



Financial Outlook for the Metropolitan Transportation Authority

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The Governor and State Legislature have taken important steps to stabilize the operating budget of the Metropolitan Transportation Authority (MTA) and to fund its next five-year capital program. Additional State assistance, combined with higher fares and internal belt-tightening, will allow the MTA to close a two-year operating budget gap of \$5 billion, and help fund its capital program.

The operating budget gap was attributable to a sharp drop in real estate transaction tax collections due to the economic recession, along with rising debt service and fringe benefit costs. State actions will generate more than \$2.9 billion this year and next; a 10 percent increase in fares and tolls will raise \$750 million; and management actions are expected to free up more than \$800 million.

While relatively small budget gaps still remain in 2009 and 2010, the MTA should now be able to manage its budget. There are budget risks, however, which could make that task more difficult. For example, real estate transaction tax collections continue to fall short of target, and the MTA has a history of spending more than planned. On a positive note, ridership is unlikely to decline as steeply as projected by the MTA.

Although the MTA is not out of the woods for 2009 and 2010, there is the potential for surpluses in 2011 and 2012—assuming the MTA goes forward with a planned fare and toll increase of 7.5 percent in 2011—but much will depend on the pace of the economic recovery and the MTA's ability to realize promised cost savings.

The MTA has not yet proposed a new five-year capital program for 2010-2014, but even a pared-down capital program could have a funding gap of \$15 billion. The MTA has indicated that it intends to use a portion of the new State assistance to back \$6.8 billion in debt to help fund its capital needs. While the revenue diverted from the operating budget to fund the debt service on these bonds

would initially be small, the amount would grow in subsequent years as these bonds were fully issued. The MTA's current financial plan assumes the issuance of \$15 billion in debt to fund the next capital program—nearly 60 percent more than the current program. Such a heavy reliance on debt would place increasing pressure on the operating budget, just as heavy borrowing in the past has contributed to the MTA's current fiscal crisis.

New Sources of State Assistance

In December 2008, the Ravitch Commission recommended that New York State impose a new payroll tax (i.e., the mobility tax) on employers within the 12-county region served by the MTA, and impose tolls on the East River and Harlem River bridges. After much debate, the State Legislature approved the mobility tax, and enacted a series of other taxes and fees instead of the tolls.

The State Division of the Budget ("State Budget") estimates that these new taxes and fees (described below) will generate almost \$1.9 billion for the MTA in 2010—70 percent more than the current level of State support—but \$1.1 billion in 2009 as a result of the effective implementation dates. Our analysis concurs with the State Budget's conclusion (see Figure 1), although our forecast is slightly lower (by \$20 million over a two-year period).

Mobility Tax: Employers and self-employed individuals within the MTA region will now pay a new tax equal to \$0.34 per \$100 of payroll, retroactive to March 1, 2009. We estimate that this tax will generate \$1.5 billion in 2010, with three quarters of that amount coming from New York City (see Figure 2). Our estimate is based on 2007 payroll data from the U.S. Bureau of Economic Analysis for the 12-county region as well as IHS Global Insight's estimates of salary and wage growth for 2008 through 2010. Our estimate of the mobility tax is lower than the State Budget forecast, by \$19 million over a two-year period.

Figure 1
Forecast of State Revenue Initiatives
(in millions)

Action Taken		Effective Date	2009	2010
Mobility Tax	\$0.34 per \$100 of payroll	March 1, 2009	\$ 1,013.6	\$ 1,525.5
Auto Registration Fee	\$25 annual fee	September 1, 2009	45.0	181.0
Taxicab Tax	\$0.50 per ride	November 1, 2009	0.0	86.0
Auto Rental Tax	5 percent tax increase	June 1, 2009	16.0	34.5
Auto License Fee	\$2 annual fee	September 1, 2009	6.7	28.0
Source: Office of the State Comptroller			\$ 1,081.3	\$ 1,855.0

Employers will remit proceeds from the mobility tax to the State, and the proceeds will be deposited in an account for the benefit of the MTA. Although the legislation authorizing the mobility tax states that school districts will be reimbursed by the State for their costs (which we estimate to be \$67 million in 2010), school districts will pay the tax, effective September 1, 2009, in the first instance and there will be a one-year lag in reimbursement.

Figure 2
Mobility Tax Forecast
Calendar Year 2010
(in millions)

New York City	\$ 1,131.2
Bronx	35.9
Kings	70.6
New York	928.7
Queens	82.1
Richmond	13.9
Long Island	229.0
Nassau	122.1
Suffolk	107.0
Hudson Valley	165.3
Dutchess	17.7
Orange	17.9
Putnam	4.0
Rockland	21.3
Westchester	104.3
Total	\$ 1,525.5

Source: Office of the State Comptroller

Auto Registration Fees: Registration fees within the MTA region will rise by \$25 on an annual basis, effective September 1, 2009. Automobile registrants will pay an additional \$50 at once because car registrations cover a two-year period. Nearly 90 percent of the expected revenue will come from standard autos, with most of the balance from commercial vehicles. According to the State Department of Motor Vehicles (DMV), 4.1 million automobiles, commercial vehicles, and motorcycles are expected to be registered within the 12-county region in 2010, which we estimate could generate \$181 million in that year.

