



# Financial Outlook for the Metropolitan Transportation Authority

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Report 10-2005

February 2005

- The Governor has proposed actions that would help the MTA balance its operating budget through 2007 and finance a new five-year capital program.
- The Governor's proposal is \$8.5 billion, or 31 percent, less than the one approved by the MTA Board. (The MTA-approved core program was \$8.9 billion less than recommended by the MTA's agencies.)
- The MTA agencies warned that funding levels below their recommendations could cause delays, increased commuter inconveniences, and higher costs.
- The MTA could be required to finance more than half (\$9.7 billion) of the 2005-2009 capital program with new debt—more than any previous capital program.
- Debt service could double from \$856 million in 2004 to \$1.7 billion in 2009, and reach \$2.3 billion by 2015.
- Debt could consume \$0.23 of every dollar collected in 2015, more than twice the 2004 level.
- Failure to obtain full market value for the development rights over the western rail yard could require the MTA to further increase planned borrowing.
- The MTA faces budget gaps that grow from \$459 million in 2008 to \$1.1 billion in 2010 even if it implements planned service reductions in 2006 and fare and toll increases in 2007.
- Gambling with fare and toll revenue by issuing pension obligation bonds and investing the proceeds in the stock market is inappropriate and ill-advised.

The Metropolitan Transportation Authority (MTA) voted to raise fares and tolls in 2003 and 2005, but nonetheless projects budget gaps of \$813 million in 2006, \$1.1 billion in 2007, and \$1.4 billion in 2008. Gaps of this magnitude represent 17 percent of MTA revenues by 2008.

The MTA is facing its worst fiscal crisis since the 1980s because it borrowed more than it could afford to finance its capital program, and made other bad management decisions. The debt service from those borrowings is growing rapidly and could consume almost 19 percent of revenues by 2008, compared with 11 percent in 2004.

The over-reliance on debt to finance past capital programs, and the 2002 debt restructuring initiative, which took advantage of lower interest rates but also pushed debt out into the future, has strained the MTA's operating budget.

In December 2004, the MTA Board approved a new five-year capital program for calendar years 2005 through 2009. The program, valued at \$27.8 billion, was designed to continue the progress made over the past 20 years in restoring and modernizing the regional mass transit system, and also to begin a number of major network expansion projects. The proposed capital program, however, had a funding gap of \$16.2 billion.

The Governor has proposed actions that would help the MTA balance its operating budget through 2007 and finance a new five-year capital program. The amount of assistance, however, is insufficient to rescind service reductions proposed by the MTA for 2006 and a 5 percent fare and toll increase scheduled for 2007, or to fully fund the MTA-approved capital program.

The capital program proposed by the Governor is 31 percent smaller than the one approved by the MTA Board. A scaled-down capital program would require the MTA to re-prioritize and slow down planned maintenance and expansion

projects, which would likely increase the overall cost of the projects, adversely affect services, and inconvenience commuters.

The capital financing plan proposed by the Governor also would require the MTA to rely even more heavily on new debt than it has in the past. Previous over-reliance on debt is responsible for the large budget gaps the MTA now faces.

The Governor has proposed new revenue sources for the MTA that would support the issuance of up to \$3 billion in new debt to help finance the 2005-2009 capital program. To fully finance the program, however, the MTA would still have to borrow another \$6.7 billion. The debt service on the new bonds could double the debt service burden to 23.4 percent of revenues by 2015. Because the new resources proposed by the Governor would be insufficient to fund both the debt service on the new bonds and the rising debt service costs associated with the 2000-2004 capital program, the MTA would face large and rapidly growing budget gaps beginning in 2008.

Even if the MTA implements planned service reductions in 2006 and raises fare and toll revenue by 5 percent in 2007, it could still face a budget gap of \$459 million in 2008. In the absence of management improvements, closing a gap of this magnitude could require an additional 8 percent increase in fare and toll revenue in 2008.

