Financial Outlook for the Metropolitan Transportation Authority

Report 10-2022

OFFICE OF THE NEW YORK STATE COMPTROLLER

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Executive Summary

Since the start of the COVID-19 pandemic, the MTA has been in a state of existential crisis. In February 2021, the MTA projected cash deficits before gap-closing actions of $5.7 billion in 2021, $4.8 billion in 2022, $4.1 billion in 2023 and $4 billion in 2024. The historic gaps anticipated at that time were largely the result of the dramatic drop in ridership caused by the COVID-19 pandemic. The gap projected for 2022 represented 36 percent of total revenue, and the gaps beyond 2022 rivaled those recorded during the Great Recession. Due to extraordinary levels of federal aid, the MTA will be able to manage gaps through fiscal year 2023, avoiding an immediate crisis, but it still has many challenges looming on the horizon.

On July 21, 2021, the MTA released a midyear update to its 2021 budget and a four-year financial plan based on the preliminary budget for 2022 (the "July Plan"). In response to a better-than-expected economy, the utilization of services has returned faster than expected in the worst-case scenario that the MTA assumed in February. As a result, fare and toll revenue is expected to increase by $1.7 billion in 2021, $1.6 billion in 2022, $831 million in 2023 and $395 million in 2024. Dedicated taxes and subsidies also improved by $1.8 billion during the financial plan period.

Despite these improvements, the July Plan still forecasts substantial gaps of $4.8 billion in 2021, $2.9 billion in 2022, $2.5 billion in 2023, $2.8 billion in 2024 and $3.3 billion in 2025. The MTA, to its credit, has laid out how it plans to close each year's budget gap in the July Plan. However, the development of this strategy highlights a fundamental long-term imbalance between revenues and expenditures, which is widening. On an accrual basis of accounting, baseline spending in the July Plan is projected to increase at an average annual rate of 4.2 percent between 2021 and 2025, faster than the projected inflation rate, at the same time that revenues flatten out as federal funding is exhausted in 2025.

The MTA's strategy to close the budget gaps from 2021 through 2025 relies on six main elements: $10.5 billion of federal aid; $1.9 billion from fare and toll increases; $1.3 billion from deficit financing in 2025; about $200 million annually from service reductions to align with demand; $150 million annually from additional transformation plan savings; and $734 million from a wage freeze during 2022 through 2025. Federal aid makes up nearly two-thirds of gap-closing measures through 2025, underlining the agency's reliance on these funds.

Outside of federal aid, the largest source of funding is planned fare and toll increases. Already, the MTA board has expressed an interest in postponing fare increases in 2021, which presents a risk to anticipated revenue included in the plan. Planned fare increases coincide with cost saving plans to reduce service to align with expected "new normal" ridership levels starting in 2023. Implementing the reductions, however, has the potential to dampen ridership and associated revenue.

The MTA will have to carefully manage these decisions while continuing to encourage a return in ridership amid greater competition from alternative forms of commuting and the emergence of expanded work-from-home options. July Plan projections were also updated to shift from a worst-case scenario to a midpoint scenario for ridership return. Additional complications could occur if the Delta variant pushes commuters to change travel patterns or employers to postpone returns to work.

As an illustration of the scope of this uncertainty, the Office of the State Comptroller estimates that fare revenue in 2022 could be

$300 million higher than planned if workers telecommute an average of 1.5 days per week starting next spring, but could be $500 million lower than planned if workers telecommute an average of 3 to 4 days per week.

Another risk in the July Plan is recurring future savings from the MTA's transformation plan associated with cuts to administrative staff. The MTA already included $325 million in recurring savings beginning in 2022 from the planned elimination of 2,725 positions in its February plan. A look at MTA data, however, reveals that most of these eliminated positions were not administrative, as recommended during plan development, but from operational and maintenance vacancies that opened up during the pandemic and have a direct impact on service.

Of those positions, 2,295 (84 percent) were in maintenance and operations, and 1,840 of those were hourly employees, not managers and supervisors. It is unclear whether the MTA will be able to generate the remaining $150 million in recurring savings by completing its administrative cuts, or that savings from operational and maintenance vacancies will continue after the MTA begins hiring again.

The July Plan also relies on negotiations with, and management of, the MTA work force. There is no guarantee that the agency's collective bargaining units that still lack a contract will agree to new contracts that call for only two years of wage increases, or that the next round of collective bargaining will align with MTA expectations.

These and other risks to the July Plan, including overtime costs, could increase budget gaps by at least $347 million in 2022, $496 million in 2023, $400 million in 2024 and $309 million in 2025. These risks could be offset by other savings such as lower pension contributions, continued efficiencies or reserves.

Despite these planned efforts, with their associated risks, the MTA is still only able to balance the 2025 budget with the use of deficit financing. Concerningly, the MTA also has identified deficit financing as a means for balancing its 2024 budget if risks laid out above come to fruition, which would accelerate and expand the use of deficit financing for operations to a total of $2.9 billion through 2025.

Deficit financing creates a long-term liability to manage short-term needs. This practice ends up creating more costly fixed expenses to pay for services already rendered, while adding to the MTA's debt burden and taking valuable funds away from long-term capital investments. Such practices, used on a recurring basis, become unsustainable.

This planned reliance on debt to manage operations comes as the MTA's debt burden continues to be an area of concern. The MTA expects the burden to stay relatively high at around 20 percent of total revenue for the duration of the financial plan period. The MTA has continued a pre-pandemic practice of structuring some bond sales to defer the payment of principal, effectively reducing short-term debt service, but placing the burden on future MTA budgets. The MTA also plans to delay the issuance of debt, which could slow the pace of capital commitments further.

If the federal infrastructure bill now being considered in Congress is passed, however, the MTA could receive more federal support than its capital plan currently anticipates. In addition, congestion pricing is expected to generate $15 billion for the MTA's 2020-2024 capital program. The starting date of the program is still unknown, although the MTA now assumes it to be in 2023. The timely implementation of the congestion pricing program could bring more riders to the transit system to help in the MTA's recovery, as well as reducing ever-increasing traffic congestion.

Concerns over full and timely funding of the capital program, and the likelihood of more frequent inclement weather events, also suggest that the MTA should reassess its capital needs and publish a new needs assessment, which was deferred in 2018. Prioritization of the capital program requires an accurate analysis of the areas that are not in a state of good repair in order to keep the system operating effectively, ensure rider safety and protect against future emergencies.

Overall, the MTA's financial picture through 2023 has brightened in the short term, but many risks remain over the long term, and the agency faces major decisions about how to achieve budget balance once federal funding is exhausted. The greater New York City region cannot achieve a full economic recovery without a financially stable MTA. State and local leaders must come together and work towards finding solutions to the agency's challenges so that the region's transportation infrastructure will enable it to recover and thrive.

MTA Utilization During the Pandemic

The first confirmed case of COVID-19 in New York State was identified on March 1, 2020, in New York City. Six days later, the Governor declared a disaster emergency in the State. On March 22, in response to community transmission of the virus, New York State initiated a “pause” on nonessential activities. The pause closed all nonessential businesses, limited gatherings, and placed social-distancing requirements on essential activities including public transit.

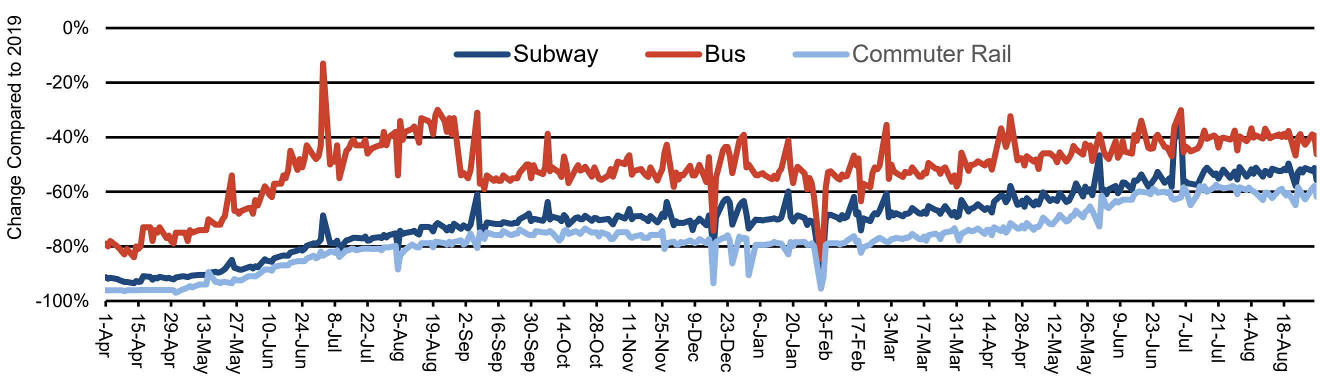
The MTA tactically reduced service in order to increase disinfection and sanitization procedures and to manage operational expenses, while also meeting social distancing and testing guidelines and continuing to transport essential workers. The MTA also took the unprecedented step of shutting down late night subway service from May 2020 to May 2021 to undertake a complete nightly cleaning of the system.

