Financial Outlook for the Metropolitan Transportation Authority

Thomas P. DiNapoli
New York State Comptroller

Kenneth B. Bleiwas
Deputy Comptroller

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- **The MTA projects a record year-end cash balance of $960 million in 2007—and budget deficits that grow from $965 million in 2008 to nearly $2.1 billion by 2011. Growth in debt service and health and welfare costs accounts for nearly half of the 2011 budget gap.**
- **The July Plan includes $516 million in reserves and another $781 million that the MTA and the State plan to use for purposes other than balancing the budget.**
- **MTA spending will grow during the financial plan period at an average annual rate of 5 percent—more than twice the regional inflation rate. Moreover, spending will exceed the MTA forecast made two years ago, by about $435 million annually from 2007 to 2009.**
- **Last year, the MTA realized less than half of its planned cost-reduction target, which was modest from the outset.**
- **Debt service will rise from $1.3 billion in 2006 to $2.0 billion in 2011—an increase of 50 percent. Debt service consumed about 12 percent of total revenues between 1996 and 2005, and is expected to consume 20 percent of revenues by 2011, an increase of 75 percent.**
- **Since 2002, base fares on the City's subways and buses have grown by 33 percent and the average fare has grown by 23 percent—almost twice the inflation rate. Fares on the commuter railroads have grown by 27 percent, which is twice the inflation rate.**
- **State-imposed taxes and fees account for 36 percent, or $3.6 billion, of the MTA's resources in 2007. State and local subsidies account for 8 percent, or $850 million.**
- **The MTA Board plans to act on the proposal to raise fares and tolls by 6.5 percent in December 2007, before it obtains commitments for more intergovernmental aid.**

The short-term financial outlook for the Metropolitan Transportation Authority (MTA) continues to improve, but the MTA still faces serious challenges to both its operating and capital budgets over the next few years.

In recent years, the MTA has benefited from record collections of taxes on real estate transactions, which have masked the underlying imbalance between the MTA's recurring revenues and spending. Though the MTA projects a balanced budget in the current year, it also projects large and growing operating budget deficits in future years because expenses (particularly debt service and health insurance costs) are expected to grow much faster than inflation while revenue growth increases more slowly.

The MTA also needs $18.8 billion in capital funds just to maintain the existing regional mass transit system in a state of good repair, plus additional funds to proceed with key expansion projects. The MTA has been asked by New York State to submit its proposed five-year capital program by March 31, 2008—18 months earlier than scheduled—so that the State Legislature can consider the proposal concurrently with the recommendations of a 17-member commission (i.e., the New York City Traffic Congestion Mitigation Commission) that will review the Mayor's congestion pricing proposal and other

Figure 1
Calendar of Key Dates

July 25, 2007	MTA releases its four-year financial plan
July 26, 2007	State establishes NYC Traffic Congestion Mitigation Commission
August 1, 2007	New York City releases revised congestion pricing plan
August 14, 2007	Federal government authorizes $354 million grant to New York City for transportation service enhancements contingent on the implementation of congestion pricing plan
October 1, 2007	MTA comments on New York City's revised congestion plan
October 1, 2007	Commission terminates unless federal government approves at least $200 million in grants
November 2007	Public hearings begin on the MTA's proposed fare and toll increases
December 2007	MTA Board acts on proposal to raise fares and tolls
January 15, 2008	Governor releases State executive budget
January 31, 2008	Commission recommends a traffic mitigation plan
March 31, 2008	MTA releases proposed five-year capital program
March 2008	New York City Council acts on Commission recommendations
	State Legislature considers Commission's recommendations as well as MTA capital program

alternatives to reduce traffic congestion in New York City.

The MTA's latest four-year financial plan (the "July Plan") projects a record year-end cash balance of $960 million for 2007—and operating budget deficits that grow from $965 million in 2008 to nearly $2.1 billion by 2011. Although a fare hike will not be needed to balance the 2008 budget, the MTA has proposed raising fares and tolls by 6.5 percent early in 2008, and by another 5 percent in 2010 as part of its plan to balance the 2009 budget and to narrow the out-year gaps. These fare hikes would be part of the MTA's proposal to index fares to inflation and to implement adjustments every other year.