The budget gaps could grow even more rapidly in subsequent years as the operating budget withstands the full impact of borrowing for the 2000-2004 capital program, and is also hit with the impact of new debt issued to finance the 2005-2009 capital program. We estimate that the gaps could total \$834 million in 2009 and nearly \$1.1 billion in 2010, beginning a new cycle of large funding gaps.

Moreover, these estimates assume that the MTA will obtain legislative approval for its controversial reorganization plan, which would not extend civil service protections for new MTA employees, and that the MTA will actually achieve planned savings of \$210 million over three years. These estimates also assume that the MTA will obtain legislative authorization to issue pension obligation bonds.

Pension obligation bonds are another form of debt, but in this case the proceeds are used to fund the

operating budget. In addition, pension obligation bonds are risky. In effect, the MTA would play the stock market with fare and toll revenue in the hope of earning more than the interest rate on the pension obligation bonds.

In conclusion, the Governor's proposal improves the MTA's short-term financial condition, but does not address long-term operating and capital needs. Although the proposal provides some new sources of revenue, the Governor leaves it up to the MTA to close the remaining gaps in its operating budget, and places the burden of financing a scaled-back capital program on the MTA.

## Background

In July 2004, the Metropolitan Transportation Authority projected a budget gap of \$745 million for calendar year 2005 and gaps of \$1.4 billion for 2006, \$1.7 billion for 2007, and \$2.1 billion for 2008. These gaps are the direct result of past decisions by the MTA Board to borrow beyond its means to finance its capital program, made in response to the elimination of State capital grants and a sharp reduction in extraordinary resources (such as surpluses from the Municipal Assistance Corporation and the Westway trade-in).

To close the 2005 budget gap, the MTA proposed a 5 percent fare and toll increase, substantial service reductions, and other management initiatives. If implemented, this plan was expected to produce a slight surplus of \$31 million in 2005, but to leave budget gaps of \$695 million in 2006, \$801 million in 2007, and \$1.2 billion in 2008.

In subsequent months, the MTA revised downward its forecasts of future debt service costs. In addition, tax revenues from real estate-related transactions greatly exceeded forecasts. In total, the 2004 year-end cash balance (i.e., surplus) grew to \$647 million, and these resources were available to help balance the 2005 budget.

Instead of using all of these resources to balance the 2005 budget and mitigate planned fare and toll increases or service reductions, the MTA chose to use \$200 million to establish a reserve in the event that real estate-related tax revenues declined more sharply than projected. On December 16, 2004, the MTA Board voted to raise fares and tolls by 5 percent, effective March 2005; adopted budget cuts totaling \$117 million; and approved the

closure of 164 token booths. It also approved a resolution that allocated any monies left in the reserve to mitigate severe service reductions planned for 2006.

The MTA Board also approved a \$27.8 billion five-year capital program, consisting of a “core” program valued at \$17.2 billion, a network expansion program valued at \$9.9 billion, and security and interagency projects valued at \$639 million. The core program, however, was \$8.9 billion less than requested by the agencies, and the entire program was underfunded by \$16.2 billion. Despite the gap, the capital program was approved by the MTA Board and sent to the Capital Program Review Board (CPRB) for its approval. In the absence of sufficient funding, the CPRB rejected the MTA’s capital program.

In February 2005, the MTA released a financial plan that reflects the actions taken by the MTA Board on December 16, 2004 and some minor technical adjustments (the “February Plan”). The February Plan assumes that the MTA will end 2005 with a cash balance of \$76 million. The February Plan also projects budget gaps of \$813 million in 2006, \$1.1 billion in 2007, and \$1.4 billion in 2008, excluding the impact of future actions that have been proposed by the MTA to help balance the budget in those years.

## **New Resources**

The Governor has proposed tax and fee increases that would be dedicated to the MTA and has proposed legislation that would authorize the MTA to implement certain management initiatives. In total these proposals would generate \$926 million during calendar years 2005 through 2007. In addition, the State Division of the Budget (DOB) forecasts that during calendar years 2005 through 2007, tax revenue dedicated to the MTA will be \$497 million higher than projected by the MTA in December 2004. The Governor’s initiatives are described below.

