



# Financial Outlook for the Metropolitan Transportation Authority

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## Highlights

- Employment in the 12-county MTA service district has increased by 241,900 jobs since December 2009, which has boosted the use of mass transit.
- Fares and tolls are rising much faster than inflation. By 2015, fares and tolls will have increased by 35 percent since 2007.
- The July Plan allocates significant amounts of operating funds to increase reserves and to fund the capital program on a pay-as-you-go basis.
- Nearly all (88 percent) of the revenues generated by the fare and toll increase planned for 2013 would be needed to fund pay-as-you-go capital financing and an increase in debt service.
- While pension contributions are projected to grow more slowly during the financial plan period than they have in recent years, health and welfare costs are projected to rise by 42 percent.
- Overtime exceeded the MTA's initial budget estimate by \$75 million in 2011. The July Plan assumes that overtime will be \$25 million higher in 2012 than projected at the start of the year.
- Revenue from dedicated taxes is projected to grow at an average annual rate of 5 percent, driven by taxes on real estate transactions.
- The MTA is implementing management actions that will reduce the cost of the paratransit program by \$454 million by 2016. These actions account for 40 percent of the savings from all management actions (\$1.1 billion).
- Debt service as a percent of total revenue could rise from 15.9 percent in 2011 to 22 percent in 2018. (Even with biennial fare and toll increases of 7 percent, the burden could reach 19.8 percent by 2018.)
- The MTA could require at least \$20 billion for its 2015-2019 capital program to maintain the existing system in a state of good repair, but sources of funding have not yet been identified.

On July 25, 2012, the Metropolitan Transportation Authority (MTA) released a revised four-year financial plan ("the July Plan"). A review finds that the MTA's finances have improved appreciably over the past two years.

The use of mass transit has resumed growing as a result of strong regional job gains, with ridership growing faster in 2012 than the MTA had planned. The MTA also has benefited from lower energy costs and low interest rates. Further, tax collections are projected to grow faster than inflation through 2016.

To help stabilize its finances, the MTA has been implementing management actions that are expected to generate annual recurring savings of \$1.1 billion by 2016. It also is seeking a three-year, no-cost labor agreement with its unions.

The MTA raised fares and tolls by 7.5 percent in December 2010, and plans to raise them by 14 percent over the next three years (three times faster than the expected inflation rate). While the MTA has taken steps to hold down costs, more needs to be done to lessen the burden on riders.

The MTA now projects small year-end cash balances in 2012 and 2013, and manageable budget gaps for 2014 through 2016. These estimates, however, assume successful implementation of its gap-closing program and future fare and toll increases.

Given its improved financial position, the MTA plans to delay, by two months, fare and toll increases planned for 2013 and 2015. It also plans to restore some of the services cut in 2010 and enhance other transit services. Savings from debt refinancings and a low-cost federal loan for the current capital program, if approved, would provide the MTA with additional flexibility in the years ahead.

Despite these favorable developments, the MTA still faces challenges, including the pace of the economic recovery, litigation challenging the constitutionality of the payroll mobility tax, the next round of collective bargaining and funding for the next capital program.

## Background

In May 2009, the State enacted new taxes (e.g., the payroll mobility tax) and fees, and dedicated the revenues to the MTA to help address its long-term structural imbalance. For its part, the MTA raised fare and toll revenue by 10 percent, and committed to raise fare and toll revenue by 7.5 percent in both 2011 and 2013 as well as to reduce future costs.

Shortly thereafter, the plan to put the MTA on sound financial footing began to unravel as collections from the new payroll tax fell far short of targets; real estate tax collections were weaker than expected; labor costs rose because of an arbitration award; and New York State cut funding to help balance its own budget. Given its precarious financial situation, the MTA issued Revenue Anticipation Notes in 2009 and 2010 in order to meet its financial obligations.

To stabilize its finances, the MTA embarked on a comprehensive gap-closing program in 2010. This program included a series of fare and toll increases, service reductions, a proposed three-year wage freeze and management improvements. These actions have allowed the MTA to balance its budget without additional taxpayer assistance.

