OFFICE OF THE NEW YORK STATE COMPTROLLER

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Financial Outlook for the Metropolitan Transportation Authority

Highlights

- Subway ridership is on track to reach nearly 1.8 billion riders in 2016, the highest level since 1949. The LIRR, Metro-North, and the MTA's bridges and tunnels are reporting record use.
- Spending is projected to grow by 22 percent between 2015 and 2020, driven by employee fringe benefits and debt service.
- The cost of health and welfare benefits is projected to increase by nearly 49 percent to $2.3 billion by 2020.
- Pension contributions are projected to level off after growing rapidly over the past decade, but the annual contribution of $1.4 billion will be three times the 2005 level.
- The 2015-2019 capital program totals $29.5 billion. The MTA is funding $11.8 billion of the cost, including $8.2 billion from borrowing.
- Debt outstanding will reach $41.4 billion by 2020, 43 percent more than 10 years earlier.
- Debt service will exceed $3.1 billion by 2020, nearly one-third higher than in 2015.
- Debt service and other nondiscretionary costs (including pension contributions and health insurance costs) will consume more than half (53 percent) of total revenue in 2020.
- Subway and bus fares rose by 45 percent between 2007 and 2015, nearly three times faster than the inflation rate and six times faster than average salaries in New York City.
- The MTA plans to raise fares and tolls by 4 percent in 2017 and by another 4 percent in 2019.
- The MTA's cost-reduction efforts since 2009 will generate recurring savings of $2 billion by 2020. Nonetheless, the MTA should explore additional opportunities to reduce unnecessary costs.

On July 27, 2016, the Metropolitan Transportation Authority (MTA) released a preliminary budget for 2017 and an associated financial plan (the "July Plan"). The outlook for the MTA's budget has improved considerably over the past year as it continues to benefit from the economic recovery, and from low energy costs and interest rates. Nonetheless, the MTA still plans to raise fares and tolls by 8 percent through 2019.

In the past six months alone, the MTA has realized $1.6 billion in unanticipated resources. About half was used to cover the higher cost of employee fringe benefits. The MTA has also allocated resources to improve customer amenities, service, maintenance and security.

In addition, the MTA Board is considering a proposal to allocate $566 million in debt service savings to accelerate capital projects that are not in the approved 2015-2019 capital program. While this proposal has merit, the board should consider using some of these or other unanticipated resources to increase reserves, pay down long-term liabilities, or moderate future fare and toll increases.

After a 17-month delay, New York State and New York City reached a final agreement on their contributions to the MTA's 2015-2019 capital program. The capital program totals $29.5 billion and includes funding for maintenance, modernization and expansion.

The State and the City, however, have yet to identify the sources for $9.2 billion of their $10.8 billion contribution, making it impossible to assess the impacts on the State or City budgets, or taxpayers. The debate over the sources of these funds, moreover, may occur as the MTA seeks funds for its next capital program.

The largest contribution to the 2015-2019 capital program (40 percent) will come from the MTA itself. Debt service and other resources devoted to the capital program will consume, on average each year, 20 percent of MTA revenue through 2020, a relatively high burden.

The MTA faces other challenges as well. The July Plan assumes uninterrupted economic growth, but there is a risk of an economic setback. MTA revenues are very sensitive to changes in the economy, as evidenced by the large revenue losses during the last recession.

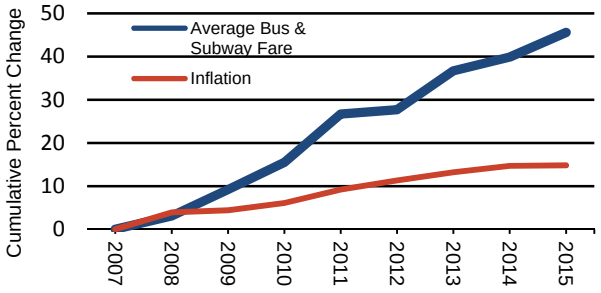
The MTA must also reach new labor agreements with its employees. Current contracts will begin to expire in December 2016. The MTA has set aside resources for 2 percent annual wage increases, but the actual cost could be higher.

The MTA has realized billions of dollars of unanticipated resources over the past few years. To its credit, it has used these resources responsibly, investing in the capital program and increasing services and maintenance. While the MTA still faces challenges, it has recovered from the recession and has improved its financial position for the future.