- Raise the mortgage-recording tax (MRT-1) rate by 40 percent, from \$0.25 per \$100 of outstanding principal to \$0.35 per \$100 of outstanding principal, for borrowers in the MTA 12-county transportation district. This would generate about \$100 million annually.

- Increase several types of motor vehicle fees, including registration and title fees. This would generate another \$100 million annually.
- Eliminate the \$200 million reserve created by the MTA against a sharp drop-off in real estate-related transaction taxes, which are particularly volatile in an environment of increasing long-term interest rates.
- Increase the MTA’s tax forecasts based on less conservative assumptions. While these estimates are not unreasonable, the potential for mid-year revenue shortfalls is heightened.
- Withhold \$100 million in dedicated tax revenue from the MTA in 2005 and pay out the resources equally in 2006 and 2007.
- Permit the MTA to reorganize its subway, bus, and commuter railroad operations and not extend certain civil service protections to new employees. The DOB has set a savings target of \$210 million over a three-year period for this initiative, but has not presented a detailed road map to achieve the savings.
- Permit the MTA to issue pension obligation bonds. The DOB estimates that this would reduce pension contributions by \$150 million over a three-year period, but we believe this initiative would entail significant risk.

## **Proposed Capital Program**

The Governor also has proposed a five-year \$19.2 billion capital program for the MTA that would allocate: \$14.6 billion to the “core” program to restore the mass transit system to a state of good repair; \$4 billion for network expansion; \$495 million for security projects; and \$144 million for interagency projects, such as an integrated financial management system and capital needs for the MTA police.

Under the Governor’s proposal, the 2005-2009 capital program would be \$8.5 billion less than the \$27.8 billion program approved by the MTA Board in December 2004 (see Table 1). The core program would receive \$2.6 billion less than requested by the MTA Board and \$11.5 billion less than requested by the MTA agencies.

**Table 1**  
**Proposed 2005-2009 Capital Program**  
(in billions)

	MTA	Governor	Difference
Core Program	\$17.2	\$14.6	\$ 2.6
Network Expansion	9.9	4.0	5.9
Security	0.5	0.5	---
Interagency	0.1	0.1	---
<b>Total</b>	<b>\$ 27.8</b>	<b>\$ 19.2</b>	<b>\$ 8.5</b>

Note: Columns may not add due to rounding.  
Sources: MTA; NYS Division of the Budget; OSDC analysis

In correspondence to the MTA Executive Director, the agencies expressed concerns that the reduced levels of funding proposed by MTA Headquarters would increase both the long-term capital and short-term operating expenses of the agencies by deferring necessary investments in new equipment and facility upkeep.<sup>1</sup> Clearly, those concerns are heightened under the Governor's proposal.

The network expansion program would receive less than half of the \$9.9 billion requested by the MTA Board. The City would fund the \$2 billion cost of extending the No. 7 subway line, but the Governor would provide only \$2 billion for East Side Access, the Second Avenue Subway, and other system expansion projects. The MTA will either have to re-prioritize its network expansion projects or slow down the planned pace of construction, which undoubtedly will increase the cost of these projects. The cost of the East Side Access project has already grown from \$4.3 billion to \$6.3 billion.

### Financing the Capital Program

The \$19.2 billion capital program proposed by the Governor would be funded with a combination of federal and City capital grants, as well as proceeds from the sale of MTA assets (see Table 2). These sources would contribute \$9.5 billion, which would still leave an unfunded balance of \$9.7 billion that would be funded with debt.

Of this amount, \$3 billion would come from bonds issued by the MTA and backed by new sources of revenue proposed by the Governor. Unlike a direct capital grant from the State, the debt would be the

<sup>1</sup> See Report 7-2004, *Review of the Proposed Financial Plan and Capital Program for the Metropolitan Transportation Authority*, for a discussion of the differences between the agencies' proposals and the board-approved program.