To its credit, the MTA has outlined a multiyear plan to balance the 2009 budget and to reduce future-year budget gaps to manageable levels. In addition, the baseline estimates in the financial plan are based on reasonable assumptions.

The July Plan, however, fails to deliver on past promises to reduce unnecessary waste and duplication. The Office of the State Comptroller and the MTA itself have both documented the potential for such savings. Even though the MTA Executive Director sought reductions in controllable costs of 2 percent in 2008 and another 2 percent in 2009, the July Plan identifies savings of only 1.5 percent—and this estimate credits agencies for revenues associated with gains in ridership. Last year, the MTA achieved only 41 percent of its planned cost-reduction target, which was modest from the outset.

The MTA's plan to narrow the out-year budget gaps also relies on the receipt of more than $600 million annually in new governmental aid beginning in 2010. If these or other anticipated resources do not materialize, the MTA will be left with budget gaps that exceed $1 billion beginning in 2010.

Closing a gap of this magnitude would require additional fare and toll increases of 20 percent, on top of the MTA's own proposal to raise fares and tolls by 11.5 percent over the next three years. Thus, in the absence of a commitment from its traditional financing partners, the MTA is unable to guarantee that future fare hikes will be limited to inflation.

Furthermore, the MTA Board intends to approve a fare and toll increase by the end of December 2007 (see Figure 1), just before the Governor releases his proposed budget on January 15, 2008, which could include unanticipated new resources for the MTA. The MTA then plans to implement the higher fares and tolls in early 2008 before the State Legislature considers the MTA's proposed five-year capital program and the recommendations of the New York City Traffic Congestion Mitigation Commission, which also could result in new resources to finance mass transit.

The State Comptroller believes that to the extent fare and toll increases are necessary, they should be part of a comprehensive plan to finance the MTA's operating and capital budgets. The plan, moreover, must include commitments from the MTA's traditional financing partners and a larger contribution from the MTA through management improvements.

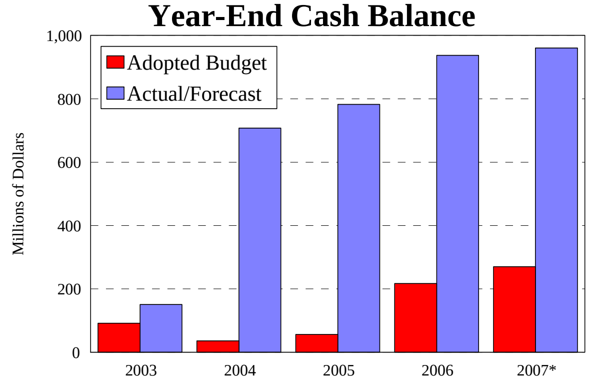
The State Comptroller urges the MTA to put commuters first and to hold off raising fares and tolls until it obtains such commitments. Greater coordination between the MTA, New York State, and New York City could moderate future fare and toll increases and encourage greater usage of mass transit, which has economic as well as environmental benefits.

Projected Cash Balances

The MTA's cash balances have grown during the past four years, from $151 million in 2003 to $937 million in 2006 (see Figure 2). The growth reflects fare and toll hikes in 2003 and 2005, an increase in dedicated State taxes and fees in April 2005, and unexpected strength in collections from taxes on real estate transactions. These additional resources have allowed the MTA to cancel draconian budget cuts that were planned for 2006 as well as a 5 percent fare and toll increase that was planned for 2007.

Figure 2

Year-End Cash Balance



Note: The estimates for 2005-2007 exclude $450 million in cash that the MTA used to pay down pension liabilities. *MTA forecast

Sources: Metropolitan Transportation Authority; OSDC analysis

The MTA was on track to end 2007 with a record cash balance of $960 million, which was $690 million higher than the forecast in the February Plan, but on the same day the MTA's four-year financial plan was presented to the public, the MTA Board authorized the Executive Director to execute, without prior public notice, three "cash management" actions (e.g., to retire debt and prefund energy contracts and pension contributions) that will shift $370 million in cash from 2007 to 2009.