The combination of behavioral responses from the public due to the virus, limitations on nonessential activities, and service changes to ensure safety together resulted in steep drop-offs in ridership. Weekday subway ridership hit its nadir in April 2020, declining by 92 percent from the same month in 2019. Also in April 2020, MTA commuter railroad weekday ridership dropped by 96 percent from 2019. MTA bridge and tunnel weekday crossings were 62 percent lower in April 2020 when compared to the year before.

Weekday subway ridership began to return in the summer of 2020 as the region progressed through the State’s phases of reopening, but growth stalled in the winter as a second wave of COVID-19 began (see Figure 1). In response to declines in the State COVID-19 positivity rate, the Governor ended the disaster emergency on June 24, 2021. Ridership picked up thereafter but is still well below pre-pandemic levels. In August 2021, weekday subway ridership was 53 percent below the level in 2019; weekday bus ridership was 40 percent below that level; and MTA weekday commuter railroad ridership was lower by 60 percent. Ridership in September is showing improvement, however, hitting a post-pandemic high this month.

The Office of the State Comptroller (OSC) maintains a subway ridership dashboard that shows how uneven the return of ridership has been. Station data for August 2021 indicates wide variation in the use of subway service. The six major transit hubs in Manhattan all had ridership no higher than 32 percent of August

FIGURE 1
Weekday MTA Ridership Compared to Pre- Pandemic (2019) Equivalent Day



Sources: Metropolitan Transportation Authority; OSC analysis

2019 levels. In contrast, eight stations, all of which are located outside the central business district, have ridership that is at least 60 percent of August 2019 levels.

The MTA's February 2021 financial plan noted the uncertainty of how the pandemic was unfolding. Although it allowed for potential improvement, the plan assumed the worst-case scenario for the return of ridership, as developed by its consultant, McKinsey. The July Plan now assumes the midpoint between the consultant's best-case and worst-case scenarios, which tracks with the actual return of ridership thus far in 2021. (Ridership on the Staten Island Railway is still expected to return in line with the worst-case scenario.)

After peaking at nearly 1.8 billion riders in 2015, annual MTA subway ridership experienced three years of steady decline amid deteriorating service and the growing adoption of ride-hailing apps, particularly in the outer boroughs. In the wake of much-needed repairs to the system that improved performance, ridership began to recover in 2019. But the COVID-19 pandemic caused it to drop precipitously in 2020.

The subway system served just shy of 640 million riders in 2020, a 62 percent decline compared to 2019. The July Plan now assumes that riders will return to the system slowly, reaching a "new normal" ridership of 1.5 billion in 2024, which is still 13 percent less than in 2019 (see Figure 2). If the economic recovery from the pandemic drags out, it might take longer to recover than the MTA expects, given the ridership loss and the potential for riders' behavioral changes.

Ridership on the Long Island Rail Road (LIRR) reached 91.1 million in 2019 (see Figure 3), its highest level since the postwar record reached in 1949. However, ridership fell to 30.3 million in 2020, a 67 percent drop. The July Plan expects

FIGURE 2
Annual MTA Subway Ridership

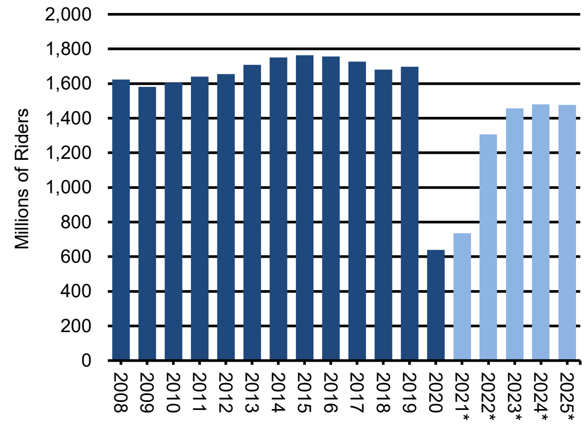


FIGURE 3
MTA Commuter Rail Ridership

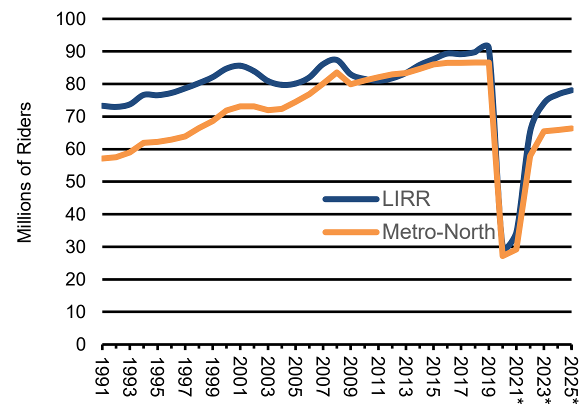
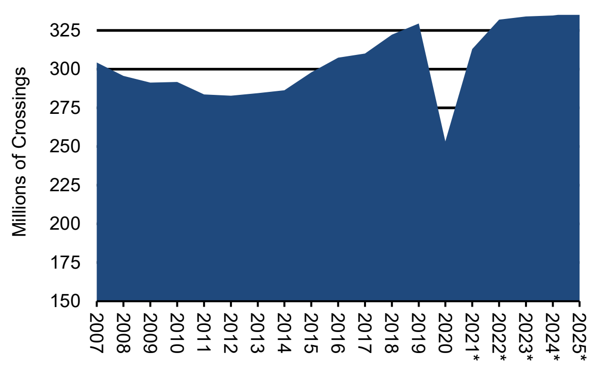


FIGURE 4
MTA Bridge and Tunnel Crossings



*MTA forecast,

Source: Metropolitan Transportation Authority

ridership to slowly recover, reaching 78 million in 2025, still 14 percent lower than in 2019.

Figure 3 also shows ridership trends for the Metro-North Railroad. Ridership reached a record of 86.6 million in 2019 before dropping 69 percent to 27.2 million in 2020. The July Plan expects Metro-North ridership to reach 66 million by 2025, 23 percent lower than in 2019.

The return of riders to the MTA's commuter railroads may not meet expectations if greater than anticipated numbers of office workers continue working remotely, or if resurgent waves of the pandemic require them to do so. While many employers currently anticipate a continued return to the office this fall, concerns over the Delta variant have also led some to delay the return of employees or reducing on-site staff for safety purposes.

Prior to the pandemic, MTA bridge and tunnel crossings reached a record 329.4 million in 2019 in response to robust economic growth. However, crossings fell 23 percent in 2020 to 253.2 million (see Figure 4). Bridge and tunnel crossings were less impacted by COVID-19 than other modes of transportation, and the July Plan expects them to rebound more swiftly and more completely, reaching a new record of 332 million in 2022.

The recent trends incorporated into the July Plan indicate that a full recovery during the financial plan period is unlikely. The July Plan expects utilization trends to reach new baselines between 82 percent and 91 percent of pre-pandemic levels beginning in 2024, which might require the MTA to recalibrate its service for this "new normal" level of ridership. The new baselines are the result of the expected continuation of hybrid work schedules, increased online shopping, and continuing increased reliance on alternative means of travel such as walking or bicycling. Nevertheless, the recovery in MTA service utilization has been slightly faster than anticipated so far in 2021, and congestion pricing, once it is operational, could incentivize some additional riders to use mass transit.

How the Budget Gaps Were Narrowed

In February 2021, the MTA released a financial plan covering calendar years 2021 through 2024. The MTA projected cash deficits before gap-closing actions of $5.7 billion in 2021, $4.8 billion in 2022, $4.1 billion in 2023 and $4 billion in 2024. These gaps were historic in nature. The anticipated gap in 2022 was 36 percent of total revenue and the gaps forecast beyond 2022 rivaled those during the Great Recession.

Since then, utilization of the MTA's services has returned faster than expected when compared to the worst-case scenario that was assumed in the February Plan. Thus revenue is expected to increase by $1.7 billion in 2021, $1.6 billion in 2022, $831 million in 2023 and $395 million in 2024. The July Plan reflects an additional $142 million annually, on average, from a 6 percent toll yield increase in 2021, which is higher than the February Plan assumption of 4 percent. Dedicated taxes and subsidies are projected to improve by $1.8 billion during the financial plan period, driven by higher-than-expected real estate taxes, mostly mortgage recording taxes outside of the City.

With an improved short-term financial picture, the MTA has decided to restore the capital funding that had been included in the operating budget prior to the pandemic. This will increase budget gaps by $1.1 billion over three years. The MTA plans to spend $307 million for new needs or investments over four years, including funds for communication-based train-control signal maintenance and for the cost of increasing Metro-North service to 83 percent of pre-pandemic weekday levels.

After these baseline changes, the MTA forecasts gaps (before the gap-closing program) of $4.8 billion in 2021, $2.9 billion in 2022, $2.5 billion in 2023 and $2.8 billion in 2024 (see Figure 5). The gap in 2022 would decline to 18 percent of total revenue in the July Plan, and the out-year gaps average 17 percent of revenue, still relatively high.