## The July Financial Plan

The July Plan, which covers the 2012-2016 period, continues the MTA's prior commitment to reduce planned spending and to raise fares and tolls every other year. The July Plan also reflects a number of favorable developments, including higher-than-planned fare revenue, lower-than-planned energy and health insurance costs, and debt service savings from lower interest rates.

In light of its improved financial position, the MTA plans to delay by two months planned fare and toll increases in 2013 and 2015. It has also allocated \$29.5 million annually, beginning in 2013, to restore some of the services that were cut in 2010 and to provide new or enhanced services.

The MTA projects baseline budget gaps of \$487 million in 2013, \$759 million in 2014, \$1.1 billion in 2015 and \$1.4 billion in 2016. These estimates reflect the MTA's heavy reliance on debt to finance its capital program, and the continued growth in fringe benefit costs.

To close the 2013 budget gap and to narrow the out-year gaps, the MTA has proposed a gap-closing program (see Figure 1). Fare and toll increases account for 82 percent of the resources over the next four years; 18 percent would come from additional management actions. If successfully implemented, the MTA projects a small year-end cash balance in 2013 and relatively small budget gaps in subsequent years.

**Figure 1**  
**MTA Gap-Closing Program**  
(in millions)

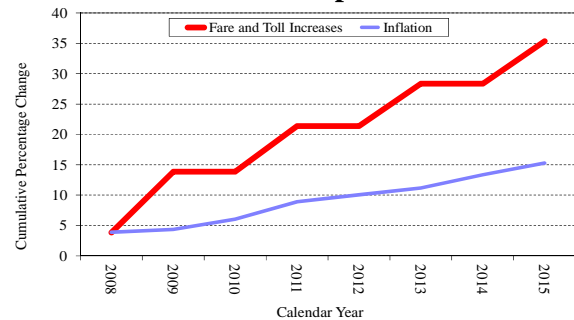
	2013	2014	2015	2016
<b>Baseline Budget Gaps</b>	<b>\$(487)</b>	<b>\$(759)</b>	<b>\$(1,080)</b>	<b>\$(1,436)</b>
<b>Gap-Closing Actions:</b>				
<b>Fare &amp; Toll Hikes</b>	<b>382</b>	<b>465</b>	<b>897</b>	<b>991</b>
<b>Management Actions</b>				
Paratransit Program	31	46	96	96
Fare Evasion	22	22	22	22
MetroCard Green Fee	20	20	20	20
Unspecified	30	30	30	75
<b>Subtotal</b>	<b>103</b>	<b>118</b>	<b>168</b>	<b>213</b>
Prior Year Carry-Over	47	46	---	---
<b>Net Surplus/Gap</b>	<b>\$ 46</b>	<b>\$(129)</b>	<b>\$( 14)</b>	<b>\$( 231)</b>

Source: Metropolitan Transportation Authority

## Fare and Toll Increases

Since 2007, fare and toll increases have been rising faster than inflation (see Figure 2). The MTA has raised fares and tolls by 21.4 percent since 2007, and proposes to raise them by another 14 percent in 2013 and 2015 (almost three times the projected inflation rate). If the MTA raises fares and tolls as planned, by 2015 fares and tolls will have increased by 35 percent since 2007.

**Figure 2**  
**Cumulative Change in Fare and Toll Yields Since 2007 Compared to Inflation**



Sources: Metropolitan Transportation Authority; OSC analysis

**Management Actions**

The MTA plans to implement new management actions to generate \$103 million in 2013, rising to \$213 million by 2016. As discussed later in this report, much of the savings (\$31 million in 2013, rising to \$96 million in 2015) is expected to come from the paratransit program, which provides transit services to disabled and elderly commuters who are unable to use bus or subway services.

The MTA also expects to generate \$22 million in additional revenue beginning in 2013 by reducing fare evasion on its buses, and \$20 million annually from a new \$1.00 charge for each new MetroCard, intended as an incentive for customers to refill cards rather than buy new ones. The MTA also expects to save \$30 million in 2013, increasing to \$75 million in 2016, from still-unspecified actions.

