A Review of the Proposed Capital Program for the Metropolitan Transportation Authority

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- **The MTA's commuter railroads, bridges, and tunnels have been largely restored to a state of good repair, with some exceptions. The subway system has made substantial progress, but there is a large backlog of needed investments.**
- **The MTA needs to invest $128.8 billion over 20 years to restore and modernize the existing system. Additional funds will be needed to expand the system to meet future needs.**
- **The MTA has proposed a $28 billion capital program for 2010-2014. While the MTA has identified funding for the first two years of the program, the program has a funding gap of $9.9 billion over the remaining three years.**
- **The $21.3 billion core program funds only 67 percent of the MTA's capital needs for the next five years, which could result in higher maintenance costs.**
- **The proposed program excludes funding for the next phase of the Second Avenue Subway.**
- **New York approved $1.8 billion in new revenue sources for the MTA. A portion would be securitized to raise $6 billion for the capital program.**
- **The MTA's financial plan assumes $16.5 billion in bonding, which would cover the funding shortfall but cause debt service to rise rapidly.**
- **Debt service will grow from $848 million in 2004 to $1.5 billion in 2009, and will then more than double to $3.5 billion by 2020.**
- **The Port Authority of New York and New Jersey has $2 billion in its capital program for New York transportation projects, which could help fund the MTA's capital program.**
- **The proposed capital program is expected to be approved by the MTA board at a September 23 meeting. With MTA approval, the program will be forwarded to the State for its approval.**

The Metropolitan Transportation Authority (MTA) is responsible for operating and maintaining the largest mass transit system in the nation. In 2008, more than 2.6 billion people used the MTA's network of subways, buses, and railroads, and some 300 million vehicles crossed its bridges and tunnels. The transportation system operated by the MTA is critically important to the regional economy, and benefits the environment.

Maintaining and modernizing the system requires large capital investments, and for the first time in decades, the MTA has embarked on a number of costly network expansion projects. Since 1982, the MTA, with the assistance of its funding partners, has invested more than $75 billion in the system.

In August, the MTA released a $28 billion capital program for 2010 through 2014. The proposed program would continue to restore and modernize the existing system; complete East Side Access and the first phase of the Second Avenue Subway; and fund studies for future expansion projects.

The capital program, however, would fund only 67 percent of the MTA's capital needs during the five-year period. Moreover, the program has a funding gap of $9.9 billion despite a large increase in State aid and a 56 percent increase in anticipated federal funding, which may not materialize. In the absence of additional aid, the MTA plans to fill the gap with debt, but debt service would then rise rapidly and increase pressure in the future to raise fares and tolls.

New York State and New York City are confronting their own financial challenges, which make it difficult for them to provide additional financial aid to the MTA. At the same time, critical transportation needs, including highways and bridges, must be adequately funded. Balancing these concerns will not be easy in the current economic environment.

Condition of System Assets

The transportation system operated by the MTA has improved greatly since 1982 (when the system was on the verge of collapse), due to a capital investment of more than $75 billion. Despite this progress, many parts of the system are still in need of repair and modernization.

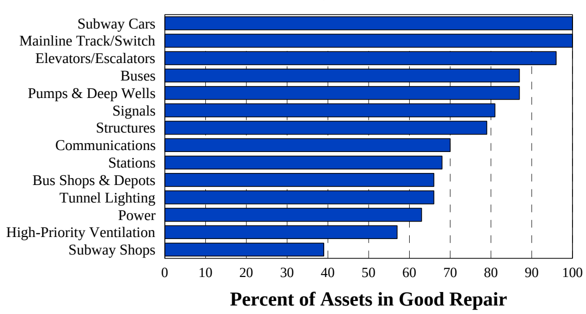
According to the MTA, all of the Long Island Rail Road's (LIRR's) major assets (e.g., railcars, stations, and track) have been restored, with the exception of line structures, which will not be restored until 2024. Metro-North Railroad has restored most of its assets, with the exception of Grand Central Station, some stations and parking lots, some structures, the Port Jervis Line, and some shops and yards. The MTA's bridges and tunnels, though aging, are in a state of good repair.

New York City Transit (NYCT) has the greatest backlog of needed capital investments (see Figure 1). Of NYCT's 468 subway stations, more than 82 percent—386 stations—require capital repairs, and 32 percent of the system's 11,000 station components do not meet current standards. Even those stations that have been renovated have begun to show signs of declining conditions.

Only 57 percent of high-priority subway ventilation fans, 66 percent of tunnel lighting, and 39 percent of the repair shops meet current standards. Also, more than 10 percent of the bus fleet is older than its useful life of 12 years. Moreover, NYCT recommends investing $4 billion over the next five years and $14.5 billion over the next 20 years to modernize the subway signal system.