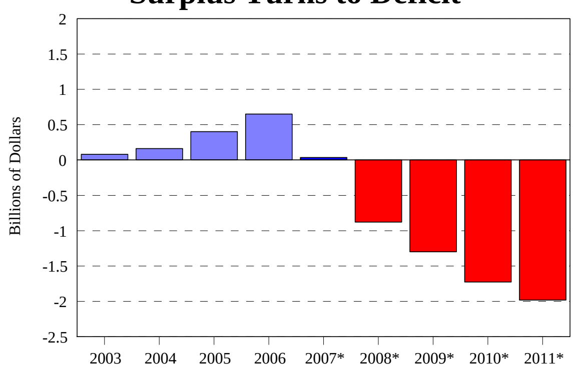
Most of the improvement in the MTA's cash position in 2007 came from higher estimates of collections from taxes on real property transactions ($502 million) and marginally higher fare and toll collections ($53 million). These factors, plus marginally lower debt service costs, helped to reduce the out-year budget gaps by an annual average amount of $96 million.

Projected Budget Gaps

On an accrual basis of accounting, which is the best way to discern long-term trends, the MTA has generated consistently larger surpluses over the past four years. Now, however, the MTA expects to end 2007 with a surplus of only $34 million—which is a significant reversal from last year's record of $651 million.

Figure 3

Surplus Turns to Deficit

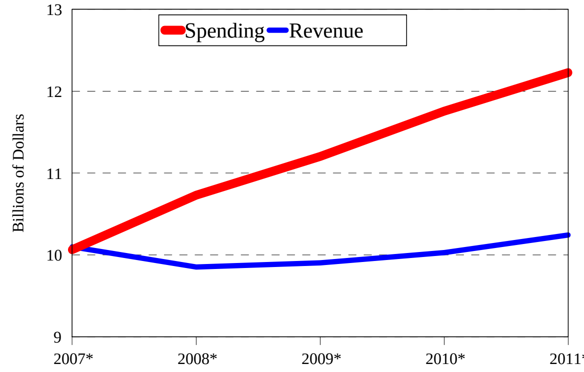


Note: Estimates exclude depreciation. * MTA forecast
Sources: Metropolitan Transportation Authority; OSDC analysis

Despite a balanced budget in 2007, the MTA projects budget gaps in subsequent years (see Figure 3) because spending is projected to grow faster than revenues during calendar years 2008 through 2011 (see Figure 4). Spending will grow at an average annual rate of 5 percent during calendar years 2008 through 2011, while revenues are projected to grow by only 0.4 percent each year. The disparate growth rates result in widening budget gaps of $877 million in 2008, $1.3 billion in 2009, $1.7 billion in 2010, and nearly $2 billion in 2011.

Figure 4

Revenue and Spending Trends



* MTA forecast
Sources: Metropolitan Transportation Authority; OSDC analysis

Using the projected regional inflation rate during the financial plan period (2 percent) as a benchmark, the major contributing factors to the budget gaps are debt service and health and welfare costs, which are together projected to grow four times faster than inflation. These costs alone account for nearly half of the 2011 budget gap. During the financial plan period, fare and toll revenue and dedicated tax revenue are projected to grow more slowly than inflation, at 0.9 percent and 1.2 percent, respectively.

Closing the Projected Budget Gaps

The MTA has outlined a gap-closing program (see Figure 5) that calls for raising fares and tolls in 2008 and again in 2010 as part of its proposal to index fares to inflation and to implement adjustments every other year. The MTA, however, does not need to raise fares and tolls to balance the 2008 budget; in fact, it forecasts a $323 million cash balance for 2008, which is more than the proposed fare and toll increase would bring in.

In March 2008, the State Legislature is scheduled to consider—18 months earlier than previously planned—the MTA's proposed five-year capital program for July 2008 through December 2013 along with the recommendations of the NYC Traffic Congestion Mitigation Commission, which could result in new resources to finance mass transit. The MTA, however, plans to approve higher fares and tolls in December 2007, which are scheduled to go into effect in early 2008 before the MTA obtains commitments for more aid from the State, the City, and the counties within the transportation district.

The federal government recently approved a $354 million grant to New York City, contingent upon City Council and State approval of a traffic mitigation plan that principally uses pricing to reduce traffic congestion by at least 6.3 percent. Most of the resources are targeted to improve bus depots and park-and-ride facilities, and to expand express bus service.

The major components of the MTA's gap-closing program are described below.

