Financial Outlook for the Metropolitan Transportation Authority

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- **Despite a record surplus in 2005, the MTA projects out-year budget gaps of $1.3 billion in 2008, $1.8 billion in 2009, and $2.2 billion in 2010. These gaps represent, respectively, 14.6 percent, 19.6 percent, and 23.9 percent of MTA revenues for those years.**
- **The out-year gaps are about the same size as those projected 18 months ago, despite an increase in State assistance, because new spending needs have not been offset with cost reductions elsewhere.**
- **The MTA's 2005 and 2006 cost-reduction programs have fallen 30 percent short of their targets.**
- **Expenditures are projected to grow at an average annual rate of 5.7 percent during the MTA's financial plan period—about twice the regional inflation rate.**
- **Debt service will grow from $1 billion in 2005 to $1.9 billion in 2010, an increase of 86 percent. The growth in debt service accounts for 40 percent of the projected budget gaps.**
- **Debt service has consumed, on average, about 12 percent of total revenues between 1996 and 2005, and is expected to consume 21 percent of revenues by 2010—an increase of 75 percent.**
- **The July Plan is premised upon a number of policy choices. Some of these decisions are in the hands of the MTA Board, while others must be made by the State or labor unions. In total, about $1.1 billion could be made available to the operating budget.**

In May 2006, the State Comptroller predicted that favorable financial developments would permit the Metropolitan Transportation Authority (MTA) to forgo a 5 percent fare and toll increase planned for January 1, 2007, which was expected to generate $240 million in 2007. The Comptroller expressed concern for the size of the out-year budget gaps, but recommended that the MTA hold fares and tolls at current levels for as long as possible until it developed a comprehensive strategy to close the gaps.

The MTA's July 2006 Financial Plan (the "July Plan") identified new resources of $758 million in 2006 and another $221 million in 2007—a total of nearly $1 billion—which was four times more than the amount needed to forgo the fare and toll increase planned for 2007. The MTA, however, also identified new funding needs of $507 million. The remaining resources were sufficient to fund new discretionary initiatives, such as paying down unfunded post-employment benefits, and to delay the proposed fare and toll increase until September 1, 2007.

In total, the July Plan assumes the outcome of a number of policy choices that could affect the availability of $1.1 billion for the MTA operating budget during 2006 and 2007. Some decisions are in the hands of the MTA Board, while others must be

made by the State or the unions that represent transit employees.

For example, the MTA had planned to transfer, on January 1, 2006, $450 million in discretionary resources to the MTA's pension funds to pay down unfunded liabilities. These resources, however, have not been transferred and remain in an off-budget interest-bearing account.

The July Plan also assumes that operating budget resources will be used to fund overspending in the MTA's capital program. Though paying down debt and other unfunded liabilities are appropriate uses of operating resources, they may not be the best uses in the continued absence of a comprehensive plan to balance the operating budget.

Our review also finds that the 2006 surplus will likely be $140 million higher than projected by the MTA in its July Plan, mostly because collections from taxes on real estate transactions continue to exceed the MTA's expectations. These resources, if they materialize, would be sufficient to further delay any fare and toll increase until April 2008. On September 20, 2006, the MTA Chairman announced that he would oppose service cuts or fare increases in 2007 because revenue collections have been better than expected.

Although the MTA's short-term financial outlook continues to improve, the MTA still faces large out-year budget gaps. The July Plan projects budget gaps of $1.3 billion for 2008, $1.8 billion for 2009, and $2.2 billion for 2010. Despite a significant increase in State aid and a tax revenue windfall from the real estate boom, these gap estimates are virtually the same size as those projected by the MTA 18 months ago because new spending needs have not been contained or offset with cost savings from management improvements.

The MTA's capital program also faces serious challenges. The MTA's reliance on debt to finance its capital program is placing extraordinary pressure on the operating budget and is the primary reason for the out-year budget gaps. By 2010, debt service is projected to increase by 86 percent from the 2005 level, and this growth accounts for more than 40 percent of the projected operating budget gaps.

In addition, a number of capital projects, such as East Side Access, the Fulton Street Transit Center, the South Ferry Terminal, and the Long Island Rail Road signal program are over budget and behind schedule. The State Comptroller has previously reported the difficulties the MTA has encountered with its capital security program, which is also behind schedule and over budget.

