Financial Outlook for the Metropolitan Transportation Authority

Report 9-2024

OFFICE OF THE NEW YORK STATE COMPTROLLER

Thomas P. DiNapoli, State Comptroller

Rahul Jain, Deputy Comptroller

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Executive Summary

The Metropolitan Transportation Authority's (MTA) July 2023 Financial Plan projects the budget for all five years through 2027 will be balanced. This outcome is a remarkable change from the dire state of the MTA's fiscal affairs at the start of the year, which began with $600 million in unidentified resources needed to balance the 2023 budget and budget gaps that exceeded $1 billion beginning in 2024.

Substantial new funding from actions in the Enacted State Budget has stabilized the MTA's finances. The MTA anticipates more than $1 billion per year from an increase to the payroll mobility tax (PMT) on employers in New York City. This increase is the main contributor to the closure of future budget gaps. Additional revenues come from a one-time infusion of State appropriated funds in 2023, a larger share of paratransit costs to be paid for by New York City and casino revenues from licensing and gaming in and around New York City. Changes to the State corporate tax surcharge will also benefit the Authority's revenue picture, partially offsetting weakness in real estate transaction taxes, a concern raised by the Office of the State Comptroller (OSC) last year. Balancing the budget in the outer years also assumes fare and toll increases in 2025 and 2027.

As noted in this report, 39 percent of the MTA's 2024 revenues are expected to come from fare and toll revenue (26 percent and 13 percent, respectively). By comparison, in 2019, more than half of the MTA's revenues came from fares and tolls, marking a significant shift in its revenue profile.

These additional revenues are expected not only to close planned budget gaps, but also address additional spending added since its last financial plan update. Most notably, wage increases that reflect the Transport Workers Union's (TWU) bargaining pattern reached in May of this year, which exceeded the 2 percent annual raises anticipated by the MTA, are also funded through 2025. The agreement and establishment of a pattern eliminates one area of uncertainty in the MTA's financial plan and provides raises to its labor force, which has been critical in delivering services and help aid the region's economic recovery. Other sources of increased spending include additional subway service and a pilot program providing free bus service on one route per borough, both included as part of the State budget agreement.

The MTA must use this substantial increase in resources to execute its most critical goal: bringing riders back to the system. The MTA assumes it will reach 80 percent of pre-pandemic ridership by the end of 2026, the revenue from which is needed to balance its budget in the outer years of the financial plan. Funds used to improve service should help produce positive experiences, a necessity for boosting ridership figures. New York City Transit (NYCT) has made reaching 70 percent customer satisfaction by 2024 a key goal, and while satisfaction has improved, it has slipped in recent months. If the Authority is unable to bring riders back to the system, it will once again face fiscal pressures that could lead to higher-than-projected fares, reductions to service or disinvestment in the system.

The need to bring riders back while balancing its budget also underlines the importance of monitoring the MTA's savings initiatives, which are the main spending actions planned to achieve budget balance in the July Plan. Steps toward identifying $500 million in annual savings have begun in earnest, with more than $200 million already identified. However, unidentified savings remain a risk to budget balance in the out-years. The MTA should finalize these savings plans before the end of

the year and communicate any impact on services to its workforce and the public.

The MTA has also noted that a recession could hurt tax revenue and ridership's return. In addition, casino-related licensing and tax revenues are expected to contribute $500 million in 2026 and 2027 each, and the timing of the receipt of these funds could also throw the plan to fund its out-year budgets off track.

Including and in addition to risks noted by the MTA, OSC projects that other risks to the July Plan, such as not identifying future savings, underbudgeting for overtime and budgeting for recurring funds from the City for paratransit services, could increase the MTA's budget gaps by more than $500 million starting in 2025.

These risks are much smaller than in recent years and the MTA should be able to weather some budget risk with a renewed focus on delivering safe, frequent and reliable service. Quality service would also help build public support for the 2025-2029 capital program, which will begin in earnest after the release of its 20-year needs assessment this year. The discussion over system needs should inform the 2025-2029 program, which should be adopted in 2024 and still requires discussion over how the program should be funded. OSC has noted recently that the MTA should provide greater detail on the selection of projects and their progress toward improving performance and resilience of the system.

