



Financial Outlook for the Metropolitan Transportation Authority

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Transit Facts

- The economic recession caused a 2.8 percent decline in the use of mass transit in 2009, but utilization is expected to remain steady in 2010 and then rise by 2 percent in 2011.
- MTA taxes and subsidies in 2010 are expected to be \$900 million less than forecast in November 2009, and nearly \$2.5 billion less during the 2010-2014 financial plan period.
- Even so, the MTA expects nearly \$5 billion from State-imposed taxes and fees in 2014, compared with \$3.2 billion in 2008.
- Service reductions and higher fares and tolls account for 57 percent of the MTA's proposed gap-closing program.
- During the past five years, spending has grown at an average annual rate of 8 percent—nearly three times the inflation rate.
- Pension contributions are projected to peak in 2014 at \$1.3 billion, which is four times the level reached in 2003. Health and welfare costs are projected to reach \$1.6 billion by 2014—more than double the level in 2003.
- Energy costs have nearly doubled over the past six years, growing from \$261 million in 2003 to \$498 million in 2009. Costs are projected to reach \$705 million in 2014—42 percent higher than in 2009.
- The \$26 billion capital program for 2010-2014 has a funding shortfall of \$9.9 billion, and only the first two years are fully funded.
- Debt service grew from \$848 million in 2004 to \$1.4 billion in 2009, and will reach \$2.2 billion by 2013 just to fund prior capital programs.
- The MTA intends to use \$131 million in operating revenue in 2011 to fund the capital program on a pay-as-you-go basis, which is almost one-third of the resources expected from a 7.5 percent fare increase in that year.

The Metropolitan Transportation Authority (MTA) has long suffered from a structural imbalance between recurring revenues and expenses. During the last economic expansion, rather than bring spending in line with recurring resources as recommended by the Office of the State Comptroller, the MTA used tax windfalls from the expansion to mask the structural imbalance between recurring revenue and expenses, and to put off needed reforms. The current economic downturn has compounded the MTA's financial problems and has effectively stripped away the veneer to reveal an agency that is inefficient and bloated.

The MTA's July 2010 financial plan (the "July Plan") shows an operating budget deficit of more than \$1 billion for 2011 (or 9 percent of its \$12 billion total budget for that year). The budget deficit is expected to more than double by 2014, due to a shortfall in anticipated tax receipts and rapidly rising costs for debt service and fringe benefits.

The MTA has outlined a gap-closing program that begins the process of changing how the MTA conducts business. These initiatives include reducing administrative costs and overtime, improving procurement, and improving worker productivity. The MTA, however, has also cut services vital to thousands of commuters, and has proposed steep fare and toll increases.

In July 2009, the MTA raised fares and tolls by 10 percent, and it plans to raise them another 15 percent over the next three years—more than three times faster than the inflation rate. These increases are occurring during a serious economic downturn and when taxes have been raised to help New York State, the MTA, localities, and school districts balance their budgets. The impact on commuters will be magnified if the two-year expansion of the federal tax break for mass transit is allowed to expire on December 31, 2010.

Changing the way the MTA does business will not be easy. Our review has identified operating budget risks of \$264 million for 2011 and nearly twice that amount for 2013. In addition, New York State has not solved its budget problems, and further cutbacks are possible.

Given the challenges facing the MTA, the State Comptroller recommends that the MTA be prepared with alternative initiatives in the event that MTA gap-closing proposals fall short of their targets. These alternatives should concentrate on eliminating waste and inefficiencies. Further service reductions or higher fare increases would signal management's failure to deliver on its promise to overhaul MTA operations.

The MTA's 2010-2014 capital program has a \$9.9 billion funding shortfall, and only the first two years are fully funded. The July Plan assumes that New York State and its localities will fill the funding gap, but no commitments have been made. Filling the funding gap with MTA debt would place a serious burden on the operating budget, just as heavy borrowing in the past has contributed to the MTA's current fiscal crisis. Curtailing the capital program also would have unwanted consequences.

Although the economic recovery is still fragile, it could improve faster over the next four years than anticipated in the July Plan. In that event, the State Comptroller recommends that any resulting resources be held in reserve to improve services, mitigate future fare increases, and help fund the capital program. Such resources should not be used to allow the MTA to backtrack on its promise to change the way it does business.

