The Metropolitan Transportation Authority's Rising Debt Burden

Highlights

- Only one-third of the 1,186 projects in the MTA's 2015-2019 capital program were completed as of December 31, 2019.
- Construction had not begun on one-third of the projects, and one-third were still in construction.
- The MTA intends to issue bonds to finance $7.3 billion of the State's commitment to the 2015-2019 capital program. The debt service on these bonds could reach $470 million by 2028.
- The MTA's budget assumes that the State will appropriate additional funds each year, which will be used to pay the debt service on the bonds issued by the MTA to cover the State's contribution to the 2015-2019 program.
- The MTA's five-year capital program for 2020-2024 will be the largest in its history, costing $54.8 billion, 62 percent more than the 2015-2019 program.
- Capital commitments will need to average $13.5 billion annually, more than twice the average of the past five years, to implement the 2020-2024 and prior programs in five years.
- The amount of outstanding long-term debt issued by the MTA more than tripled between 2000 and 2019, reaching $35 billion, and is projected to approach $53 billion by 2023.
- Debt service is projected to reach $4.2 billion by 2023, an increase of 59 percent since 2019.
- The share of total revenue needed to pay debt service is projected to reach 22.5 percent by 2023, after averaging 16.1 percent over the past decade.
- The debt burden could grow even higher, depending on the timing of bonds to be issued by the MTA to fund its share of the 2020-2024 capital program.

Inadequate capital funding and poor management practices have contributed to a marked deterioration in the mass transit system operated by the Metropolitan Transportation Authority (MTA). In addition, the MTA's operating budget faces significant challenges.

New York State and New York City provided the MTA with an additional $1.2 billion over the past three years to stabilize the subway system and set the stage for improvement. The MTA reports that these efforts are paying off, with improved reliability after years of decline.

Last year, the State approved new sources of revenue that are expected to generate $25 billion for the MTA's 2020-2024 capital program, nearly half of its $54.8 billion cost. While the program promises significant improvements, the MTA must still answer questions regarding its financing plan and the cost and timelines of individual projects. It must also show that it can manage its capital resources more effectively, reducing the cost and time needed to complete projects.

To improve its fiscal outlook, the MTA raised fares and tolls by 4 percent in 2019 and plans to raise them by 4 percent again in 2021 and 2023. It also is implementing a plan to streamline administrative functions, improve outcomes and reduce costs. The MTA is counting on this transformation plan to save a total of $1.6 billion through 2023 without compromising service and safety. Despite these steps, it still projects a budget gap of $130 million in 2023.

By 2023, the MTA estimates that one-fifth of its revenue will be needed to pay debt service on bonds for the capital program, reducing budget flexibility, particularly in the event of a recession. The transformation plan is key to changing the way the MTA does business and reducing costs. If the MTA falls short, riders could be saddled with both a heavy debt burden and the potential for unplanned fare and toll hikes.

2020-2024 Capital Program

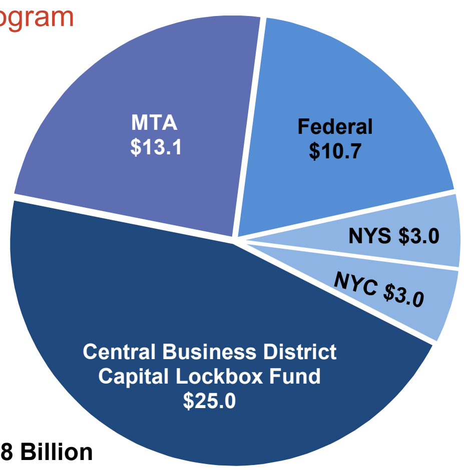
In September 2019, the MTA board approved a proposed capital program for 2020-2024 totaling $54.8 billion, by far the largest program in its history. On October 1, 2019, the MTA submitted the program to the Capital Program Review Board (CPRB) for approval. The program was deemed approved on January 1, 2020, since the CPRB did not act within 90 days.

The MTA is moving forward with the 2020-2024 capital program despite many uncertainties. For example, it has not yet released detailed cost estimates, capital commitments or completion timelines for individual projects. In addition, the financing program is not yet in place.

It also remains to be seen whether the MTA can effectively manage a program of this size. To implement the 2020-2024 capital program and projects remaining from prior programs in five years as planned, the MTA estimates that it will need to more than double its annual capital commitments (from an average of $6.4 billion over the past five years to $13.5 billion annually).

The central business district tolling capital lockbox fund (the "capital lockbox") is expected to generate almost half ($25 billion) of the funding for the capital program (see Figure 1). The capital lockbox will receive revenue from: congestion pricing for entering and remaining in Manhattan at 60th Street or below; a portion of State and City sales tax collections; and taxes on certain properties in New York City.[1]

FIGURE 1
Sources of Capital Funding for the 2020-2024 Capital Program
(in billions)



Total: $54.8 Billion

Sources: Metropolitan Transportation Authority; OSC analysis

Congestion pricing is expected to begin in early 2021 and generate $15 billion for the 2020-2024 capital program. Some of these revenues may be used to fund capital projects directly, but most are expected to back bonds issued by the Triborough Bridge and Tunnel Authority (an MTA affiliate), or by the MTA itself.