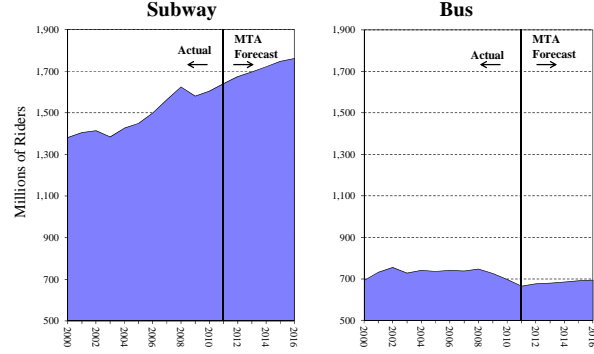
**Utilization Trends**

The use of mass transit services operated by the MTA (i.e., subway, bus, and commuter railroads) declined by 2.8 percent in 2009, and remained essentially flat in 2010 and 2011 as a result of the recession and budget cuts that reduced services. Even with this decline, utilization remains high by historical standards. The July Plan assumes that the use of mass transit will increase by 2 percent in 2012 and by about 1 percent annually thereafter.

**New York City Transit:** Subway ridership fell by 44 million riders in 2009 (see Figure 3), but since then ridership has recovered, increasing by 60 million riders through 2011 and reaching its highest level (1.64 billion) since 1950. The July Plan assumes ridership will grow by 34 million riders in 2012; as of July 2012, ridership was already up by 31 million riders over last year (3.3 percent). The July Plan further assumes that subway ridership will grow by 22 million in 2013 as the economy continues to improve.

Ridership on buses operated by New York City Transit fell by 82 million riders (11 percent) between 2008 and 2011 (see Figure 3), to its lowest level since 1999, as a result of the recession and the elimination and shortening of certain routes. The July Plan assumes ridership will increase by 11 million riders in 2012; as of July 2012, ridership was up by 5 million riders over last year. (Ridership on buses operated by MTA Bus rose by 3.5 percent through June 2012.)

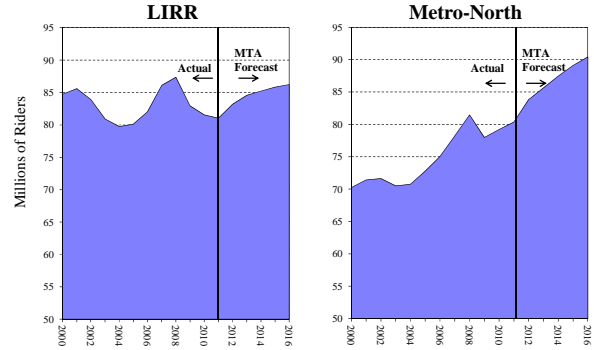
**Figure 3  
New York City Transit Ridership**



Sources: Metropolitan Transportation Authority; OSC analysis

**Long Island Rail Road (LIRR):** The recession took a heavy toll on LIRR ridership. After reaching a historic peak in 2008 (87.4 million), ridership fell by 6.3 million riders (7.2 percent) over the ensuing three years (see Figure 4). Ridership was 4.5 percent higher through the first seven months of 2012 compared with one year earlier, in part as a result of the mild winter. Even though ridership is projected to increase by 2.7 percent in all of 2012 (2.1 million riders) and to continue to grow in subsequent years, ridership would remain below the 2008 peak throughout the financial plan period.

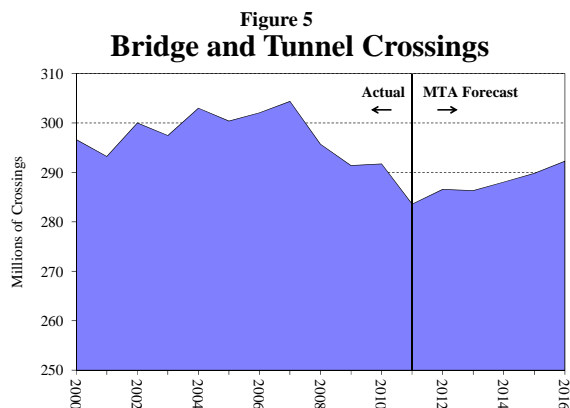
**Figure 4  
Commuter Railroad Ridership**



