The Impact of the World Trade Center Tragedy On The Metropolitan Transportation Authority

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Report 9-2002 December 2001

Highlights

- The WTC tragedy destroyed about 1,800 feet of the tunnel that serves the No. 1 and No. 9 subway lines, and damaged the N/R lines. The initial estimate of the cost of repair ($1.7 billion) has been cut in half.
- New capital needs for security, higher construction costs, and changes in planned projects could add $1.9 billion to the current five-year capital program.
- The MTA intends to rely on borrowed money to finance its capital program, greatly increasing debt service costs and making it difficult to finance successive capital programs.
- The MTA is vulnerable to an economic downturn because economically sensitive revenues, such as fares and taxes, fund 85 percent of its operations.
- Subway ridership in the Wall Street area was down by 3.8 percent in August 2001, compared with the prior year, because of the economic slowdown.
- Even before the WTC tragedy, regional tax revenue was expected to fall $101 million below the two-year estimates for 2001 and 2002. Since then, the MTA has lowered its estimates by another $163 million.
- TBTA toll collections are now expected to fall $89.5 million short of the two-year target, and new automobile restrictions may result in a long-term reduction in toll revenue.
- The slowing economy and the WTC tragedy increased the two-year operating gap to $881 million. The MTA expects to balance the budget with insurance proceeds, federal aid and other actions.
- The operating budgets for 2001 and 2002 were recently revised to reflect the impact of the WTC tragedy, but the MTA has no timetable for revising its estimates for 2003 and 2004. The budget gaps for 2003 and 2004 are likely to be significantly higher than currently forecast by the MTA.

On September 11, 2001, terrorists destroyed the World Trade Center (WTC), resulting in a massive loss of life, enormous property damage in lower Manhattan, and severe economic disruption in New York City and the nation. The shock waves are still being felt from the initial attack, and fears of bio-terrorism have heightened concerns over preparedness and security.

The Metropolitan Transportation Authority (MTA) was severely affected by the WTC tragedy. In New York City, it operates the subways and buses, the Queens Midtown Tunnel, the Brooklyn Battery Tunnel and the Triborough, Throgs Neck, Whitestone, and Verrazano bridges. It also operates the Long Island and Metro-North commuter railroads, which serve the Central Business District.

The MTA completed detailed preliminary estimates of the impact of the WTC tragedy on agency operations, and on its operating and capital budgets.

The collapse of the WTC resulted in substantial damage to the tunnel that serves the No. 1 and No. 9 subway lines beneath the WTC complex, along with its signals, communications, tunnel lighting and power facilities. In addition, a portion of the N and R subway lines sustained structural damage.

The initial estimate to repair damaged infrastructure – $1.7 billion – has been reduced to $855 million because the damage to the N and R subway lines was not as severe as first feared. Insurance proceeds and federal disaster assistance should cover most of the property losses related to the tragedy.

In October 2001, the MTA estimated that over a 15-month period it would incur $531 million in lost revenue and higher operating expenses because of the WTC tragedy (see table on next page). Almost half ($245 million) was attributed to lost revenues from bus, subway and railroad fares, and bridge and tunnel tolls. Roughly a quarter ($123 million) was related to the cost of debris removal, security, and structural assessments. The balance was related to an expected loss in economically sensitive dedicated tax revenue, reflecting an acceleration of an economic slowdown that was already taking place. Revenues from dedicated transit taxes account for 25 percent of the MTA's revenues.

Operating Budget Impact of the WTC Tragedy
Calendar Years 2001 and 2002
($ millions)

	Operating Revenues	Tax Revenues	Expenses	2 Year Total
MTA Headquarters	$ 0.0	$ 31.9	$ 20.6	$ 52.5
NYC Transit	99.6	130.7	95.1	325.4
TBTA	89.5	0.0	7.0	96.5
LIRR	38.7	0.0	.5	39.2
Metro-North	16.8	0.0	.1	16.9
LI Bus	0.0	0.0	.1	0.1
Total	**$244.6**	**$162.6**	**$123.4**	**$530.6**

Source: Metropolitan Transportation Authority

Most of these losses, with the possible exception of lost dedicated tax revenue ($163 million), may be covered by insurance. The MTA's insurance policy expired October 31, 2001 and the cost of future policies is expected to be substantially greater for less coverage.