To achieve that goal, the timely implementation of congestion pricing is needed to fund $15 billion of the current 2020-2024 capital program. However, congestion pricing is currently the subject of a lawsuit filed by New Jersey that might further delay the program. Any further delay would open a large funding gap in the MTA's 2020-2024 capital program. As a result, the MTA might choose to further delay the financing of needed projects to manage its debt capacity, making it more difficult to fund the 2025-2029 program if projects are deferred and must be funded in the next plan instead.

It is currently uncertain how large the 2025-2029 capital program will be or how it will be funded but it is important that the program focus on much needed state-of-good-repair work and that any expansion efforts should bring more regular riders to the system. OSC projects, for the 2025-2029 capital program, that if the MTA issues both the same amount of debt backed by its operating budget as in the previous program and half of the $25 billion from its own budget that congestion pricing lockbox bonding provided in the previous program (a total of $23.5 billion), debt service costs could rise by $1.5 billion by 2037. If the MTA were to fund a larger share of the program on its own, debt service costs would rise further, reducing funding for operating needs.

The MTA should also use level debt structures to show the true cost of financing its capital program and its impact on the MTA operating budget, rather than push those costs out to make near-term spending look better. The benefits to riders and toll payers from the program and the ultimate cost of maintaining and enhancing the system should be clear.

Ultimately, the path to long-term structural balance will require reducing the Authority's debt load weighing on the operating budget and continued vigilance to monitor and manage the budget risks it faces. Fiscal discipline now is key to ensure it is well-prepared for the challenges that will emerge later. Above all, transparency will be critical for ensuring the Authority can manage fiscal and operational issues that may arise and that the public and its funding partners understand the implications on transportation services in the region.

MTA Utilization Trends

The COVID-19 pandemic reached New York City in March of 2020 causing steep drop-offs in MTA ridership and for transit systems across the country. Weekday subway ridership began to return in the summer of 2020 with fluctuations experienced during peaks in viral transmission. Throughout 2023, MTA ridership has generally been over 60 percent of pre-pandemic levels but has not yet consistently surpassed 70 percent. Although too early to tell if the trend will continue, September ridership reached a new post-pandemic ridership record on September 19.

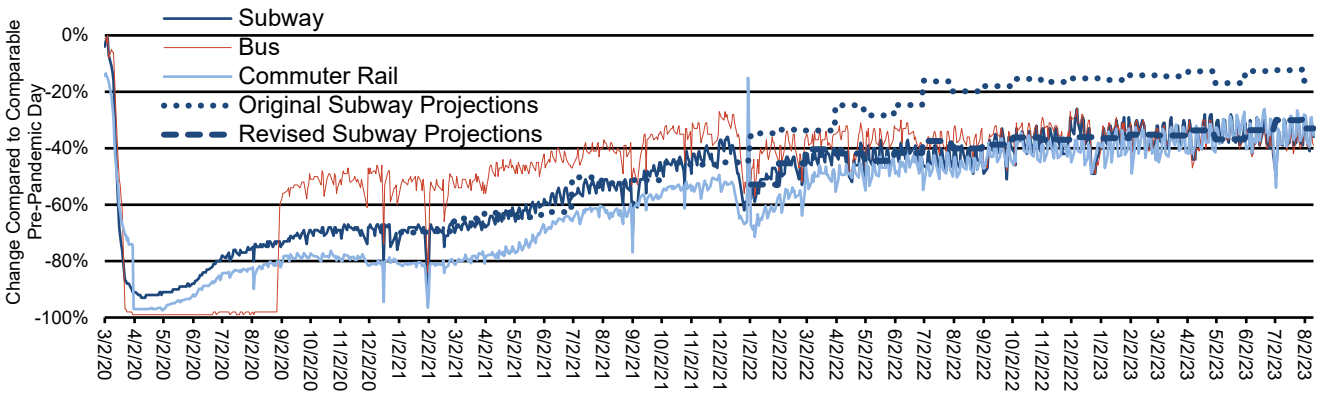
The MTA has based its ridership assumptions on those provided by its consultant, McKinsey, since July 2022. McKinsey expects MTA-wide utilization trends to reach new baselines at around 80 percent of pre-pandemic levels by the end of 2026 (from 86 percent of pre-pandemic levels by the end of 2024 assumed in July 2021). As shown in Figure 1, actual ridership has stayed close to the new McKinsey forecast.