Sources: Metropolitan Transportation Authority; OSC analysis

**Metro-North Railroad:** After peaking in 2008, ridership fell by 4.3 percent in 2009. In 2010 and 2011, however, ridership increased by a total of 3.1 percent to 80.4 million. Ridership is expected to rise by another 4.3 percent in 2012, reaching a new all-time high of 83.8 million riders, reflecting the improved regional economy. Ridership is expected to continue to grow at about 2 percent annually, to 90.4 million riders in 2016.

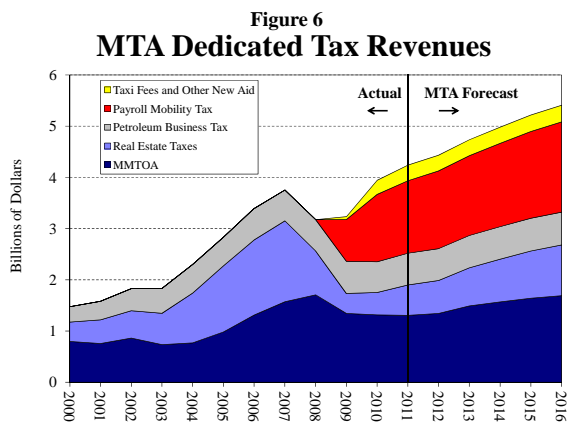
**Bridge and Tunnel Crossings:** Crossings declined by 21 million vehicles between 2007 and 2011 (6.9 percent), mostly as a result of rising gas prices and three toll increases (see Figure 5). Although crossings were higher than expected in January and February 2012 as a result of the mild winter, they were lower than planned in subsequent months as a result of higher gasoline prices. The July Plan assumes that crossings will remain flat during the balance of 2012 and decline slightly in 2013, but then increase by 1 percent annually.



Sources: Metropolitan Transportation Authority; OSC analysis

### Trends in Dedicated Transit Taxes

Since 1980, New York State has imposed taxes and fees on both a regional and a statewide basis to benefit mass transit. These taxes include sales taxes, payroll mobility taxes, real estate-related taxes, petroleum business taxes, and motor vehicle fees. Revenues from taxes and fees are projected to pick up with the improving economy. The July Plan assumes that tax revenue will total nearly \$4.7 billion in 2013 (see Figure 6), an increase of 6.8 percent, and will reach \$5.4 billion by 2016.



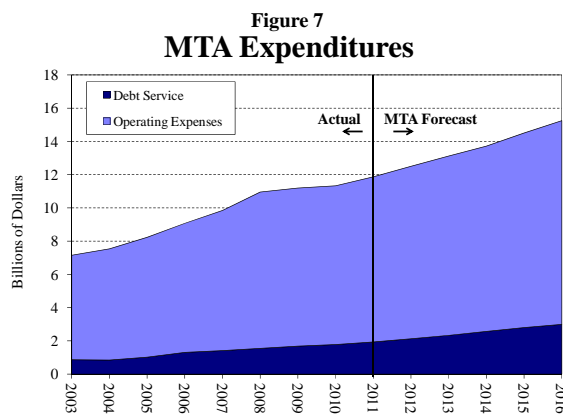
Sources: Metropolitan Transportation Authority; OSC analysis

In December 2011, the State lowered the payroll mobility tax (PMT) for most small-business owners, and eliminated the tax for employers with payrolls under \$312,500 in any quarter and for self-employed individuals with net earnings of \$50,000 or less for the tax year. The State also eliminated the tax for private schools and public school districts. The State budgeted \$250 million in 2012 and \$310 million in 2013 to hold the MTA harmless from the changes in tax policy. The July Plan assumes the State will continue to provide funding in future budgets to offset the impact of the changes. The PMT, the MTA's largest source of tax revenue, is expected to generate \$1.5 billion in 2012 and nearly \$1.8 billion by 2016.

