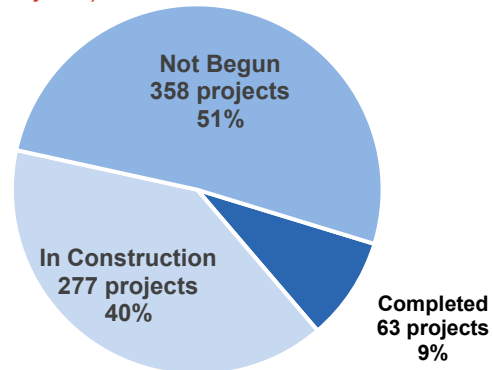
Capital Funding Sources

The MTA is expecting to receive \$12.4 billion (22 percent) in the 2020-2024 capital program from the federal government, including \$9.4 billion of formula grant funding (see Figure 18). This total includes \$1.7 billion in increased formula funding from the federal Infrastructure Investment and Jobs Act (IIJA) allowing the MTA to reduce its bonding need by that amount.

The MTA also assumes that it will receive \$3.4 billion in New Starts funding for the second phase of the Second Avenue Subway (which includes \$500 million in the 2015-2019 capital program) which could be paid from the additional \$8 billion authorized nationwide in the IIJA for New Starts projects.

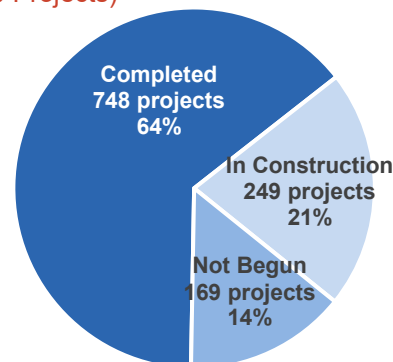
Capital lockbox funds, including funds generated from congestion pricing, the mansion tax in New York City and a portion of sales taxes in the Metropolitan Commuter District, total \$25 billion (45 percent). These funds are earmarked by law for the 2020-2024 capital program and are not available for the operating budget. However, these funds were made available for operations by State legislation during the pandemic

FIGURE 15
Status of MTA 2020-2024 Capital Program
(698 Projects)



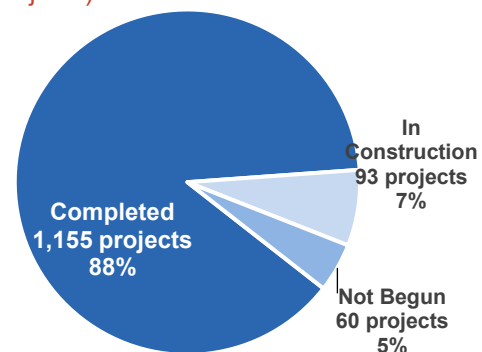
Note: As of June 30, 2022
Sources: Metropolitan Transportation Authority; OSC analysis

FIGURE 16
Status of MTA 2015-2019 Capital Program
(1,166 Projects)



Note: As of June 30, 2022
Sources: Metropolitan Transportation Authority; OSC analysis

FIGURE 17
Status of MTA 2010-2014 Capital Program
(1,308 Projects)



Note: As of June 30, 2022
Sources: Metropolitan Transportation Authority; OSC analysis

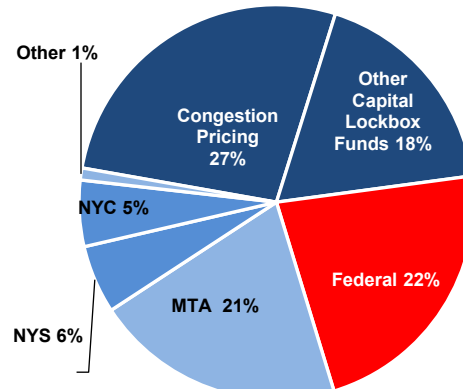
emergency.³ The MTA currently expects the \$25 billion to be funded by a combination of lockbox bonding and cash. Current MTA estimates of the mix between the two is \$17.7 billion of bonding and \$7.3 billion of cash but the MTA has indicated that this is highly dependent on the pace at which monies are needed.