**Table 2**  
**Financing the 2005-2009 Capital Program**  
(in billions)

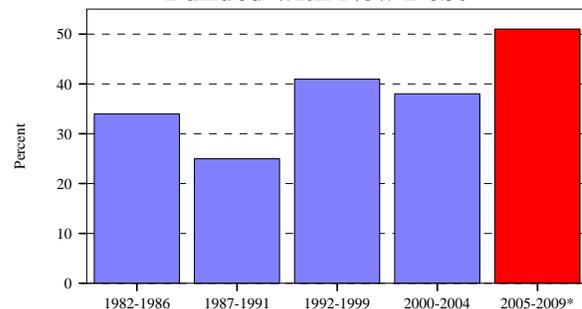
<b>Capital Grants</b>	
Federal	\$ 5.8
New York City	2.3
Proceeds from Asset Sales	1.0
Prior Year Rollover	<u>0.4</u>
<b>Subtotal</b>	<b>9.5</b>
<b>Bond Proceeds</b>	
MTA Bonds	6.7
MTA Bonds Backed by New State Revenues	<u>3.0</u>
<b>Subtotal</b>	<b>9.7</b>
<b>Total</b>	<b>\$ 19.2</b>

Sources: NYS Division of Budget; OSDC analysis

MTA's responsibility and the burden placed on the operating budget would depend on economic conditions. The remaining \$6.7 billion in debt could also come from MTA bonds but backed by existing pledged revenues, including certain state and local subsidies, and from fare and toll revenue. The total amount of borrowing could be reduced to the extent that the MTA enters into public-private partnerships and other innovative financing arrangements as recommended by the Governor.

As shown in Graph 1, the proposed capital program would rely on new money bonds to a far greater degree than any other past program.<sup>2</sup> The 2005-2009 capital program would be funded with \$9.7 billion in new money bonds, or more than half of the financing for the program.

**Graph 1**  
**Percent of Capital Programs  
Funded with New Debt**



\* Governor's Proposal  
Sources: Metropolitan Transportation Authority; OSDC analysis

<sup>2</sup> This analysis excludes some \$4.5 billion in bond proceeds that were freed up from restructuring existing debt and used to help finance the 2000-2004 capital program.

The capital program makes certain assumptions regarding the receipt of federal and City assistance, and proceeds from the sale of assets. To the extent that these assumptions are not realized, the program's funding gap would increase and the MTA would have to choose between further scaling back the capital program and issuing more debt. The financing program is based on the following major assumptions.

- The federal government will provide \$4.5 billion for the core program. Although the federal government has not reauthorized successor legislation to the Transportation Equity Act for the 21st Century, the amounts anticipated are not inconsistent with recent allocations and amounts contemplated in reauthorization bills that are currently under consideration by the House and Senate.
- The federal government will fund approximately 40 percent of the cost of expansion projects. On February 8, 2005, the President recommended that the federal government effectively fund 44 percent of the cost of the East Side Access project. In addition, the Federal Transit Administration (FTA) has indicated that it is prepared to recommend that the federal government fund 45 percent of the cost of the Second Avenue Subway during the 2005-2009 capital program. These commitments, however, are subject to congressional appropriation, which has fallen short of expectations in the past.

While the recommendations represent a greater level of funding than assumed in the Governor's proposed capital program, the Governor's proposal does not include sufficient resources to match the federal government's commitment as required, which could increase the MTA's borrowing costs even more.

- The federal government will fund the entire cost of the \$495 million security program. Congress, however, appropriated less than one quarter of the \$591 million cost of security projects in the 2000-2004 capital program.
- The Hudson Yards Infrastructure Corporation, which was recently created by the City of New York, will provide the MTA with \$2 billion from bonds backed by revenues from future

development. These resources would be dedicated to extending the No. 7 subway line, which is expected to more than pay for itself by stimulating commercial and residential development in the far West Side of Manhattan. The MTA, however, could be responsible for all or part of any cost overruns. This represents a substantial risk because major transportation projects have a history of taking longer and costing more than estimated.

- The MTA will generate \$1 billion in proceeds from the sale of assets. An appraisal performed for the MTA estimated the development rights for building a multi-purpose residential and retail development over the western portion of the rail yard at \$923.7 million. The New York Jets have offered \$100 million for one third of the development rights to build a multi-purpose sports and convention facility. The MTA would assume the risk of selling the remaining two thirds to realize full market value, which would require City Council approval for necessary zoning changes. The MTA also would have to compete with the City of New York for potential developers because the City plans to sell air rights on an adjacent property.