The MTA also receives revenue from taxes on commercial and residential real estate transactions in the MTA region. These taxes contributed \$1.6 billion to the MTA at its peak in 2007, but declined to less than \$400 million in 2009 as the real estate market collapsed. While the residential real estate market remains weak, the commercial market has continued to improve. Total revenue is projected to reach \$642 million in 2012, which is 65 percent higher than three years earlier. The July Plan assumes that real estate-related tax collections will increase by 54 percent over the next four years, to almost \$1 billion by 2016.

### Expenditure Trends

MTA expenditures grew rapidly during calendar years 2003 through 2008 (see Figure 7), but then slowed as a result of budget cuts. The July Plan assumes spending will grow at an average annual rate of 5.2 percent during the financial plan period despite an assumed three-year wage freeze.



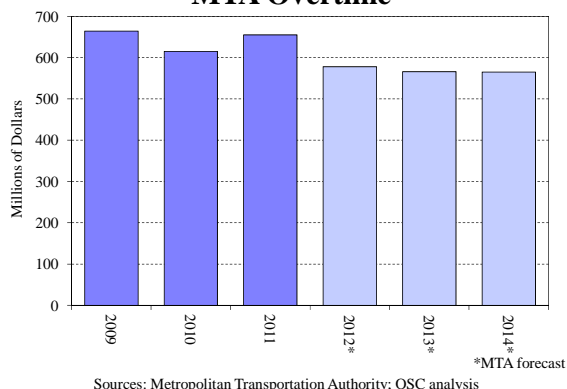
Sources: Metropolitan Transportation Authority; OSC analysis

**Salaries and Wages:** Salaries and wages, which account for 38 percent of the MTA’s budget, are expected to remain relatively flat during calendar years 2012 through 2014, reflecting the three-year wage freeze proposed by the MTA for represented employees. (The MTA has implemented a three-year wage freeze for unrepresented employees.) The July Plan assumes that wages for all employees will increase by 1.9 percent in both 2015 and 2016.

All of the MTA’s labor agreements with its unionized employees have expired. The labor contract between the Transport Workers Union (TWU), which represents about half of the MTA’s workforce, expired on January 15, 2012. The July Plan assumes any wage increases would be funded through productivity improvements, increased employee contributions toward the cost of fringe benefits, or other concessions. The TWU is seeking annual wage increases without givebacks.

As shown in Figure 8, overtime costs grew steadily and peaked in 2009 at \$664 million. In 2010, the MTA began a concerted effort to reduce overtime costs. While those efforts helped reduce overtime by \$49 million (8 percent) that year, the MTA experienced setbacks in 2011 from heavy winter snowstorms, a shortage of operational and maintenance personnel as a result of budget cuts, and Tropical Storm Irene. Overtime in 2011 reached \$655 million, which was \$75 million more than anticipated in that year’s adopted budget and only \$9 million less than the 2009 record.

**Figure 8**  
**MTA Overtime**



The MTA had assumed that overtime would decline to \$553 million in 2012, but that target will not be met. According to the MTA, maintenance needs and employee vacancies were addressed through unplanned overtime. As a result, the July Plan assumes that overtime will total \$578 million in 2012, which is \$25 million higher than the MTA projected at the beginning of the year. The MTA assumes that overtime will decline in subsequent years to about \$565 million.

**Health and Welfare:** These costs cover employee health insurance and other benefits, such as dental, vision, disability and life insurance. Even though health insurance premiums are projected to grow more slowly than in the MTA’s February 2012 financial plan (“the February Plan”), health and welfare costs are still projected to grow by 42 percent during the financial plan period, reaching \$1.2 billion by 2016. The MTA’s estimates do not anticipate any labor concessions.

**Pension Contributions:** About 60 percent of the MTA’s employees are members of the New York City Employees’ Retirement System (NYCERS). Most of the rest are members of the MTA Defined Benefit Plan, the Manhattan and Bronx Surface Transit Authority (MaBSToA) Pension Plan or the LIRR Pension Plan. Fewer than 2 percent are members of the New York State and Local Retirement System. Pension contributions have grown relatively rapidly in recent years because investment earnings have fallen short of expectations, but the July Plan assumes that contributions will rise more slowly during the financial plan period. Pension contributions are projected to rise from \$1.3 billion in 2012 to nearly \$1.5 billion by 2016.