Congestion pricing is expected to generate \$15 billion for the 2020-2024 capital program and any successor program. The MTA expects the program to receive a decision from the Federal Highway Administration (FHWA) in January 2023. If it receives approval by the FHWA, the MTA currently assumes it will start receiving the estimated \$1 billion in annual revenue associated with congestion pricing in late 2023.⁴

The environmental assessment (EA) for congestion pricing has been released and it has generated significant public interest. While many have supported congestion pricing, concern has been raised regarding traffic diversions and related air quality effects in the South Bronx, treatment of taxis and for-hire vehicles, effects on low-income drivers and small businesses, and the assessment of a toll during the overnight hours when congestion is lower. New Jersey elected officials have also raised concerns regarding the effect of tolls on their constituents. The FHWA will use the analysis provided in the EA along with comments received during the public review to determine if the proposed program has negative effects that cannot be significantly mitigated. If it does, it will require development of an Environmental Impact Statement which will delay the project.

The State law establishing the congestion pricing program requires that the revenue generated

FIGURE 18
MTA 2020-2024 Capital Program Funding



Source: Metropolitan Transportation Authority

from the program be sufficient to generate \$15 billion in funding, so operational costs for required mitigation of adverse effects as well as any exemptions, discounts or crossing credits given will require that the overall tolls be raised to make up for the lost revenue. The Traffic Mobility Review Board, whose members were named in July 2022, must make recommendations to the MTA Board that shall, at a minimum, ensure that annual revenues and fees collected from congestion pricing be sufficient to generate \$15 billion. The MTA Board will then set the congestion toll and discounts, crossing credits, or exemptions to the toll.

Efforts to allow for the use of congestion pricing funds to support operations, as suggested by some legislators, would not be allowed under current law. While it could provide a short-term boost for operating revenues, it would ultimately come at the expense of capital investment and increase the fixed cost burden on operations.

Another \$10 billion of bonding and cash contributions from the lockbox are expected to be supported by revenues from State and City internet marketplace sales taxes and from the

³ The “mansion tax” is a real property transfer tax surcharge which increased the transfer tax on sales of at least \$2 million or above according to a sliding scale.

⁴ The MTA estimates that congestion pricing would reduce vehicles entering the Central Business District by 15 to 20 percent and increase transit ridership by 1 to 2 percent.

mansion tax in New York City. The MTA has begun issuing bonds backed by the City sales tax allocated to the lockbox. The MTA expects to issue up to \$4 billion of these bonds with the remaining \$6 billion to be funded with a not-yet-to-be determined mixture of bonds and cash from these revenues.

The State has committed to provide \$3 billion of its own bonding for the 2020-2024 capital program and the MTA has worked with the State to provide this share earlier in the program. The State is also providing \$100 million for design engineering work for the Penn Station reconstruction project. The City is required to match the State's \$3 billion contribution to the MTA's 2020-2024 capital program and has so far allocated \$1.5 billion of this commitment.

Currently, the MTA plans to fund \$11.4 billion (21 percent) of the capital program with its own bonding and PAYGO contributions including funding for MTA Bridges and Tunnels. As lockbox revenues were not yet available in 2020 and 2021 for capital purposes, MTA issued \$749 million of the \$8 billion in bonding allocated for transit and commuter railroad projects. The MTA does not expect to issue any more of this contribution until 2027 or later after other funding sources have been exhausted.

MTA Debt Service and Debt Outstanding

The amount of outstanding long-term debt issued by the MTA increased from \$25.8 billion in 2010 to \$35.4 billion in 2019 (37 percent) and since 2019, has risen to \$40 billion in 2021 (13 percent).

The MTA’s statutory debt cap is \$90.1 billion after being raised in 2020 to support the 2020-2024 capital program and to enable the issuance of bonds backed by sources for the capital lockbox including congestion pricing.