In October 2019, the MTA awarded a contract to TransCore to design and install the infrastructure needed to implement congestion pricing, which is expected to cost up to $260 million. The contract also calls for TransCore to operate and maintain the new tolling system for six years at a total cost of $247 million. Federal approval is needed before construction can proceed, which could delay implementation of congestion pricing and the timely completion of the capital program.

Dedicated State and City sales tax revenues and the new tax on certain properties in the City are each expected to generate $5 billion for the capital program. However, weakness in the real estate market could lead to a revenue shortfall.

The MTA is assuming that the federal government will contribute $10.7 billion to the 2020-2024 capital program, including $2.9 billion for the next phase of the Second Avenue Subway. The federal government, however, has not yet agreed to contribute to this project.

In addition, the State has not yet identified (or approved) the sources of its $3 billion contribution. The MTA's financing plan also assumes that the City will match the State's contribution, but the City has not yet agreed.

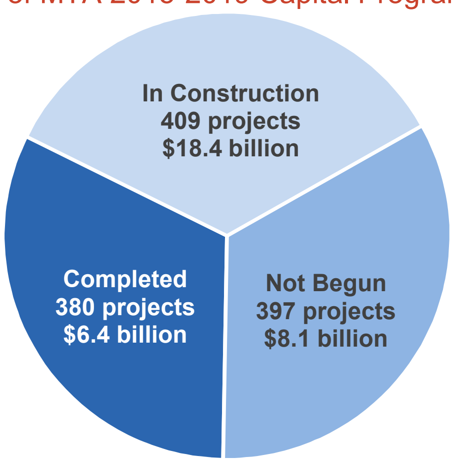
[1] This includes revenue from an increase in the real estate transfer tax on sales of residential properties in New York City of $3 million or more and on sales of other properties in the City of $2 million or more, as well as a progressive supplemental transfer tax on sales of residential properties in the City totaling $2 million or more.

2015-2019 Capital Program

At the same time the MTA begins work on the 2020-2024 program, it must still finish its 2015-2019 program and obtain outstanding funding from the State and the City for those projects.

More than two-thirds of the 1,186 projects that make up the 2015-2019 capital program were not finished as of December 31, 2019 (see Figure 2). While the MTA had completed 380 projects, 409 projects (34 percent) were still in construction and construction had not even begun on the remaining 397 projects (33 percent). The MTA plans to commit the remaining funds for the 2015-2019 program by the end of 2021.

FIGURE 2
Status of MTA 2015-2019 Capital Program



Sources: Metropolitan Transportation Authority; OSC analysis

The State had agreed to provide $7.3 billion of its $8.6 billion contribution to the 2015-2019 capital program when all MTA sources of capital funding were exhausted. According to the MTA, it has exhausted its own resources and has committed $6 billion against the State's obligation, and expects to commit the rest by the end of 2020.

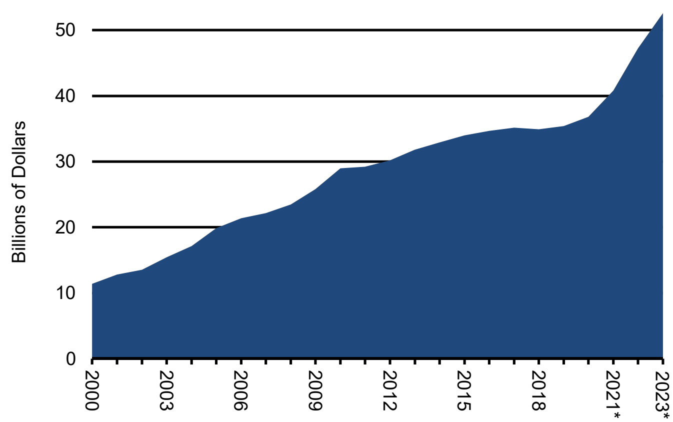
The MTA plans to issue short-term bond anticipation notes to cover the State's obligation, which will be paid off with proceeds from long-term MTA bonds. According to the MTA, the debt service on these bonds will total $29 million in 2020, peaking at $470 million annually in 2028. The MTA's budget assumes that the State will appropriate additional funds each year, which will be used to pay the debt service on these bonds.

State law requires the City to contribute $2.7 billion to the 2015-2019 capital program. While it has allocated $2.1 billion, the City expects the remaining $600 million will be funded through as-yet unidentified "alternative non tax levy revenue sources."

