



Financial Outlook for the Metropolitan Transportation Authority

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In February 2005, the Metropolitan Transportation Authority (MTA) projected a surplus of \$76 million for 2005, and growing budget gaps for subsequent years due largely to rapidly rising debt service, pension, and health insurance costs. At the same time, the MTA was struggling to identify resources to finance a new \$27.8 billion capital program for calendar years 2005 through 2009.

After the State rejected a proposal by the MTA Chairman to raise mass transit taxes by \$850 million annually, it agreed in April 2005 to raise taxes in the 12-county region that comprises the MTA transportation district and to dedicate a portion of a statewide increase in motor vehicle fees to the MTA's operating budget and capital program. These State actions are expected to benefit the MTA by about \$300 million annually.

In May 2005, this office issued a report that found that these State actions, combined with unexpected tax revenues and a larger 2004 surplus, would help generate a surplus of \$538 million in 2005. The report also found that the 2005 surplus and the recurring benefit of the State actions would be sufficient to rescind the draconian budget cuts proposed by the MTA for 2006.

On July 27, 2005, the MTA revised its financial plan for 2005 through 2009 (the "July Plan"). The July Plan shows that the 2005 surplus has grown to \$833 million, which is \$757 million more than projected in the February Plan. Of this amount, \$493 million represents a windfall from higher real estate transaction tax revenues and lower debt service costs. Our current review finds that the 2005 surplus could be even higher, by \$95 million.

As we predicted, the MTA will be able to balance the 2006 budget without the need for previously planned service reductions. But rather than use the surplus to defer fare and toll hikes planned for 2007, the MTA proposes to use \$481 million of the surplus to construct a platform over the West Side rail yard or to pay down pension liabilities.

The MTA's preferred choice is to use the resources to finance construction of a platform. By offering the rail yard for development with a platform already in place, the MTA believes it would maximize the interest in and value of the property. Proceeds from the sale of the development rights would be applied to the 2005-2009 capital program. The MTA would also construct a new headquarters at the site, which would permit the MTA to sell its midtown properties to help fund the next capital program.

The State Comptroller continues to advocate that the MTA sell its midtown properties. He also supports development of the rail yards, but this can be done without the MTA also constructing a platform. For example, the MTA has already rejected a \$400 million offer from Cablevision, which had agreed to build a platform at its own expense. The State Comptroller believes that a developer—not commuters and taxpayers—should construct a platform as part of any development deal, and should assume the risks of delays, cost overruns, and the timing of the real estate market.

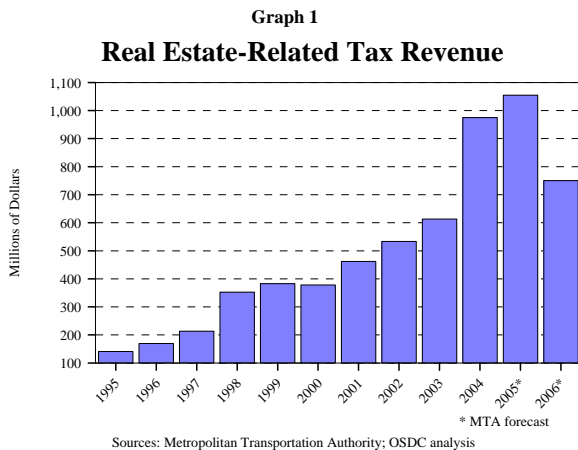
Instead of building a new headquarters on the West Side, the MTA should explore moving downtown, which would support State and City efforts to rebuild Lower Manhattan and would also place a headquarters near 2 Broadway, where 4,700 MTA employees are already located.

Coincidentally, the cost of the proposed platform is about equal to the tax and fee increases approved by the State for 2005 and 2006. Given the current windfall, it is now apparent that the tax and fee increases were unnecessary and that the MTA could have waited until 2007 for State assistance. The State Legislature did not raise taxes and fees so that the MTA could build a platform, and the State Comptroller believes that these resources should be used in ways that directly benefit commuters, such as deferring planned fare and toll hikes, or should be returned to the taxpayers.