Finally, the MTA has not yet concluded the current round of collective bargaining with agreements that fairly address the concerns of both parties. The Transport Workers Union has been without a contract since December 2005, and most other transit employees are also working without contracts, or will be soon.

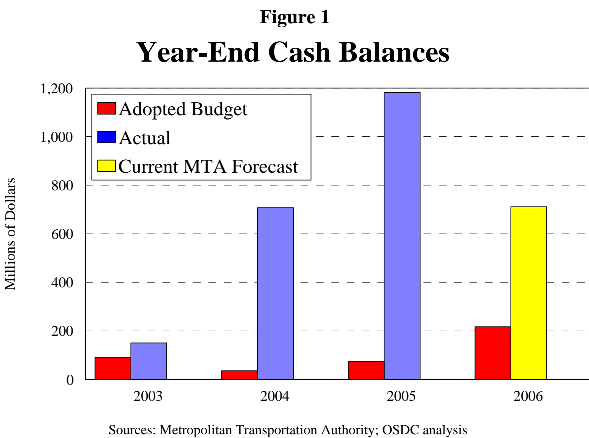
How the MTA balances its operating budget and manages its capital program is critically important to riders, taxpayers, the business community, and labor unions. The State Comptroller believes the MTA should not raise fares or reduce services until all of the elements of a comprehensive plan to close the out-year budget gaps can be fully debated, and such a plan should include savings from management improvements.

Year-End Cash Balances

Over the past three years the MTA has been able to build up increasingly larger cash balances as a result of fare and toll hikes in 2003 and 2005, an increase in dedicated State taxes and fees in April 2005, continued strength in real estate–related tax collections, and debt service savings from lower-than-planned interest rates and delays in the capital program (see Figure 1).

Figure 1

Year-End Cash Balances



Sources: Metropolitan Transportation Authority; OSDC analysis

The MTA ended 2005 with a cash balance of nearly $1.2 billion—a new record—and projects a cash balance of $711 million at the end of 2006, an increase of $494 million compared with its adopted budget. These large cash balances allowed the MTA to balance the 2006 budget without implementing threatened draconian service reductions, and will permit the MTA to delay a planned fare and toll increase scheduled for January 1, 2007, by at least eight months.

Changes to the Baseline

The MTA has identified nearly $1 billion in new resources for calendar years 2006 and 2007 compared to the baseline estimates made in its February 2006 Financial Plan (the "February Plan"). The MTA has also identified $507 million in new needs for the same two-year period, which leaves $472 million to be used for other purposes.

As shown in Figure 2, slightly more than half of the new resources are expected to come from higher-than-anticipated tax revenues ($621 million), mostly from taxes on real estate transactions. The MTA also realized pension savings of $152 million from changes in actuarial assumptions and methodologies, and ended 2005 with a cash balance that was $120 million more than assumed in the February Plan.

Figure 2
Changes to the Baseline
(in millions)

	2006	2007
New Resources		
Tax Reestimates	$ 454	$ 167
Pension Savings	125	27
2005 Surplus	120	- - -
Debt Service Savings	8	25
Other New Resources	51	2
Total	**758**	**221**
New Needs		
Fare and Toll Revenue	(53)	(48)
Maintenance	(29)	(73)
Energy	(20)	(69)
Collective Bargaining	(13)	(83)
PEG Slippage	(15)	(31)
Other Needs	(7)	(66)
Total	**(137)**	**(370)**
Net Change	**$ 621**	**$ (149)**

Source: Metropolitan Transportation Authority

The MTA's new spending needs include an anticipated shortfall in fare and toll collections compared with the February Plan forecasts; increased maintenance for state-of-the-art and sophisticated equipment (e.g., computerized trains and new signal technology); higher energy

costs; and an increase in the reserve for collective bargaining based on the last offer to the Transport Workers Union (see Figure 2).

The July Plan also reflects slippage in the MTA's cost-reduction program, which was modest to begin with. In total, the 2005 and 2006 cost-reduction programs have fallen 30 percent short of their targets. While some of the slippage was beyond the MTA's direct control, it did not substitute alternative actions so that the savings targets could be met.