FIGURE 5

MTA Budget Changes in July Plan Since the February 2021 Financial Plan

(in millions)

	2021	2022	2023	2024
February Cash Surplus/(Deficit)	**$ (5,669)**	**$ (4,783)**	**$ (4,113)**	**$ (4,024)**
Fare and Toll Revenue	1,821	1,694	972	539
Dedicated Taxes and Subsidies	489	322	493	538
Restore Funding to Capital Program	(882)	(120)	(114)	- - -
New Needs/Investments	(33)	(87)	(86)	(101)
Use of General Reserve	(335)	- - -	- - -	- - -
Other Changes	(205)	117	349	296
Total Changes	**855**	**1,926**	**1,614**	**1,272**
Deficit Before Gap-Closing Actions	**$ (4,814)**	**$ (2,857)**	**$ (2,499)**	**$ (2,752)**

Source: Metropolitan Transportation Authority

Operating Budget Trends

On July 21, 2021, the MTA released a midyear update to its 2021 budget and a four-year financial plan based on the preliminary budget for 2022. The July Plan projects that the MTA's operating budget will total $18.3 billion in 2022, including debt service on bonds issued to finance the capital program, and still assumes that fares will be raised in 2021.

As Figure 6 shows, 40 percent of the MTA's 2022 revenues will come from fare and toll revenue (28 percent and 12 percent, respectively). Dedicated taxes enacted by the State will account for more than one-third of total revenue, and State and local subsidies and other funding agreements will contribute another 8 percent. Other operating revenues, such as advertising income, make up 4 percent. Pandemic-related federal aid ($2.6 billion) is expected to contribute the remaining 15 percent of operating revenue.

Nearly 60 percent of the MTA operating budget is devoted to personnel costs, including payroll, overtime and fringe benefits (see Figure 7). Debt service represents 17 percent of the budget, while other nonlabor costs, such as maintenance contracts, materials and supplies, and energy costs, make up 24 percent of the budget.

On an accrual basis of accounting, baseline spending is projected to increase at an average annual rate of 4.2 percent between 2021 and 2025, faster than the projected inflation rate (2.2 percent annually), while revenues flatten as federal funding runs out in 2025. Appendix A shows detailed forecasts for MTA revenues and expenditures for calendar years 2021 through 2025.

Revenue Trends

Baseline revenues are expected to increase by 6.2 percent annually between 2021 and 2025

FIGURE 6
Sources of Revenue (2022)

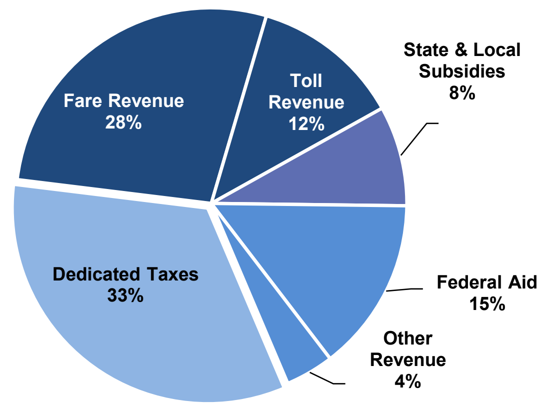


FIGURE 7
Planned Spending (2022)

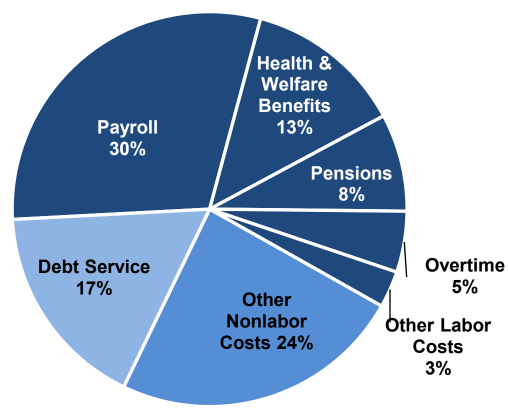
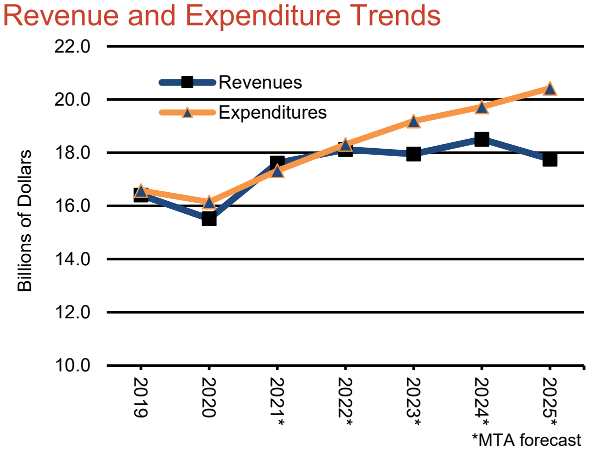


FIGURE 8
Revenue and Expenditure Trends



Source: Metropolitan Transportation Authority

but when the impact of declining federal funding is included, revenues will remain relatively flat (see Figure 8). The July Plan expects revenues to increase by 13.5 percent in 2021, as toll revenues increase by 31 percent and tax revenue rises by nearly 10 percent. In 2022, revenues are expected to rise by 2.9 percent to $18.1 billion, as a 72 percent increase in fare revenue is offset by a lower level of federal aid that year. The MTA anticipates that fare revenues will increase by 4 percent annually between 2022 and 2025 (not including projected fare increases), but the 2025 level would still be 14 percent below 2019.

Tax revenue dedicated to the MTA is expected to increase 10 percent in 2021, then remain flat in 2022, before increasing by an average of 4 percent annually between 2022 and 2025. The MTA received $391 million in 2021 that the State had held back in 2020 from the Metropolitan Mass Transportation Operating Assistance Account (MMTOA).[1] Not counting those extra payments, MMTOA collections are expected to increase by 3.6 percent in 2022. Collections are then expected to increase by an average of 3 percent annually through 2025.

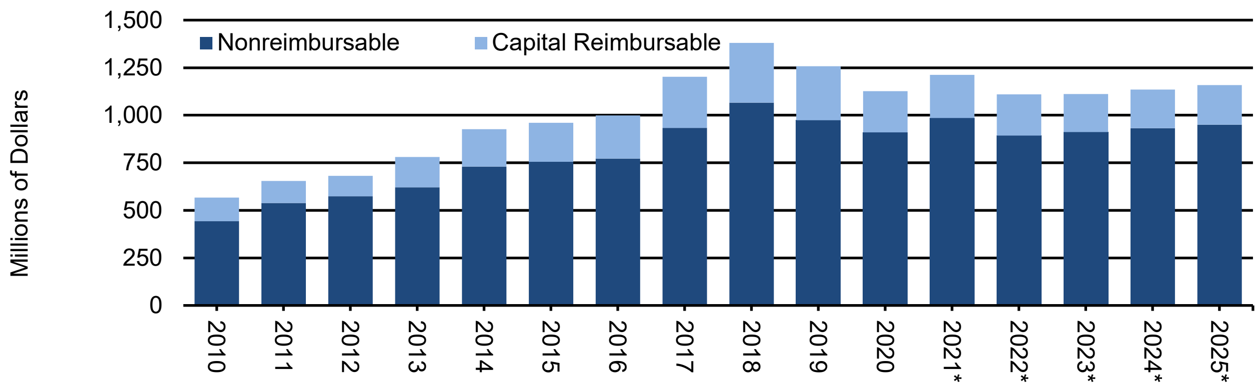
Collections from real estate transaction taxes are projected to increase 13 percent in 2021, driven by higher mortgage recording taxes, and by another 13 percent in 2022, driven by higher commercial real estate activity in New York City, before increasing by 5 percent annually through 2025.[2]

Expenditure Trends

Baseline expenditures are expected to increase by 4 percent annually between 2021 and 2025, driven by an average annual increase of 7.5 percent in health and welfare costs for active employees and retirees, which is more than three times faster than the projected inflation rate. Another factor in the growth of expenditures is a 6 percent annual increase in debt service, as projected borrowing for the capital program increases.

Payroll costs are expected to increase by 2.8 percent annually during this period,

FIGURE 9
MTA Overtime Costs



Sources: Metropolitan Transportation Authority; OSC analysis

* MTA forecast

[1] The MMTOA is funded from a portion of the state-wide petroleum business tax and collections in the MTA's 12-county region of the corporate franchise tax surcharge, a sales tax and the corporate franchise tax on transportation and transmission companies.

[2] These tax estimates exclude newly authorized taxes for the 2020-2024 capital program.

reflecting wage increases that were agreed upon with the Transport Workers Union (TWU) as well as TWU-patterned increases for the rest of the MTA's unionized employees. These assumptions do not include the wage freeze that the MTA has proposed as a gap-closing action. Nonlabor costs are expected to grow by 4.7 percent annually during this period, driven by higher costs for paratransit contracts (12 percent annually), legal claim payments and energy.