Sources of the 2005 Surplus

The MTA projects a surplus of \$833 million for 2005. The major sources of the surplus are shown in Table 1 and discussed below. Our review indicates that the 2005 surplus could be higher by \$95 million based on our higher tax revenue forecast (\$75 million) and a \$40 million reserve that is unlikely to be needed, which could be partly offset by higher energy costs (\$20 million). We also believe the 2006 budget could benefit from higher tax revenues (\$100 million) and from lower pension contributions (\$75 million) if the New York City Employees' Retirement System adopts changes in actuarial methodologies proposed by the City Actuary.

- Nearly half of the 2005 surplus is due to continued strength in the real estate market. Although the Federal Reserve has been increasing short-term interest rates for more than a year, long-term rates have not responded and mortgage rates continue to remain low. As a result, revenue from real estate transaction taxes grew from \$378 million in 2000 to \$975 million in 2004 (see Graph 1). The July Plan assumes that collections will peak at \$1.1 billion in 2005, which is \$365 million more than forecast in the February Plan.



The July Plan also assumes that real estate transaction tax revenue will decline sharply by 29 percent in 2006. While we agree that there will be a drop-off next year, the decline may be less severe and revenues could be \$175 million higher than anticipated in the July Plan for 2005 and 2006.

- The February Plan did not make any assumptions regarding the form or amount of

any State assistance. In April 2005, the State raised the sales and the mortgage-recording taxes within the MTA transportation district and increased several types of motor vehicle fees. These actions are expected to benefit the MTA by \$173 million in 2005 and more than \$300 million annually thereafter.

- Debt service is projected to be lower by \$128 million in 2005, mostly because interest rates have remained low but also because of lower debt issuance costs and delays in the capital program.
- The MTA ended 2004 with a cash balance of \$507 million, which was \$42 million more than anticipated in the February Plan. The 2005 budget will benefit from another \$85 million from transactions made in 2004.

Table 1
Sources of the 2005 Surplus
(in millions)

Surplus per the February Plan	\$ 76
Changes Since February	
Real Estate Tax Reestimates	365
State Actions	173
Debt Service Savings	128
Additional 2004 Surplus	127
All Other	(36)
Total Change	757
Surplus per the July Plan	\$ 833

Sources: Metropolitan Transportation Authority; OSDC analysis

Reinvestment Fund

The July Plan projects a surplus of \$833 million for 2005. The MTA Executive Director has proposed that the MTA Board set aside \$481 million in a Reinvestment Fund, use \$370 million to help balance the 2006 budget, and spend \$12 million in 2005 on additional system-wide security measures and new cleaning initiatives at New York City Transit (see Table 2).

Table 2
Proposed Uses of the 2005 Surplus
(in millions)

Reinvestment Fund	\$ 481
Transfer to 2006 Budget	370
2005 Service Improvements	12
Total	\$ 833

Sources: Metropolitan Transportation Authority; OSDC analysis

The Executive Director has proposed two options to the MTA Board for use of the \$481 million that

would be deposited in the Reinvestment Fund: either pay down unfunded pension liabilities, or construct a platform over the West Side rail yard.

Finance a Platform over the West Side Rail Yard

The MTA's preferred choice is to use the resources in the Reinvestment Fund to finance construction of a platform over the rail yards on the West Side of Manhattan. By offering the site for development with a platform already in place, the MTA believes it would maximize the interest in and value of the property. Proceeds from the sale of the development rights would be applied to the 2005-2009 capital program. It is unclear, however, whether the MTA has the legal authority to use transportation resources in this manner.

The MTA would then purchase or lease space from the developer of the rail yard site for a new MTA headquarters, and would transfer some 700 employees to the new site. After vacating its current headquarters, the MTA would sell that space (at 341, 345, and 347 Madison Avenue), which includes some of the most valuable underdeveloped property in the City. The MTA would dedicate the proceeds from the sale of these properties to its 2010-2014 capital program.