Background

In April 2009, the MTA faced a two-year budget gap of \$5 billion, along with large recurring budget gaps, because spending—particularly debt service and fringe benefits—was growing much faster than inflation, and because tax revenues and ridership had fallen because of the recession.

In May 2009, the State raised taxes (e.g., the mobility payroll tax) and fees, and dedicated the revenues to the MTA to help address its long-term structural imbalance. These actions were expected to generate \$2.9 billion over the course of 2009 and 2010, and about \$2 billion annually thereafter.

Then the MTA raised fare and toll revenue by 10 percent in July 2009, implemented management actions, and committed to reduce future costs and to raise fare and toll revenue by 7.5 percent in both 2011 and 2013. These actions, along with those taken by the State, were expected to restore structural balance and to help fund the first two years of the MTA's proposed capital program for 2010-2014.

The MTA's November 2009 financial plan projected a small surplus for 2009 and manageable budget gaps for subsequent years after fare and toll increases in 2009, 2011, and 2013. Shortly thereafter, the plan to put the MTA on sound financial footing began to unravel as New York State cut funding to help balance its budget; labor costs rose because of an arbitration award; collections from the new payroll tax fell far short of target; and real estate tax collections were weaker than expected. As a result, the operating budget gaps, beginning in 2010, have increased by about \$500 million annually.

Closing the Budget Gaps

The MTA has moved aggressively to reduce the size of the projected budget gaps and has outlined a comprehensive gap-closing program for the next four years (see Figure 1). It is currently implementing actions (discussed below) that are expected to generate \$367 million in 2010 and about \$525 million annually thereafter. These actions, even if fully successful, would still leave budget gaps of \$200 million in 2010, \$500 million in 2011, \$803 million in 2012, \$1 billion in 2013, and \$1.6 billion in 2014.

The MTA intends to close the remaining budget gap for 2010 mostly with actions that will generate only one-time savings. For subsequent years, the MTA has proposed raising fares and tolls by 7.5 percent in 2011 and in 2013, and has outlined additional management initiatives. In total, the MTA expects to generate more than \$700 million in recurring savings through management actions by 2014. If all of these actions are successfully implemented, the MTA forecasts small positive cash balances in 2010, 2011, and 2013, and manageable gaps in 2012 and 2014. These estimates assume the MTA will divert \$1.1 billion in operating budget resources during the financial plan period to help fund the capital program and to provide working capital to the operating budget.

Budget Reduction Program (BRP): BRP initiatives are expected to generate about \$200 million annually beginning in 2010 through programmatic efficiencies, strategic initiatives, and the elimination of certain operating budget projects. A portion of the savings would come from actions that affect customer service.

Programmatic efficiencies are expected to generate \$79 million in 2010 and about \$125 million annually thereafter primarily by reducing subway car maintenance and cleaning; closing commuter railroad ticket windows; reducing the number of railcars on off-peak Long Island Rail Road trains; and by shifting certain operating costs to the capital budget. Strategic

initiatives would save \$59 million in 2010 and about \$35 million annually thereafter by improving inventory management, consolidating agency functions, and by reducing overtime. The MTA also expects to save \$48 million in 2010 and about \$30 million annually thereafter by deferring and eliminating 141 of the 280 projects funded from the operating budget, and by renegotiating contracts with its major vendors.

Service Reductions: In March 2010, the MTA Board approved service reductions, which took effect starting in July 2010, to save about \$120 million annually. The actions reduced the frequency of weekend and off-peak subway service, eliminated the V and W subway lines,

Figure 1
Closing the Budget Gaps
(in millions)