MTA overtime spending grew by 143 percent between 2010 and 2018, reaching a record of nearly $1.4 billion (including costs reimbursed by the capital budget; see Figure 9). The increase was mainly driven by the Subway Action Plan, the LIRR's corrective action plan and to cover positional vacancies.

In 2019, the Governor and the MTA Chairman called for an investigation into fraud and overtime abuse after large overtime payments to some workers were publicized. The law firm hired by the MTA to examine its usage of overtime found that the MTA was unable to determine whether there had been widespread overtime fraud because it lacked many of the basic systems necessary to track overtime.

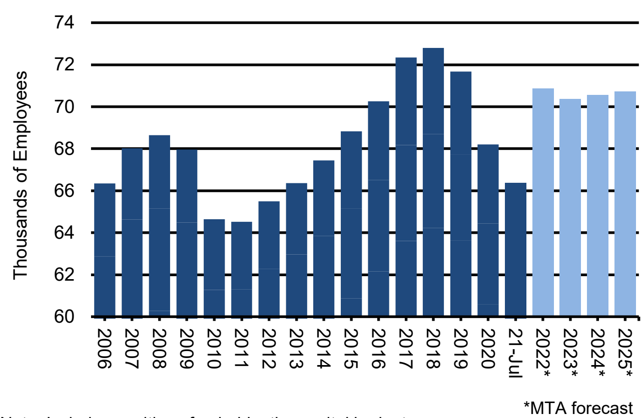
A July 2021 report from the MTA Inspector General found that most MTA employees are now using a MTA-wide system for tracking and monitoring timekeeping and attendance as recommended by the law firm, but that how often employees swiped in and out of work using the system varied widely. For example, in April and May 2021, while 93 percent of bridge and tunnel employees swiped in and out, only 56 percent of bus employees did so.

In 2019, overtime declined by 9 percent to nearly $1.3 billion as the MTA began to better manage its overtime, and in 2020 it fell another 10 percent to $1.1 billion as better management continued while services and construction work were reduced during the pandemic. The July Plan assumes overtime will increase by 8 percent to $1.2 billion in 2021, mostly from employees covering for a high number of vacant positions but overtime is then expected to decline to its 2020 level from 2022 through 2025.

Staffing Levels

Between 2008 and 2011, the MTA cut its work force by 4,116 employees to offset a sharp drop in revenues because of the Great Recession. The work force then gradually increased by 8,277 (mostly operations and maintenance personnel), peaking at 72,800 in December 2018 (see Figure 10).

FIGURE 10
MTA Staffing Levels



Note: Includes positions funded by the capital budget.
Sources: Metropolitan Transportation Authority; OSC analysis

In 2019, the number of employees dropped by more than 1,100 positions as the MTA instituted a hiring freeze on administrative and nonoperational positions. In 2020, the work force dropped further by nearly 3,500 positions as the hiring freeze continued and was expanded to operational positions as a result of the MTA's financial crisis during the pandemic.

The hiring freeze on operational positions was lifted in February 2021 as the MTA's budget pressures eased, but in the first seven months of 2021 the work force declined by another 1,841 positions (including 1,670 operational and maintenance positions) as attrition continued. The MTA has slowly begun hiring and training to meet the new levels of service required as ridership returns.

As of July 2021, the MTA work force totaled 66,360 employees, 6,440 fewer than at the end of 2018. The number of operational and maintenance positions that month totaled 58,909, more than 5,300 fewer than in 2018 and close to the 2013 level. That level precipitated the deterioration of service that prompted the State and City to provide funding for the Subway Action Plan, in order to improve performance.

The MTA's operational and maintenance positions are currently understaffed, and it needs to fill the current vacancies. Already, an increasing number of subway trips are being canceled because of the lack of worker availability. The weekday subway percentage of scheduled service delivered in August was only 89 percent compared to 96 percent in August 2020. If lower service levels continue, they could hinder the region's recovery from the pandemic

The July Plan authorizes the MTA to hire 4,498 employees between July 2021 and December 2022 to reach 70,858 employees, and expects the number of staff to drop slightly in 2023 and then slowly increase again by 2025. The MTA historically does not hire up to its authorized level, so it is unlikely that all of those positions will be filled.

The July Plan anticipates that more than half of the reduction in operational personnel will be reversed by December 2022, but the forecast for these positions in 2025 is still 2,171 lower than in 2018. Administrative positions in July 2021 declined by more than 700 since December 2018, but the July Plan authorizes the MTA to hire close to the 2019 level by the end of 2022. Public safety positions, including the MTA Police, are expected to increase by 565 positions by December 2022. Capital and engineering positions are expected to increase by 339 between July 2021 and December 2022.

Balancing the Budget

The July Plan's strategy to close the budget gaps from 2021 through 2025 relies on six main elements: additional pandemic-related federal aid; deficit financing; higher fares and tolls; a wage freeze; service reductions; and the transformation plan (see Figure 11).

The gaps are projected to be closed with $10.5 billion of unprecedented federal operating aid, $1.9 billion from fare and toll increases, $200 million annually from service reductions to align service with demand, $150 million annually from transformation plan savings, a wage freeze that would save $734 million during 2022 through 2025, and $1.3 billion from deficit financing in 2025.

The MTA has said that if it does not implement the fare increase in 2021 and the other assumed savings, it would have to use the federal operating aid earlier in the plan period, use another $1.6 billion of deficit financing and still have a deficit of $605 million in 2025.

The transformation plan will continue to require close monitoring. In 2003, OSC issued regulations that require the MTA to report quarterly on the status of each gap-closing initiative with a projected value equal to $1 million. The MTA has not yet done so for the reductions in transformation plan positions. Since it is unclear how the MTA will achieve the balance of the anticipated savings, OSC urges the MTA to report its progress regularly and transparently in achieving them.

FIGURE 11
MTA July 2021 Gap-Closing Program
(in millions)

	2021	2022	2023	2024	2025
Projected Baseline Cash Deficit	**$ (4,814)**	**$ (2,857)**	**$ (2,499)**	**$ (2,752)**	**$ (3,337)**
Fare/Toll Increases:					
November 2021 (Fare)	17	179	197	201	200
March 2023 (Fare & Toll)	- - -	- - -	248	301	302
March 2025 (Fare & Toll)	- - -	- - -	- - -	- - -	262
Subtotal:	17	179	445	502	764
MTA Transformation Plan	25	146	151	148	148
Federal Assistance	4,242	2,632	1,527	1,740	719
Service Reductions	- - -	- - -	220	206	206
Deficit Financing	- - -	- - -	- - -	- - -	1,319
Wage Freeze	- - -	171	174	191	198
Other Adjustments	27	(271)	(18)	(35)	(17)
Total Gap-Closing Program	**$ 4,311**	**$ 2,857**	**$ 2,499**	**$ 2,752**	**$3,337**
Prior-Year Carryover	503	- - -	- - -	- - -	- - -
Residual Cash Surplus/(Deficit)	**$ - - -**	**$ - - -**	**$ - - -**	**$ - - -**	**$ - - -**

Source: Metropolitan Transportation Authority

Federal Assistance

In 2020, as the pandemic drastically reduced MTA ridership and revenues, the MTA received $4 billion from the federal Coronavirus Aid, Relief and Economic Security (CARES) Act, which was signed in March 2020, to help support it through the year. The MTA quickly determined that it needed additional federal aid to help it balance its operating budgets over the next five years.

In December 2020, Congress passed the Coronavirus Response and Relief Supplemental Appropriations Act, which is projected to provide the MTA with another $4 billion that the MTA expects to use in its 2021 operating budget.

In March 2021, Congress passed the American Rescue Plan Act, which is expected to provide another $6.5 billion for the MTA's operating budget. The MTA is expecting to use $2.5 billion of these funds in 2022, $1.5 billion in 2023, $1.7 billion in 2024 and the remaining $719 million in 2025. In all, federal operating assistance makes up 24 percent of the MTA's total revenue in 2021, but only 4 percent in 2025. Federal operating aid accounts for almost all of the gap-closing program in 2021 and 2022.

The MTA and New Jersey are currently negotiating on how to split a portion of the federal aid. If New Jersey prevails, the MTA could receive $730 million less in federal funding than it expects in the July Plan.

The MTA also expects to receive $220 million in 2021 and $140 million in 2022 from the Federal Emergency Management Agency for reimbursement of direct COVID-19-related expenses incurred from the start of the pandemic through September 2021.

Deficit Financing

As the pandemic began in 2020, the MTA was given authority by the State to borrow up to $10 billion for operating purposes through December 2022. In December 2020, the MTA borrowed $2.9 billion, from the Federal Reserve's Municipal Liquidity Facility (MLF) before the MLF's lending window expired at the end of 2020. At the time, the MTA was unsure if it would receive additional federal funding to help it balance its operating budgets.