Revenue and Expenditure Trends

In each of the past three years, the MTA has generated consistently larger surpluses on both a cash basis and accrual basis of accounting. Now, however, the MTA is expected to end 2006 with a relatively small surplus (only $85 million) on an accrual basis—which is a significant reversal. Moreover, the MTA projects widening budget gaps beginning in 2008 that will grow to $2.2 billion by 2010 (see Figure 3).

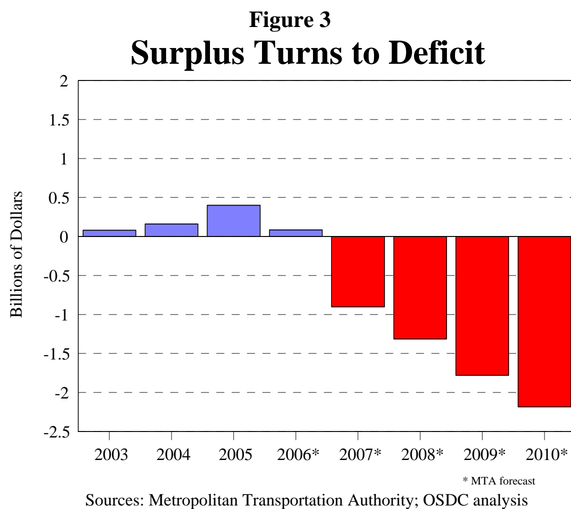


Figure 3
Surplus Turns to Deficit
Sources: Metropolitan Transportation Authority; OSDC analysis

Despite an increase of dedicated State taxes and fees that were approved in April 2005 and are valued at about $300 million annually, the out-year gaps are virtually the same size as those projected by the MTA 18 months ago because new needs have not been contained or offset with cost reductions elsewhere.

The projected deficits are due to stagnant revenue growth and relatively fast expenditure growth (see Figure 4). Expenditures are projected to grow at an average annual rate of 5.7 percent from 2006 through 2010, but revenues are projected to increase by only 0.3 percent annually during the same period. Expenditure growth is fueled by rapid growth in debt service and fringe benefits. Revenue growth is held down by the MTA's relatively conservative forecasts and an expected slowdown in the real estate market.

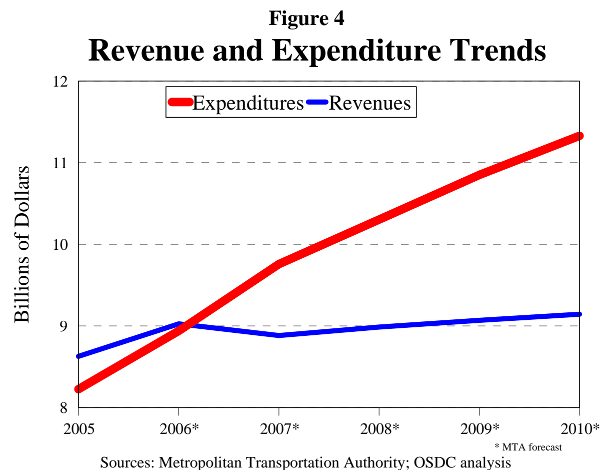


Figure 4
Revenue and Expenditure Trends
Sources: Metropolitan Transportation Authority; OSDC analysis

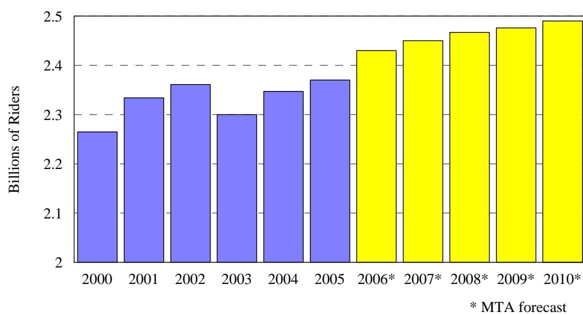
Revenue Estimates

Revenues from subway, bus, commuter rail, and bridge and tunnel operations account for more than half of all MTA revenues. Historically, changes in New York City employment, higher fares and tolls, and gasoline prices have affected the use of these transportation services.