Taxicab Tax: Each taxicab ride that originates in New York City and terminates anywhere within the 12-county MTA region will incur a \$0.50 charge (regardless of the number of passengers), effective November 1, 2009. Taximeters already track the number of rides in each taxi, and will be adjusted to account for the new tax as well. Owners, rather than drivers, will be responsible for collecting the tax and forwarding the revenues to the State, but details still need to be worked out. Owners will be required to keep records of the numbers of rides and the amounts paid, and to submit quarterly reports to the State. According to the Taxicab Fact Book, 172 million taxi trips occurred in New York City in 2005. Accordingly, we estimate that the tax could generate \$86 million on an annual basis beginning in 2010, although enforcement remains a concern.

Auto Rental Tax: The enacted State budget raised the tax on car rentals by 1 percentage point to 6 percent, and the MTA financial assistance legislation raised the tax, effective June 1, 2009, to 11 percent in the MTA region. Based on the number of car rental offices and payroll and population data, we estimate that the MTA region accounts for 65 percent to 70 percent of car rental activity statewide. Based on statewide collections last year, we estimate that this tax hike could generate about \$35 million for the MTA in 2010.

Auto License Fee: The fee on automobile licenses will rise in the MTA region by \$1 for every six months, or \$2 annually. As licenses generally cover an eight-year period, most people will incur an additional \$16 fee. According to the State DMV, license renewals have a peak-to-trough cycle over an eight-year period. The DMV expects 1.75 million automobile licenses to be renewed within the MTA region in 2010—a peak year—which could generate \$28 million in 2010.

Impact on the Operating Budget

The MTA’s February 2009 financial plan (the “February Plan”) projected a small surplus of \$49 million for 2009 and a budget gap of \$290 million for 2010, based on the assumptions that fare and toll yields would rise by 23 percent and draconian service cuts would be implemented unless the State approved new sources of funding.

In April, the MTA staff revised downward their forecasts for real estate transaction tax collections, utilization, and State-dedicated transit taxes due to the weakening economy. These adverse developments widened the budget gaps by about \$675 million in each year, to \$621 million in 2009 and to more than \$1 billion in 2010 (see Figure 3).

As part of the negotiations that led to new State assistance, the MTA agreed to limit its fare and toll increase to 10 percent and to rescind most planned service reductions. When these factors are taken into account, we project small deficits in 2009 and 2010, which could be mitigated by drawing down the \$75 million annual general reserve. While the MTA could generate significant surpluses in 2011 and 2012, the amounts will depend on the economic recovery, the realization of planned savings, and whether fares and tolls rise by 7.5 percent in 2011 as planned. Surpluses could be used to build reserves or fund the capital program on a cash basis.

Figure 3
Baseline Forecast
(in millions)

	2009	2010
February MTA Forecast	\$ 49	\$(290)
April Adjustments		
Real Estate Taxes	(336)	(280)
Utilization	(221)	(334)
State-Dedicated Transit Taxes	(113)	(69)
Prior-Year Carryover	<u>NA</u>	<u>(49)</u>
	(670)	(732)
April MTA Revisions	(621)	(1,022)
Impact of State Actions		
<i>Rescind:</i>		
Fare and Toll Yields (23%)	(670)	(1,147)
Long Island Bus Subsidy Cut	(9)	(7)
Service Reductions	(119)	(223)
<i>Add:</i>		
New State Assistance	1,081	1,855
Cost of Mobility Tax	(12)	(16)
Fare and Toll Yields (10%)	250	500
June OSC Forecast	\$(100)	\$(60)

Sources: Metropolitan Transportation Authority; OSC

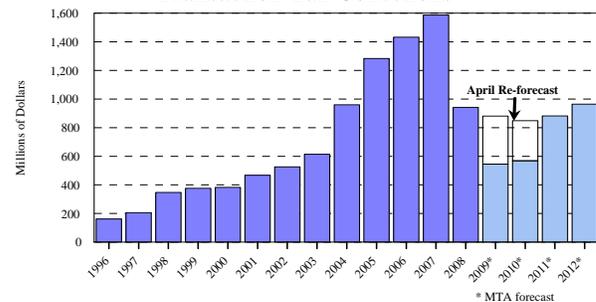
OSDC Risk Assessment

As discussed below, our review has disclosed a number of issues that could potentially affect the MTA’s cash position.

Real Estate Transaction Taxes

Real estate transaction tax collections peaked at nearly \$1.6 billion in 2007, but since then collections have plummeted (see Figure 4). Last year, the MTA collected \$942 million—a drop of nearly 41 percent—and the MTA’s February Plan anticipated \$881 million in 2009 and \$849 million in 2010. In April, the MTA lowered its forecasts by \$336 million in 2009 and \$280 million in 2010. Collections are more than \$200 million short of target through May, and the annual shortfall could exceed \$450 million—\$125 million more than the MTA’s revised forecast for 2009. Collections could be stronger in 2010, but much will depend on the pace of the economic recovery and the availability of financing for commercial real estate transactions.