MTA officials acknowledge that this proposal entails risks, such as cost overruns and the timing of the real estate market, but they believe that the risk would be worth the return. We note that the MTA does not have a good track record when it comes to large real estate development projects (e.g., 2 Broadway). Furthermore, the MTA believes that by financing the platform with cash from its operating budget, the project will avoid the oversight of the Capital Program Review Board, which approves the capital program.¹

Pay Down Unfunded Pension Liabilities

The MTA's only other proposed use for the windfall entails paying down about one quarter of the \$2.2 billion in unfunded pension liabilities of the Long Island Rail Road (LIRR) and the Manhattan and Bronx Surface Transportation Operating Authority. Under this proposal, the MTA would assume an annual return on its investment of 8 percent, which is the rate charged by the pension fund for unfunded liabilities, or

¹ Under Section 1269(b) of the Public Authorities Law, the MTA retains the right to proceed with capital projects, even if disapproved by the CPRB, as long as they are not funded with debt.

about \$38 million annually. This no-risk proposal is akin to paying down outstanding debt, and represents an appropriate use of MTA resources.

Alternatives

The State Comptroller supports the notion of selling the MTA's midtown properties and using the proceeds to help finance the MTA's capital program. This could be realized, however, without using the \$481 million in the Reinvestment Fund to build a platform. For example, the MTA could issue a request for proposals to gauge interest in developing the air rights over the rail yard. Interested parties would be responsible for constructing the platform, which would shift the risk of cost overruns and the timing of the real estate market from the MTA to the developer. We note that the MTA has already rejected a bid of \$400 million from Cablevision, which would have assumed responsibility to build a platform.

At the same time, the MTA could explore the possibility of leasing space for its headquarters at 7 World Trade Center, which is looking for an anchor tenant, or elsewhere in Lower Manhattan. This would support State and City efforts to rebuild Lower Manhattan. The MTA could then sell its midtown properties before the real estate market cools (because space is available now).

The MTA is in the process of moving the employees located at 370 Jay Street in downtown Brooklyn to 2 Broadway, but it never conducted a cost-benefit analysis to determine whether renovating 370 Jay Street made more sense. If the MTA were to renovate Jay Street, it would have enough space to move its headquarters to 2 Broadway and then sell its midtown properties.

Alternative Uses for the 2005 Surplus

Coincidentally, the \$481 million windfall is about equal to the amount to be generated by State-approved taxes and fees during 2005 and 2006. Given the current windfall, it is now apparent that the tax and fee increases were unnecessary and the MTA could have waited until 2007 for assistance. Despite a proposed fare and toll increase, out-year budget gaps, and budget risks, the MTA proposes to use \$481 million in operating budget resources to construct a platform. The State Comptroller believes that instead the windfall should be used in ways that directly benefit commuters.

For example, the resources could be used to defer fare and toll increases planned by the MTA for

2007 and 2009; to help fund the capital program; to close future budget gaps; or could be held in reserve to mitigate unforeseen contingencies, such as revenue shortfalls, unanticipated costs associated with defective concrete railroad ties, and higher energy and labor costs. For 2006, the MTA set aside \$200 million of the 2004 surplus in a Real Estate Tax Stabilization Fund to guard against a tax revenue shortfall. The 2007 budget, however, only includes a general reserve of \$40 million, and the risk of a revenue shortfall would be borne by commuters.

Projected Budget Gaps

In February 2005, the MTA projected budget gaps of \$813 million for 2006, \$1.1 billion for 2007, \$1.4 billion for 2008, and \$1.8 billion for 2009. The 2006 and 2007 gaps are smaller in the July Plan, but the gaps for 2008 and 2009 are essentially unchanged despite significant increases in tax revenue, lower debt service costs, savings from baseline reestimates, and higher fare and toll revenue. The favorable impact, however, was offset by higher costs for maintenance, inflation, and energy (see Table 3). Significant changes from February 2005 are described below.

- Tax revenues are projected to be higher by \$172 million in 2006 and by as much as \$209 million in 2009 as a result of the continued real estate boom and favorable economic conditions. The estimates for 2006 and 2007 include \$50 million each year in 2005 tax revenues that were withheld from the MTA by the State for use in these future years.
- Debt service costs are lower during calendar years 2006 through 2008 because of delays in the capital program, particularly East Side

Access and the Second Avenue Subway. Debt service costs are expected to be higher in 2009 because the MTA intends to accelerate commitments to make up for the delays.