As noted in OSC's recent report on the MTA's debt profile, the MLF loan is due to be repaid in 2023; the MTA plans to issue long-term bonds that year to repay the Federal Reserve.[3] As the MTA has received the additional federal aid it required, it has pushed back the application of the MLF proceeds, from 2020 in the November 2020 financial plan to 2021 and 2022 in the February 2021 financial plan. The July Plan assumes that the largest element of the 2025 gap-closing program will be the use of $1.3 billion of the MLF proceeds. Given the riskiness of the rest of the gap-closing program, the MTA could use the remainder of the MLF proceeds to cover a portion of any shortfalls. However, the MTA and stakeholders should work to close the gap in other ways and re-dedicate these funds for capital purposes, as initially planned.

Fare and Toll Increases

The July Plan assumes a fare yield increase of 4 percent in November 2021. (Toll yields were increased by 6 percent in April 2021, but a fare increase was deferred at that time.) The MTA Board has expressed reservations about raising

[3] OSC, *Annual Update: Metropolitan Transportation Authority's Debt Profile*, Report 1-2022, April 2021, at https://www.osc.state.ny.us/files/reports/osdc/pdf/mta-debt-rpt-1-2022.pdf.

fares in 2021; an increase in 2022 has not been ruled out as an alternative. The 2021 fare yield increase is expected to bring in around $200 million annually. If it is not implemented, the MTA would need to take other actions.

The July Plan also assumes biennial farebox and toll yield increases of 4 percent in March 2023 and 4 percent in March 2025, which are slightly below the projected inflation rate during the four-year period. The MTA's planned fare and toll increases are expected to generate a net of $179 million in 2022, rising to $764 million in 2025.

The Comptroller recommends that fare increases should take into consideration the impact on ridership and the larger impact on the regional recovery. A proper balance between ensuring the long-term fiscal health of the public transit system and supporting the region's recovery must be achieved so that fare increases do not threaten the long-term health of the system, especially through more permanent shifts in rider composition and behavior.

Service Reductions

The July Plan includes service reductions that are expected to align with the "new normal" levels of utilization anticipated after the pandemic. Ridership is not expected to reach between 82 percent and 91 percent of pre-pandemic levels until the mid-2020s.

The projected service reductions in the February Plan were based on the worst-case scenario for the return of ridership, but are now based on the midpoint between the best- and worst-case scenarios developed by McKinsey, the MTA's consultant. The reductions are projected to save $220 million in 2023 and $206 million in each of 2024 and 2025, but the MTA has not detailed the impact of the proposed reductions on riders.

Wage Freeze

The MTA had assumed a two-year wage freeze for all employees in its February Plan, but since its financial situation improved, the MTA has scaled back the impact of this initiative. The July Plan assumes that all settled contracts, including the Transport Workers Union (TWU) contract, will be honored. It also assumes that the other unions that follow the TWU pattern have agreed to or will agree to the pattern for two-year contracts and then two years of a wage freeze. Nonrepresented employees will also be subject to a two-year wage freeze. These actions are expected to save $171 million in 2022, rising to $198 million in 2025.

MTA Transformation Plan

On July 24, 2019, the MTA board approved its transformation plan. The plan was mandated by Section 1279-e of the Public Authorities Law and was developed by AlixPartners, a global consulting firm.

The plan recommended that the MTA:

- Refocus its agencies on core safety, operations and maintenance; and centralize core functions by consolidating more than 40 functional groups within the agencies to six departments.
- Centralize all capital-related functions across its agencies into a new department.
- Create a new central engineering function reporting to a new chief engineering officer.
- Create a new central customer communications function to unify its agencies' communications activities.
- Centralize all operating standards and service design functions.
- Centralize all human resources functions to reduce redundancies.

- Hire a chief operating officer who will oversee all agency presidents and report to the chairman and the MTA board, and a chief transformation officer who will be responsible for implementing the plan and will report directly to the MTA board. The plan also recommends that the MTA appoint an MTA accessibility officer reporting directly to the chairman to help accelerate the creation of a fully accessible system.

AlixPartners estimated that the transformation plan, when fully implemented, would eliminate between 1,900 and 2,700 mostly administrative positions and would reduce costs by a net of $370 million to $530 million annually. It estimated that full implementation would take two to three years.

The MTA included the transformation plan in its July 2019 financial plan with estimated savings of $2.3 billion over four years, but then amended the total to $2.1 billion in the November 2019 financial plan as the MTA determined it could not achieve some savings that AlixPartners had recommended.

The MTA has completed hiring for the leadership positions required by the transformation plan. In 2020, after the pandemic began, the MTA announced that it would be pausing transformation plan activities that required cash or capital outlays, and would instead focus on consolidating administrative functions and providing support to ensure that back-office and administrative processes were operationally effective, efficient and resilient.

In September 2020, the MTA announced that, as a result of increased staff attrition from retirements and resignations, it had achieved its transformation plan goal of reducing staff by 2,700 positions without layoffs.

In February 2021, the MTA incorporated the savings achieved thus far under the transformation plan in its baseline expense projections ($405 million in 2021 and about $325 million annually thereafter). It noted that about $150 million annually of transformation plan savings remained to be implemented.

This month, the MTA noted that the transformation plan's administrative consolidations will be complete in October and that it expects to maximize cost efficiencies achieved through the unification of staff across multiple departments, implement more efficient business processes to reduce time and cost and apply best practices learned throughout the MTA.

A look at MTA data, however, reveals that most of these eliminated positions were not administrative positions as recommended by AlixPartners, but were operational and maintenance positions that have a direct impact on service (see Figure 12).

FIGURE 12
Staff Reductions Under MTA Transformation Plan in 2021

Function	Total Positions Cut	Hourly Positions Cut
Maintenance	1,185	861
Operations	1,110	979
Administration	270	- - -
Engineering/Capital	88	- - -
Public Safety	72	51
Total	**2,725**	**1,891**

Sources: Metropolitan Transportation Authority; OSC analysis

Of the 2,725 positions that have been eliminated in the transformation plan, 2,295 (84 percent) were in maintenance and operations, and 1,840 (80 percent) of those positions were hourly employees, not managers and supervisors.[4] In recognition of the importance of getting new employees trained as quickly as possible to reduce additional service disruption, the MTA has reduced the eight-month training period of new subway operators by one month by cutting the time new hires spend moving out-of-service train cars in yards and terminals.

The MTA consolidated six administrative functions that had been handled separately in its agencies (budget and accounting, communications, diversity and equal employment opportunity, legal, labor relations, and procurement), but what has been achieved so far falls short of reducing 2,700 mostly administrative positions, which is what AlixPartners recommended, and what the MTA sought to achieve when it announced the transformation plan.

Any increased hiring to meet operational and maintenance needs could also erode savings from the elimination of these positions, raising questions as to whether the savings the MTA has achieved from the transformation plan will be recurring after 2021.

[4] The MTA has also eliminated 599 administrative positions as part of the hiring freeze that was in effect before the pandemic, but these savings were not counted toward the transformation plan target.

Potential Risks and Offsets

OSC projects that numerous risks to the MTA's July Plan could lead to outcomes that increase the MTA's budget gaps by $347 million in 2022, $496 million in 2023, $400 million in 2024 and $309 million in 2025 (see Figure 13). The biggest risk to the MTA's finances is that the economy will not improve as quickly as the MTA forecasts, adversely impacting ridership and tax revenues. The projections in the July Plan for ridership (except for the Staten Island Railway) have improved from the February Plan forecast, but uncertainty remains.

Even if the economy improves as quickly as the MTA expects, there is a risk that ridership will not return to planned levels. If more employees than expected change their behavior regarding work from home or other commuting choices, or if COVID-19 variants continue to affect behavior, service utilization may rebound more slowly. As an illustration of the scope of this uncertainty, OSC estimates that fare revenue in 2022 could be $300 million higher than planned if workers telecommute an average of 1.5 days per week starting next spring, but could be $500 million lower than planned if workers telecommute an average of 3 to 4 days per week.

The full implementation of the transformation plan is not anticipated until 2022, when it is expected to begin generating around $150 million in annual savings. However, there are no guarantees that the MTA will do so or that any of the savings it has already achieved from operational and maintenance vacancies will continue after the MTA begins hiring again.

Another uncertainty is the outcome of collective bargaining negotiations. In December 2019, the MTA and the Transport Workers Union (TWU), the authority's largest union, reached a labor agreement covering May 2019 through May 2023. The agreement called for annual wage increases over the four-year period of 2 percent, 2.25 percent, 2.5 percent and 2.75 percent. The agreement includes health insurance savings and initiatives designed to increase employee availability.

As the pandemic started in 2020, the MTA paused negotiations with its remaining unions in light of financial uncertainty and logistical issues. In March 2021, at the time the American Rescue Plan Act was enacted, negotiations resumed. In June 2021, the MTA came to agreements with 90 percent of the LIRR's represented employees and 32 percent of Metro-North's represented employees. These agreements covered 2019 and 2020 and followed the TWU pattern. The July Plan assumes that all remaining unions will accept two years of a wage freeze after 2020, and that other unions that still have expired or amendable contracts will agree to similar agreements. There is a risk that the MTA will not receive a portion of the savings anticipated from wage freezes, or that the next round of collective bargaining would not align with MTA expectations.