The Office of the State Comptroller maintains a subway ridership dashboard that shows how uneven the return of ridership has been. Subway station data through June 2023 indicates that there is still some variation in the use of subway service. Four of the five stations with the highest ridership, including Times Square and Penn Station, had ridership that remains lower than the systemwide average (65 percent). Only Grand Central was above average in June 2023. Dozens of smaller stations, most of which are located outside the central business district, have seen ridership recover to more than 80 percent of pre-pandemic ridership, including five (of which three stations are on the 7 line) that exceeded their pre-pandemic levels in June 2023.

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. After needed repairs to the system that improved performance, ridership began to recover in 2019, prior to the pandemic (see Figure 2).

The subway system provided 640 million trips in 2020, a 62 percent decline compared to 2019. The July Plan assumes that riders will return to the system slowly, reaching a “new normal” ridership of 1.4 billion in 2027, 20 percent below 2019 levels.

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



Sources: Metropolitan Transportation Authority; OSC analysis

Buses, which were free from March to August 2020, saw ridership initially recover faster than the subways or commuter rail. However, ridership has remained mostly flat since early 2022 at around 60 percent of 2019 levels. Combined ridership for New York City Transit and MTA Bus is expected to increase from 426 million in 2022 to 551 million in 2027, 19 percent lower than in 2019.

The July Plan also does not expect commuter rail ridership to fully recover during the plan period. So far in 2023, ridership on the Long Island Rail Road (LIRR) has recovered more quickly than the Metro-North Railroad.

LIRR ridership fell to 30.3 million in 2020, a 67 percent drop from 91.1 million in 2019, the highest level since 1949 (see Figure 3). The July Plan expects ridership to slowly recover, reaching 76 million in 2027, still almost 17 percent lower than in 2019. Ridership at Grand Central Madison is forecast to rise from 2.8 million in its first full year in 2024 to nearly 5 million riders in 2027. Ridership to Penn Station in 2027 is expected to be 22 percent lower than in 2019.

Figure 3 also shows ridership trends for 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 return more slowly than on the LIRR, reaching roughly 60 million by 2027, 31 percent lower than 2019.

MTA Bridges and Tunnels crossings reached a record 329.4 million in 2019. Crossings fell 23 percent in 2020 to 253.2 million, a smaller drop than other modes of transportation, as commuters turned to motor vehicles instead of using transit (see Figure 4). The July Plan expects crossings to set a new record of 333.8 million in 2023 and hold above 2019 levels throughout the plan period.