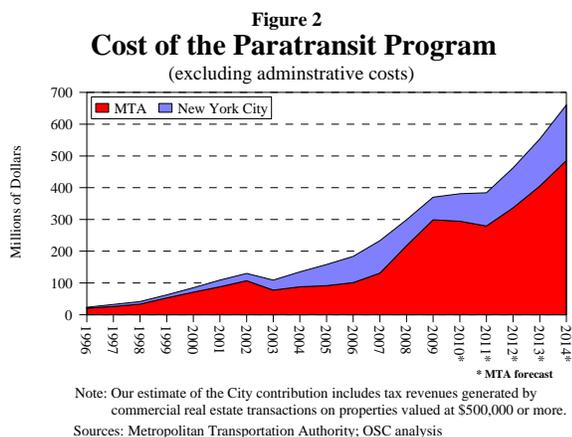
	2010	2011	2012	2013	2014
Projected Budget Gap	\$ (567)	\$ (1,027)	\$ (1,324)	\$ (1,571)	(2,105)
Management Actions:					
Budget Reduction Program					
Programmatic Efficiencies	79	123	123	130	119
Strategic Initiatives	59	37	35	34	31
Project & Procurement Review	48	22	28	31	35
Other	15	16	11	10	10
Administrative Savings	74	101	102	103	104
Service Reductions	61	123	117	111	111
Paratransit Savings	30	80	80	80	80
Labor Savings	25	52	144	209	218
Future Actions	---	75	125	175	200
Additional Overtime Savings	---	44	44	44	44
MetroCard Fee	---	---	20	20	20
Total Management Actions	392	673	829	947	972
Fare & Toll Hikes:					
January 1, 2011	---	413	432	437	441
January 1, 2013	---	---	---	457	474
Total Fare & Toll Hikes	---	413	432	894	915
Policy Actions:					
Defer OPEB Contribution	57	---	---	---	---
Long Island Bus Subsidy	---	27	26	22	24
Working Capital	---	---	(100)	(100)	(100)
Bridge and Tunnel Holdback	---	(31)	(20)	(35)	(2)
Total Policy Actions	57	(4)	(94)	(113)	(78)
Total Gap-Closing Program	449	1,082	1,167	1,728	1,809
Prior Year Carry-Over	130	12	67	---	156
Net Cash Surplus/(Deficit)	\$ 12	\$ 67	\$ (92)	\$ 156	(141)

Note: The July Plan includes a reserve of \$50 million in 2010 and \$100 million annually thereafter.
Sources: Metropolitan Transportation Authority; OSC analysis

reduced service on the M and G subway lines, and curtailed express and local bus service. The Long Island Rail Road shortened and reduced the frequency of peak and off-peak trains, and eliminated night service to Brooklyn on the Atlantic branch. Metro-North Railroad reduced peak and off-peak train service.

Administrative Savings: The MTA expects to save \$74 million in 2010 and about \$100 million annually thereafter by eliminating 977 administrative positions. The MTA claims it has already eliminated most of the 722 administrative positions planned for 2010, but one-third of those positions (240) were already vacant. Most of the remaining positions will be eliminated in 2011.

Paratransit Savings: The MTA plans to reduce the cost of the paratransit program by \$30 million in 2010 (\$10 million less than initially planned, due to a late start) and by \$80 million in subsequent years, by restricting access and replacing door-to-door service with service to and from fixed-route transit (e.g., buses and subways). The MTA also hopes to realize savings from non-service-related actions, such as improved scheduling and the increased use of vouchers for taxi and car services. The contractual cost of the service has more than doubled since 2006, but the portion funded by the MTA has almost tripled, to just under \$300 million, because of a 1993 agreement between the MTA and the City that limits the City's contribution (see Figure 2).



Labor Savings: The July Plan assumes that the cost of any wage increases in the first two years of any future labor agreements will be offset through productivity improvements and work rule changes, for annual savings of as much as \$200 million by 2013. Employees who are not represented by

unions (e.g., managers) did not receive a raise in 2009 and are not expected to receive one in 2010, which will save another \$15 million annually.

The July Plan also assumes that the recent arbitration award between the MTA and the Transport Workers Union (the MTA is contesting the third year of the award) will set the pattern for unionized employees in Bridges and Tunnels, Long Island Bus, MTA Police, MTA Bus, and New York City Transit. The July Plan assumes that the unions for the commuter railroads, whose labor contracts expired in June 2010, will receive annual wage increases of about 2 percent after a two-year wage freeze.

Future Actions: The MTA plans to implement new operating efficiencies to save \$75 million in 2011 and as much as \$200 million in 2014. These actions have not been fully specified, but may include additional consolidations and better management of information systems.