A. Fare and Toll Hikes

The MTA raised fares and tolls by less than the inflation rate between 1996 and 2007, but since then fares and tolls have risen at a faster pace (see Figure 1). For example, the average subway fare rose by 45 percent between 2007 and 2015, nearly three times faster than the inflation rate for the metropolitan region (14.8 percent). These increases occurred when riders were least able to afford them, as the recession took a heavy toll on family finances. The average salary in New York City has increased by only 7 percent since 2007.

FIGURE 1
Fares Have Grown Faster than Inflation Since 2007



Sources: Metropolitan Transportation Authority; U.S. Bureau of Labor Statistics; OSC analysis

The MTA has raised fares and tolls five times since 2007. The base subway and bus fare, which is used more often by lower-income riders and tourists, increased from $2.00 to $2.75 (38 percent). The 7-day unlimited MetroCard increased by 29 percent and the 30-day unlimited MetroCard increased by 53 percent. Fares on the commuter railroads increased by about 36 percent, and tolls on the MTA's major bridges and tunnels rose by 47 percent.

The MTA plans to raise fares and tolls by 4 percent in 2017 and by another 4 percent in 2019, slightly less than the projected inflation rate for this period (9.3 percent). Nonetheless, the average subway fare will have increased by 53 percent since 2007, more than twice the inflation rate. Each percent increase in fares and tolls is expected to generate $80 million annually.

B. Utilization Trends

Since 1991, subway ridership has grown by 77 percent as the subway system has become more reliable and crime has been reduced. Subway ridership is expected to reach 1.77 billion riders in 2016 (see Figure 2), which is the highest level since 1949. Ridership has grown at an average annual rate of 2 percent over the past six years, but is projected to grow more slowly during the financial plan period.

After setting a record in 2008, ridership on the Long Island Rail Road (LIRR) fell by 6.3 million riders (7.2 percent) over the next three years because of the recession (see Figure 3). Ridership resumed growing in 2012 and set a new record of 87.6 million riders in 2015. The July Plan assumes it will continue to grow and will exceed 90 million riders by 2020.

The Metro-North Railroad did not experience a ridership decline as sharp as the LIRR's during the recession (see Figure 4), and its ridership has been growing faster. Over the past 30 years, Metro-North ridership has grown by more than 70 percent, setting a record of 84.3 million riders in 2015. The July Plan assumes that Metro-North ridership will continue to set new records and will reach nearly 90 million riders by 2020.