The MTA plans to reduce service to align with expected "new normal" ridership levels starting in 2023. Implementing the reductions, however, has the potential to be controversial given that the MTA is expected to receive $10.5 billion in federal operating assistance and that service changes could interfere with the equitable recovery of the region's economy.

The July Plan assumes that MTA overtime costs in 2022 will decline by $104 million from the year before and return to the level achieved in 2020, when service was reduced in response to low ridership and much construction work was also paused. Since the MTA is still in the process of fully tracking and monitoring overtime, and overtime due to vacancies and

FIGURE 13
OSC Risk Assessment of MTA July Plan
(in millions)

	2021	2022	2023	2024	2025
Projected Cash Balance	**$ - - -**	**$ - - -**	**$ - - -**	**$ - - -**	**$ - - -**
NYCERS Pension Contributions	- - -	74	149	223	298
Overtime	- - -	(104)	(100)	(78)	(55)
Wage Freeze	- - -	(171)	(174)	(191)	(198)
Transformation Plan	(25)	(146)	(151)	(148)	(148)
Service Reductions	- - -	- - -	(220)	(206)	(206)
Total Risks and Offsets	**(25)**	**(347)**	**(496)**	**(400)**	**(309)**
OSC Adjusted Surplus/(Deficit)	**$ (25)**	**$ (347)**	**$ (496)**	**$ (400)**	**$ (309)**

Source: Metropolitan Transportation Authority

availability challenges is leading to higher-than-planned overtime at New York City Transit, this may be unrealistic. Higher inflation could also lead to higher-than-planned contract costs.

As noted above in “Federal Assistance, the MTA and New Jersey are currently negotiating on how to split a portion of the federal operating assistance. If New Jersey prevails, the MTA could receive $730 million less in federal funding than it expects over the financial plan period, a significant risk given the plan’s reliance on this source of funding.

These risks might be offset by other savings or reserves. For example, all MTA Bridge and Tunnel employees and two-thirds of New York City Transit employees are members of the New York City Employees’ Retirement System (NYCERS). These agencies make pension contributions as billed by NYCERS. Since NYCERS assumes a 7 percent return on investment and reported a 25.8 percent return in the fiscal year ending June 30, 2021, OSC estimates that the MTA will be able to reduce its pension contribution to NYCERS by $74 million in 2022, rising to $298 million in 2025.

The July Plan includes an annual general reserve of 1 percent of operating expenses (excluding debt service) to be used in each year. In 2022 the reserve is $180 million, rising to $200 million in 2025. As much as $381 million that has been set aside for bridge and tunnel capital projects can also be used for operating purposes if needed.

The enacted State budget authorizes the MTA to borrow up to $10 billion during calendar years 2020 through 2022 to offset decreases in revenue or increases in operating costs that are due, in whole or in part, to the pandemic. As noted above, in December 2020, the MTA borrowed $2.9 billion from the MLF before the MLF lending window expired at the end of 2020. The MTA plans to use $1.3 billion of the proceeds in 2025; the remaining bond proceeds would still be available if needed, which is possible given the riskiness of the gap-closing program.

The MTA, however, should attempt to close the gap through other means and re-dedicate the funds for its 2020 to 2024 capital program, if possible, since using them for the operating budget only puts off the difficult choices that must be made to achieve balanced budgets in 2025 and the years after. The MTA's chronic structural budget imbalance will get even worse if non-recurring resources, such as deficit financing, are used to balance budgets.

The State budget also authorizes the MTA to use capital lockbox revenues during 2020 and 2021 to mitigate the operating budget impact of the pandemic. These revenues had been previously earmarked for the MTA's 2020-2024 capital program. Revenues in the capital lockbox currently include only funds from State and City sales taxes and real estate-related taxes on high-end properties in the City. (Revenues from the congestion pricing program, once it is launched, will also go in the lockbox.) The MTA used $500 million of these revenues to close its 2020 budget gap, but has determined that these funds are no longer needed for the operating budget in 2021 and has recommitted them to the capital budget. Nevertheless, these funds are available for the operating budget if needed in 2021.

The MTA is required to repay any capital lockbox funds used for operating purposes from any federal funds or insurance proceeds received as a result of the pandemic, but only if such funds remain after the MTA fully repays any COVID-19-related public or private commitments.

Status of MTA Capital Programs

The MTA's capital programs are critical to bringing the overall system to a state of good repair, performing normal replacement of assets, and improving and expanding the system to meet riders' needs. The MTA has had chronic difficulty, however, in meeting its capital commitment goals. In 2016 through 2019, for example, it set average annual goals of $7.1 billion for capital commitments but was able to commit only an average of $5.8 billion.

As shown in OSC's recent report on the MTA's debt profile, in 2020, as the 2020-2024 capital program was starting, the MTA set an ambitious goal of committing $13.5 billion for capital work. The pandemic, however, quickly forced the MTA to pause most capital commitments except for those that were federally funded and those that used in-house labor. As a result, only $5.4 billion across all capital programs was able to be committed in 2020. In 2021, now that the pause has been lifted, the MTA has a goal of committing $6.2 billion, nearly two-thirds of which is scheduled in the second half of the year. Through August 2021, the MTA had committed $2.2 billion for new projects, well short of its goal of $3.6 billion for the first eight months of the year.

The MTA's capital program for 2020-2024 totals $54.8 billion, by far the largest program in its history. As of June 30, 2021, only 160 of 568 projects had been completed or begun, with the pace of activity just beginning to pick up in the spring of 2021.

Uncertainties surround some of the planned funding sources for the MTA's 2020-2024 capital program. For example, the largest source of funding, congestion pricing, requires federal approval before construction of the pricing infrastructure can proceed.[5]

The federal government has advised the MTA that it should conduct an environmental assessment of the proposed congestion pricing program, which requires a shorter review time than a full environmental impact statement. The MTA, the federal government and other stakeholders have agreed that the assessment will take 16 months to complete, finishing in December 2022.

Since the MTA historically takes longer than the five-year capital plan period to commit all of its projects, all of the revenue from congestion pricing will not be needed immediately, but OSC recommends that the assessment be completed as soon as possible. The timely implementation of the congestion pricing program could help bring more riders to the system and support the MTA's recovery while reducing ever-increasing traffic congestion.

Congestion pricing is expected to bring in more than $1 billion per year which would support $15 billion in new debt capacity for the 2020-2024 program, but the revenue is not expected until 2023 at the earliest.

State legislation created a capital lockbox for the revenues from congestion pricing. The capital lockbox will also receive a portion of State and City sales tax collections along with taxes on certain properties in New York City, which together are expected to generate another $10 billion for the capital program. State legislation authorizes the MTA to use these revenues during 2020 and 2021 to mitigate the impact of the pandemic on its operating budget. The MTA used $500 million of these funds for operating expenses in 2020, but with the receipt

[5] Congestion pricing will charge fees to vehicles entering and remaining in Manhattan at 60th Street or below.

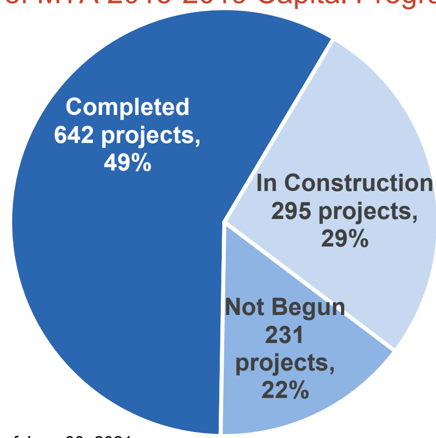
of additional federal funding, it no longer expects to use the funds for this purpose. The MTA has begun the process of issuing bonds based on the lockbox's sales tax revenues.

The MTA is assuming that the federal government will contribute $7.8 billion of federal formula grant funding to the 2020-2024 program ($1.6 billion annually over five years). Congress is nearing final approval of the $1 trillion Infrastructure Investment and Jobs Act (H.R. 3684) that would, among other things, extend the current transportation authorization by five years and provide significant increases in formula funding. According to U.S. Senator Charles Schumer, the MTA would receive at least $10.7 billion of formula funding if the infrastructure bill is passed (an average of $2.1 billion annually), $500 million more annually than the level assumed in the 2020-2024 capital program.[6]

The MTA also assumes $2.9 billion in New Starts funding for the second phase of the Second Avenue Subway, which could now be paid from an additional $8 billion authorized in the proposed infrastructure bill for New Starts projects.

The MTA committed to fund $9.8 billion for the transit and commuter railroad portions of the 2020-2024 capital program, but now says it can only afford to pay $6.9 billion because the remaining debt capacity was used to issue $2.9 billion in bonds for operating purposes. If the infrastructure bill is passed, additional federal funding from the bill could help fill this hole. If the bill is not passed or the MTA cannot find another funding source, it may be forced to cut the program by $2.9 billion or to seek alternative funding.

FIGURE 14
Status of MTA 2015-2019 Capital Program



Note: As of June 30, 2021.
Sources: Metropolitan Transportation Authority; OSC analysis

State legislation also commits the State and the City to each provide $3 billion for the 2020-2024 program. The State has appropriated the full amount and expects to issue $10 billion of its own bonds to fund this and its commitments to the 2015-2019 capital program. However, it is possible that the State might decide not to bond the full amount, as its own capacity under the State's debt-reform limit becomes strained. The City's commitment plan has appropriated $1.5 billion of its commitment thus far.