Figure 4
Annual Real Estate Transaction Tax Collections



Sources: Metropolitan Transportation Authority; OSC analysis

Utilization: Ridership on the MTA’s subways, buses, and commuter railroads rose by 3.4 percent in 2008 to reach the highest level in decades. The MTA’s February Plan predicted a 2.5 percent decline in 2009 followed by a small decline of 0.5 percent in 2010 as a result of the recession. In April 2009, the MTA predicted that ridership would fall more sharply—a drop of 7.2 percent in 2009 and 5.8 percent in 2010. Ridership was down by 2 percent through March, and although the rate may rise through the year as job losses mount—especially in Manhattan—ridership is unlikely to drop by 7 percent. If ridership declines by 4.5 percent in 2009 instead, fare collections could be higher by \$125 million.

State-Dedicated Transit Taxes: In April, the MTA lowered its expectations for State-dedicated transit tax collections by \$113 million in 2009 and by \$69 million in 2010 based on discussions with State Budget. The MTA now forecasts a very steep falloff in tax collections in 2009, which may be conservative given current collection trends.

Anticipated State and Federal Actions: The MTA proposed tightening the tax codes that relate to real estate transaction taxes, but this initiative, valued at \$50 million annually beginning in 2009, has not yet been approved by the State Legislature. Similarly, the MTA has proposed changes in federal law that would eliminate certain mandates for commuter railroad employees, but that initiative—which would save \$15 million in 2009 and \$62 million in 2010—has not yet been approved.

Agency Spending: The MTA is implementing cost-saving actions that are expected to generate \$227 million in 2009 and \$359 million in 2010, including \$97 million in savings from unspecified actions in 2010. In the past, the MTA has fallen short of target, and the operating agencies often identify new funding needs. In April, the Executive Director imposed a hiring freeze and took other actions that could generate savings beyond those reflected in the MTA’s budget forecasts.

Labor Savings: The MTA assumes that the Transport Workers Union (TWU) will agree to wage increases of 1.5 percent in 2009 and about 2 percent in subsequent years for savings of \$53 million in 2009 and more than \$80 million annually thereafter. The TWU is seeking annual wage increases of 4 percent, consistent with those granted to New York City’s employees. The MTA and the TWU are currently in binding arbitration.

Pension Contributions: Most employees of NYC Transit and MTA Bridges and Tunnels are members of the New York City Employees’ Retirement System, which lost 5.4 percent on its investments last year and is on track for a 20 percent loss in the current year. To make up for these shortfalls, contributions will have to rise faster than planned.

Energy Costs: These costs were more than \$20 million less than budgeted by the MTA through April, but oil prices have begun to rise.

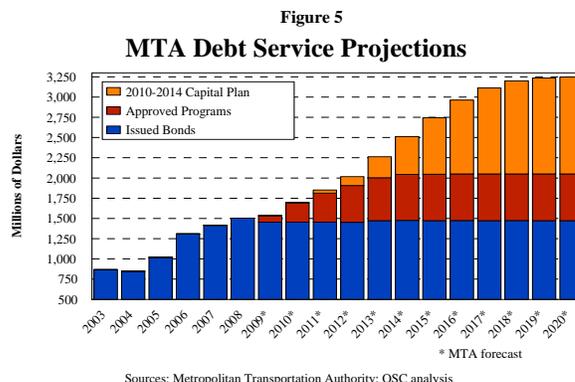
The Capital Program

In February 2008, during the debate over congestion pricing, the MTA proposed a five-year \$32 billion capital program to fund ongoing maintenance needs, complete existing expansion projects, and begin new expansion projects.

Since then, the MTA has acknowledged the need to curtail its plans as a result of cost overruns and funding constraints. The MTA is not required to make a formal capital program proposal for 2010-2014 until October, but so far has estimated that it needs about \$18.8 billion to continue restoring the transit system to a state of good repair, and another \$4.3 billion just to complete the East Side Access project and the first phase of the Second Avenue Subway project—a total of \$23 billion.

Even assuming a generous increase in federal aid and a pared-down program, the MTA may need as much as \$15 billion in additional resources, which the February Plan assumed would be addressed through the issuance of new money bonds. Under such a scenario, debt service would grow from \$1.5 billion in 2009 to nearly \$3.2 billion in 2020 (see Figure 5). Such a heavy reliance on debt would place increasing pressure on the operating budget, just as heavy borrowing in the past has contributed to the MTA’s current fiscal crisis.

The MTA intends to create a new bonding credit backed by the mobility tax to support \$6.8 billion in debt. Assuming an interest rate of 5 percent, we estimate that a borrowing of this size would consume, when fully phased in by 2020, \$440 million annually of the revenues expected to come from the mobility tax. While the revenue diverted from the operating budget would be small initially, the amount would rapidly grow.



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