FIGURE 2
Annual MTA Subway Ridership

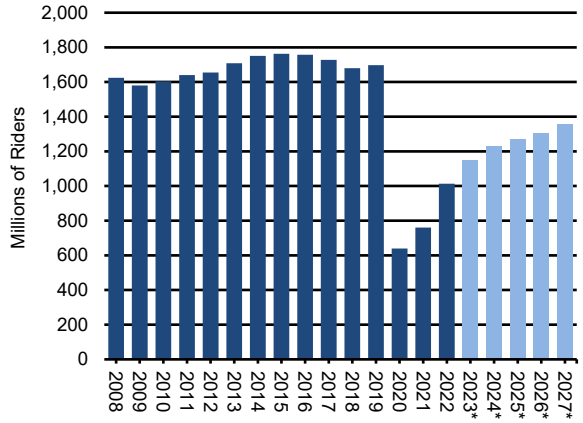


FIGURE 3
MTA Commuter Rail Ridership

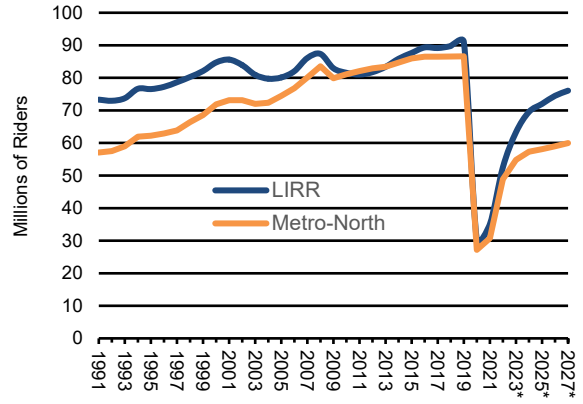
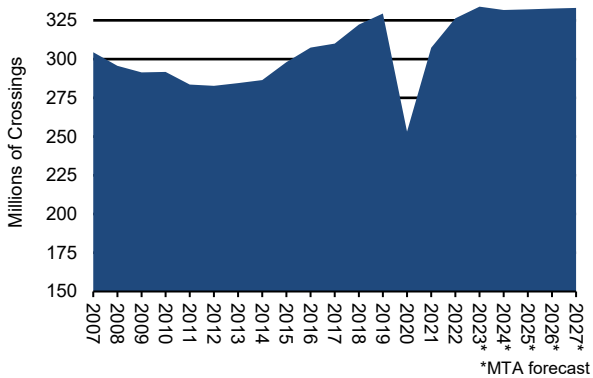


FIGURE 4
MTA Bridge and Tunnel Crossings



*MTA forecast

Source: Metropolitan Transportation Authority

MTA Customer Satisfaction

A full fiscal recovery is reliant on a return of ridership across the MTA's modes of transportation. In recognition of the important role the ridership experience has on commuter choices, in June 2022, NYCT shifted from a quarterly survey to a monthly survey of its riders on customer satisfaction. That month, 52 percent of subway riders were satisfied (or better) with subway service and 67 percent were satisfied with bus service.

The surveys include a question on what aspects of the rider experience could be remedied to improve satisfaction. In June 2022, three of the top five responses were related to fewer people acting erratically, more police presence and personal security. For bus riders, the main concerns were wait times and more reliable service.

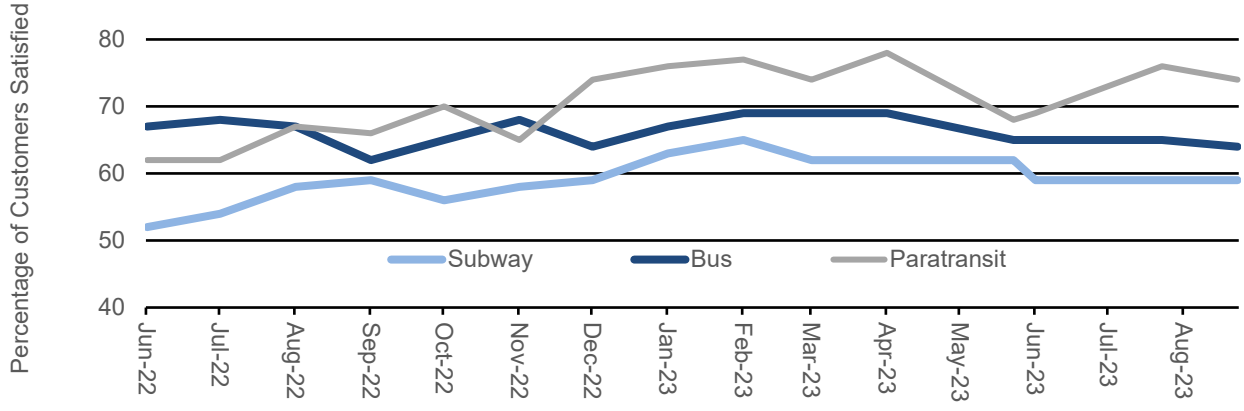
In October 2022, NYCT set as its goal by June 2024 to have all of its customer satisfaction scores to be at or over 70 percent. Since then, customer satisfaction scores for subways and buses peaked at 65 percent and 69 percent, respectively, in February 2023. However, as warmer months approached, subway service satisfaction dipped, reaching 59 percent in June 2023 where it remained through August (see Figure 5). Bus satisfaction remained at or above 65 percent in 2023 before dipping to 64 percent in August. Paratransit customer satisfaction exceeded 70 percent in six of the eight months of 2023 peaking at 78 percent in April 2023.