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 for those projects. Partly because the program was approved 18 months late, nearly half of the 1,168 projects that make up the 2015-2019 capital program were not completed as of June 30, 2021 (see Figure 14). The MTA had completed 642 projects, but 295 (29 percent) were still in construction, and construction had not even

6 U.S. Senator Charles Schumer, "Bipartisan Infrastructure Deal Delivers Record Billions to NY Infrastructure," press release, July 29, 2021 https://www.schumer.senate.gov/newsroom/press-releases/schumer-bipartisan-infrastructure-deal-delivers-record-billions-to-ny-infrastrcture_from-gateway-penn-access-second-ave-subway-east-river-tunnels-and-more-funds-will-also-ensure-mta/lirr-airports-bridges-highways--other-means-of-transit-get-more-money-from-feds-than-they-have-in-decades

begun on the remaining 165 projects. Another 66 projects that have not begun are for design work for construction projects expected to be completed in the 2020-2024 program.

The MTA must commit more than $5 billion to complete the 2015-2019 capital program. The principal remaining commitments are for 134 projects at NYC Transit ($2.1 billion) and 36 projects for network expansion ($2.6 billion).

Of the remaining projects at NYC Transit, 54 are subway station projects, including nine projects to make stations ADA-accessible and 10 full station renewals, totaling more than $1 billion. The bulk of the remaining network expansion project commitments concern Phase 2 of the Second Avenue Subway ($1.7 billion) and the Metro-North Penn Station Access project ($430 million).

In light of recent storms that impacted transit operations, it is also imperative that the MTA speed up the commitment and the completion of resilience projects included in its approved capital programs. Almost 10 years after Superstorm Sandy, of 301 planned storm-related capital projects, only 209 (69 percent) had been completed as of June 30, 2021. As extreme weather events become more common, completing these and other resilience projects that the MTA might propose will be extremely important to ensure the system remains safe and available for its riders.

Concerns over full and timely funding of the capital program, and the likelihood of more frequent inclement weather events, also suggest that the MTA should reassess capital needs and publish a new needs assessment, which was deferred in 2018. Prioritization of the capital program requires an accurate analysis of the areas that are not presently in a state of good repair in order to keep the system operating effectively.

MTA Debt Service and Debt Outstanding

The amount of outstanding long-term debt issued by the MTA more than tripled between 2000 and 2020, rising from $11.4 billion to $38.5 billion. The MTA expects debt outstanding to reach $45.3 billion by 2023, then to decline to $40.8 billion in 2028 before rising again, as the MTA starts bonding its own share of the 2020-2024 capital program (see Figure 15). The MTA's statutory debt cap is $90.1 billion, after being raised last year to support the 2020-2024 capital program and to enable the issuance of bonds backed by sources for the capital lockbox.

The MTA's forecast assumes that $2.4 billion in long-term bonds will be issued in 2023 to repay the bond anticipation notes (BANs) that were issued to the Federal Reserve's MLF to stem operating losses brought about by the pandemic. Deficit financing is regarded as an undesirable fiscal practice that creates a long-term liability to manage short-term needs. The practice creates more costly fixed expenses in the long run for services already rendered, and takes valuable funds away from long-term capital investments.

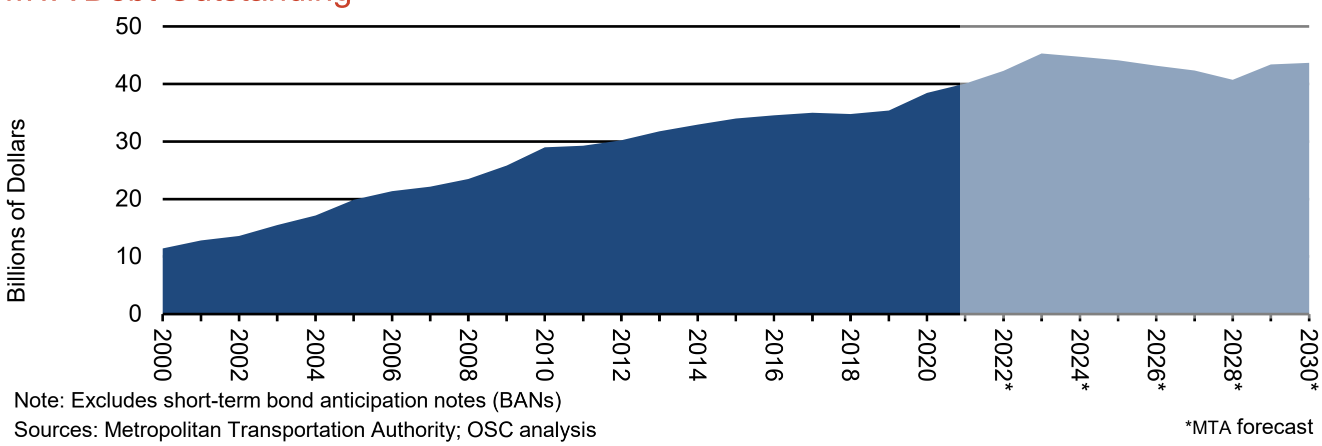
The July Plan includes $6.6 billion of debt the MTA expects to bond for projects in the transit and commuter portions of the 2020-2024 capital program, but does not include $23.9 billion in future bonding backed by the capital lockbox. To date, the MTA has identified $1.1 billion in bonding starting in 2021 funded by lockbox revenues. Projected borrowing for any future capital programs after the 2020-2024 program is also not included in the MTA's debt plan.

The State committed to fund $7.3 billion of the MTA's 2015-2019 capital plan and $3 billion of the 2020-2024 capital program, but the sources of State funding had not been identified at the time. In the interim, the MTA issued BANs to fund a portion of the State's share and expected the State to fund the debt service on the long-term bonds issued to repay the BANs.

However, the State budget for State fiscal year (SFY) 2022 assumes that the State will finance both contributions with State bonding instead of reimbursing the MTA for the debt service on its bonds. As a result, the MTA would be relieved from potentially having to bond these amounts. The MTA currently assumes it will issue $586 million in bonds in 2022 to repay a BAN that was issued to fund the State's share, and that it will be reimbursed by the State for the debt service on that bond.

Debt service is projected to reach $4.1 billion by 2031, $1.4 billion more than in 2020 (51 percent higher), including projected debt service for the

FIGURE 15
MTA Debt Outstanding

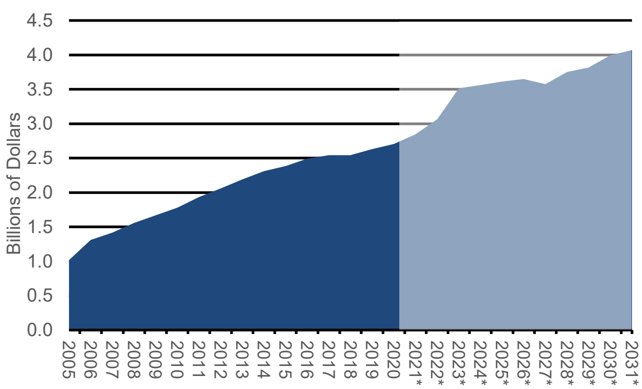


Note: Excludes short-term bond anticipation notes (BANs)
Sources: Metropolitan Transportation Authority; OSC analysis

bonds that will be issued to repay the BANs issued to the MLF (see Figure 16). The MTA expects the debt service on these bonds to cost $121 million in 2024, rising to $193 million by 2034 as principal payments would be deferred for 10 years, continuing a recent practice of delaying these payments. These bonds would not be paid off until 2053.

As noted above, the MTA's debt service forecast includes the issuance of $6.6 billion in anticipated debt for the 2020-2024 program. The MTA does not anticipate issuing BANs for this capital contribution until 2026 and the long-term bonds to pay back these BANs until 2029.

FIGURE 16
MTA Debt Service



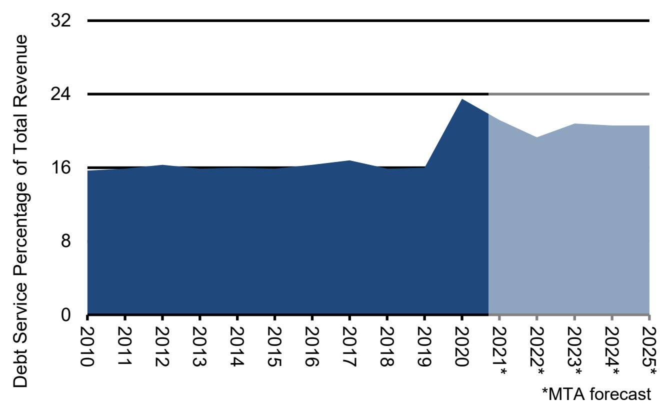
Sources: Metropolitan Transportation Authority; OSC analysis

While the MTA's debt service payments will also increase once all of the $25 billion in anticipated capital lockbox bonding is fully realized, such debt service will be paid from the capital lockbox, which is separate from the MTA's operating budget and thus has no budgetary impact.