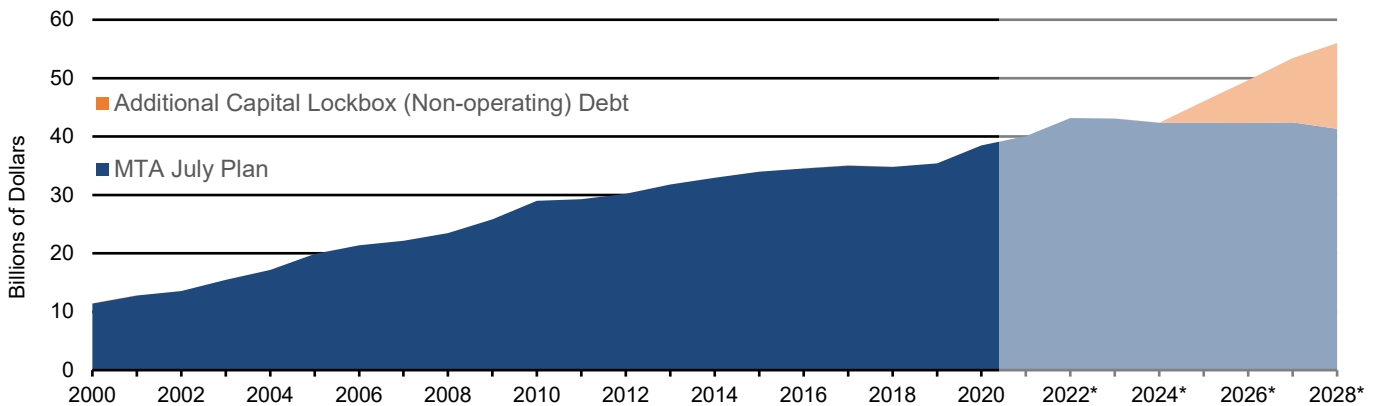
The MTA expects debt outstanding to be \$43 billion in 2022, to decline to \$42 billion by 2024 and stay at that level through 2027. However, this figure would be closer to \$45 billion if the MTA decides to issue a long-term bond to repay the bond anticipation notes (BANs) that were issued to the MLF or if it were to use those funds instead for capital purposes.

The MTA’s baseline debt forecast does not assume the issuance of \$2.9 billion in long-term bonds needed to repay BANs that were issued to the MLF. To its credit, the MTA does not assume that the proceeds from deficit financing will be

used during the financial plan period and has noted that deficit financing is a last resort while stressing the need to find alternative ways to close its budget gaps. If all \$17.7 billion of capital lockbox bonds, including those to be backed by congestion pricing revenues, are counted, debt outstanding could rise to \$56 billion by 2028 (see Figure 19).

The forecast includes: (1) \$9.5 billion of debt the MTA expects to bond for projects in the transit and commuter portions of the 2020-2024 capital program; and (2) \$3.3 billion of the \$17.7 billion of future bonding backed by capital lockbox revenues. Most of the initial planned lockbox borrowing is expected to be backed by City sales tax contributions as the MTA waits for congestion pricing to begin.⁵ Projected borrowing for any future capital programs after the 2020-2024 program is also not included in the MTA’s debt plan.

FIGURE 19
MTA Debt Outstanding including Capital Lockbox Debt



Note: Excludes short-term bond anticipation notes (BANs) and potential long-term bonding of MLF BAN.
Sources: Metropolitan Transportation Authority; OSC analysis

*MTA forecast

⁵ These sales tax contributions are the result of the elimination of a tax exemption for third-party internet marketplace providers

from collecting and remitting New York sales taxes on transactions conducted on their sites.

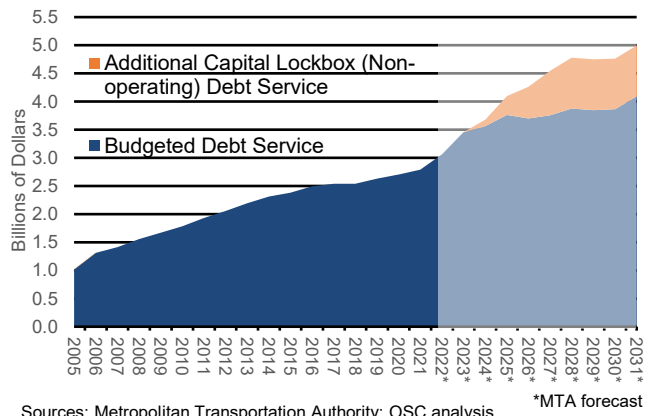
The MTA issued Bond Anticipation Notes (BANs) to fund a portion of the State’s share of the 2015-2019 capital program and expected the State to fund the debt service on the long-term bonds issued to repay the BANs. However, the State budget for State fiscal year 2021-22 assumed that the State would finance these contributions with State bonding instead of reimbursing the MTA for the debt service on its bonds. As a result, the MTA is relieved from having to bond the remaining amounts. The State has already bonded \$5.5 billion of this \$7.3 billion commitment for the 2015-2019 capital program.