Figure 1

Percent of System Assets in Good Repair
New York City Transit



Sources: Metropolitan Transportation Authority; OSDC analysis

Proposed Capital Investments

The MTA would allocate $21.3 billion to the core program to maintain and modernize the system; $5.7 billion to complete network expansion projects; $650 million for security and safety; and $400 million for interagency initiatives, such as the Business Service Center (see Figure 2).

Figure 2
MTA 2010-2014 Capital Program
Planned Capital Investments
(in millions)

Core Program	
New York City Transit	$13,861
Long Island Rail Road	2,758
Bridges and Tunnels	2,508
Metro-North Railroad	1,839
MTA Bus	325
Subtotal	**$21,291**
Other Investments	
Network Expansion Projects	$5,739
MTA-Wide Security/Safety Projects	650
Interagency Initiatives	400
Subtotal	**$6,789**
Total	**$28,080**

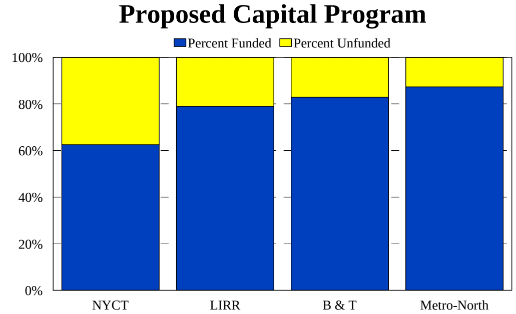
Sources: Metropolitan Transportation Authority; OSDC analysis

The Core Program

NYCT would receive 65 percent of the amount allocated to the core program; the LIRR would receive 13 percent; Bridges and Tunnels (B&T) would receive 11.7 percent; and Metro-North would receive 8.6 percent. The amount allocated to NYCT ($13.9 billion) is by far the largest, but would fund 62.5 percent of the agency's capital needs during the 2010-2014 period (see Figure 3). The amounts allocated to the LIRR, Metro-North, and B&T also fall short of identified capital needs, but the shortfalls are less severe.

Figure 3

Percent of Capital Needs Funded in the Proposed Capital Program



Sources: Metropolitan Transportation Authority; OSDC analysis

The MTA would fund NYCT's subway track projects, but the rest of its capital needs would be underfunded (see Figure 4). The MTA would fund only 36 percent of the capital needs for power projects; 44 percent for subway cars; 44 percent for shops and yards; 47 percent for line equipment, such as pumps; 58 percent for signals and communications; and 67 percent for stations.

Figure 4
NYC Transit
Allocation of Capital Funding
(in millions)

	Proposed Funding	Percent of Capital Needs Funded
Subway Cars	$1,333	43.9
Buses	2,115	81.8
Stations	2,439	67.0
Track	1,429	111.6
Line Equipment	528	47.2
Line Structures	521	56.4
Signals & Comm.	2,833	57.8
Power	265	36.4
Shops and Yards	633	44.2
Depots	631	70.4
S.I. Railway	331	98.8
Other	801	61.1
Total	**$13,861**	**62.5 %**

Sources: Metropolitan Transportation Authority; OSDC analysis

NYCT has developed strategies to help mitigate the funding shortfall. With respect to stations, for example, NYCT intends to focus on repairing station components rather than performing complete station rehabilitations; it believes this strategy will improve the overall condition of stations more quickly. While the MTA would defer some subway car purchases until the next five-year capital plan, NYCT plans to maintain performance through increased maintenance.

Figure 5
Long Island Rail Road
Allocation of Capital Funding
(in millions)

	Proposed Funding	Percent of Capital Needs Funded
Rolling Stock	$ 382	100.0
Stations	167	36.3
Track	1,021	94.3
Line Structures	197	69.1
Signals and Comm.	315	67.5
Power	190	75.1
Shops and Yards	315	81.0
Miscellaneous	173	99.4
Total	**$2,758**	**79.0 %**

Sources: Metropolitan Transportation Authority; OSDC analysis

The LIRR's capital program is focused on bringing East Side Access into revenue service. Overall, almost 80 percent of the LIRR's capital needs would be funded, including all of its rolling stock and most track needs (see Figure 5). Only 36 percent of the amount needed for stations would be funded, however, and line structures, which are not in a state of good repair, would receive 69 percent of the recommended funding.

About 87 percent of Metro-North's capital needs would be funded over the next five years. While most of this agency's capital elements would be well-funded, stations and parking, as well as signals and communication, would be significantly underfunded (see Figure 6).