The MTA also identified nearly $1.9 billion in new capital needs related to the WTC tragedy, of which nearly 75 percent is attributed to New York City Transit. More than $1 billion would be spent to improve security, ventilation and access; $592 million for higher construction costs during the capital plan period, as the demand for labor and material outstrips the supply in the region; and another $200 million to integrate subway and station reconstruction projects with efforts to rebuild the WTC complex, including PATH. The MTA will seek federal assistance to help fund security improvements, but is committed to making them regardless of the level of federal funding that is made available.

Operating Revenues

According to the MTA's October estimates, operating revenues were projected to fall $245 million short of target for 2001 and 2002 because of the WTC tragedy. Bridge and tunnel toll revenue were projected to fall short by $89.5 million, reflecting bridge and tunnel closures, and new vehicle occupancy restrictions. New York City Transit and the Long Island and Metro-North railroads were projected operating revenue shortfalls of $99.6 million, $38.7 million, and $16.8 million, respectively. Fare and toll revenue account for more than 60 percent of MTA revenues.

Subway Ridership

During the past few years, subway ridership has been growing by about 7 percent annually, but in recent months the rate of growth has been slowing due to the weakening economy. Even before September 11th, weekday ridership in the Wall Street area was down by 3.8 percent in August 2001, compared with the same month last year, and down by 0.1 percent in the Manhattan central business district (see table). Overall, ridership grew by only 2.3 percent in August, compared with the prior year.

Average Weekday Subway Ridership
Percent Change Compared With Prior Year

	Feb-01	May-01	Jun-01	Jul-01	Aug-01
Midtown	6.9%	3.6%	2.1%	1.9%	-0.2%
Franklin to 28 St	3.7%	2.2%	2.3%	2.9%	0.4%
Downtown	4.7%	2.0%	2.9%	1.5%	0.3%
Wall St. Area	5.8%	1.4%	-1.0%	-1.3%	-3.8%
Manhattan CBD	**5.6%**	**2.9%**	**2.1%**	**2.0%**	**-0.1%**
Systemwide	**5.4%**	**4.0%**	**4.0%**	**4.3%**	**2.3%**

The correlation between New York City employment and subway ridership is long established. The loss of office space and jobs in lower Manhattan, and the deteriorating economy will adversely affect subway ridership. In September 2001, the unemployment rate rose to 6.2 percent, an increase of 25 percent from the June 2001 level. During the 1970s, average weekday subway ridership declined by 1.2 million riders as the City experienced a long recession. While most economists currently believe the recession will be short, the war against terrorism adds further uncertainty.

Commuter Railroads

Ridership on the commuter railroads continues to grow, but there are worrisome signs. Through the first eight months of the year, ridership on the LIRR and Metro-North railroads grew by 2.5 percent and 3.1 percent, respectively, much slower when compared with the prior year. LIRR ridership was down by 3.7 percent in September 2001, compared with a year earlier, and was still down by 2 percent in October.

Bridges and Tunnels

Surplus bridge and tunnel toll revenue subsidize the operating budgets of New York City Transit and the commuter rail lines, and help finance the MTA capital program. Even before September 11th, toll revenue at the MTA's major bridges and tunnels was down by 1.3 percent through August 2001 compared with the same period last year. Toll revenue at the Triborough and Throgs Neck bridges was down by 2.7 percent and 3.4 percent, respectively, and toll revenue was down 2 percent at the Brooklyn-Battery Tunnel. The WTC tragedy resulted in sporadic bridge and tunnel closures, particularly the Brooklyn-Battery Tunnel. In addition, carpooling and other restrictions on vehicular traffic have also hurt toll collections and it remains to be seen whether such restrictions will be made permanent.