**OPEBs:** The MTA funds post-employment benefits other than pensions (OPEBs) on a pay-as-you-go basis. Such costs are projected to rise from \$426 million in 2012 to \$608 million in 2016, an increase of 43 percent. In 2007, the MTA implemented Government Accounting Standards Board Statement No. 45, which requires state and local government entities to disclose in their financial statements the actuarial cost of accrued liabilities for OPEBs. The MTA’s accrued liability is estimated at \$17.8 billion. If funded on an actuarial basis, the required contribution would have totaled \$2.4 billion in 2011.

**Paratransit Services:** In recent years, the MTA has taken a number of steps to slow the growth of the paratransit program. The MTA is expanding the use of less expensive taxis and livery cars, and has tightened eligibility standards. The MTA also plans to offer free MetroCards to encourage certain paratransit-eligible customers to use subways and buses instead of more costly paratransit services. These actions are expected to generate \$454 million in savings by 2016, but the cost of the program is still projected to grow by 43 percent to \$549 million over the next four years as a result of projected increases in utilization.

**Energy:** These costs are expected to grow more slowly than projected in the February Plan because of lower oil and natural gas prices. Nevertheless, energy costs are expected to rise from \$740 million in 2011 to \$953 million in 2016, an increase of 29 percent, as a result of projected increases in electricity costs.

### Financing the Capital Program

The transportation system operated by the MTA has improved greatly since 1982 (when the system was on the verge of collapse) as the result of a capital investment of \$90 billion through 2011. Despite this progress, many parts of the system are still in need of repair and modernization.

In August 2009, the MTA proposed a \$28.1 billion capital program for 2010-2014 to continue the restoration and modernization of the existing system (\$22.3 billion), and to complete the East Side Access (ESA) project and the first phase of the Second Avenue Subway (\$5.7 billion). The capital program was initially vetoed by the New York State Capital Program Review Board (CPRB), but was later approved after the MTA cut back spending by \$1.8 billion to reflect a more realistic level of federal funding for the first two years. The remaining three years of the capital program had a funding gap of \$9.9 billion.

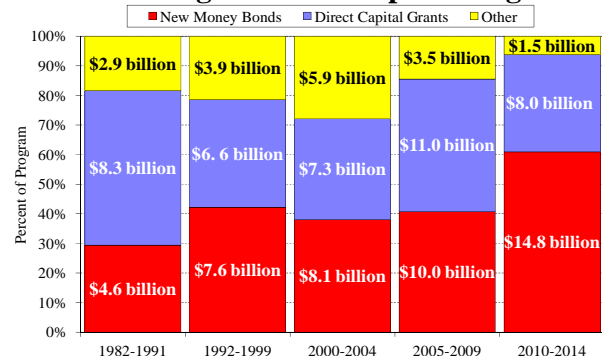
The MTA had been looking to its funding partners to fill the funding gap, but those partners were contending with their own fiscal challenges due to the recession. While the State has agreed to the MTA's request for \$770 million to support the capital program, New York City has yet to agree to the MTA's proposal that it increase its contribution by \$250 million to \$795 million.

In July 2011, with few options available, the MTA released a preliminary financing strategy that called for reducing the capital program by another \$2 billion. Nearly all of the reductions were concentrated in maintenance and modernization, but the MTA hopes to mitigate any adverse impact by using its capital resources more efficiently. The capital strategy also called for the MTA to increase planned borrowing to \$14.8 billion—the largest borrowing program in its history.

In prior financial plans, the MTA had allocated \$1.3 billion in operating resources through 2016 for pay-as-you-go (PAYGO) capital financing to reduce the cost of the capital program, but the MTA has now redirected most of those resources to fund debt service resulting from increased borrowing for the capital program. The July Plan still includes \$430 million in operating resources for PAYGO.