Madison Square Garden has offered \$600 million for the development rights and would construct a multipurpose residential and retail project on the site. The MTA now plans to open the bidding to others for the development rights over the rail yard. The MTA has yet to place a value on other assets that could generate substantial sale proceeds.

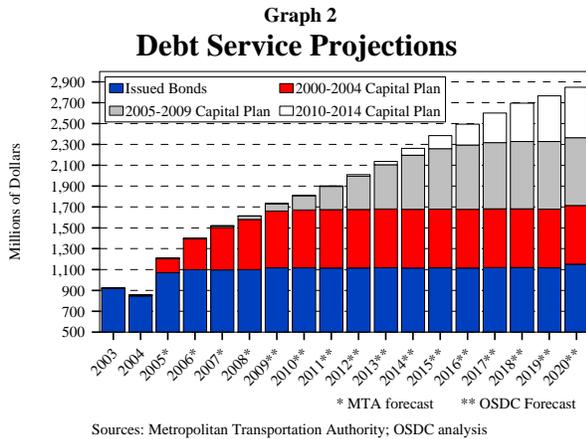
- The Lower Manhattan Development Corporation will use the \$1.3 billion in transportation funding that remains from the \$21 billion assistance package to New York City following the attack on the World Trade Center for projects that are not MTA-related. These resources have not yet been committed to other projects and some portion could still be made available to the MTA.

### **Reliance on Debt**

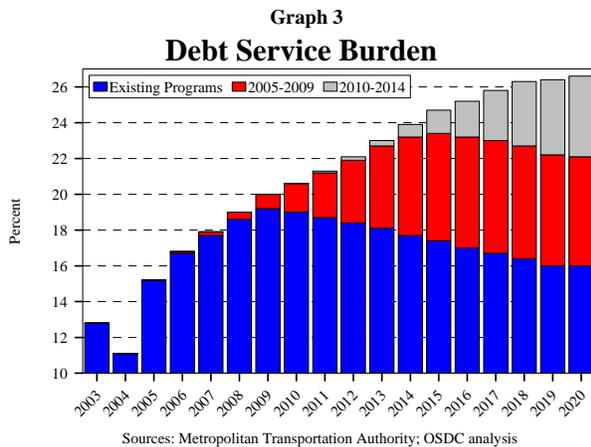
Debt service costs are already projected to double from \$855.6 million in 2004 to \$1.7 billion in 2009 in order to finance the 2000-2004 capital program and prior programs. If the Governor's

proposed financing program is approved, the MTA could be called upon to borrow \$9.7 billion to help fund the 2005-2009 capital program.

The debt service on these bonds would rise from \$34 million in 2008 to \$580 million by 2015. In the aggregate, debt service costs would rise from \$855.6 million in 2004 to \$2.3 billion in 2015 (see Graph 2). Assuming that the MTA were required to borrow another \$8 billion to support the 2010-2014 capital program, debt service costs would reach \$2.8 billion by 2020.



Consequently, the debt service burden (i.e., debt service as a percent of non-reimbursable revenues) would grow from 11.1 percent in 2004 to 19 percent in 2008, and then rise to 23.4 percent in 2015 (see Graph 3). By then, 23 cents out of every dollar of revenue collected by the MTA would have to be used to service debt for the 2005-2009 capital program and prior capital programs. The debt service burden would jump to 26.6 percent in 2020 after the issuance of debt to support the 2010-2014 capital program.



## Implications for the Operating Budget

The February Plan projects a closing cash balance of \$76 million for 2005 and budget gaps of \$813 million in 2006, \$1.1 billion in 2007, and \$1.4 billion in 2008, excluding the impact of future actions proposed by the MTA to help balance the budget in those years. These gaps are primarily due to rising debt service costs, but pension and health insurance costs are also projected to grow rapidly.