FIGURE 2
Subway Ridership

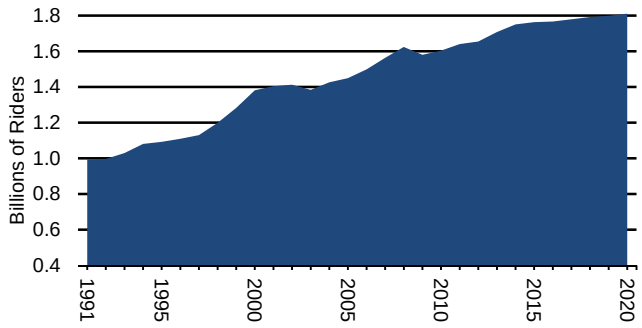


FIGURE 3
LIRR Ridership

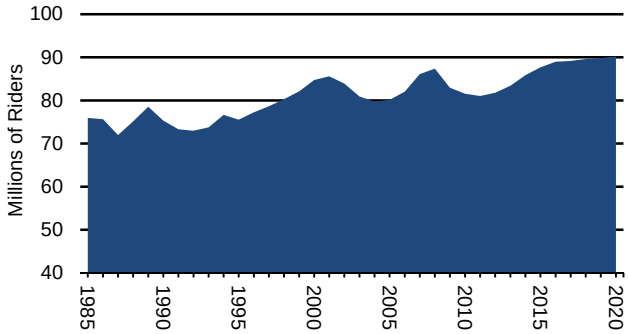


FIGURE 4
Metro-North Ridership

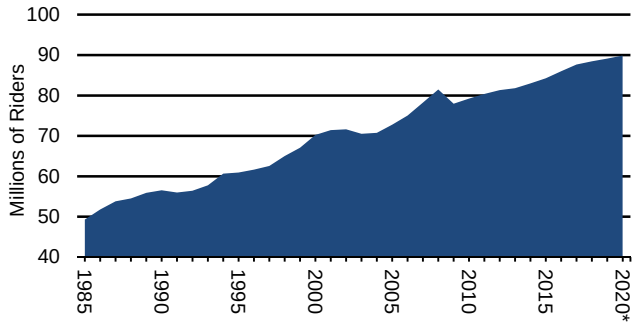
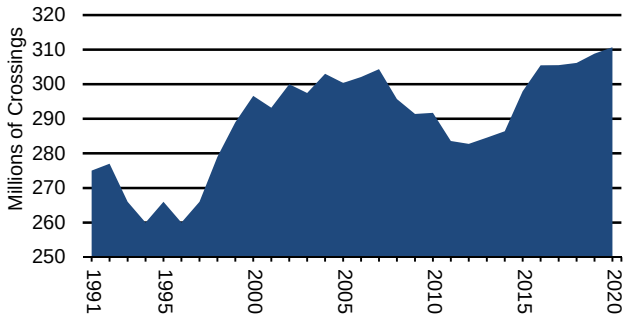


FIGURE 5
Bridge & Tunnel Crossings



Sources: Metropolitan Transportation Authority; OSC analysis

Bridge and tunnel crossings set a record in 2007 (see Figure 5), but then declined over the next five years as a result of the recession, higher gas prices and three toll increases. Despite toll increases in 2013 and 2015, crossings have increased as job growth has resumed and gas prices have fallen. Crossings are projected to reach 305 million in 2016, setting a new record. The July Plan assumes bridge and tunnel crossings will continue to grow, reaching 311 million by 2020.

Ridership on the buses operated by the MTA (including the seven formerly private bus lines taken over by the MTA in 2006) declined by 10.6 percent between 2008 and 2015. The MTA believes riders are abandoning slow bus routes for the subway and other alternatives. The July Plan assumes ridership will decline by another 1.5 percent in 2016 before growth resumes in 2017.

C. Revenue Trends

More than half of the cost of the MTA is funded from fares and tolls, and more than one-third is funded with dedicated taxes. Government subsidies and other revenue sources account for 12 percent.

Overall, the July Plan assumes that revenues will grow at an average annual rate of 2.2 percent between 2015 and 2020 to reach $16.8 billion. These estimates assume uninterrupted growth in the regional economy, and biennial fare and toll increases of 4 percent. The July Plan does not anticipate an increase in operating subsidies from the State or the City.

To help fund the MTA's operations, New York State has imposed taxes on payrolls, real estate transactions, petroleum businesses and the sale of certain goods and services. Dedicated taxes and fees are expected to account for 36 percent

($5.6 billion) of total revenue in 2017. Collections are projected to grow at an average annual rate of 1.1 percent between 2015 and 2017. The MTA's forecasts for subsequent years, however, are less conservative (a 2.7 percent annual growth rate).

The Great Recession caused tax collections to decline sharply in 2008 and again in 2009 (see Figure 6). In 2008, the State established the Payroll Mobility Tax (PMT) as well as other taxes and fees to offset these losses and to help pay for the MTA's capital program. The PMT is imposed on certain employers and self-employed individuals within the metropolitan commuter transportation district. (The tax rate increases from 0.11 percent to 0.34 percent depending on the size of the payroll).