As shown in Figure 5, use of the MTA's mass transit operations has fully recovered from the recession of the early 2000s and the effects of the 2003 fare hike. After three years of job losses as a result of the recession and the terrorist attack on the World Trade Center, the City added 18,600 jobs in 2004 and 49,100 jobs in 2005, and job gains accelerated during the first six months of 2006.

Figure 5

Subway, Bus, and Commuter Rail Utilization



Sources: Metropolitan Transportation Authority; OSDC analysis

Although ridership growth has lagged behind the projections made by the MTA at the beginning of the year, mass transit use grew by 1.1 percent during the first seven months of 2006. The July Plan assumes that overall use will increase by 2.1 percent during 2006 but by only 0.6 percent, on average, during the balance of the financial plan period. Subway utilization could increase faster than assumed in the July Plan because of stronger employment gains and higher gasoline prices, which will encourage the use of mass transit.

Bridge and tunnel crossings are projected to decline slightly in 2006 because of higher gasoline prices, and then increase at an average annual rate of only 0.3 percent during the balance of the financial plan period. The number of crossings last year declined by 0.8 percent, presumably in response to rising gasoline prices.

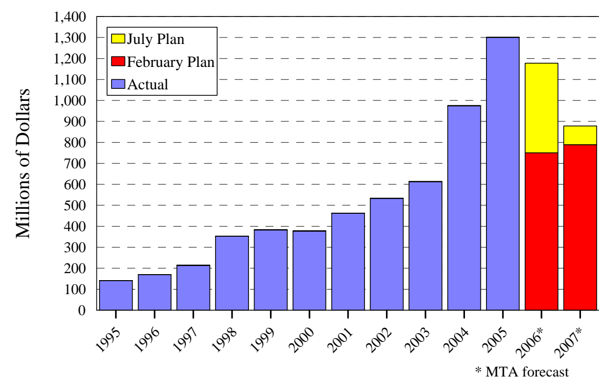
Tax revenues are projected to average $3 billion annually during the financial plan period and account for almost one third of MTA revenues. Tax revenues, in particular collections from real estate transactions, have been the driving force behind the growing budget surpluses in recent years.

In each of the past three years, the MTA has significantly underestimated tax collections from real estate transactions, which have also defied the expectations of New York City and the oversight community. Last year, for example, the MTA assumed collections would decline by $326 million, or 33 percent, compared to the record set in 2004. Actual collections, however, set a new record of $1.3 billion in 2005, or $652 million more than the MTA had anticipated.

The February Plan assumed that tax collections from real estate transactions would decline steeply during the second half of the calendar year and that annual collections in 2006 would decline by 42 percent compared with 2005 (see Figure 6). In May 2006, we conservatively estimated that collections would exceed

Figure 6

Real Estate-Related Tax Revenue



Sources: Metropolitan Transportation Authority; OSDC analysis

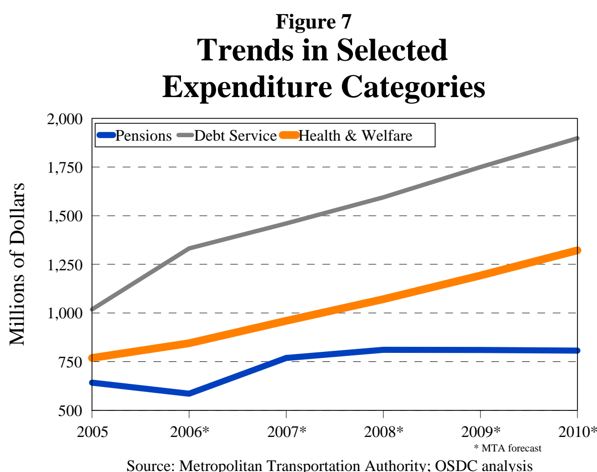
those estimates by $200 million in 2006 and by $50 million in 2007.

In its July Plan, the MTA raised its forecast of tax collections from real estate transactions by $427 million for 2006 and by an average of about $100 million for subsequent years. Collections continued to be strong in July and August, and exceeded the MTA's estimate for September by $46.1 million.[1]

Expenditure Estimates

From 2005, expenditures are projected to grow by $3.1 billion during the financial plan period. Of the growth, debt service accounts for 28 percent; health and welfare costs account for 18 percent; and pension costs account for 5 percent (see Figure 7).