Additional State Tax Collections: The Governor's enacted four-year financial plan assumes that collections from existing taxes dedicated to transit will be substantially higher than previously anticipated from existing taxes and fees. The MTA estimates that it will receive $338 million in 2008 and additional sums in subsequent years. Last year, the MTA reflected its expectations for higher State tax revenues in its baseline estimates. If the MTA had done the same in the July Plan, its projected budget deficits would have been smaller (though the bottom line would not have changed).

Cash Management Actions: The MTA has allocated $648 million of its $960 million projected 2007 cash balance to retire debt, prefund energy contracts, and prepay pension contributions (outlined below). In total, these actions are expected to generate $56 million in savings.

- **Retire Debt:** Pay down $300 million in bonds in 2007 that would have matured in 2009. This initiative will provide $288 million in budget relief in 2009, when the MTA is projecting a large budget gap, and $28 million in debt service savings.
- **Prefund Energy Contracts:** Earmark $150 million to enter into prepurchase agreements with fuel suppliers that cover 34 percent of the anticipated fuel use for 2008 and 2009. The MTA expects to realize savings of $12 million, although this initiative entails some risk.
- **Prepay Pension Contributions:** Prepay $200 million of 2008 pension contributions, which is expected to yield $16 million in savings, although this too entails some risk.

Downsizing: The July Plan does not identify any specific actions to downsize the workforce, number of employees, or job titles, nor does it address any impact on service that could result from downsizing. According to the MTA, savings from downsizing are assumed to be a component of agency actions that will be made after 2008 and are currently unspecified. The July Plan does include $81 million to fund separation costs (e.g., early retirement incentives) in 2009 and 2010 from downsizing efforts.

In October 2004, the Office of the State Comptroller identified a number of positions where there were opportunities to reduce administrative costs. An October 2004 report to the MTA Board identified 173 activities, which employed 2,746 workers and had a combined budget of

Figure 5
MTA Gap-Closing Program and Policy Actions
(in millions)

	2007	2008	2009	2010	2011
Accrual Forecast	**$ 34**	**$ (877)**	**$ (1,299)**	**$ (1,727)**	**$ (1,981)**
Cash Adjustments	72	(25)	(58)	(24)	(33)
GASB Cash Contribution	(83)	(63)	(67)	(70)	(73)
2006 Cash Carry-Over	937	- - -	- - -	- - -	- - -
Current-Year Cash Forecast	**$ 960**	**$ (965)**	**$ (1,425)**	**$ (1,821)**	**$ (2,087)**
Remaining Gap to be Closed					
Cash Management Actions	(648)	333	370	- - -	- - -
Downsizing	81	- - -	(41)	(41)	- - -
Additional State Tax Collections	10	338	169	238	251
Specified Agency Actions	7	47	74	65	62
Policy Actions	(92)	(59)	(114)	(119)	(120)
Higher Fares and Tolls	- - -	262	318	578	589
Unspecified Agency Actions	- - -	- - -	72	163	250
Labor Contribution	- - -	- - -	53	82	85
State Legislative Actions	- - -	50	50	50	50
Intergovernmental Aid	- - -	- - -	- - -	600	612
Total	**(642)**	**971**	**952**	**1,613**	**1,778**
Cash Transfer	- - -	317	323	- - -	- - -
Net Cash Surplus/(Deficit)	**$ 317**	**$ 323**	**$ (149)**	**$ (207)**	**$ (308)**

Sources: Metropolitan Transportation Authority; OSDC analysis

$708.9 million, that demonstrated opportunities for savings through "shared services." While the MTA remains committed to a shared services initiative, progress has been slow and there have been no savings to date.

Agency Actions: The MTA's Executive Director sought reductions in controllable costs of 2 percent in 2008 ($116 million) and another 2 percent in 2009. Yet the July Plan anticipates savings of only 1.5 percent in 2008, and this estimate credits agencies for revenue associated with gains in ridership.[1] Most of the 2009 cost-reduction program remains unspecified. Last year, the MTA monitored the implementation of management actions that were expected to yield $29.9 million in 2006. The MTA realized $12.3 million that year—a success rate of only 41 percent. The 2007 cost-reduction program, which is also modest, has fallen behind schedule.