Debt Outstanding

The amount of outstanding long-term debt issued by the MTA more than tripled between 2000 and 2019, rising from $11.4 billion to $35.4 billion. The MTA expects debt outstanding to reach $52.6 billion by 2023 (see Figure 3), including bonds issued by the MTA to fulfill the State's commitment to the MTA's 2015-2019 capital program and MTA bonds backed by revenue from the capital lockbox ($7.3 billion).

FIGURE 3
MTA Debt Outstanding



Note: Excludes bond anticipation notes. *MTA forecast
Sources: Metropolitan Transportation Authority; OSC analysis

The amount of long-term debt could increase with the issuance of bonds backed by congestion pricing and for the MTA's share ($9.8 billion) of the New York City Transit and commuter railroad portions of the 2020-2024 capital program.

The State has pledged $3 billion in support of the MTA's 2020-2024 capital program, but the sources of funding remain uncertain. The State could require the MTA to issue bonds to cover its contribution to the 2020-2024 capital program as it did for the 2015-2019 program.

The Debt Burden

Debt service is projected to reach $4.2 billion by 2023, an increase of 59 percent since 2019 (see Figure 4). This estimate includes debt service on bonds backed by MTA operating budget revenues and bonds funded directly by revenue from the capital lockbox.

The share of total revenue needed to fund debt service has averaged 16.1 percent for the past decade (see Figure 5). It is projected to rise sharply over the next few years, reaching 22.5 percent by 2023. This would leave a smaller share of revenue for other priorities. (The share of fare and toll revenue needed to fund debt service would reach 45.9 percent by 2023.)

According to the MTA, the share of revenue (i.e., operating revenues and subsidies) needed to fund debt service on MTA-supported debt (i.e., excluding bonds funded with additional State aid and bonds funded with revenue from the capital lockbox) would reach 19.4 percent by 2023.

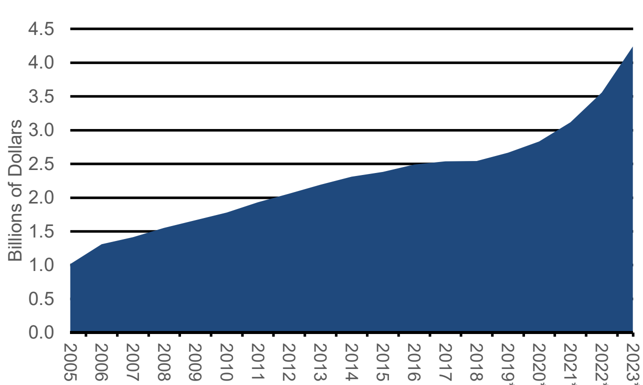
While MTA officials would like to keep the debt burden on MTA-supported debt below 20 percent, a number of factors could affect the outcome. For example, the MTA's revenues are very sensitive to changes in the economy. A sharp drop in revenue (as experienced during the last recession) could cause the debt burden to rise even higher, possibly requiring higher-than-planned fare and toll increases, or budget cuts.

In addition, these estimates exclude the MTA's share of the New York City Transit and commuter railroad portions of the 2020-2024 capital program ($9.8 billion). The debt burden could rise above 20 percent depending on the timing of the issuance of these bonds.

There is also a risk that the MTA could be left to fund some or all of the debt service on the bonds issued to cover $7.3 billion of the State's contribution to the MTA's 2015-2019 capital program. The Governor's proposed budget for SFY 2021 includes $31 million for this purpose, but funding in subsequent years will be subject to future appropriations.

The MTA projects balanced budgets through 2022, but a budget gap of $130 million in 2023. These estimates assume continued economic growth, fare and toll increases of 4 percent in 2021 and 2023, and the success of its transformation plan and other gap-closing actions. Given these risks, the MTA could be left with both a heavy debt burden and the need for unplanned fare and toll hikes.

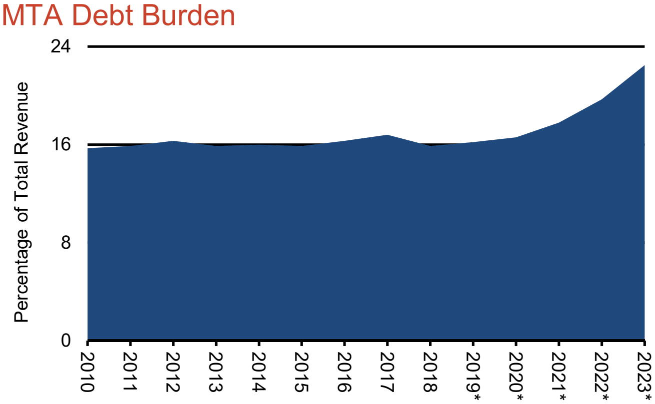
FIGURE 4
MTA Debt Service



*MTA forecast

Sources: Metropolitan Transportation Authority; OSC analysis

FIGURE 5
MTA Debt Burden



*MTA forecast

Note: Excludes bonds backed by revenue from the capital lockbox.
Sources: Metropolitan Transportation Authority; OSC analysis

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