Debt service on any issued bond is a fixed cost that can stretch to 30 years or more after issuance, potentially crowding out operating spending of other types, as there is limited control over the ability to reduce these costs over time. MTA-budgeted debt service (including lockbox debt service) is projected to reach \$4.1 billion by 2031, \$1.3 billion more than in 2021 (47 percent higher), including projected debt service for the bonds that will be issued to repay the BANs issued to the MLF (see Figure 20).

The MTA expects the debt service on these bonds to cost \$190 million annually starting in 2025. The MTA’s latest plan assumes the bonds would not be paid off until 2053. In its current financial plan, the MTA does not assume the use of the deficit financing proceeds during the plan period but does assume the debt service for the bond that will repay the BAN.

As noted earlier, the MTA’s debt service forecast includes the issuance of \$9.5 billion in anticipated debt for the 2020-2024 program. The MTA does not anticipate issuing BANs for this capital contribution until 2027; the long-term bonds to pay back these BANs would not be issued until 2030. The federal IIJA is expected to provide the MTA with an additional \$1.7 billion of formula funds allowing the MTA to reduce its

FIGURE 20
MTA Debt Service



Sources: Metropolitan Transportation Authority; OSC analysis *MTA forecast

bonding need for the 2020-2024 capital program by that amount.

There are a number of other ways the MTA can manage its debt, some that have valid reasoning, and others that are more difficult to justify. The separation of funds for the explicit purpose of paying for the capital program, such as the lockbox, is a means for avoiding conflating pressures from the operating budget onto the capital program.

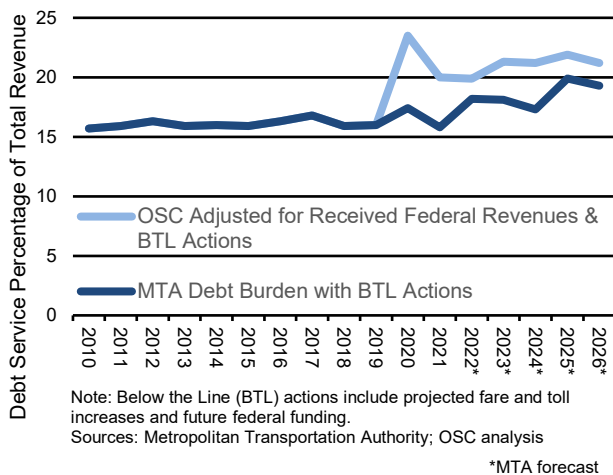
Debt service on the assumed \$3.3 billion of lockbox bonding is expected to rise to \$217 million annually starting in 2028. As shown in Figure 20, if the full \$17.7 billion in lockbox bonds is included, debt service could rise to \$5 billion by 2031. This debt service, however, will be paid from the capital lockbox, which is separate from the MTA’s operating budget and will not compete for other resources in the operating budget without changes to State law. In contrast, the use of notes to be permanently financed through bonds at a later time, or the deferral of principal payments altogether, can lead to higher costs over time.

Starting in 2018, the MTA has structured its bond sales to defer the payment of principal, in some

cases for as long as 20 years, which leads to lower debt service costs in the short term and reduces its current operating burden. However, this approach, known as “backloading,” pushes these increased costs into an uncertain future, where the level of revenues might not be as high as before the pandemic. The MTA’s financial plan assumes most of its projected issuances will have level debt service (which has not occurred since 2017), except for the MTA’s own share of the 2020-2024 capital program, all of which will defer all principal payments for 10 years. The MTA has stated that it structures its debt so that it matures within the expected useful life of the project being funded.