The July Plan anticipates savings of about $60 million annually beginning in 2008 by eliminating platform security staff as emergency exits are fully installed; reducing administrative and maintenance staff; and accelerating the retirement of old Metro-North train cars that require heavy maintenance. The MTA intends to make unspecified cuts of $72 million in 2009, $163 million in 2010, and $250 million in 2011.

[1] The agencies identified potential savings of only $47 million in 2008.

Policy Actions: The MTA plans to spend about $100 million annually, beginning in 2007, to implement various "policy actions." These include safety and customer satisfaction pilot programs in 2007 ($35 million); establishing a reserve to fund service enhancements ($60 million beginning in 2008); funding cost overruns in the capital program ($56 million); and funding operating costs for the planned electronic security system (about $100 million during the July Plan period).

Higher Fares and Tolls: The MTA proposes to raise fares and tolls by 6.5 percent early in 2008,[2] and again by 5 percent on January 1, 2010, as part of its plan to index fares to inflation. The MTA notes that average fares are slightly lower today than they were in 1996 as a result of discounts and bonus programs. Although fares have risen at a slower rate than inflation since 1995, base fares on the City's subways and buses have grown by 33 percent since 2002, and the average fare has grown by 23 percent—almost twice the inflation rate. Fares on the commuter railroads have grown by 27 percent, or twice the inflation rate.

Labor Contribution: The MTA is assuming that upon the expiration of labor contracts in 2009 and 2010, MTA employees will agree to a wage increase of one half of the projected inflation rate in the first year of a new contract. The MTA expects savings of $53 million in 2009, $82 million in 2010, and $85 million in 2011.

Legislative Actions: The MTA is proposing that the State tighten the tax code relating to MTA real estate transaction taxes and other taxes. (One possibility would be to eliminate the exemption for cooperative apartments from the mortgage recording tax.) The MTA assumes that such actions will generate $50 million beginning in 2008.

Intergovernmental Aid: The gap-closing program assumes new governmental aid of $600 million in 2010—nearly twice the amount received in 2005, when the MTA last obtained an increase in intergovernmental aid. The July Plan further assumes that the additional aid will be indexed to inflation. The MTA has identified congestion pricing as one possible source of revenue, although Mayor Bloomberg has proposed using those proceeds to finance transportation capital projects.

Reserves

The July Plan includes reserves of $516 million, consisting of a general reserve of $38 million in 2007 and $75 million annually in subsequent years; $40.5 million in 2009 and 2010 to fund separation costs associated with future unspecified efforts to downsize the workforce; and $97 million to fund anticipated pension costs.

In addition, the MTA and the State plan to use $781 million in resources that were intended to benefit the operating budget for purposes other than balancing the MTA operating budget.[3] In general, these

[2] The MTA is seeking a 6.5 percent increase in fare and toll revenue in 2008. While such an increase would suggest an implementation date of March 1, 2008, the MTA has not identified the effective implementation date other than "early in the calendar year."

[3] In 2006, the MTA used $450 million to reduce the unfunded obligations of its pension systems, which could have been used to mitigate future fare increases.

Figure 6
OSDC Risk Assessment of MTA Forecast
(in millions)

	2008	2009	2010	2011
MTA Forecast	**$ 323**	**$ (149)**	**$ (207)**	**$ (308)**
Intergovernmental Aid	- - -	- - -	(600)	(612)
Unspecified Actions	- - -	(72)	(163)	(250)
Labor Contribution	- - -	(53)	(82)	(85)
Legislative Actions	(50)	(50)	(50)	(50)
Subtotal	**(50)**	**(175)**	**(895)**	**(997)**
Potential Remaining Gaps	**$ 273**	**$ (324)**	**$ (1,102)**	**$ (1,305)**

purposes are fiscally prudent and will help to improve the MTA's long-term financial position; on the other hand, the resources will no longer be available to help balance the operating budget.

The MTA deposited $240 million in a reserve in 2006 to help pay down its unfunded liability for post-employment benefits other than pensions, and it intends to contribute another $350 million by the end of 2011.[4] (Unlike an irrevocable trust, the resources in the reserve can be used for other purposes.) The MTA and the State also plan to use $191 million in operating budget resources to fund unplanned costs for capital projects during the financial plan period.