- Projected expenses in the February Plan (i.e., baseline reestimates) are now expected to be lower by a net of \$39 million in 2006 and larger amounts in subsequent years.
- Despite initial concerns that fare and toll revenue would fall short of the target in 2005—because riders were changing their purchasing patterns to take greater advantage of fare discounts—fare and toll revenue is projected to be higher by \$20 million in 2005 and by similar amounts in subsequent years. LIRR fare revenues, however, are down because of a fall-off in ridership.
- Maintenance costs will be higher by \$71 million in 2006 and by similar amounts in later years because of the need to replace defective concrete ties and to repair signals, and initiatives to reduce broken subway rails.

Metro-North and the LIRR jointly purchased 270,000 concrete ties in 1997 and 1998 to replace aging wooden ties. Concrete ties were expected to have a longer useful life—50 years compared to 30 years for wooden ties. Despite hiring a quality assurance consultant to oversee the production process, many of these concrete ties are deteriorating prematurely. According to the railroads, spot replacement is not practical or cost effective in track segments where a significant number of concrete ties are deteriorating, and the replacement of all ties in these segments is necessary to avoid service disruptions.

Table 3
Financial Plan Reconciliation
February 2005 Plan vs. July 2005 Plan
(in millions)

	2006	2007	2008	2009
Budget Gaps per the February Plan	\$ (813)	\$ (1,105)	\$ (1,398)	\$ (1,751)
Tax Reestimates	172	186	159	209
Debt Service	59	58	29	(24)
Baseline Reestimates	39	62	55	80
Fare and Toll Revenue	26	28	35	34
Maintenance Costs	(71)	(42)	(85)	(75)
Inflation	(66)	(111)	(143)	(195)
Energy	(8)	(10)	(12)	(14)
All Other	(27)	(27)	(26)	(27)
Budget Gaps per the July Plan	\$ (689)	\$ (961)	\$ (1,386)	\$ (1,763)

Sources: Metropolitan Transportation Authority; OSDC analysis • Note: Columns may not add due to rounding.

Metro-North is replacing 52,000 of the 206,000 concrete ties that it purchased. Some of the remaining 154,000 ties are also showing signs of premature deterioration; a decision to replace them will be made following the results of inspections and expert analysis. The LIRR plans to replace all of the 64,000 ties that were purchased in 1997 and 1998, but the actual number replaced may be lower based on inspections and expert analysis. The LIRR purchased another 39,000 concrete ties from the same manufacturer in 2001, and these ties are also showing signs of deterioration.

The concrete ties are covered by a 25-year warranty, which the railroads maintain covers both the replacement of defective ties and the cost of installation. The manufacturer disputes the extent of the warranty but the MTA reserves its right to pursue claims against the manufacturer for the cost of installation. The statute of limitations to sue the quality assurance consultant for malpractice has passed. The MTA will initially fund the \$44.2 million cost of installing 116,000 concrete ties pending the outcome of negotiations with the manufacturer. We estimate that the MTA could incur additional operating budget costs of \$80 million if it must replace and install the remaining 193,000 concrete ties at its own expense.

- The regional inflation rate is now projected to average 2.9 percent during the financial plan period, which is up from 1.9 percent in the February Plan. Higher inflation will not only increase the projected cost of materials and supplies, but it could increase collective bargaining costs.

The July Plan assumes that the MTA will reach new labor agreements with its employees that increase wages and fringe benefits at the regional inflation rate. Since inflation is now higher than assumed in the February Plan, the MTA increased the amount set aside for this purpose by \$47 million in 2006, which grows to \$137 million by 2009.

The labor agreement with the Transport Workers Union, which represents 60 percent of the MTA's unionized work force, is set to expire on December 15, 2005. Most of the MTA's remaining bargaining units have contracts that expire during 2006, with the

exception of about 5,250 Metro-North employees who have been without a collective bargaining agreement since 2004.

- The MTA spent \$297 million in 2004 on energy costs for electricity for its trains and fuel for its buses. Energy costs are projected to total \$366 million in 2005, an increase of 23 percent, and reach \$393 million by 2009. Energy costs could be higher by \$20 million in 2005 as a result of damage from hurricanes Katrina and Rita.