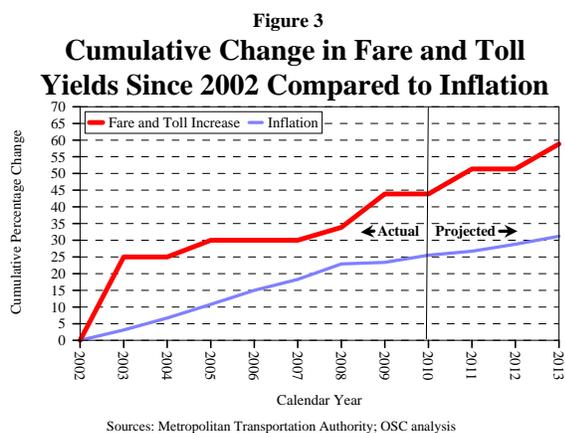
Additional Overtime Savings: In addition to the overtime savings expected as part of the BRP (\$20 million annually beginning in 2010), the MTA intends to reduce overtime by another \$44 million annually beginning in 2011. The MTA believes it can achieve a portion of the savings (\$25 million) on its own, but will require labor's cooperation for the remainder (\$19 million). A recent audit issued by the Office of the State Comptroller found that MTA overtime totaled \$590 million in 2009, and that a culture of acceptance at the MTA enabled overtime abuse. According to the audit, more than 140 employees doubled their salaries through overtime pay, and more than 3,200 employees received overtime pay equal to half of their annual salaries.

MetroCard Fee: The MTA intends to charge a fee of \$1.00, beginning in 2012, for each new MetroCard as an incentive for consumers to refill cards rather than buy new ones. The MTA estimates that this initiative will generate \$20 million annually in additional revenue and savings from printing fewer MetroCards.

Fare and Toll Increases: The MTA intends to raise fare and toll revenue by 7.5 percent in 2011 (to generate \$413 million annually) and by another 7.5 percent in 2013, but the impact on some riders could be much greater. Single-ride subway and bus tickets could increase by \$0.25 to \$2.50, and discounts may be sharply curtailed. The MTA may

eliminate daily and 14-day unlimited MetroCards, and reduce the pay-per-ride bonus from 15 percent to 7 percent. The cost of an unlimited monthly MetroCard could rise by as much as 46 percent. The MTA may raise commuter railroad fares by as much as 9.4 percent and tolls on the major bridges and tunnels by \$0.50.

The MTA did not raise fares and tolls between 1995 and 2002, but has raised them four times since then. Since 2002, the MTA has raised fares and tolls by almost 44 percent, nearly twice as fast as the inflation rate (25.5 percent). The MTA plans to raise fares and tolls by 15 percent over the next three years—more than three times faster than the projected inflation rate (see Figure 3).



The impact on commuters will be magnified if the two-year expansion of the federal tax break for mass transit is allowed to expire on December 31, 2010. Employers are currently allowed to offer employees up to \$230 per month in pre-tax savings for mass transit, nearly twice the prior level of \$120 per month. Senator Schumer, who authored the legislation in the U.S. Senate and who advocates making the expanded benefit permanent, estimates that New York commuters save more than \$150 million a year.

Defer OPEB Contribution: In June 2008, the MTA Board approved the creation of a trust fund to help fund the future liability associated with post-employment benefits other than pensions (OPEBs). The MTA has an outstanding liability of \$13.2 billion, but has deferred planned contributions to the trust fund to help balance its operating budget. The MTA intends to cancel a \$57 million contribution planned for 2010. The July Plan assumes that \$270 million previously borrowed from the OPEB trust fund to help

balance the operating budget will be repaid in equal installments in 2011 and 2012.

Long Island Bus Subsidy: The July Plan assumes that the MTA will no longer fund the operating deficits of Long Island Bus, which it has been doing since 2000 when Nassau County began to reduce its financial support of the service. This initiative, which could save about \$25 million annually beginning in 2011, could result in a sharp curtailment in bus service in Nassau County.