In August 2023, 59 percent of riders were satisfied with safety on the subway and 58 percent were satisfied with safety in subway stations as indicators relating to personal safety continue to remain the concern of riders.

Commuter rail satisfaction surveys have maintained their pre-pandemic frequency of twice a year (in the spring and the fall). Over the past year, satisfaction on the Long Island Rail Road has exceeded 80 percent, on par with satisfaction before the pandemic. Riders on Metro-North Railroad have an 89 percent customer satisfaction rating which is higher than before the pandemic (86 percent).

The MTA has not yet released a survey of commuter rail satisfaction that captures rider responses since the full operation of Grand Central Madison Terminal.

FIGURE 5
NYCT Customer Satisfaction



Sources: Metropolitan Transportation Authority; OSC analysis

Changes Since the MTA's February Plan

In February 2023, the MTA projected cash deficits of $600 million in 2023, $1.2 billion in 2024, $1.2 billion in 2025, $1.6 billion in 2026 and $1.9 billion in 2027. These gaps assumed that the MTA would spread out the use of federal funds in the operating budget and that it would pay back the unused proceeds of a $2.9 billion note borrowed from the Federal Reserve to fund operating gaps. The February budget also assumed that fare and toll yields would rise by 5.5 percent in 2023 and by 4 percent in both 2025 and 2027, and that the MTA would identify $100 million in savings in 2023 rising to $416 million in 2026.

As shown in Figure 6, the MTA's finances have appreciably improved since February as it now forecasts to have balanced budgets throughout the five-year financial plan period, fueled by increased financial support provided in the State Enacted Budget. The enacted State budget included new funding sources from the State and City that will provide $799 million in 2023 rising to $1.9 billion in 2026 including increased assistance from the State General Fund in 2023, an increase to the Payroll Mobility Tax on large businesses in New York City, increased support from the City for the MTA's paratransit service and revenues from future casinos in the downstate region.

The July Plan also includes $1.2 billion over five years from higher-than-forecasted fare and toll revenues. Bridge and tunnel crossings are expected to be higher than planned in February. Although ridership assumptions have not changed, the average fare paid by riders is expected to be higher as fewer riders are using unlimited fare cards, which provide a discounted fare.

Real estate-related tax revenues are expected to be $1.1 billion lower during the plan period, as compared to February's plan mostly from

FIGURE 6

MTA Budget Changes in July Plan Since the February 2023 Financial Plan
(in millions)

	2023	2024	2025	2026	2027
February Cash Surplus/(Deficit)	**$ (600)**	**$ (1,188)**	**$ (1,242)**	**$ (1,623)**	**$ (1,882)**
Enacted State Budget Revenue Actions	799	1,277	1,323	1,869	1,914
Enacted State Budget Expense Actions	(75)	(150)	(135)	(135)	(135)
Additional Labor Expense - TWU Pattern	(235)	(140)	(230)	(270)	(275)
Real Estate Related Taxes	(393)	(219)	(210)	(161)	(154)
Other Dedicated Taxes & Subsidies	82	344	387	423	281
Fare and Toll Revenue	106	270	281	283	302
Non-Payroll Labor Expenses	83	36	(78)	(124)	(221)
Non-Labor Expenses	116	81	74	106	81
Higher Savings Target	- - -	- - -	100	102	104
Pension Prepayment	- - -	(500)	515	- - -	- - -
Other Changes	117	189	(785)	(470)	(15)
Total Changes	**600**	**1,188**	**1,242**	**1,623**	**1,882**
Deficit Before Gap-Closing Actions	**$ - - -**	**$ - - -**	**$ - - -**	**$ - - -**	**$ - - -**