Figure 7
Trends in Selected Expenditure Categories



Source: Metropolitan Transportation Authority; OSDC analysis

Spending is projected to rise from $8.9 billion in 2006 to $9.8 billion in 2007—an increase of 9.1 percent—and then grow steadily to nearly $11.3 billion by 2010 (see Figure 8). Some major expenditure categories are discussed below.

- Payroll costs account for about 40 percent of expenditures and are projected to increase at an average annual rate of 4 percent. These estimates assume that wage increases will follow the same pattern as the offer made to the Transport Workers Union in December 2005.
- Debt service is the fastest-growing part of the budget and is expected to rise from $1 billion in 2005 to $1.9 billion in 2010, an increase of 86 percent, and then reach $2.1 billion by 2012. The rapid rise reflects growth in the size of the capital program and the MTA's reliance on borrowing to finance its capital programs.
- Pension costs have grown rapidly over the past few years to make up for pension fund investment shortfalls, unfunded liabilities, and benefit enhancements. Costs are projected to rise from $586 million in 2006 to $769 million in 2007, and then peak at $811 million in 2008.
- Health insurance costs are expected to increase by 56 percent during the financial plan period—from $845 million in 2006 to $1.3 billion by 2010—based on the assumption that health insurance premiums will increase at the State rate, even though premiums for transit employees are tied to the lower rate determined by the Health Insurance Plan of New York (HIP).
- Other fringe benefits, such as social security contributions and workers' compensation costs, are projected to increase by about 3 percent annually. This is consistent with the projected wage increases in the July Plan.

[1] Collections were $94 million higher than expected during July through September compared with the forecasts that were made by the MTA at the time the July Plan was prepared.

Figure 8
Metropolitan Transportation Authority
Financial Plan for Calendar Years 2006 Through 2010
(in millions)

	2006	2007	2008	2009	2010
REVENUES					
Fare Revenue	$ 3,686	$ 3,735	$ 3,780	$ 3,809	$ 3,832
Vehicle Toll Revenue	1,234	1,236	1,242	1,241	1,241
Dedicated Tax Revenue	3,079	2,869	2,898	2,908	2,925
State and Local Subsidies	588	615	633	655	674
Other Revenue	440	428	434	456	473
Total Revenues	**9,026**	**8,882**	**8,987**	**9,069**	**9,144**
EXPENSES					
Payroll	3,549	3,714	3,860	3,984	4,093
Overtime	375	357	365	379	393
Health & Welfare	845	960	1,071	1,193	1,322
Pension Contributions	586	769	811	810	807
Other Fringe Benefits	384	402	416	432	444
Nonlabor Operating Expenses	2,107	2,297	2,391	2,508	2,584
General Reserve	31	75	75	75	75
Debt Service	1,332	1,460	1,594	1,750	1,898
Reimbursable Overhead	(269)	(276)	(280)	(280)	(287)
Total Expenses	**8,941**	**9,757**	**10,303**	**10,851**	**11,329**
Accrual Surplus/(Gap)	**85**	**(875)**	**(1,316)**	**(1,782)**	**(2,184)**

Note: Pension contribution figures have been adjusted by OSDC to properly reflect lower costs due to recent actuarial changes adopted by the New York City Employees' Retirement System.
Sources: Metropolitan Transportation Authority; OSDC analysis

- Nonlabor operating costs, which average about $2.4 billion annually during the financial plan, are projected to rise at an average annual rate of 6 percent, driven by higher materials and supplies and paratransit costs.

Balancing the Budget

The July Plan projects budget gaps of $875 million for 2007, $1.3 billion for 2008, $1.8 billion for 2009, and $2.2 billion for 2010 (see Figure 8). Rather than outline a comprehensive strategy to close these gaps, the MTA proposed a gap-closing program that relies heavily on prior-year cash surpluses to balance the 2007 budget, and fare and toll increases and service cuts to narrow the gaps in subsequent years (see Figure 9).[2] These hikes come on top of increases that were implemented in 2003 (25 percent) and 2005 (5 percent), and would still leave the MTA with large out-year budget gaps.