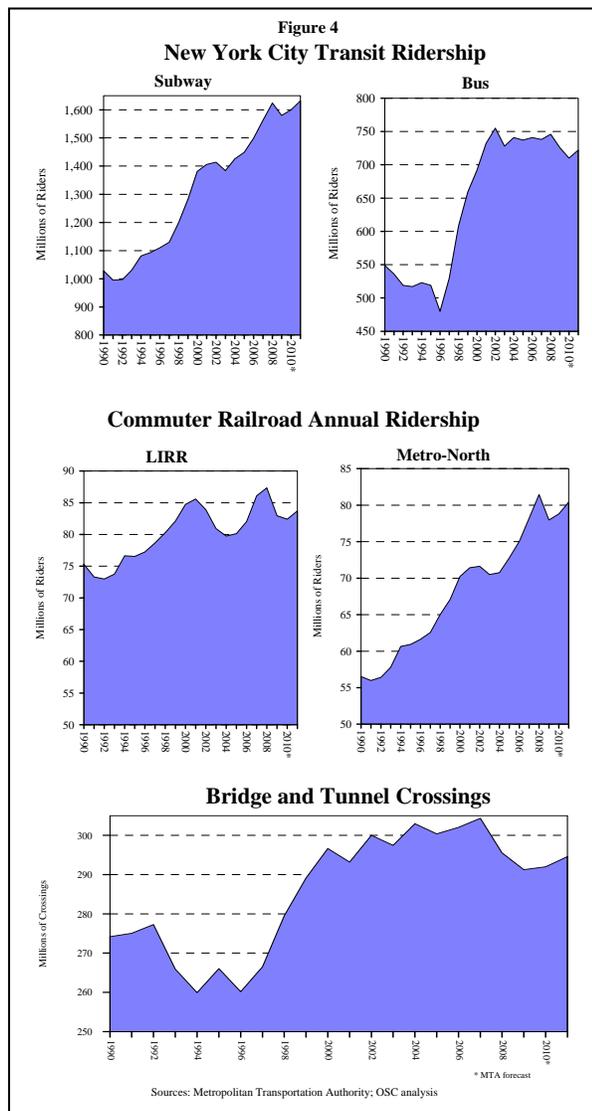
Working Capital: The MTA has used non-bond proceeds from the capital budget to meet its cash flow needs for the operating budget, but the capital program needs those resources to fund capital projects. Beginning in 2012, the MTA plans to set aside \$100 million annually in operating budget revenues until it accumulates \$500 million in working capital. Instead, the MTA should consider raising the needed resources over a longer period of time; generating the resources from internal efficiencies; or borrowing to meet its cash flow needs, as New York City and other entities do, to reduce the need for fare and toll increases.

Bridges and Tunnels Holdback: The MTA plans to allocate one-third of the revenue generated from planned toll increases in 2011 and 2013 to help fund the Bridges and Tunnels capital program on a pay-as-you-go basis. The amount averages \$28.7 million annually from 2011 through 2013.

Utilization Trends

The use of mass transit services (i.e., subway, bus, and commuter railroads) grew by 3 percent in 2008 to reach the highest level in decades, but in 2009 utilization declined by 2.8 percent, due largely to the loss of 107,000 jobs in New York City. The July Plan assumes that mass transit ridership will remain steady in 2010 and then grow by 2 percent in 2011 and 2012. Figure 4 shows utilization trends for each service since 1990 (also described below).

New York City Transit: Subway ridership grew by 17.5 percent between 2000 and 2008, when ridership reached its highest level since 1950. In 2009, ridership declined by 2.7 percent—a loss of 44 million riders. The July Plan assumes that subway ridership will rise by 1.3 percent in 2010—this is consistent with performance through May 2010—and then grow at a similar rate during the balance of the financial plan period.



Bus ridership declined by 2.7 percent in 2009, but is still 51 percent higher than in 1996. The July Plan assumes that bus ridership will decline by 2.3 percent in 2010—although ridership dropped by 4 percent through May 2010—and then increase by less than 2 percent annually through the balance of the financial plan period.

Long Island Rail Road (LIRR): In 2008, the LIRR recorded its highest ridership since 1949, but ridership declined by 5 percent in 2009. The July Plan assumes that ridership will decline by 0.6 percent in 2010—although ridership was down by 2.5 percent through May 2010 compared with one year ago—and then grow by 1.5 percent in 2011 and 1.7 percent in 2012.

Metro-North Railroad: In 2008, Metro-North recorded the highest ridership since it began operating in 1982, but ridership declined 4.3 percent in 2009. The July Plan assumes ridership will rise by 1.1 percent in 2010—although it is unchanged from one year ago through May 2010—and then grow by more than 2 percent annually in subsequent years.

Bridge and Tunnel Crossings: Crossings increased by 17 percent between 1996 and 2007, but declined by 4.4 percent over the next two years. The July Plan assumes that crossings will increase slightly in 2010—although crossings have declined by 1 percent through May 2010 compared with one year earlier—and then grow by less than 1 percent annually through the balance of the financial plan period.