The Gap-Closing Program

As shown in Table 4, the MTA would close a \$689 million budget gap in 2006 with resources from State actions (\$316 million) and surplus funds from prior years (\$570 million).² These resources, in conjunction with modest savings from cost-reduction actions, would leave a surplus of \$239 million at the end of 2006 that would be used to help balance the 2007 budget.

The recurring value of these actions, combined with a 5 percent increase in fares and tolls, would reduce the 2007 budget gap from \$961 million to \$128 million, and would cut the 2008 gap almost in half, to \$771 million. Another fare hike in 2009 would reduce that year's gap to \$880 million.

Management Improvements

In response to critics, including the State Comptroller, who declared that the MTA was not doing enough to reduce costs through management improvements, the MTA Executive Director instructed the agencies in April 2005 to identify "non-service related efficiencies in 2006 in order to make in-roads on the subsequent year gaps." These efficiencies were to be part of the July 2005 Program to Eliminate the Gap (PEG).

The initiatives were expected to save \$50 million in 2006 and to have an annualized value of \$100 million beginning in 2007. Agencies were specifically instructed to exclude actions that: would compromise service, safety, or security; would increase customer payouts; or were unspecified. In addition, any new needs would have to be funded through under-spending in other areas or additional cost-reduction actions.

² The MTA created a \$200 million reserve for 2006 with surplus funds from 2004 to guard against an unexpected drop in real estate transaction tax revenue, and the MTA plans to transfer \$370 million of the 2005 surplus to 2006.

Table 4
MTA Gap-Closing Program
(in millions)

	2006	2007	2008	2009
Budget Gaps per the July Plan	\$ (689)	\$ (961)	\$ (1,386)	\$ (1,763)
Gap-Closing Program				
2005 Surplus Transfer	370	---	---	---
State Actions	316	306	308	308
Real Estate Tax Stabilization Fund	200	---	---	---
MTA Agency Actions	42	46	63	73
2007 Increased Fare & Toll Yields	---	241	243	244
2009 Increased Fare & Toll Yields	---	---	---	256
Projected Surplus/(Gap)	239	(370)	(771)	(880)
Surplus Transfer	(239)	239	---	---
Remaining Budget Gaps per the July Plan	\$ ---	\$ (128)	\$ (771)	\$ (880)

Sources: Metropolitan Transportation Authority; OSD analysis Note: Columns may not add due to rounding.

The MTA claims that it reduced costs by \$82 million in 2006, \$108 million in 2007, \$118 million in 2008, and \$153 million in 2009 from efficiencies and productivity. A closer look finds that three quarters of the savings come from baseline reestimates. In addition, the budgetary impact of new needs for maintenance, inflation, and energy were not funded through under-spending or additional cost-reduction actions.

Moreover, New York City Transit took credit for plans to expand one-person train operations on the 7, J, M, and N lines beginning in 2007, which will eliminate 313 conductors by 2009. In our view, this is a service-related initiative that is inconsistent with the Executive Director's instructions. In addition, since the release of the July Plan an arbitrator has ruled that the MTA cannot proceed with an expansion of one-person train operations without union approval. We also note that the commuter railroads included savings from unspecified actions and revenues from higher parking fees despite instructions not to do so.

An October 2004 MTA staff report to the Audit Committee found that many agency functions—with a total cost of \$708.9 million and more than 2,700 employees—were duplicative. The MTA agencies, however, identified only about \$13 million in administrative savings for 2006. Almost all of these savings were identified by New York City Transit and MTA Headquarters; the commuter railroads proposed no administrative reductions, and Bridges and Tunnels proposed only \$269,000 in administrative savings.

Booz Allen Hamilton Inc., was hired by the MTA at a cost of \$932,000 to identify cost savings in the areas of finance, human resources, procurement, and information technology. A final report is forthcoming in September 2005, and we expect that the MTA will incorporate the consultant's recommendations into the November Plan.

The 2005-2009 Capital Program

The 2005-2009 capital program was approved by the CPRB on July 13, 2005. While the program totals \$21.1 billion, it is \$6.7 billion less than initially proposed by the MTA Board in September 2004 (see Table 5).