The share of total revenue needed to fund debt service averaged 16.1 percent from 2010 through 2019 (see Figure 21). The MTA reports that its debt burden is expected to rise from 15.8 percent in 2021 to 21.3 percent in 2023 before slightly declining to 20.1 percent in 2026.

FIGURE 21
MTA Debt Burden



If federal operating assistance and projected fare and toll increases are excluded from revenue, however, these figures rise. OSC analysis, excluding these one-time funds, shows that as a result of drops in farebox revenues due to the

pandemic, the debt burden (excluding federal operating aid that was received in 2020 and 2021) rose to 23.5 percent in 2020. As ridership revenue improved, the burden dropped to 19.8 percent in 2021 and is expected to stay at that level in 2022 before it rises again to 21 percent in 2023 and 2024 and then to 22 percent in 2025.

If ridership does not recover or additional revenues are not found, at the projected pace of debt issuance, the debt burden will still be relatively high compared to the pre-pandemic levels even after the effects of the pandemic begin to lessen, as projected debt service continues to rise through 2031. Funding and timing, related to discretionary federal transportation aid may have an effect on the MTA’s debt service or require changes to the capital plan or additional or accelerated funding from the City or State.

The MTA has suggested to its board that it could use a portion of its federal funding to defease \$3.6 billion of outstanding debt generating savings of \$280 million in 2023 rising to \$920 million in 2028, thereby reducing the MTA’s out-year deficits. This, however, is contingent on the MTA receiving additional State funding freeing up the federal funding for this purpose.

The MTA reported to OSC that its current projection for growth in debt service from 2022 to 2031 is 2.9 percent, with similar increases assumed for total revenues over the period. This would allow the MTA to manage a debt burden of 18 percent or less from 2023 through 2031. Assuming the growth in debt service continues at that trend, debt capacity for future capital programs through 2041 would be \$55 billion. If the MTA decides to keep its annual level of debt service at \$4 billion, the MTA estimates future capacity through 2041 would be an additional \$24 billion.

APPENDIX A

MTA Revenue and Expenditure Trends in the July Plan

(in millions)

	Forecast					Average Four-Year Growth Rate
	← 2022	2023	2024	2025	→ 2026	
Revenues						
Farebox Revenue	3,836	4,326	4,701	4,821	4,960	6.6%
Toll Revenue	2,315	2,323	2,332	2,335	2,338	0.2%
Dedicated Taxes						
Payroll Mobility Tax	2,026	2,030	2,074	2,119	2,161	1.6%
Metro. Mass Trans. Operating Asst.	2,601	2,763	2,763	2,763	2,763	1.5%
Petroleum Business Tax	599	620	620	620	620	0.9%
Urban Tax	575	503	540	578	594	0.8%
Mortgage Recording Tax (net)	607	623	639	663	674	2.6%
Other	574	683	722	786	844	10.1%
Subtotal – Dedicated Taxes	6,982	7,223	7,360	7,530	7,656	2.3%
State and Local Subsidies	1,635	1,625	1,631	1,664	1,689	0.8%
Other Revenue	650	758	797	808	830	6.3%
Total Baseline Revenues	15,418	16,254	16,821	17,158	17,473	3.2%
Federal Funding	1,498	2,877	2,761	361	201	-39.5%
Adjusted Revenues	16,916	19,131	19,582	17,519	17,674	-0.1%
Expenditures						
Payroll	5,648	5,878	6,046	6,184	6,343	2.9%
Debt Service	3,062	3,456	3,388	3,569	3,510	3.5%
Health and Welfare	2,403	2,614	2,805	3,009	3,231	7.7%
Pensions	1,369	1,378	1,314	1,261	1,205	-3.1%
Overtime	908	921	919	946	966	1.6%
Other Fringe Benefits	1,001	1,054	1,104	1,155	1,207	4.8%
Maintenance and Other Contracts	910	875	877	890	873	-1.0%
Professional Service Contracts	756	594	599	602	610	-5.2%
Energy (Fuel and Electric)	910	884	838	834	832	-2.2%
Claims	433	449	458	469	483	2.8%
Paratransit Service Contracts	424	475	505	527	561	7.3%
Other	1,017	1,080	1,126	1,174	1,209	4.4%
Reimbursable Overhead	(449)	(428)	(435)	(431)	(434)	-0.8%
General Reserve	185	190	195	200	205	2.6%
Other Adjustments	26	28	23	23	23	-3.0%
Total Baseline Expenditures	18,604	19,447	19,759	20,413	20,825	2.9%

Sources: Metropolitan Transportation Authority; OSC analysis

Note: May not add due to rounding.