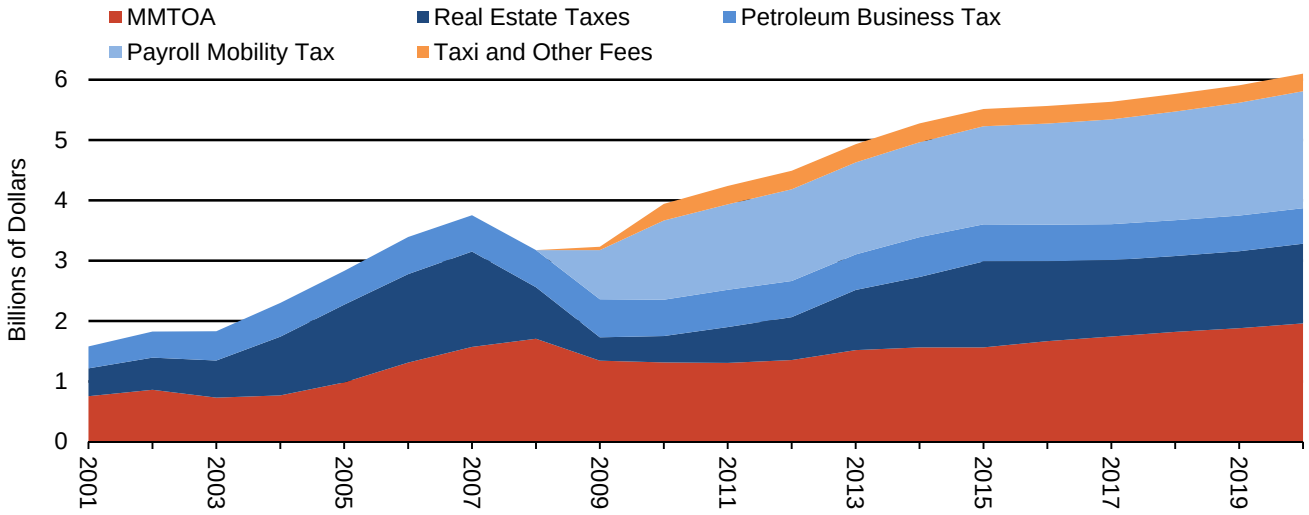
PMT collections grew at an average annual rate of 3.4 percent during 2014 and 2015 as New York City experienced record job growth. The July Plan assumes collections will grow more slowly in 2016 (3 percent) because job growth is slowing. The MTA assumes collections will accelerate and average 3.7 percent during the remainder of the financial plan period when the risk of an economic setback is greatest. By 2020, PMT collections are projected to reach $1.9 billion, almost one-third of all dedicated tax revenues.

Revenue from taxes on commercial and residential real estate transactions in the MTA's 12-county region peaked at $1.6 billion in 2007, but then fell below $400 million in 2009 as the real estate market collapsed. Collections have increased steadily in recent years, reflecting Manhattan's strong commercial market, and totaled $1.4 billion in 2015.

The MTA expects these collections to drop by $100 million in 2016 (the first decline since the recession) and by another $57 million in 2017. The July Plan assumes growth will resume in 2019, with collections reaching the 2016 level ($1.3 billion) in 2020.

Metropolitan Mass Transportation Operating Assistance (MMTOA), which is subject to annual appropriation by the State, comprises several taxes.[1] MMTOA revenue peaked at $1.7 billion in 2008, but declined to $1.3 billion in 2009 as a result of the recession. The MTA expects collections to exceed the prerecession peak in 2017 and to grow by another 13 percent between 2017 and 2020.

FIGURE 6
MTA Dedicated Tax Revenues



Sources: Metropolitan Transportation Authority; OSC analysis

D. Expenditure Trends

Expenditures were held in check during the recession as the MTA implemented an aggressive program to hold down costs. As the recession ended, spending picked up. Expenditures increased by 26 percent between 2010 and 2015, and are projected to increase by another 22 percent to reach $17.4 billion in 2020.

Spending has been driven by a relatively rapid increase in nondiscretionary costs, particularly debt service, pension contributions and health insurance costs. Nondiscretionary costs are consuming an increasing share of the operating budget and will account for 53 percent of total revenue in 2020.

The MTA projects a year-end cash balance of $200 million in 2016 (two-thirds higher than previously forecast). The budget includes an annual reserve equal to 1 percent of spending, including $145 million that may not be needed in 2016. While the MTA has closed the 2019 budget gap, it projects a gap of $371 million in 2020.

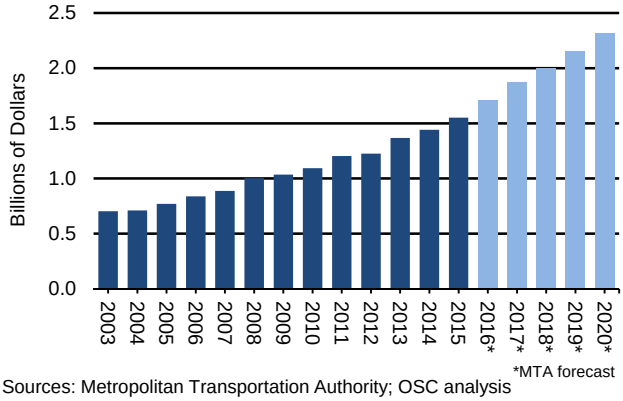
Collective Bargaining: The MTA has labor agreements in place with most of its unions, but these agreements are reaching their expiration dates. The agreements with most of the LIRR unions expire in December 2016 and the agreements with the Transport Workers Union and with most of Metro-North's unions expire in January 2017. The MTA has set aside resources to fund annual wage increases of 2 percent, but the actual cost of future labor agreements is subject to negotiation and could be higher.