Table 5
2005-2009 MTA Capital Program
(in billions)

	Sept. 2004 Proposal	July 2005 Approved	Change
Core Program	\$17.2	\$16.0	\$ 1.2
Expansion Projects	9.9	4.5	5.4
Security Program	0.5	0.5	---
Interagency	0.1	0.1	---
Total	\$ 27.8	\$ 21.1	\$ 6.7

Note: Columns may not add due to rounding.
Sources: Metropolitan Transportation Authority; OSD analysis

The approved capital program allocates \$16 billion to the core program, or 93 percent of the amount recommended by the MTA Board; \$4.5 billion for network expansion, or less than half the amount recommended by the MTA Board; and the same amounts as recommended by the MTA Board for security and interagency projects.

Moreover, the approved capital program is \$10.1 billion less than requested by the MTA's own agencies. For New York City Transit, the lower funding levels will mean further delays in achieving a state-of-good-repair in critical areas. For example, signals and communications are funded at 75 percent of the recommended level, or \$644 million less than requested; and shops are funded at 31 percent of the recommended level, or \$608 million less than requested.

The projects that bear the brunt of the cuts are the Second Avenue Subway, East Side Access, and the JFK rail link to Lower Manhattan. Only \$2.5 billion of the \$7.9 billion recommended for these projects by the MTA Board in September 2004 will be funded. The MTA has acknowledged that the Second Avenue Subway and East Side Access projects will be delayed at least another two years as a result of funding shortfalls. The No. 7 subway line extension will proceed as planned as long as the City funds the estimated \$2 billion cost.

Financing the Capital Program

The 2005-2009 capital program is expected to be funded with a combination of federal and City capital grants, proceeds from the sale of MTA assets, half of the proceeds from a proposed statewide transportation bond act, and funds rolled over from the previous capital program (see Table 6). These sources are expected to contribute \$11.9 billion, which would still leave a balance of \$9.3 billion to be funded with debt.

Table 6
Financing the 2005-2009 Capital Program
(in billions)

Capital Grants	
Federal	\$ 6.6
New York City	2.4
Transportation Bond Act	<u>1.5</u>
Subtotal	10.5
Bond Proceeds	
MTA Bonds	4.2
MTA Bonds Backed by	<u>5.1</u>
New York State Revenues	
Subtotal	9.3
Other	
Proceeds from Asset Sales	1.0
Prior-Year Rollover	<u>0.4</u>
Subtotal	1.4
Total	\$ 21.1

Sources: Metropolitan Transportation Authority;
OSDC analysis

Although the MTA program is fully funded, there is still a risk that some of the funding may not materialize or that costs could be higher than estimated. In that event, the MTA would have to choose between scaling back the capital program and issuing more debt. The financing program is based on the following major assumptions.

- *The federal government will fund \$5.1 billion of the core program.* The President signed the Safe, Accountable, Flexible, and Efficient Transportation Equity Act: A Legacy for Users on August 9, 2005, which includes a consistent level of funding.
- *The federal government will contribute \$1 billion toward East Side Access and the first phase of the Second Avenue Subway.* The MTA, however, will need federal approval to proceed at a slower-than-previously-planned pace due to reduced funding levels. We also remain concerned that actual federal appropriations for expansion projects have fallen short of expectations in the past.
- *The federal government will fund the \$495 million security program.* Congress, however, funded less than one third of the 2000-2004 capital security program.
- *The City of New York will allocate \$2 billion to fund the cost of extending the No. 7 subway line.* The City created the Hudson Yards Infrastructure Corporation (HYIC) to issue bonds backed by payments-in-lieu-of-taxes negotiated with developers interested in the far West Side of Manhattan. HYIC, however, has not yet taken all the steps necessary to enter the credit markets, and the State Comptroller believes the City lacks the authority to use the Transitional Finance Authority as a credit enhancement, as planned.³ Moreover, the MTA could be responsible for all or part of any cost overruns for the No 7. subway line.
- *The MTA will receive \$1 billion from the sale of assets.* The MTA approved a \$100 million bid by Forest City Ratner to develop the Atlantic Yards in downtown Brooklyn—though the bid is less than half the property's appraised value—and is now assessing interest from developers to purchase the air rights over the rail yards on Manhattan's West Side.