As shown in Figure 9, the amount of borrowing needed to fund the MTA's capital program has increased with each new program. In addition, borrowing has accounted for an increasing share of the resources used to fund the capital program. For the 2010-2014 capital program, borrowing accounts for 60 percent of the total resources needed to fund the program, twice the share that borrowing accounted for during the first ten years of the MTA's capital program.

**Figure 9**  
**Financing the MTA Capital Program**



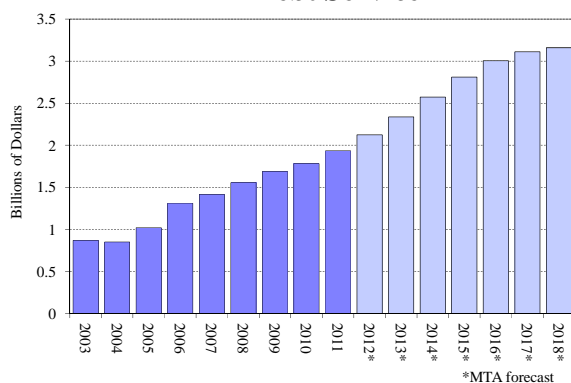
Sources: Metropolitan Transportation Authority; OSC analysis

According to the MTA, outstanding debt is expected to rise from \$31.8 billion at the end of 2012 to \$40 billion in 2016, even as \$3.7 billion in existing debt is retired. Such a heavy reliance on debt would burden the operating budget, just as heavy borrowing in the past has contributed to the MTA's current problems.

The MTA plans to issue \$12.6 billion of its own debt, and is seeking approval from the federal government for a \$3 billion low-interest loan under the Railroad Rehabilitation and Improvement Financing (RRIF) program to complete the ESA project.

Debt service would reach \$3 billion by 2016, which is 41 percent higher than in 2012 (see Figure 10). Debt service would continue to grow until leveling off at \$3.2 billion beginning in 2018. Without fare and toll increases, debt service as a percent of total revenue could rise from 15.9 percent in 2011 to 22 percent in 2018. (Even with biennial fare and toll increases of 7 percent, the burden could reach 19.8 percent by 2018.)

**Figure 10**  
**MTA Debt Service**



Sources: Metropolitan Transportation Authority; OSC analysis

These estimates, however, exclude the potential impact of the next capital program, which is scheduled to begin in 2015. The Office of the State Comptroller (OSC) estimates that the MTA could require at least \$20 billion over five years to fund its core capital program, which provides for a state of good repair, normal replacement and system improvements. Additional resources would be needed to begin the next phase of the Second Avenue Subway and other expansion projects.

The MTA has not yet identified sources of funding for the 2015-2019 capital program, but additional borrowing without new resources could further complicate the financial outlook. If the MTA were required to bond a similar share of the 2015-2019 capital program as it has in the current capital program, debt service could reach \$4.4 billion by 2024. Also, the MTA's ability to issue debt backed by dedicated transit taxes could be restricted by coverage requirements (i.e., the ratio of pledged revenues available to pay annual debt service).

## Reserves and Other Resources

The July Plan allocates operating resources of about \$700 million annually for purposes other than balancing the budget. While these purposes are fiscally prudent and will help the MTA's long-term financial position, the resources could be redirected by the MTA Board. The July Plan also includes a general reserve of \$62 million in 2012, which is scheduled to grow from \$130 million in 2013 to \$150 million by 2016.

The MTA created the MTA Retiree Welfare Benefits Trust to help fund the future cost of OPEBs. The balance in the trust is expected to grow from \$403 million in 2012 to \$664 million by 2016. In the past, the MTA has borrowed OPEB funds to help balance its budget and to help meet its cash flow needs.

In past years the MTA has also borrowed from its capital fund to help meet its cash flow needs. The MTA now plans to set aside \$500 million in operating resources over a five-year period beginning in 2012 so the capital resources can be used for their intended purpose.

The MTA has also set aside \$430 million in operating revenues through 2015 (\$691 million through 2020) to fund capital projects on a PAYGO basis. The July Plan leverages funds allocated to PAYGO in prior financial plans by using them to fund increased borrowing for the capital program. Last year, the MTA redirected \$79 million in PAYGO to offset a cut in State operating assistance.