As shown in Table 3, the Governor's proposals, if successfully implemented, would balance the operating budget through 2007, but only if the MTA identifies cost reductions or revenue enhancements valued at \$181 million in 2006 and more than \$400 million beginning in 2007.

In the absence of management improvements, the likelihood that the MTA will have to implement planned service reductions in 2006 and fare and toll increases in 2007 is greatly increased.

In October 2004, MTA staff recommended that the MTA Board consider a number of draconian service reductions valued at \$165 million in 2006. The board authorized MTA staff to conduct environmental impact studies during 2005 that would be needed to implement these reductions in 2006. The service reductions under consideration include eliminating 33 bus routes, abandoning certain Long Island Rail Road (LIRR) branches and removing the tracks, and reducing late-night subway and bus service.

In addition, the MTA staff recommended that, in the absence of ridership growth beyond forecasted levels, the MTA Board approve a 5 percent increase in fares and tolls in 2007. Such an increase would raise about \$240 million annually.

Even if the MTA takes actions to meet the cost-reduction and revenue enhancement targets set by the Governor, the budget gaps could reopen beginning in 2008. The gaps could grow rapidly as the operating budget experiences the full impact of borrowing for the 2000-2004 capital program and also begins to feel the impact of borrowing for the 2005-2009 capital program. We found that the budget gaps could total \$459 million in 2008, \$834 million in 2009, and \$1.1 billion by 2010.

**Table 3**  
**Impact of the Governor's Executive Budget**  
(in millions)

	2005	2006	2007	2008
<b>Surplus/(Gap) per the February Plan</b>	<b>\$ 76</b>	<b>\$ (813)</b>	<b>\$ (1,105)</b>	<b>\$ (1,398)</b>
<b>Gap-Closing Program</b>				
Prior-Year Surplus	---	378	399	194
Tax Reestimates	194	141	162	125
Pension Obligation Bonds	110	20	20	20
Additional 2004 MTA Surplus <sup>1</sup>	68	---	---	---
New Taxes and Fees	50	201	201	201
Banked Aid	(100)	50	50	---
Unallocated Reserve <sup>2</sup>	(20)	(30)	---	---
Drawdown of MTA Reserve	---	200	---	---
MTA Actions	---	181	415	407
MTA Reorganization	---	75	75	60
Debt Service 2005-2009 Capital Program	---	(4)	(23)	(68)
Current Year Surplus/Gap	378	399	194	(459)
Surplus Transfer	(378)	(399)	(194)	---
<b>Surplus/(Gap)</b>	<b>\$ ---</b>	<b>\$ ---</b>	<b>\$ ---</b>	<b>\$ (459)</b>

Source: NYS Division of the Budget; OSDC analysis

<sup>1</sup> Preliminary MTA estimate as reported in February 2005 BudgetWatch.

<sup>2</sup> The MTA has set aside resources to cover shortfalls in achieving planned savings during 2005 and 2006. In addition, the financial plan includes a \$40 million annual general reserve.

## MTA Reorganization

The Governor has proposed legislation to replace existing sections of the Public Authorities Law (which governs the MTA and its constituent agencies) with a single act that defines the MTA and creates five new agencies, each with a distinct transportation mission: MTA Bridges and Tunnels, MTA Bus, MTA Capital Construction, MTA Rail, and MTA Subways.

The legislation also proposes to eliminate some of the funding formulas that govern the distribution of tax and toll subsidies. Instead, the MTA would have the discretion to distribute dedicated tax revenue and surplus bridge and tunnel toll revenue.

The proposed legislation, essentially the same bill put forth by the MTA in 2003, would merge the LIRR and Metro-North Railroad into a single subsidiary. In addition, the legislation would create a regional bus authority that would consolidate New York City Transit's bus operations with Long Island Bus and the New

York City private bus operations, as the latter are transferred to the MTA.

The Transport Workers Union (TWU) opposes several provisions in the bill, among them the one that would abolish future hiring based on civil service law for employees of the newly created MTA Bus. About 26,000 of the members of the TWU Local 100 at the MTA are civil service employees. The State Assembly rejected the previous MTA legislative proposal because it lacked civil service protections for new MTA employees. The DOB has set a savings target of \$210 million over three years from the reorganization plan, but has not presented a detailed road map to achieve these savings.