Pension Contributions: After growing rapidly, pension contributions are expected to level off beginning in FY 2016 at nearly $1.4 billion, three times the 2005 level. These estimates are higher than previously forecast, reflecting the impact of lower mortality rates and lower-than-expected investment earnings by the New York City Employees' Retirement System (NYCERS) for the fiscal year ending June 30, 2015.[2] NYCERS also earned considerably less than anticipated during the fiscal year ending June 30, 2016, which could increase future contributions.

Most MTA employees belong to one of four pension systems. Overall, 71 percent of the liabilities of these systems were funded on an actuarial basis in 2015 (the four pension plans had unfunded liabilities of nearly $7.7 billion). The MTA Defined Benefit Pension Plan was funded at the highest level (75 percent), while the LIRR Pension Plan was the least well-funded (49 percent), even after a discretionary contribution of $295 million in 2014.

Health and Welfare Benefits: The cost of health insurance and welfare benefits (e.g., dental insurance) for active employees and retirees continues to grow rapidly (see Figure 7). The July Plan assumes that these costs will reach $2.3 billion by 2020, nearly 49 percent higher than in 2015 (an average annual growth rate of 8.3 percent). These estimates are based on recent increases in health insurance premiums and historical growth trends.

FIGURE 7
Health & Welfare Benefits



*MTA forecast

Sources: Metropolitan Transportation Authority; OSC analysis

The MTA, like most public sector entities, funds post-employment benefits other than pensions (OPEBs) on a pay-as-you-go (PAYGO) basis. The MTA estimates that these costs will reach $767 million by 2020, 53 percent higher than in 2015. The amount paid by the MTA on a PAYGO basis is one-quarter of the contribution that would be required if these costs were funded on an actuarial basis (estimated at $2 billion for 2015). The MTA's unfunded OPEB liability was $18.2 billion in 2014 (the latest year for which data are available).

The MTA has established a Retiree Health Benefits Trust to help fund future OPEB costs, but has deposited only $300 million into the trust (another $148 million remains in reserve). The MTA suspended contributions to the trust from 2014 to 2017 to help fund recent labor agreements, and plans to make only small contributions of $8 million in 2018, $19 million in 2019 and $30 million in 2020.

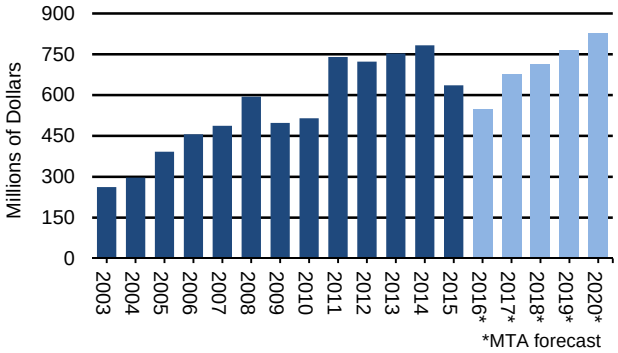
Overtime: In 2010, the MTA made a concerted effort to reduce overtime spending after setting a record of $545 million in 2009 (excluding costs associated with the capital program). Although those efforts reduced overtime to $491 million in 2010, overtime rose by 54 percent ($264 million) to set a new record of $755 million in 2015. The MTA expects overtime costs to decline slightly in 2016, but then to reach $793 million by 2020.

Judgments and Claims: Each year the MTA estimates its potential liability for claims arising from injuries to customers and employees, and from property damage. This estimated liability now totals $2.9 billion, more than twice the estimated liability in 2008. The growth has been driven by workers' compensation payments to employees, which reflect increases in the maximum benefit, and an increase in the cost of claims filed by customers.

Liabilities impact the operating budget when claims are settled and paid. The cost to settle claims has more than doubled from 2005 to 2015, growing from $153 million to $389 million. These costs are likely to continue to grow (at least in the short term) as a result of the increase in estimated liabilities in recent years.