The out-year gap-closing program currently anticipates savings of only $19 million in 2007, growing to $83 million by 2010—relatively modest amounts. Almost half of the anticipated savings would come from two initiatives that would adversely affect customer

[2] On September 20, 2006, the MTA Chairman announced that he would oppose service cuts or fare increases in 2007 because revenue collections in 2006 have been better than expected.

Figure 9
Gap-Closing Program Per July 2006 Plan
(in millions)

	2006	2007	2008	2009	2010
Accrual Surplus/(Gaps)	**$ 85**	**$ (875)**	**$ (1,316)**	**$ (1,782)**	**$ (2,184)**
Cash Adjustments	(21)	71	18	(2)	39
Cash Surplus/(Deficit)	**64**	**(804)**	**(1,299)**	**(1,781)**	**(2,146)**
Management Actions					
Roll Prior-Year Surplus	782	711	36	- - -	- - -
Cancel Holiday Discounts	50	- - -	- - -	- - -	- - -
Raise Fares & Tolls	- - -	78	237	489	498
Reduce Pension Liability[1]	21	42	42	42	42
Reorganization	- - -	- - -	10	35	40
Cost Reduction Actions	19	47	73	83	83
Total	**872**	**878**	**397**	**649**	**663**
Cash Surplus/(Deficit)	**936**	**74**	**$ (902)**	**$ (1,132)**	**$ (1,482)**
Other Policy Actions	(225)	(38)	(3)	(5)	(6)
Cash Surplus/(Deficit)	**$ 711**	**$ 36**	**$ (905)**	**$ (1,137)**	**$ (1,488)**

[1] Assumes a $450 million contribution to the pension funds.
Note: Columns may not add due to rounding.
Sources: Metropolitan Transportation Authority; OSDC analysis

service: eliminating 313 conductors by expanding one-person train operations (subject to collective bargaining), and reducing subway availability during off-peak hours. (The budget also assumes savings of $15 million in 2007 and $30 million in 2008 from a reduction in off-peak bus service, though this is not part of the gap-closing program.)

In addition, the July Plan sets savings targets of $5 million in 2008, $10 million in 2009, and $15 million in 2010, from reductions in administrative redundancy. The MTA spent $1 million last year on a consultant's feasibility study, and intends to spend another $9 million to develop an implementation strategy. While the MTA believes the savings estimates in the July Plan are conservative, it acknowledges that these estimates are placeholders based on the consultant's earlier work.

The MTA also anticipates savings of $5 million in 2008 and $25 million annually thereafter from the enactment of legislation, originally proposed in 2003, which would permit the MTA to "reorganize" its subsidiaries. The MTA, however, was unable to substantiate these savings estimates and acknowledged that they were placeholders.

In addition, the Transport Workers Union opposed several provisions in the bill, and the bill was rejected by the State Legislature specifically because it lacked civil service protections for new MTA employees. The bill also would have eliminated some of the funding formulas that govern the distribution of tax and toll subsidies, and would have more narrowly defined the threshold for notifying the public of proposed service reductions.

Policy Choices

The July Plan assumes the outcome of a number of policy choices that could affect the availability of $1.1 billion for the operating budget during 2006 and 2007 (see Figure 10). Some decisions are in the hands of the MTA Board, while others must be made by the State or the unions that represent transit employees.

Figure 10
Availability of Discretionary Resources
(in millions)

	2006	2007
2005 Surplus	450	- - -
Pension Savings	125	27
Health Insurance Contributions	48	70
Capital Security Program	94	- - -
State Operating Assistance	- - -	307
Total	**$ 717**	**$ 404**

Note: Columns may not add due to rounding

For example, the MTA had planned to transfer, on January 1, 2006, $450 million in surplus funds to the MTA's pension funds to pay down unfunded liabilities. These resources, however, have not been transferred and remain in an off-budget interest-bearing account.

The July Plan also assumes that operating budget resources will be used to fund overspending in the MTA's capital program.[3] Though paying down debt and other unfunded liabilities are appropriate uses of operating resources, they may not be the best uses in the absence of a comprehensive plan to balance the operating budget.

[3] As an alternative funding source for these capital projects, the MTA could draw upon more than $212 million in capital funds left over from the abandoned LaGuardia Airport subway link.