Figure 6
Metro-North Railroad
Allocation of Capital Funding
(in millions)

	Proposed Funding	Percent of Capital Needs Funded
Rolling Stock	$ 384	91.0
Stations and Parking	293	78.8
Track and Structures	346	94.0
Signals and Comm.	140	51.1
Power	127	105.0
Shops and Yards	449	100.0
Miscellaneous	100	100.0
Total	**$1,839**	**87.3 %**

Sources: Metropolitan Transportation Authority; OSDC analysis

Nearly 83 percent of B&T's capital needs would be funded over the next five years, with 70 percent of the funding devoted to bridge and tunnel roadways and bridge decks. MTA Bus is expected to receive $325 million to purchase new buses.

Network Expansion Projects

In the past, the MTA has had difficulty with new technology and network expansion projects. In response, the MTA would institute new and more rigorous management controls. The capital program includes $5.7 billion to complete network expansion projects and related projects.

The East Side Access project, which will connect the LIRR to Grand Central Station, has grown in cost from $4.3 billion to $7.3 billion, and the project will not enter revenue service until September 2016—seven years later than planned. The proposed capital program contains $3 billion to finish the project.

Phase 1 of the Second Avenue Subway has grown in cost from $3.8 billion to $4.5 billion, and the completion date has been postponed from 2012 to 2016. The capital program allocates $1.5 billion to finish Phase 1, but no funding has been included for Phase 2, which could cost another $4.4 billion.

The MTA has allocated $1.3 billion to purchase rolling stock and build new tracks for East Side Access ($864 million); establish a reserve for litigation associated with expansion projects ($234 million); and fund administrative costs to manage expansion projects ($200 million).

Security and Safety Projects

The capital program allocates $250 million for security projects—$191 million less than recommended in the MTA's capital needs assessment—and $400 million to install signals on commuter railroad tracks and equipment in railcars to prevent train collisions and derailments, which will help meet a new federal mandate.

Interagency Initiatives

The MTA has allocated $400 million for interagency projects. These include software for the Business Service Center (BSC), which is expected to reduce administrative duplication among the agencies ($75 million), and renovations to 370 Jay Street in Brooklyn, which will house the BSC ($184 million).

In addition, $56 million would fund planning studies, including studies of the Tappan Zee Bridge rail and the Queens Boulevard and Staten Island North Shore and West Shore corridors; and $85 million would improve MTA police radios and fund other police department investments.

Anticipated Sources of Funding

The 2010-2014 capital program would be funded largely from a mix of federal, State, and City resources (see Figure 7). B&T intends to self-fund its capital program ($2.5 billion), and the MTA plans to contribute $600 million from asset sales and operating budget resources (i.e., pay-as-you-go). Despite a large increase in State funding and a large increase in anticipated federal funding, the MTA still projects a $9.9 billion funding shortfall. (The MTA has identified funding for the first two years of the program.)

In May 2009, New York State approved an unprecedented increase in financial aid to the MTA to help close a two-year operating budget gap of $5 billion and to help fund the 2010-2014 capital program. The new revenue sources, such as a payroll tax in the MTA region, will generate about $1.8 billion beginning in 2010. The MTA plans to securitize $400 million annually to generate $6 billion to fund the capital program.

Figure 7
Anticipated Sources of Funding
(in millions)

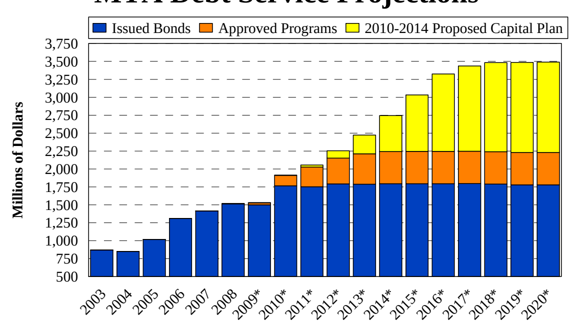
Program Cost	**$28,080**
Federal Formula	8,175
MTA Bonds	6,000
Bridges & Tunnels Dedicated Funds	2,508
Asset Sales/PAYGO/Internal Sources	600
City Capital Funds	500
Federal Security	225
Federal and City Match for MTA Bus	160
MTA Estimate of Available Funding	**$18,168**
Funding Shortfall	**$9,912**

Sources: Metropolitan Transportation Authority; OSDC analysis

Impact on the Operating Budget

The MTA's July 2009 four-year financial plan is premised on the issuance of $16.5 billion in new debt to help finance the 2010-2014 capital program. This assumption is based on the planned issuance of $6 billion in bonds backed by new State revenues, and another $9.9 billion in debt to cover the funding shortfall in the absence of additional aid. Under such a scenario, debt service would grow from $1.5 billion in 2009 to $3.5 billion in 2020 (see Figure 8). Such a heavy reliance on debt would place a serious burden on the operating budget, just as heavy borrowing in the past has contributed to the MTA's current fiscal crisis.

Figure 8
MTA Debt Service Projections



Sources: Metropolitan Transportation Authority; OSDC analysis

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