Risk Assessment

As shown in Figure 6, the major quantifiable risks to the July Plan come from the gap-closing program, which relies on a number of high-risk initiatives. These initiatives include additional intergovernmental aid, contributions from labor, legislative actions that could result in higher taxes, and savings from still-unspecified actions.

While the level of risk is manageable in the near term, gaps in future years could exceed $1 billion by 2010 if all of the anticipated resources do not materialize. Closing a budget gap of this magnitude in the absence of savings from internal efficiencies could require an additional fare and toll increase of 20 percent.

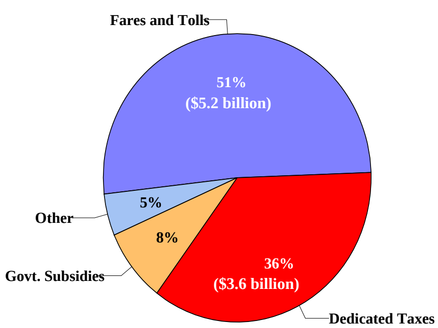
The MTA also faces risks that are difficult to quantify, such as a slowdown in the economy, a downturn in the real estate market, and volatility in energy costs. (On a positive note, real estate transaction tax collections may not decline as much as the MTA has projected.) In addition, the July Plan assumes that MTA employees will agree to a wage increase of one half of the projected inflation rate in the first year of their new contract. New York City, however, recently reached agreements with several unions that increase wages at rates that are substantially higher than the projected inflation rate.

[4] The MTA faces an estimated unfunded liability for post-employment benefits of $13.4 billion.

Revenue Estimates

In 2007, more than half of the MTA's revenue (51 percent) is expected to come from fare and toll collections from the subways, buses, commuter railroads, tunnels, and bridges (see Figure 7). More than one third of the revenue (36 percent) will come from taxes imposed by New York State on the 12 counties that comprise the MTA transportation district (e.g., sales taxes and real estate transaction taxes), and also from taxes and fees effective throughout the State (e.g., petroleum business taxes and motor vehicle registration fees). The balance of the MTA's revenue will come from State and local government subsidies (8 percent), and from advertising and other sources (5 percent).

Figure 7
Sources of Revenue
2007= $10.1 billion

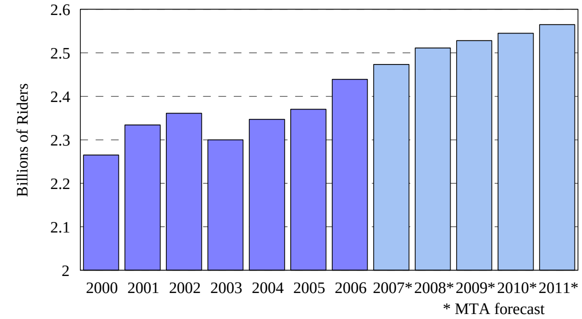


Source: Metropolitan Transportation Authority; OSDC analysis

Usage Trends

The use of mass transit facilities (i.e., subway, bus, and commuter railroads) grew by 2.5 percent in 2006 (see Figure 8) to reach the highest level in decades, and the July Plan assumes that usage will grow by another 1.6 percent in 2007. The July Plan further assumes that usage will continue to grow by 0.9 percent per year, with bridge and tunnel crossings increasing by 0.2 percent per year.

Figure 8
Subway, Bus, and Commuter Rail Utilization



Note: Excludes the MTA Bus Company, which was created in September 2004, to ensure comparability with historical data.
Source: Metropolitan Transportation Authority; OSDC analysis

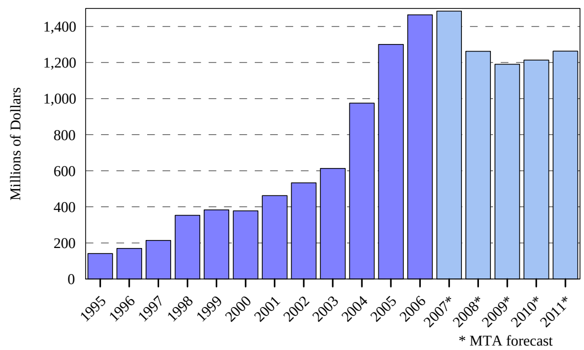
Dedicated Transit Taxes

Since 1980, the State has imposed taxes on both a regional and statewide basis to benefit mass transit. These include sales taxes, real estate transaction taxes, franchise taxes on electric and phone companies (i.e., long-lines taxes), corporate franchise surcharges, and petroleum business taxes. The State last raised taxes and fees dedicated to mass transit by more than $300 million annually in April 2005.