Some of the MTA's assumptions are discussed below.

2005 Surplus: The MTA set aside $450 million of the 2005 surplus to pay down unfunded pension liabilities, which would have generated recurring savings of $42 million. While this was a far better choice than using these resources to construct a platform over the eastern portion of the West Side Rail Yard, as the MTA had first proposed, the resources were not transferred on January 1, 2006, as planned. As of September 20, 2006, they remained in an off-budget interest-bearing account.

Pension Savings: The MTA proposes to dedicate $152 million in pension savings to pay down unfunded post-employment liabilities, such as health insurance. New accounting rules (i.e., GASB45) require the MTA to calculate and report its obligations to current and future retirees for post-employment benefits other than pensions, but the MTA is under no obligation to fund this liability (although the credit rating agencies will undoubtedly take into account the size of these obligations and how they are funded when making credit ratings).

Health Insurance Contributions: The July Plan assumes that MTA employees will agree to contribute 1.5 percent of their wages to pay down post-employment liabilities for both current and future retirees, rather than to mitigate the growth in the cost of their health insurance premiums as contemplated in the tentative labor agreement reached between the MTA and the Transport Workers Union in December 2005. The MTA anticipates employee contributions of $118 million

during 2006 and 2007, and about $90 million annually thereafter.

Capital Security Program: The MTA intends to use $71 million in operating budget resources to help fund unanticipated costs in the capital security program. In addition, the MTA also intends to use $23 million that it gained in 2006 by terminating a forward-starting hedge agreement for this purpose. These resources could have been used to fund debt service, which would have freed up an equal amount of operating budget resources for other purposes.

State Operating Assistance: The July Plan assumes that the State will divert $307 million in 2007 from the Metropolitan Mass Transportation Operating Assistance account, which is funded with dedicated taxes, to fund capital projects in Lower Manhattan ($135 million) and to meet its statutory obligation to provide operating assistance to the MTA ($171.9 million per year). Prior to State FY 1995-1996, these statutory obligations were paid directly from the general fund. A return to this practice would aid the MTA operating budget by $687.6 million during the 2007-2010 period.

Status of Labor Negotiations

The July Plan assumes that the MTA will reach new labor agreements that will increase wages and fringe benefits by 3 percent in 2006, 4 percent in 2007, and 3.5 percent in 2008, and that wages will increase in subsequent years at the projected regional inflation rate.

The MTA's contract with the Transport Workers Union (TWU), which represents 34,000 subway and bus workers, expired on December 15, 2005. With assistance from mediators from the Public Employment Relations Board (PERB), the MTA and the TWU reached a tentative agreement on December 27, 2005—but only after a three-day strike by bus and subway workers in response to MTA demands for reduced pension benefits and higher employee pension contributions.

The tentative agreement called for workers to receive wage increases of 3 percent in 2006, 4 percent in 2007, and 3.5 percent in 2008, and to contribute 1.5 percent of their wages to mitigate growth in health insurance premiums. The agreement also called for employees to receive refunds from overpayments to the pension systems.

The tentative agreement was rejected by the rank and file in January 2006 by a margin of only seven votes, but was overwhelmingly approved three months later. Even though the MTA approved contracts containing the same terms with two locals of the Amalgamated Transit Union, the MTA no longer feels bound to the tentative agreement with the TWU—and, instead, is seeking to reach a new agreement through binding arbitration. A three-member arbitration panel began holding hearings in August 2006, but no progress has been reported.

Other transit employees are also working without contracts, or will be soon. About three quarters of the employees at Metro-North and the Triborough Bridge and Tunnel Authority are currently working without contracts, and all of the contracts with the employees of the Long Island Rail Road will have expired by December 31, 2006.

OSDC Risk Assessment

Although the MTA's revenue and expenditure estimates are generally reasonable, our analysis indicates that the 2006 surplus could be $140 million higher than the MTA forecast. These resources, if they materialize, would be sufficient to delay the proposed fare and toll increase by another seven months until April 2008.

Collections from taxes on real estate transactions were $46.1 million higher than expected in September 2006, and were also stronger than expected during July and August. Based on these trends, we estimate that collections from real estate transactions could exceed the annual estimate in the July Plan by $130 million. In addition, interest income will likely be higher by $10 million.