APPENDIX B

MTA Staffing Levels by Function and Agency in the July Plan (Full-Time and Full-Time-Equivalents)

	Actual	Actual	Actual	Projected for the End of the Calendar Year			
	December 2020	December 2021	August 2022	2023	2024	2025	2026
Administration	3,870	3,610	3,462	4,294	4,269	4,154	4,150
NYC Transit	1,074	903	762	967	967	968	964
Long Island Rail Road	432	411	413	488	485	485	485
Metro-North Railroad	410	369	390	473	473	473	473
Bridges & Tunnels	62	51	47	77	77	77	77
Headquarters	1,755	1,692	1,695	2,087	2,065	1,949	1,949
Staten Island Railway	21	18	19	25	25	25	25
Capital Construction Co.	14	82	59	66	66	66	66
Bus Company	102	84	77	111	111	111	111
Operations	29,960	29,806	30,247	30,982	30,977	30,950	30,947
NYC Transit	22,547	22,461	22,690	23,056	23,048	23,024	23,022
Long Island Rail Road	2,606	2,583	2,710	2,737	2,736	2,733	2,732
Metro-North Railroad	2,032	2,008	1,996	2,271	2,275	2,275	2,275
Bridges & Tunnels	101	94	98	167	167	167	167
Headquarters	---	---	---	---	---	---	---
Staten Island Railway	116	134	135	142	142	142	142
Capital Construction Co.	---	---	---	---	---	---	---
Bus Company	2,558	2,526	2,618	2,609	2,609	2,609	2,609
Maintenance	30,618	29,826	30,249	32,717	32,922	32,982	33,095
NYC Transit	21,120	20,556	20,841	22,343	22,539	22,539	22,600
Long Island Rail Road	4,101	4,047	4,206	4,384	4,425	4,485	4,537
Metro-North Railroad	3,725	3,642	3,670	4,249	4,249	4,249	4,249
Bridges & Tunnels	351	335	323	388	388	388	388
Headquarters	---	---	---	---	---	---	---
Staten Island Railway	200	189	186	213	181	181	181
Capital Construction Co.	---	---	---	---	---	---	---
Bus Company	1,121	1,057	1,023	1,140	1,140	1,140	1,140
Engineering/Capital	1,668	1,548	1,566	1,882	1,882	1,880	1,880
NYC Transit	1,129	1,037	987	1,239	1,239	1,239	1,239
Long Island Rail Road	180	166	160	208	208	208	208
Metro-North Railroad	72	69	61	99	99	99	99
Bridges & Tunnels	157	149	132	158	158	158	158
Headquarters	---	---	---	---	---	---	---
Staten Island Railway	9	2	6	6	6	4	4
Capital Construction Co.	98	103	198	146	146	146	146
Bus Company	23	22	22	26	26	26	26
Public Safety	2,084	2,202	2,239	2,755	2,750	2,743	2,743
NYC Transit	593	601	577	711	706	706	706
Long Island Rail Road	---	---	---	---	---	---	---
Metro-North Railroad	---	---	---	---	---	---	---
Bridges & Tunnels	550	485	455	585	585	585	585
Headquarters	930	1,106	1,196	1,446	1,446	1,439	1,439
Staten Island Railway	---	---	---	---	---	---	---
Capital Construction Co.	---	---	---	---	---	---	---
Bus Company	11	10	11	13	13	13	13
Baseline Total Positions	68,200	66,992	67,763	72,630	72,800	72,709	72,815

Source: Metropolitan Transportation Authority

Prepared by the Office of the State Deputy Comptroller for the City of New York

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