³ See our report 3-2006, *Review of New York City's Financial Plan for Fiscal Years 2006 Through 2009*, July 2005.

- *The statewide transportation bond act will be approved by voters in November.* The bond act would generate \$2.9 billion for transportation capital projects statewide, of which the MTA would receive half. As shown in Table 7, the bond act would allocate \$1 billion for the MTA’s expansion projects and \$450 million for the MTA’s core infrastructure needs, including the purchase of new buses and rail cars, and improvements to signals, track, and passenger facilities.

Table 7
MTA Share of
Transportation Bond Act Proceeds
(in millions)

MTA Core Program	
New York City Transit	\$ 326
Long Island Rail Road	73
Metro-North Railroad	<u>51</u>
Subtotal	450
MTA Expansion Projects	
East Side Access	450
Second Avenue Subway	450
JFK Rail Link	<u>100</u>
Subtotal	1,000
Total MTA Share	\$ 1,450

Sources: 2005 Transportation Memorandum of Understanding; OSDC analysis

The other half of the bond proceeds would be allocated to the capital program for the New York State Department of Transportation to finance repairs to highways and bridges; modernize aviation facilities; rehabilitate rail, port, and ferry facilities; and purchase clean-fueled buses for non-MTA transit providers.

The bond act is consistent with the State Comptroller’s debt policy and management principles because it must be approved by the voters in a general referendum as required under the State constitution; proceeds would be used for capital purposes; and the projects have a useful life lasting at least as long as the final maturity of the debt.

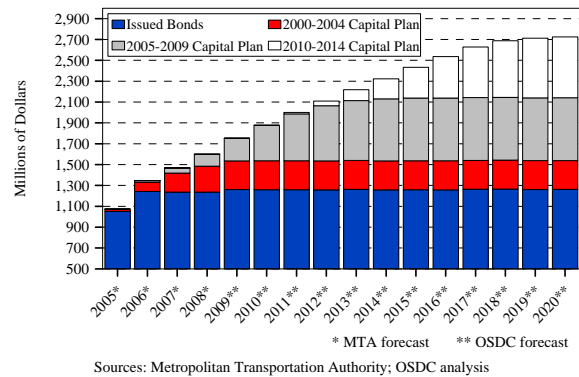
Reliance on Debt

Although the portion of the capital program that is funded with direct capital grants from the federal government and the State and City would increase in the 2005-2009 capital program, the 2005-2009

program would still rely on new money bonds to a greater extent than any prior capital program.

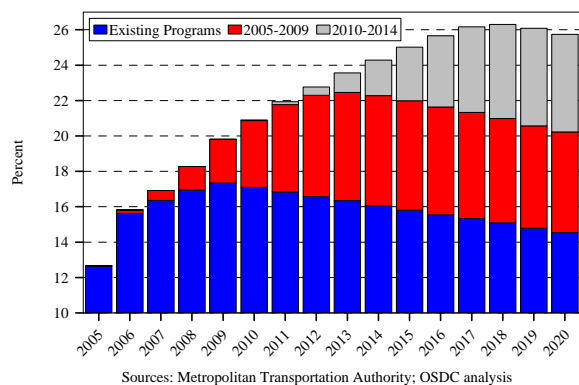
The MTA is expected to borrow \$9.3 billion to help finance the 2005-2009 capital program. The debt service on these bonds would rise from \$116 million in 2008 to \$601 million by 2015. In total, debt service for past capital programs and the 2005-2009 program would rise from \$1.1 billion in 2005 to \$1.8 billion in 2009, and then to \$2.1 billion by 2015 (see Graph 2).

Graph 2
Debt Service Projections



Assuming that the MTA borrows another \$9.3 billion to support the 2010-2014 capital program, debt service would reach \$2.7 billion by 2020. The debt burden (i.e., debt service as a percent of revenues) would grow from 12.7 percent in 2005 to 18.3 percent in 2008, and would reach 25.7 percent by 2020 (see Graph 3).

Graph 3
Debt Service Burden



Major contributors to this report include:
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