reductions in mortgage recording tax collections. OSC suggested these revenue forecasts were potentially too optimistic in the last review of the Authority's financial outlook. Offsetting this reduction are increases in other dedicated taxes and subsidies, amounting to $1.5 billion more over five years, mostly from higher corporate surcharge revenues as the State increased the tax rate for businesses with income greater than $5 million.

Additional spending comes from operational spending required as part of the State budget agreement and higher than anticipated labor expenses. As part of the State budget agreement, the MTA agreed to reduce the planned fare increase in 2023 to 4 percent, increase service and safety initiatives and provide as a pilot program one free bus route in each borough of New York City for as long as one year. These programs are expected to cost $630 million during the 2023 through 2027 period.

The MTA has also reached a labor agreement with the Transport Workers Union which is expected to set the pattern for the MTA's other labor contracts. Over the five-year plan period, the amount budgeted for the new pattern is expected to be $1.2 billion higher than projected in February.

In addition, the MTA has increased the amount expected from its savings program to more than $500 million annually starting in 2025. The July Plan assumes that $193 million of savings still must be identified in 2024, $302 million in 2025, $298 million in 2026 and $348 million in 2027. The MTA also expects to prepay $500 million of pension expenses in 2024 to reduce pension expenses by $515 million in 2025.

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Operating Budget Trends

On July 17, 2023, the MTA released a midyear update to its 2023 budget and a four-year financial plan based on the preliminary budget for 2024. The July Plan projects that the MTA's operating budget will total $19.8 billion in 2024 including debt service on bonds, excluding debt backed by capital lockbox funds, issued to finance the capital program and a pension pre-payment

As shown in Figure 7, 39 percent of the MTA's 2024 revenues are expected to come from fare and toll revenue (26 percent and 13 percent, respectively). By comparison, in 2019, more than half of the MTA's revenues came from fares and tolls. Dedicated taxes enacted by the State will account for 44 percent of total revenue, up from 37 percent in 2019, and State and local subsidies and other funding agreements will contribute another 7 percent. Other operating revenues, which includes paratransit funding from the City and American Rescue Plan Act (ARPA) funding, make up 10 percent.

As in 2019, 60 percent of the MTA's 2024 operating budget is devoted to personnel costs, including payroll, overtime and fringe benefits (see Figure 8). Debt service represents 14 percent of total expenses, while other nonlabor costs, such as maintenance contracts, materials and supplies, and energy costs, make up 26 percent of expenses.

Looking beyond 2023, on an accrual basis of accounting, revenues) are expected to increase by 4.4 percent between 2023 and 2027 mostly as result of the State providing additional funding support to the MTA. This increase does not include planned fare and toll increases. At the same time, baseline spending is projected to increase at an average annual rate of 4 percent. This rate does not include the additional labor expense from the TWU

FIGURE 7
MTA Sources of Revenue

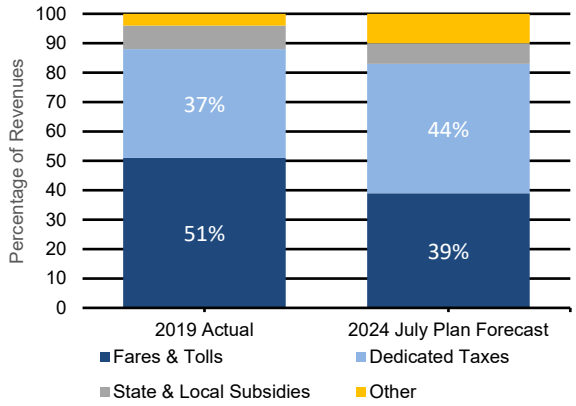


FIGURE 8
Planned Spending (2024)