We also believe that health insurance costs are likely to be lower for New York City Transit employees, by $17 million in 2007, $30 million in 2008, $42 million in 2009, and $54 million in 2010, because health insurance premiums are not likely to grow as quickly as assumed in the July Plan. Moreover, we believe subway utilization could increase faster than assumed in the July Plan based on stronger employment gains and higher gasoline prices, which will encourage the use of mass transit.

The July Plan includes reserves of $31 million in 2006 and $75 million annually in subsequent years, and the MTA has not had to draw upon these resources in recent years to maintain budget balance. While it appears that the MTA has adequately budgeted for energy costs and inflation, these are volatile areas of the budget that could rise unexpectedly.

In addition, the July Plan includes a separate reserve of $100 million for 2007 for security improvements, which are still mostly unspecified.

Financing the Capital Program

The 2005-2009 capital program is expected to cost $21.3 billion and to be funded through a combination of resources. Half of the program will be funded with capital grants from the federal government and New York City, and with proceeds from a Statewide transportation bond act. The other half will be funded by the MTA itself, largely through bond proceeds ($9.3 billion) and the sale of assets ($1 billion).

Despite commitments from the federal, State, and City governments, as well as anticipated proceeds from the sale of assets, the 2005-2009 capital program relies on new debt to a greater extent than any prior program does. New money bonds are expected to generate about $9.3 billion and account for 44 percent of the financing for the 2005-2009 capital program—a higher share than in any other program to date. The reliance on debt to fund the capital program is placing undue pressure on the MTA's operating budget.

In the last five years, the MTA's outstanding debt grew by $7 billion, from $13 billion in 2000 to $20 billion in 2005. In the next five years outstanding debt is projected to increase by $12 billion, reaching $32 billion in 2010.

Debt service is projected to rise by 86 percent between 2005 and 2010, and is projected to consume an increasing share of revenues over the next few years (see Figure 11). For example, debt service has consumed about 12 percent of total

Figure 11
Debt Service as a Percentage of Resources

	2005	2006	2007	2008	2009	2010
Total Revenues	12	15	16	18	19	21
Fares & Tolls	21	27	29	32	35	37
Pledged Revenues	12	15	17	19	20	22

Source: Metropolitan Transportation Authority; OSDC analysis

revenues, on average, between 1996 and 2005, but is expected to consume 21 percent of revenues by 2010—an increase of 75 percent. Similarly, debt service will consume 37 percent of fare and toll revenues by 2010, up from 21 percent in 2005.

The 2005-2009 capital program anticipates $1 billion from the sale of assets to help finance the program. The MTA expects $100 million from the sale of the development rights over the Atlantic Yards, which would still leave the MTA far short of its goal.

The MTA is also considering an offer of $500 million from New York City for the development rights over the western rail yard on the West Side of Manhattan and a portion of the transferable development rights over the eastern rail yard. According to appraisals that were recently conducted by the MTA's real estate consultant, the City's offer falls short of the fair market value by between $263 million and $764 million, based upon the assumption that building a platform over the western rail yard would cost $400 million and would be subtracted from an offer to purchase.

The Attorney General and others have suggested that the MTA should auction off its real estate interests over the western rail yard once the property is rezoned, or if that is not possible, that the MTA should receive a substantial portion—if not all—of the development revenues that exceed the City's purchase price.

Under the City's proposal, it would resell the rights over the eastern rail yard and use the proceeds to help finance an extension of the No. 7 subway line to spur economic development. While the City and the MTA have taken steps to minimize the potential for cost overruns, no agreement exists that determines who would fund them if they occurred.

Cost overruns and delays are not uncommon, especially in the course of expansion projects. For example, the East Side Access project is over budget by $2.4 billion and is four years behind schedule; the Fulton Street Transit project is already $94 million over budget (12.5 percent) and 18 months behind schedule; the South Ferry Terminal project is $52 million, or more than 13 percent, over budget; and the Second Avenue Subway project is one year behind schedule. In addition, the MTA has not even begun the design of the second phase of its capital security program, and the first phase is significantly behind schedule and over budget.

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