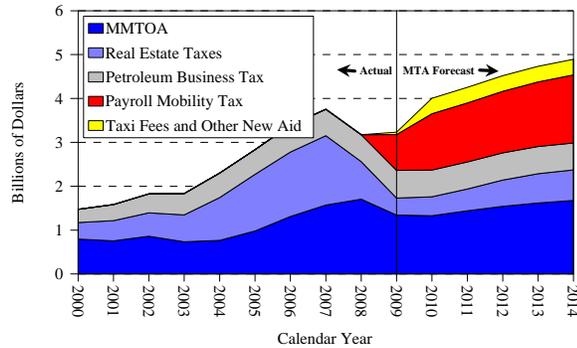
Dedicated Transit Taxes

Since 1980, New York State has imposed taxes and fees on both a regional and a statewide basis to benefit mass transit, including sales taxes, payroll taxes, real estate taxes, petroleum business taxes, and motor vehicle fees.

Dedicated tax revenues were projected to decline by \$1.4 billion in 2009 compared with the record level set in 2007 before the payroll mobility tax and other new taxes and fees were enacted by the State to help the MTA. The projected decline reflected a dramatic drop in real estate-related tax revenues as both commercial and residential real estate markets hit rock bottom. Real estate tax revenues declined to \$389 million in 2009—75 percent less than the record \$1.6 billion collected in 2007. While real estate collections remain weak, collections could increase quickly when the economy improves.

Dedicated taxes and fees are expected to produce \$4 billion in 2010, compared with \$1.5 billion in 2000 (see Figure 5). Most of the increase reflects the enactment of the payroll mobility tax in May 2009, which imposed a new tax equal to \$0.34 per \$100 of payroll in the MTA region. The tax was expected to generate \$1.5 billion in 2010, but collections are now forecast to be lower by almost \$300 million annually because the recession was deeper than had been anticipated. A number of suburban counties are challenging the constitutionality of the payroll mobility tax.

Figure 5
MTA Dedicated Tax Revenues



Sources: Metropolitan Transportation Authority; OSC analysis

Staffing Levels

As shown in Figure 6, the MTA plans to reduce the number of budgeted positions by 3,470 (5 percent) by the end of 2010 compared with the forecast it made in November 2009. We estimate that 1,540 of the positions (44 percent) will affect customer service.

Figure 6
MTA Staffing Levels

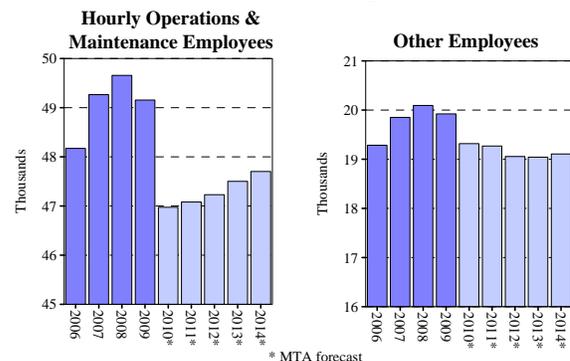
November 2009 Forecast		69,762
Streamlined Operations	(885)	
Administrative Staff Reductions	(977)	
Bus & Subway Service Cut	(699)	
Station Agents	(450)	
Other Reductions	(459)	
July 2010 Forecast		66,292

Sources: Metropolitan Transportation Authority; OSC analysis

According to the July Plan, the number of hourly maintenance and operational employees will decline by 2,684 positions (5.4 percent) by the end of 2010 compared with the 2008 level (see Figure 7), which largely reflects the implementation of recent service reductions. The number of other employees (e.g., supervisory, professional, technical, clerical, and non-operations/non-maintenance hourly titles) rose by 810 employees between December 2006 and December 2008, but the MTA plans to eliminate 778 positions (3.9 percent) of these positions by the end of 2010, and smaller reductions are planned for 2011, 2012, and 2013.

Central administrative staffing, which is included in the “Other Employees” portion of Figure 7, grew by 645 employees between December 2004 and December 2009 (including 151 employees associated with MTA Bus). In the five months since then, the MTA has eliminated 261 of these positions and plans to eliminate another 318 positions by the end of 2010. Administrative staffing is expected to decline by another 172 positions by 2012, when additional functions are expected to be consolidated.

Figure 7
MTA Staffing



Sources: Metropolitan Transportation Authority; OSC analysis

Risk Assessment

The MTA has implemented most of the gap-closing initiatives planned for 2010, and is on track to balance this year’s budget. Next year’s budget includes management initiatives valued at \$264 million that will require close monitoring because of their potential for slippage (see Figure 8). The level of risk nearly doubles, to \$515 million in 2013, and could reach \$551 million by 2014. The MTA should be prepared with alternative initiatives in case these cost-reduction proposals fall short of target.