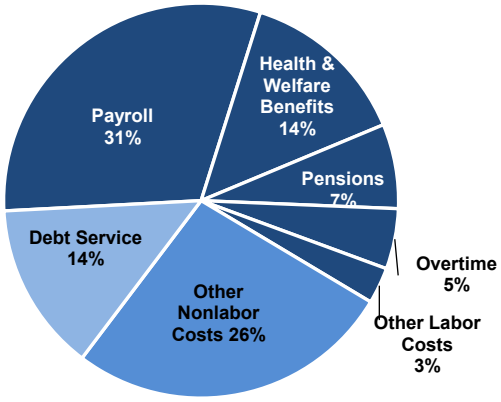
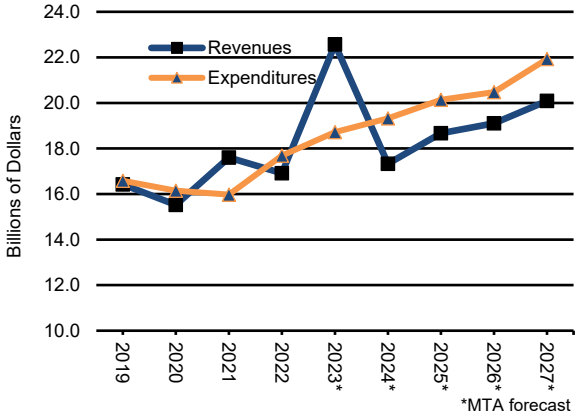


FIGURE 9
Revenue and Expenditure Trends



settlement or the pattern the settlement sets for most of the other unions, unspecified savings actions or spending pressures such as higher overtime costs. Appendix A shows detailed baseline forecasts for MTA revenues and expenditures for calendar years 2023 through 2027, before the additional MTA actions to close the budget gaps.

Revenue Trends

Total revenues, including all operating revenues and subsidies), are expected to increase by an average of 4.4 percent annually between 2023 and 2027 (see Figure 9). In 2024, total revenues are expected to rise by 7.7 percent to $18.7 billion as tax revenues increase 15.2 percent and farebox rise by 10 percent. State and local subsidies are expected to decrease by 23 percent in 2024 as 2023 benefitted from $300 million in one-time State subsidies. The MTA anticipates that farebox revenues will increase by 4.7 percent annually between 2023 and 2027, excluding projected fare increases in 2025 and 2027, but the 2027 level would still be 13 percent below 2019, prior to planned fare increases.

Tax revenue is expected to increase by an average of 6.6 percent annually between 2023 and 2027. Revenues from the largest dedicated tax source to the MTA, the Metropolitan Mass Transportation Operating Assistance (MMTOA) account, are expected to increase by 9.1 percent in 2023 and 5.4 percent in 2024 mostly from a higher statewide corporate surcharge rate bringing in more revenue which then flows into the MMTOA account. Collections are then expected to be relatively flat through 2027. This forecast follows the enacted State budget projection which is subject to change.

Payroll mobility tax revenue, the largest source of tax revenue growth for the MTA, is expected to increase by 22.2 percent in 2023 and by 31.5 percent in 2024 as the State increased the tax rate for large businesses in New York City. PMT revenue is expected to grow by 3.7 percent annually between 2024 and 2027 as wage disbursements are expected to continue to grow. Collections from real estate transaction taxes are projected to decrease 20 percent in 2023 but increase 14 percent in 2024 mostly from changes in commercial real estate activity in New York City, before increasing by 2.5 percent annually through 2027.[1] The MTA uses the City's projections for the City portion of the real estate transaction taxes in its budget, which OSC has noted are reasonable in past reports.