In recent years, the MTA has benefited from the regional real estate boom, especially in the Manhattan market. Collections from taxes on real estate transactions have grown rapidly, increasing from an average of $370 million during calendar years 1998 through 2000 to reach a record $1.5 billion in 2006 (see Figure 9). Collections are expected to set a new record in 2007, but then decline by $223 million in 2008 and another $72 million in 2009 as a result of a weakening real estate market. Collections are then expected to increase by about 3 percent annually for the remainder of the plan period.

As these revenues have grown far faster than other sources of tax revenue, the MTA has relied more heavily on this potentially volatile revenue source. Revenues from real estate transactions now account for 41 percent of the MTA's dedicated tax revenue, compared with 13 percent in 1995.

Figure 9
Annual Real Estate Transaction Tax Collections



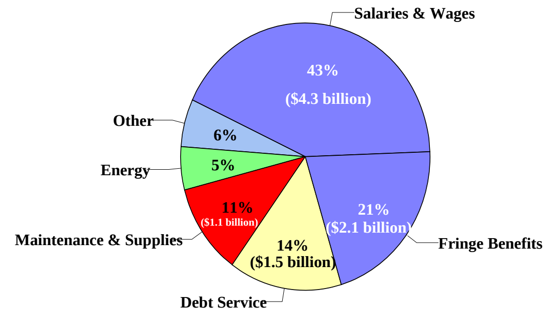
Source: Metropolitan Transportation Authority; OSDC analysis

Spending Estimates

Nearly two thirds of the MTA's resources in 2007 are allocated to personal services costs, including salaries, overtime, health insurance, pension contributions, and other fringe benefits (see Figure 10). Another 14 percent is allocated to debt service; 11 percent is allocated to maintenance and supplies; and 5 percent is allocated to energy costs, including electricity to run the subways and fuel to operate the buses.

During the past three years, spending has grown at an average annual rate of 6.8 percent, more than twice the regional inflation rate. As discussed below, the major factors behind the rapid growth in spending have been rising costs for debt service, health insurance, and pension contributions. Payroll costs have grown at an average annual rate of 3.3 percent during this period, which is in line with the regional inflation rate.

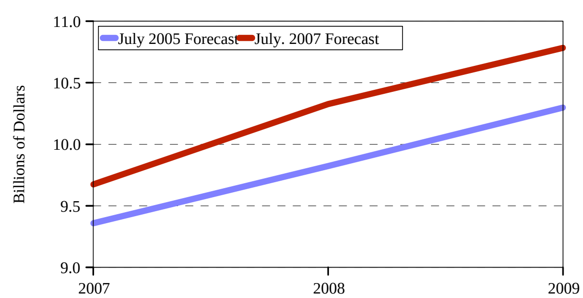
Figure 10
Allocation of Resources
2007=$10.1 billion



Source: Metropolitan Transportation Authority; OSDC analysis

The July Plan assumes that spending will rise from $9.1 billion in 2006 to $10.1 billion in 2007—an increase of 10.9 percent—and then grow steadily to nearly $12.2 billion by 2011. This represents an average annual growth rate of 5 percent (more than twice as fast as the regional inflation rate). Moreover, the level of spending is much greater—by about $435 million annually—than the forecast made by the MTA two years ago (see Figure 11).

Figure 11
Spending is Growing Faster than Anticipated



Note: Excludes the MTA Bus Company, which was created in September 2004, and was not included in the MTA's July 2005 forecast.

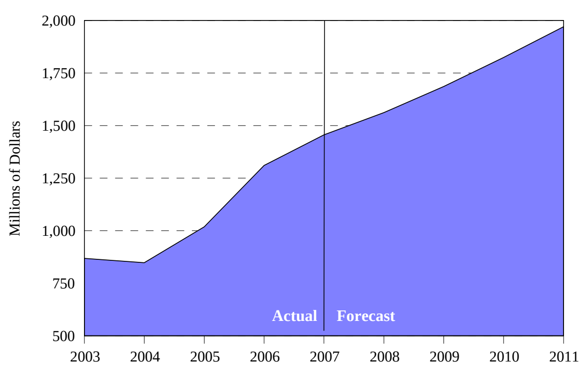
Source: Metropolitan Transportation Authority; OSDC analysis

Major spending trends are discussed below.