Dedicated Transit Taxes

The MTA's finances have become increasingly dependent on revenues from a variety of sales, business, real estate and petroleum-related taxes.

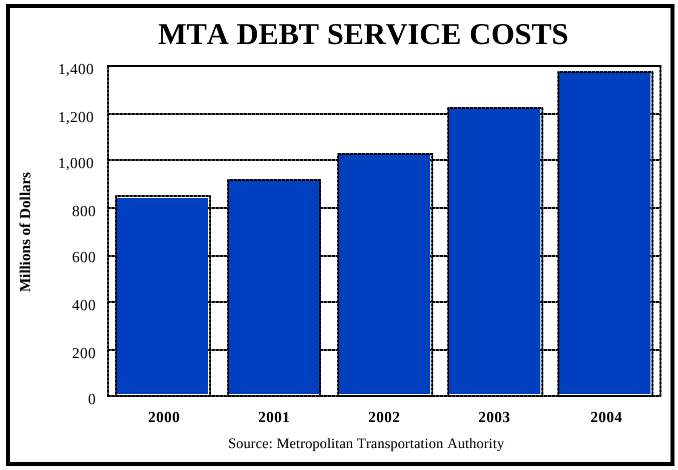
In October, the MTA projected a net revenue shortfall of nearly $264 million for calendar years 2001 and 2002. About $101 million of the shortfall was attributed by the MTA to the slowing economy prior to September 11th and the remaining $163 million was attributed to events related to the WTC tragedy. Although the MTA has not revised its estimates for fiscal years 2003 and 2004, it is quite possible it will experience revenue shortfalls in those years as well.

Capital Program

The MTA is relying to an unprecedented degree on borrowed money to finance its $17.1 billion five-year capital program for 2000-2004. Despite a large increase in federal funding, the contributions from New York State and New York City are small by historical standards. Consequently, the MTA plans to borrow $9.3 billion to finance the capital program, almost twice the amount borrowed for the prior program.

In order to finance its capital program and to help balance its operating budget, the MTA intends to restructure $13.7 billion in outstanding debt. The restructuring initiative will take advantage of lower interest rates and free up reserve funds, but will also push debt out into the future. The MTA believes that the restructuring initiative could also offset the $1.6 billion shortfall in the capital financing program that resulted when statewide voters rejected the Transportation Bond Act in November 2000 that would have benefited mass transit and highway projects.

The combination of a heavy reliance on borrowing to finance the capital program and the restructuring initiative will increase debt service costs from $846 million in 2000 to nearly $1.4 billion by 2004 (see graph). The debt service burden, the portion of revenues needed to pay debt service, would rise from 14 percent in 2000 to nearly 21 percent by 2004, placing increasing pressure on the operating budget, possibly resulting in fare hikes and/or service cuts.



These estimates do not reflect debt service costs for projects associated with the WTC tragedy or potential revenue losses from the economic slowdown. They also do not reflect the potential for debt service savings from lower interest rates or a recent proposal by Senators Schumer and Clinton that would permit outstanding bonds to be refinanced more than once.

Despite repeated requests, the MTA has not made available estimates of the long-term debt service costs associated with its capital financing program. As a result, concerns that the MTA may saddle itself with a high debt burden and compromise its ability to maintain service levels or keep its capital assets in a state of good repair have not been relieved.

The State Comptroller has cautioned that the current financing program also could compromise the MTA's ability to fund successive capital programs. For the first time in decades, the MTA is undertaking large expansion projects, such as extending the LIRR to Grand Central Terminal (East Side Access) and the Second Avenue Subway. These projects are important to the economic vitality of the region, but will take 10 or more years to complete. The Second Avenue Subway alone is expected to cost $15 billion over the next 15 years.

Impact on the Operating Budget

The WTC tragedy adversely affected the MTA's operating budget, both in the short-term and long-term. The MTA's finances, however, were deteriorating even before September 11th.