Energy Costs: In 2014, energy costs reached a record of $783 million (see Figure 8), but energy costs are projected to fall to $549 milion in 2016. Since February 2016, the MTA has reduced its projected energy costs by a total of $303 million for the period from 2016 through 2019.

FIGURE 8
Energy Costs



Sources: Metropolitan Transportation Authority; OSC analysis

However, the MTA assumes that energy costs will increase rapidly in 2017 (by $128 million, or more than 23 percent) and will reach $828 million by 2020, exceeding the record set in 2014. While energy prices are volatile, it seems unlikely that costs will rise as quickly as anticipated by the MTA. As a result, there is the potential for addtitional savings.

Cost-Reduction Program: In 2009 and 2010, when the MTA was experiencing a fiscal crisis, it implemented the largest cost-reduction program in its history. The program reduced costs by $572 million annually, including $133 million in savings from the paratransit program. Since then, the MTA has identified another $735 million in savings from paratransit, mostly by using less costly taxi and livery cabs.

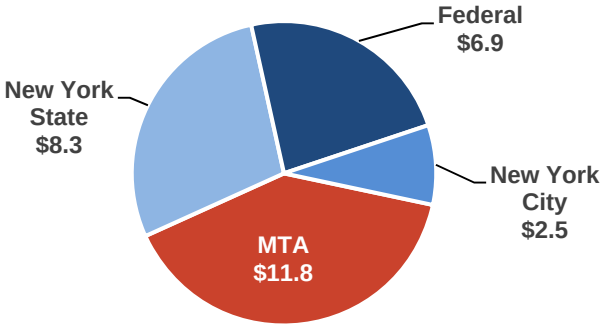
The MTA now anticipates recurring annual savings of almost $2 billion by 2020 from its cost-reduction efforts over the prior decade. Two-thirds comes from actions identified in 2009 and 2010, and savings from the paratransit program. While the July Plan assumes paratransit contract costs will increase by $132 million by 2020, there has been very little growth in recent years, creating an opportunity for additional savings. The MTA should explore every opportunity to reduce unnecessary costs to minimize fare hikes and to improve services.

E. 2015-2019 Capital Program

The MTA first proposed the 2015-2019 capital program in September 2014, but that program (which was valued at $32 billion) had a funding gap of $15.2 billion. The funding gap was closed by reducing the size of the program by $2.6 billion and by increasing the contributions from the MTA, New York State and New York City.

As shown in Figure 9, the largest share of the capital program will be funded by the MTA, which has agreed to fund $11.8 billion (40 percent). Of this amount, $8.2 billion will come from borrowing; $2.4 billion from fare revenue and other operating resources (i.e., PAYGO financing); $600 million from asset sales and leases; and $562 million from other sources.

FIGURE 9
Sources of Capital Funding
(in billions)

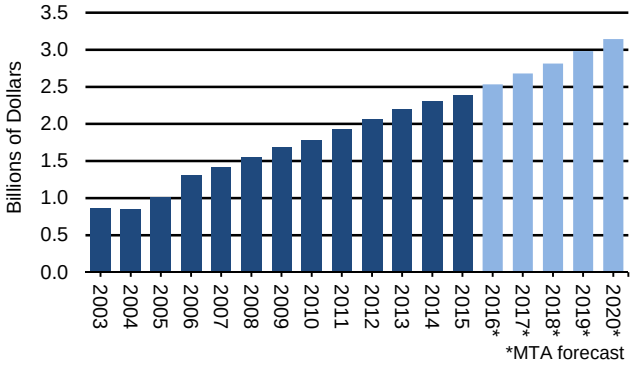


Sources: Metropolitan Transportation Authority; OSC analysis

Debt outstanding would increase from $29 billion in 2010 to $41.4 billion in 2020, an increase of 43 percent over 10 years. Debt service would exceed $3.1 billion by 2020 (see Figure 10), nearly one-third higher than in 2015.

Debt service and other operating resources supporting the capital program would consume, on average, 20 percent of revenue during the financial plan period. These estimates already reflect anticipated savings of $937 million by 2020 from low interest rates, delays in approving the 2015-2019 capital program and the securitization of Hudson Yards lease payments. In comparison, the capital program consumed 17 percent of total revenue between 2009 and 2014.