## OSC Risk Assessment

The July Plan projects year-end cash surpluses of \$47 million in 2012 and \$46 million in 2013, and budget gaps of \$129 million in 2014, \$14 million in 2015 and \$231 million in 2016. These estimates assume successful implementation of the MTA's cost-reduction program, and fare and toll increases in 2013 and 2015. In addition to the pace of the economic recovery, our review has identified the following issues that could affect the MTA's financial plan.

**Payroll Mobility Tax:** A New York State Supreme Court recently ruled that the payroll mobility tax was unconstitutional because the affected counties did not approve a home rule message requesting that the State impose the tax.

The July Plan counts on \$1.5 billion in 2012 from this source, rising to nearly \$1.8 billion by 2016. Four similar Supreme Court cases have been dismissed; the MTA expects the case to be overturned on appeal.

**Labor Costs:** The July Plan assumes that the current round of collective bargaining will have no net cost to the MTA for the first three years, with the cost of any wage increases offset by union concessions. Wage increases at the projected inflation rate, without any offsetting savings, would increase costs by \$146 million in 2012, \$227 million in 2013, \$290 million in 2014 and \$307 million annually thereafter.

**Unspecified Cost-Reduction Actions:** The July Plan assumes savings of \$30 million in calendar years 2013 through 2015, as well as \$75 million in 2016, from actions that have not yet been specified. The MTA should identify the sources of these savings before the new fiscal year begins so that the impact and attainability of such actions can be evaluated.

**Debt Service:** The MTA could realize significant debt service savings during the financial plan period. The July Plan, for example, does not yet include the impact of the \$3 billion RRIF loan. If approved by the federal government, OSC estimates that debt service could be lower than assumed in the July Plan by as much as \$450 million because the program permits the deferral of principal and interest for up to six years, and because the interest rates charged by the federal government are substantially lower than rates available to the MTA in the public marketplace. The amount of savings will depend on federal approval and the structure of the loan.

The MTA is also in the process of refinancing \$5.4 billion in debt to take advantage of historically low interest rates. OSC estimates that these refinancings could save about \$75 million annually during the 2015-2032 period, depending on the structure of the refinancings and interest rates.

In addition, the July Plan assumes that new money debt issuances will carry an average interest rate of more than 5 percent in 2012, rising to more than 6 percent by 2016. The MTA's most recent new money issuance, however, carried an average

interest rate of 3.9 percent, and the Federal Reserve has indicated that rates will remain at historically low levels through at least mid-2015. If rates stay at current levels through 2014, OSC estimates that debt service could be lower than assumed in the July Plan by more than \$200 million.

Savings from refinancings and the RRIF loan would provide the MTA with added flexibility in the years ahead and could be used to help fund the next capital program, moderate future fare and toll increases, or provide a reserve against adverse developments. The MTA's Chief Financial Officer has informed us that he would like to use any debt service savings that materialize from refinancings and the RRIF loan to help fund the next capital program.

**Pension Contributions:** The July Plan does not fully reflect the changes recommended by the City Actuary in the assumptions and methodologies used to calculate contributions to the NYCERS. These changes have been approved by the board of trustees, and State approval is expected in the near future. These changes include a new actuarial methodology for calculating employer contributions, lowering the investment earnings assumption from 8 percent to 7 percent, updating demographic trends, and stretching out the amortization period for unfunded liabilities.

Our analysis indicates that these changes would cause the MTA's contribution to the NYCERS to grow more slowly than projected in the July Plan, particularly during calendar years 2014 through 2016. The savings, however, would be partly offset beginning in 2014 by higher contributions resulting from a shortfall last year in pension fund investment earnings.

The July Plan also does not reflect the impact of lower-cost pension plans approved by the State for employees hired after March 31, 2012. This change may generate some savings during the financial plan period.

**State Budget:** The MTA is dependent on the State for financial support. In past years, the State has reduced its support to the MTA as part of efforts to help balance its budget. The State's ability to provide support at the levels anticipated in the July Plan will depend on the pace of the recovery.