In March 2001, the MTA projected a two-year budget gap of $199 million for 2001 and 2002. Even before September 11th, the MTA had lowered its forecast for dedicated tax revenues and had identified new spending needs, widening the projected two-year budget gap by about $151 million. Taken together with the preliminary impact of the WTC tragedy, which could adversely affect the MTA by up to $531 million, the two-year gap grew to $881 million (see table below).

Projected Budget Gaps Calendar Years 2001 and 2002 ($ millions)	
Gap as of March 2001	**$(199)**
Post-March Developments	
Shortfall in Dedicated Tax Receipts	(101)
Higher Expenses	(83)
All Other (net)	33
Impact of WTC Attack	(531)
Current Gap Projection	**$(881)**

The MTA recently released revised budget estimates for 2001 and 2002, but these estimates lack sufficient detail to reconcile with previous budget projections. The MTA now plans to release a detailed budget for 2002 in December 2001. The MTA is confident that it will be able to balance the 2002 budget without a fare hike or cuts in service because insurance proceeds and federal assistance are expected to cover most of the losses related to the WTC tragedy; interest rates are less than previously projected; and because the MTA intends to implement cost-saving actions.

The outlook for 2003 and 2004, however, is less optimistic and will depend on the depth of the recession and the speed of the recovery. In March 2001, the MTA projected budget gaps of $492 million in 2003 and $619 million in 2004. These estimates assumed that operating (e.g., fare and toll revenue) and dedicated tax revenues would continue to grow in 2003 and 2004, but this assumption may no longer be reasonable in light of the September 11th.

The MTA had assumed that dedicated transit tax revenues would grow at an annual rate of 4.6 percent in 2003 and 2004. This estimate assumed that the economy would continue to grow; it did not anticipate a recession. It also assumed that the State would increase the amount of tax revenues dedicated to mass transit. Two years ago, the State agreed to provide the MTA with an additional $802 million in dedicated transit tax revenue over a five-year period. In the first two years, the MTA received a total of $173 million, but the balance may be at risk given the revenue shortfalls projected by the Governor for the State budget. In addition, fare and toll revenues are not likely to grow as planned and, under the circumstances, may even decline.

If operating and tax revenues hold to the 2002 level rather than growing as projected by the MTA, the gaps would widen by $435 million in 2003 and $562 million in 2004. Under this scenario, the gaps would total $927 million in 2003 and $1.2 billion in 2004, nearly twice the MTA's estimate. A gap of this magnitude would require a 50-cent increase in subway and bus fares, and higher fares on the commuter railroads, unless the MTA acts quickly to implement alternative actions.

The MTA acknowledges that it faces significant new budget risks, ranging from revenue shortfalls to a worsening economy, but it has no timetable for revising its four-year financ ial plan. In contrast, New York City, which was more severely affected by the WTC tragedy than the MTA, revised its four-year financial plan.

Recommendations

✓ Coordinate the MTA's rebuilding efforts in lower Manhattan with the Port Authority of New York and New Jersey, and with the City of New York. The Governor's new Lower Manhattan Redevelopment Corporation must ensure that all economic development and rebuilding efforts are coordinated.

✓ Accelerate plans for commuter rail access to lower Manhattan to preserve the option of creating an intermodal link with a reconstructed PATH station.

✓ Revise the current five-year capital program to take into account newly identified capital needs associated with the WTC tragedy.

✓ Expedite planning for the next five-year capital program, which is scheduled to begin in 2005. The MTA is about to enter the third year of the current five-year capital program.

✓ Update the financial plan for calendar years 2003 and 2004, and prepare a detailed gap-closing program so counterproductive fare hikes and service cuts can be avoided.

✓ Release long-term debt service estimates to demonstrate that the debt restructuring initiative will not compromise the MTA's ability to finance successive capital programs, or saddle it with a high debt burden at the expense of services.

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