## Pension Obligation Bonds

The legislation authorizing the MTA to reorganize its operations also would permit the MTA to issue pension obligation bonds to cover the unfunded liabilities of its pension funds. The State Comptroller believes that it is inappropriate and ill-advised for the MTA to gamble with fare and toll revenue through arbitrage.<sup>3</sup>

The LIRR and the Manhattan and Bronx Surface Transportation Operating Authority (MaBSTOA), a component agency of New York City Transit, had unfunded pension liabilities of \$2 billion as of January 2004. In addition, MTA Headquarters had an unfunded pension liability of \$162 million. Moreover, the financial responsibility for some \$500 million in unfunded pension liabilities is among the issues yet to be finalized concerning the MTA takeover of the seven private bus companies currently subsidized by the City of New York.

<sup>3</sup> Arbitrage is a strategy that tries to take advantage of small pricing differences between financial instruments.

The LIRR's liabilities are principally due to: the conversion of the pension system from a pay-as-you-go system to one funded on an actuarial basis, investment losses, accounting system errors that understated the LIRR's liabilities, and additional costs from early retirements and higher final-year earnings caused by overtime. A recent report by the MTA Inspector General criticized four firms for gross errors in underestimating pension liabilities and concluded that the Pension Board, which has oversight authority over the pension fund, was not paying close enough attention.

The success of pension obligation bonds depends on whether the bond proceeds, which are invested in the stock market and other financial instruments, earn more than the interest on the bonds. The Internal Revenue Code treats pension obligation bonds as arbitrage bonds. Pension obligation bonds must be issued on a taxable basis because the Federal Internal Revenue Code restricts the investment of the proceeds of tax-exempt bonds in higher-yielding taxable securities.

Several concerns regarding pension obligation bonds are outlined below.

- Pension obligation bonds, which are perceived by investors as relatively low-risk securities (and in the case of the MTA would be backed by fare and toll revenue), are invested in higher-yielding and presumably riskier securities.
- There is greater risk of a substantial investment earnings shortfall through a single large contribution than through annual contributions to the pension fund and cost-averaging the risk.
- Pension obligation bonds are a form of deficit financing. Unlike debt issued to fund the capital program, which produces or rehabilitates physical assets, pension obligation bonds are issued to fund operating expenses. The reliance on debt to fund current operating expenses is especially troubling in light of the fact that the MTA's current financial crisis was brought on by its past decisions to borrow beyond its means.

- Pension obligation bonds exchange a variable debt for a fixed debt.

These concerns are real, as evidenced by the recent experiences of New Jersey and other states. New Jersey issued \$2.8 billion of pension obligation bonds in 1997. The actuarial pension fund investment earnings assumption is 8.75 percent, and the interest rate on the bonds was 7.425 percent. During the first three years after the bonds were issued the New Jersey pension fund earned 22.7 percent, 16.1 percent, and 11.9 percent on its investment; in years four and five, however, the fund lost 10.4 percent and 9 percent.

Overall, the New Jersey pension fund earned 7 percent on its investments over the seven-year period ending June 30, 2004—less than required to cover the interest rate on the bonds (7.425 percent) and also less than the actuarial investment earnings assumption (8.75 percent). Consequently, New Jersey taxpayers were left with the debt service on the pension obligation bonds as well as a new pension liability from investment shortfalls. Whether New Jersey ultimately wins or loses from its decision to issue pension obligations will not be known until the bonds are retired.

The DOB estimates that the MTA would realize savings of \$110 million in the first year the bonds are issued—principally from skipping a contribution to the pension fund because of the one-year lag in debt service costs—and savings of \$20 million annually for the following 30 years. The DOB has indicated that this estimate is based on bonding out \$1.9 billion in unfunded MTA pension liabilities, but has not yet provided backup for its estimate. Since the proposed authorization does not place a limit on the amount of unfunded liabilities that the MTA can bond out, both the initial savings and future risks could be greater.

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