- Payroll costs account for 40 percent of MTA spending, and are projected to increase at an average annual rate of 3 percent, which is slightly faster than the projected inflation rate. These estimates assume that wage increases will follow the pattern set by the Transport Workers Union award and then rise at the projected inflation rate.
- Debt service is the fastest-growing part of the MTA's budget (see Figure 12), and it is expected to rise from $1.3 billion in 2006 to $2.0 billion in 2011—an increase of 50 percent. Debt service consumed about 12 percent of total revenues between 1996 and 2005, but will consume 20 percent of revenues by 2011, an increase of 75 percent. The July Plan assumes that the next five-year capital program will cost $18.8 billion just to maintain the existing regional mass transit system, plus an additional $3.6 billion to continue key expansion projects.

Figure 12

Debt Service

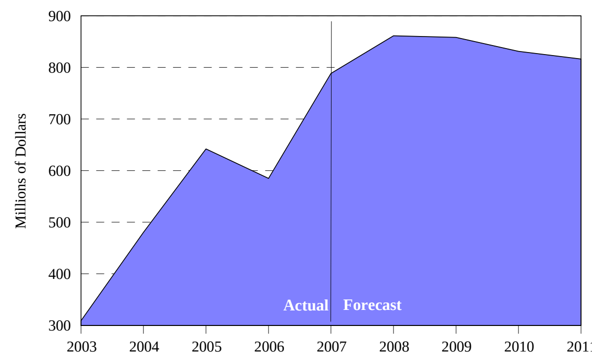


Source: Metropolitan Transportation Authority; OSDC analysis

- Pension contributions are projected to peak in 2008 at $861 million, which is $552 million more than the 2003 level (see Figure 13), an increase of 178 percent in only five years. Contributions have grown rapidly to make up for pension fund investment shortfalls, unfunded liabilities, and benefit enhancements. Contributions are projected to decline slightly to $816 million by 2011, reversing a long-term trend.

Figure 13

Pension Contributions

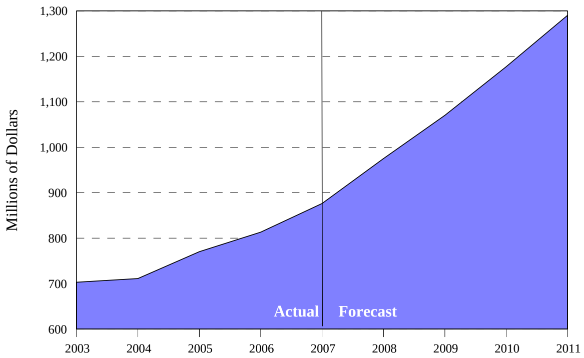


Source: Metropolitan Transportation Authority; OSDC analysis

- As shown in Figure 14, health and welfare costs are expected to increase by 50 percent during the financial plan period—from $876 million in 2007 to $1.3 billion by 2011—based on the assumption that health insurance premiums will increase by 12.5 percent in 2008 (the same as the State rate) and then by 9.2 percent in 2009 through 2011. These estimates reflect employee contributions of 1.5 percent of salaries to help mitigate the growth in health insurance costs. The July Plan anticipates savings of $56 million in 2007, which is then expected to grow at the rate of inflation.

Figure 14

Health and Welfare Costs



Source: Metropolitan Transportation Authority; OSDC analysis

- The cost of providing paratransit services is projected to grow by $229 million in 2007 to reach $433 million in 2010—an increase of 89 percent in four years—based on expected ridership growth and higher contract costs.
- Energy costs have grown from $297 million in 2004 to $484 million in 2007, an increase of 63 percent, and are projected to grow at an annual rate of 8 percent during the balance of the MTA's financial plan period.

Major contributors to this report include:

Kenneth B. Bleiwas	Deputy Comptroller
Leonard Liberto	Lead Analyst
Jane Moore	Report Editor

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Office of the State Comptroller, New York City Public Information Office
633 Third Avenue, New York, NY 10017
(212) 681-4824