FIGURE 10
Debt Service



Sources: Metropolitan Transportation Authority; OSC analysis

After a 17-month delay, the State has agreed to contribute $8.3 billion to the MTA's capital program (28 percent) and the City has agreed to contribute $2.5 billion (9 percent). Last year, the State appropriated $1 billion for the MTA's 2015-2019 capital program and the City included $657 million in its five-year capital program. The State and City have not yet identified the sources of their remaining contributions ($7.3 billion in State funding and $1.8 billion in City funding).

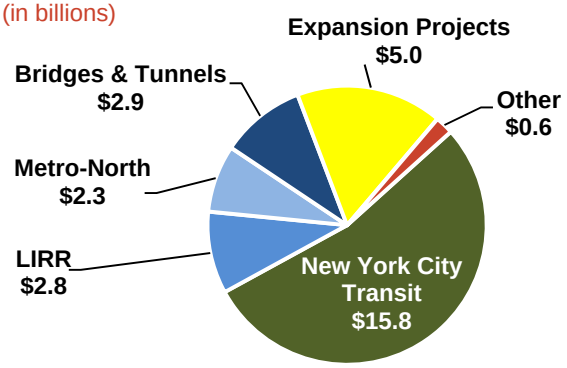
The State and the City intend to provide the MTA with the remaining $9.2 billion after the MTA has effectively exhausted all other existing MTA-supported sources of capital funding, but no later than State fiscal year 2025-26 or by the completion of the 2015-2019 capital program. Consequently, the debate over the sources of these funds may occur at the same time the MTA seeks funding for its 2020-2024 capital program.

While the State could provide direct capital grants to the MTA's 2015-2019 capital program (and the State budget has appropriated $2.9 billion if the State elects to do so, although the sources of funding have not been identified), the MTA could issue its own bonds backed by an existing or new State revenue source. The State has already increased the MTA's bond cap by $13.6 billion, which permits it to move forward with the capital program until State and City funds become available, and to cover, if needed, the State's remaining share of $7.3 billion.

The MTA expects the federal government to fund the remaining $6.9 billion of the program (23 percent). While the federal government's commitment to fund transit capital improvements has been extended through September 2020, the amount appropriated each year and the share received by the MTA remains to be seen.

Nearly three-quarters of the capital program has been allocated to maintain and modernize the subway, bus and commuter rail systems. Expansion projects have been allotted $5 billion, including $3.1 billion for East Side Access and related projects, $1 billion to begin Phase 2 of the Second Avenue Subway and $695 million for Metro-North Penn Station Access.

FIGURE 11
Allocation of Capital Resources
(in billions)



Sources: Metropolitan Transportation Authority; OSC analysis

New York City Transit, which operates the City's subways and buses, will receive $15.8 billion, more than half of the program's total value (see Figure 11). Of this amount, $3 billion has been allocated for the purchase of 950 new subway cars; $2.8 billion for subway station improvements (including a new fare payment system); and $2.8 billion for modernizing signals and communications.

The LIRR will receive $2.8 billion, including $795 million for track replacement, $500 million to purchase up to 164 new rail cars, and $399 million for station improvements, including upgrades to the Mets-Willets Point Station to accommodate the proposed LaGuardia Air Train. The LIRR will complete the construction of a second track between Farmingdale and Ronkonkoma and open new stations in Elmhurst, Queens, and at Republic Airport in Suffolk County.

Metro-North will receive $2.3 billion, including $532 million to purchase up to 170 new rail cars, $402 million for station improvements (more than half is devoted to Grand Central Terminal), and $432 million to complete the replacement of the Harmon Shop maintenance facility.

Bridges and Tunnels has been allocated $2.9 billion, with the majority of funding devoted to repairs and modernization of the Robert F. Kennedy Bridge, the Throgs Neck Bridge and the Verrazano-Narrows Bridge.

The MTA Board is considering a proposal to allocate $566 million in debt service savings to accelerate capital projects that are not in the approved 2015-2019 capital program. While this proposal has merit, the board should also consider other uses, such as increasing reserves, paying down long-term liabilities or moderating future fare and toll increases.

[1] MMTOA taxes include sales taxes, a temporary corporate surcharge, a portion of the statewide tax on petroleum businesses, and a statewide corporate franchise tax on certain transportation and transmission companies.

[2] Triborough Bridge and Tunnel Authority employees and most New York City Transit employees belong to NYCERS.