The MTA has recently structured its bond sales to defer the payment of principal for more than 20 years, which would result in lower debt service costs as the MTA deals with its financial crisis. However, this approach, which began before the pandemic and is known as "backloading," relies on a time frame that greatly exceeds the duration of the MTA's expected revenue recovery. In addition, it locks in higher costs for the next generation of riders and taxpayers, and exacerbates debt-related risks in its already highly leveraged future.

The share of total revenue needed to fund debt service averaged 16.1 percent from 2010 through 2019 (see Figure 17). As a result of losses in revenues due to the pandemic, the debt burden (excluding operating federal aid, borrowing from the MLF, and projected fare and toll increases) rose to 23 percent in 2020, but, as ridership is expected to return, the MTA expects the burden to drop to 21 percent in 2021 and

FIGURE 17
MTA Debt Burden



Note: Excludes federal aid, MLF proceeds, and new fare and toll increases.
Sources: Metropolitan Transportation Authority; OSC analysis

19 percent in 2022 before it rises again to 21 percent in 2023 through 2025. The debt burden will still be relatively high after the effects of the pandemic begin to lessen, as projected debt service continues to rise through 2031. If the federal infrastructure bill is passed, however, the MTA is expected to receive a substantial level of funding that could allow it to reduce its projected borrowing, which could lead to a lower debt burden.

MTA has historically sought to keep debt service from exceeding 20 percent of operating revenue and subsidies. Projections anticipate debt service capacity constraints through 2031. The MTA is relying on future revenue growth to limit the debt burden on the operating budget and offer management flexibility as it looks to fund future capital programs, but there is no guarantee that sufficient growth will occur.

There is also a possibility that the MTA could be left to fund some or all of the debt service on the bonds issued to cover $10.3 billion of the State’s contribution to the MTA’s capital programs if the State chooses not to honor its commitment. The State issued $1.4 billion in bonds in SFY 2021 and expects to issue another $1.5 billion in SFY 2022 for its portion of the 2015-2019 capital program.

APPENDIX A
MTA Revenue and Expenditure Trends in the July Plan
(in millions)

	← Forecast →					Average Four-Year Growth Rate
	2021	2022	2023	2024	2025	
Revenues						
Farebox Revenue	**2,826**	**4,859**	**5,398**	**5,483**	**5,478**	**18.0%**
Toll Revenue	**2,140**	**2,257**	**2,268**	**2,274**	**2,295**	**1.8%**
Dedicated Taxes						
Payroll Mobility Tax	$1,817	$1,841	$2,007	$2,085	$2,165	4.5%
Metro. Mass Trans. Operating Asst.	2,248	1,924	1,984	2,047	2,113	-1.5%
Petroleum Business Tax	584	589	584	582	581	-0.1%
Urban Tax	345	443	501	538	575	13.6%
Mortgage Recording Tax (net)	576	596	597	613	633	2.4%
Other	513	699	758	769	777	10.9%
Subtotal – Dedicated Taxes	**6,082**	**6,092**	**6,430**	**6,635**	**6,843**	**3.0%**
State and Local Subsidies	**1,662**	**1,521**	**1,500**	**1,520**	**1,557**	**-1.6%**
Other Revenue	**669**	**764**	**826**	**857**	**875**	**6.9%**
Total Baseline Revenues	**$13,378**	**$15,493**	**$16,422**	**$16,770**	**$17,048**	**6.2%**
Federal Funding	4,242	2,632	1,527	1,740	719	**-35.8%**
Adjusted Revenues	**$17,620**	**$18,125**	**$17,949**	**$18,550**	**$17,767**	**0.2%**
Expenditures						
Payroll	5,363	5,604	5,709	5,855	5,997	2.8%
Debt Service	2,843	3,065	3,514	3,560	3,614	6.2%
Health and Welfare	2,171	2,354	2,520	2,700	2.897	7.5%
Pensions	1,445	1,451	1,470	1,472	1,503	1.0%
Overtime	986	893	912	931	950	-0.9%
Other Fringe Benefits	938	980	1,019	1,053	1,090	3.8%
Maintenance and Other Contracts	901	975	997	999	1,028	3.4%
Professional Service Contracts	703	621	572	590	602	-3.8%
Energy (Fuel and Electric)	594	644	654	666	735	5.5%
Claims	353	436	444	454	468	7.3%
Paratransit Service Contracts	396	519	553	588	625	12.1%
Other	855	993	1,034	1,063	1,119	7.0%
Reimbursable Overhead	(425)	(425)	(416)	(422)	(425)	0.0%
General Reserve	170	180	190	195	200	4.1%
Other Adjustments	37	26	28	23	24	-10.3%
Total Baseline Expenditures	**$17,330**	**$18,316**	**$19,200**	**$19,727**	**$20,427**	**4.2%**

Sources: Metropolitan Transportation Authority; OSC analysis

APPENDIX B

MTA Staffing Levels by Function and Agency in the July Plan

(Full-Time and Full-Time-Equivalents)

	Actual December 2019	Actual December 2020	Actual July 2021	Projected for the End of the Calendar Year 2022	2023	2024	2025
Administration	**4,108**	**3,870**	**3,729**	**4,081**	**4,075**	**4,074**	**4,074**
NYC Transit	1,179	1,074	1,008	1,034	1,031	1,031	1,031
Long Island Rail Road	457	432	420	472	466	466	466
Metro-North Railroad	446	410	373	425	425	425	425
Bridges & Tunnels	70	62	55	73	73	73	73
Headquarters	1,811	1,755	1,678	1,822	1,831	1,830	1,830
Staten Island Railway	20	21	19	23	23	23	23
Capital Construction Co.	16	14	80	36	36	36	36
Bus Company	109	102	96	116	110	110	110
Operations	**31,426**	**29,960**	**29,051**	**30,538**	**30,265**	**30,265**	**30,265**
NYC Transit	23,836	22,547	21,757	22,779	22,659	22,659	22,659
Long Island Rail Road	2,638	2,606	2,553	2,742	2,584	2,584	2,584
Metro-North Railroad	2,155	2,032	2,006	2,132	2,132	2,132	2,132
Bridges & Tunnels	85	101	94	165	171	171	171
Headquarters	- - -	- - -	- - -	- - -	- - -	- - -	- - -
Staten Island Railway	121	116	130	142	142	142	142
Capital Construction Co.	- - -	- - -	- - -	- - -	- - -	- - -	- - -
Bus Company	2,591	2,558	2,511	2,578	2,577	2,577	2,577
Maintenance	**32,200**	**30,618**	**29,858**	**31,614**	**31,440**	**31,633**	**31,801**
NYC Transit	22,422	21,120	20,565	21,293	21,137	21,214	21,321
Long Island Rail Road	4,202	4,101	4,040	4,300	4,379	4,507	4,568
Metro-North Railroad	3,837	3,725	3,638	4,222	4,234	4,234	4,234
Bridges & Tunnels	381	351	345	373	373	373	373
Headquarters	- - -	- - -	- - -	- - -	- - -	- - -	- - -
Staten Island Railway	207	200	189	187	187	175	175
Capital Construction Co.	- - -	- - -	- - -	- - -	- - -	- - -	- - -
Bus Company	1,151	1,121	1,081	1,238	1,130	1,130	1,130
Engineering/Capital	**1,871**	**1,668**	**1,602**	**1,941**	**1,904**	**1,904**	**1,902**
NYC Transit	1,244	1,129	1,092	1,279	1,255	1,255	1,255
Long Island Rail Road	190	180	171	216	203	203	203
Metro-North Railroad	118	72	72	99	99	99	99
Bridges & Tunnels	184	157	151	158	158	158	158
Headquarters	- - -	- - -	- - -	- - -	- - -	- - -	- - -
Staten Island Railway	9	9	2	6	6	6	4
Capital Construction Co.	100	98	91	148	148	148	148
Bus Company	26	23	23	35	35	35	35
Public Safety	**2,066**	**2,084**	**2,120**	**2,685**	**2,685**	**2,685**	**2,679**
NYC Transit	632	593	593	620	620	620	620
Long Island Rail Road	- - -	- - -	- - -	- - -	- - -	- - -	- - -
Metro-North Railroad	- - -	- - -	- - -	- - -	- - -	- - -	- - -
Bridges & Tunnels	576	550	505	600	600	600	600
Headquarters	846	930	1,013	1,452	1,452	1,452	1,446
Staten Island Railway	- - -	- - -	- - -	- - -	- - -	- - -	- - -
Capital Construction Co.	- - -	- - -	- - -	- - -	- - -	- - -	- - -
Bus Company	12	11	9	13	13	13	13
Baseline Total Positions	**71,671**	**68,200**	**66,360**	**70,858**	**70,369**	**70,561**	**70,721**

Source: Metropolitan Transportation Authority

Prepared by the Office of the State Deputy Comptroller for the City of New York
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