Figure 8
OSC Risk Assessment
(in millions)

	2011	2012	2013	2014
Paratransit Savings	(80)	(80)	(80)	(80)
Labor Savings	(38)	(129)	(194)	(203)
Future Actions	(75)	(125)	(175)	(200)
Overtime	(44)	(44)	(44)	(44)
LI Bus Subsidy	(27)	(26)	(22)	(24)
Total	(264)	(404)	(515)	(551)

Sources: Metropolitan Transportation Authority; OSC analysis

Reserves and Other Resources

The MTA's financial plan sets aside operating budget resources for purposes other than balancing the operating budget. In general, these purposes are fiscally prudent and will help the MTA's long-term financial position; on the other hand, the resources could mitigate planned fare increases.

The balance in the MTA's OPEB trust is expected to grow from \$67 million in 2010 to \$591 million by 2014 (see Figure 9), assuming the MTA repays, as planned, \$270 million borrowed in prior years to balance the operating budget.

The MTA also plans to set aside \$838 million in operating budget revenues through 2014 to fund capital projects on a pay-as-you-go (PAYGO) basis, and an additional \$300 million to create working capital. These initiatives are commendable, but the amounts and the timing raise questions given recent service reductions and large increases in fares and tolls proposed by the MTA for 2011 and 2013. The Comptroller recommends that the MTA instead obtain the resources through additional internal efficiencies.

Figure 9

Reserves and Other Resources Available to Fund the MTA Operating Budget (in millions)

	2011	2012	2013	2014
OPEB Fund Balance	\$ 261	\$ 458	\$ 523	\$ 591
Working Capital	---	100	100	100
PAYGO Financing	131	170	235	252
Total	\$ 392	\$ 728	\$ 858	\$ 943

Sources: Metropolitan Transportation Authority; OSC analysis

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), due to a capital investment of \$64 billion. Despite this progress, many parts of the system are still in need of repair and modernization, and the MTA has undertaken an ambitious expansion program.

In August 2009, the MTA proposed a \$28 billion capital program for 2010-2014. The program would have continued to restore and modernize the existing system; complete the East Side Access project and the first phase of the Second Avenue Subway; and examine future expansion projects.

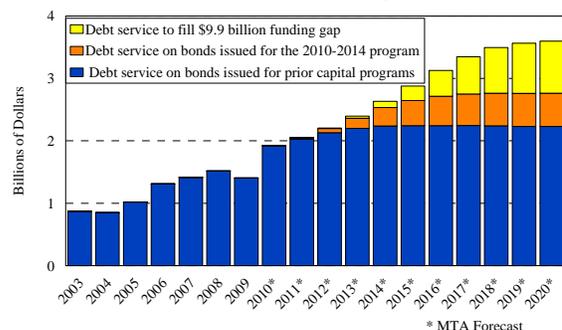
In September 2009, the State Comptroller reported that the proposed capital program would have funded only 67 percent of the MTA's capital needs. Moreover, the program had a funding gap of \$9.9 billion despite a large increase in State aid. The MTA has since scaled back the capital program to \$26 billion, as federal aid is unlikely to grow as fast as previously expected, but the five-year program still has a funding gap of \$9.9 billion and full funding for only the first two years.

The financing program for the 2010-2014 capital program assumes the issuance of \$6 billion in bonds, supported by the payroll mobility tax. The July Plan, however, assumes the issuance of \$4.4 billion in bonds with the balance funded by \$1.6 billion in operating revenue.

Debt service is projected to rise from \$848 million in 2004 to \$2.2 billion by 2014 just to finance past capital programs. The 2010-2014 capital program would increase debt service by about \$300 million, to \$2.5 billion by 2014. Accordingly, the share of operating revenues used to support the capital program (debt service and PAYGO) would grow from 17 percent in 2010 to 20 percent in 2014.

These estimates are based on the MTA's optimistic assumption that the State and its localities will fill the \$9.9 billion funding gap in the 2010-2014 capital program. If the MTA instead borrowed to fill the funding gap, debt service would nearly double in ten years, growing from \$1.9 billion in 2010 to \$3.6 billion in 2019 (see Figure 10). Such a heavy reliance on debt would place a serious burden on the operating budget, just as heavy borrowing in the past has contributed to the MTA's current fiscal crisis.

Figure 10
MTA Debt Service Projections



Sources: Metropolitan Transportation Authority; OSC analysis

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