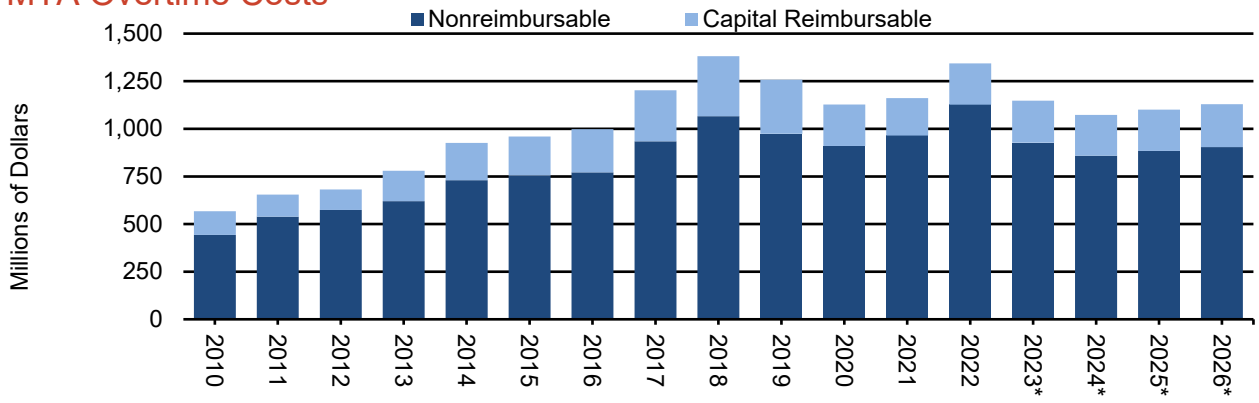
Expenditure Trends

Baseline expenditures are expected to increase by 4 percent annually between 2023 and 2027, driven by an average annual increase of 8 percent in health and welfare costs for active employees and retirees. Another factor in the growth of expenditures is a 6.3 percent annual increase in the cost of materials and supplies, a 6.1 percent increase in electric costs and a 5.3 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, reflecting projected wage increases of 2 percent annually for the next round of collective bargaining. The MTA's baseline forecast does not yet include the impact of the more costly TWU settlement, which it assumes will set the pattern for the MTA's other represented employees, nor unidentified savings actions,

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

FIGURE 10
MTA Overtime Costs



Sources: Metropolitan Transportation Authority; OSC analysis

* MTA forecast

which are both included as "below-the line-actions" needed to balance the July Plan.

The July Plan assumes overtime (including overtime reimbursed by the capital budget) will decrease by 15 percent in 2023 to below the 2017 level, as hirings pick up reducing the need for overtime. Spending is expected to decrease another 7 percent in 2024 but then increase an average of 2 percent annually in 2025 through 2027. 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 10). The increase was mainly driven by the Subway Action Plan, the LIRR's corrective action plan and to cover positional vacancies.

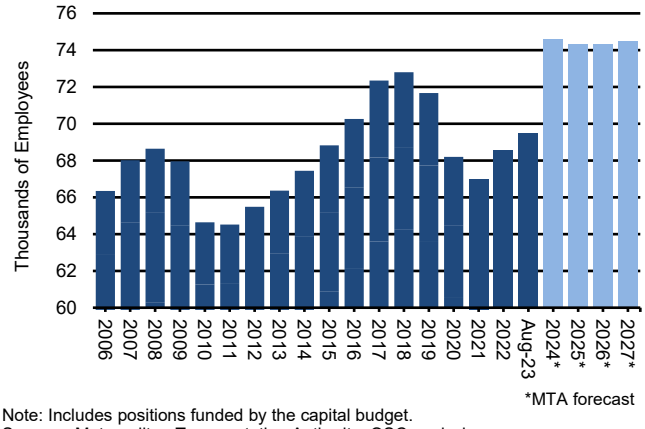
In 2019, overtime declined by 9 percent to nearly $1.3 billion as the MTA began to better manage its overtime, and in 2020 it fell another 10 percent to $1.1 billion as better management continued while services and construction work were reduced during the pandemic. In 2021, overtime increased by 3 percent and then by 16 percent in 2022 to $1.3 billion largely as a result of high staff vacancy levels at New York City Transit. As shown in the "Potential Budget Risks" section, it is likely that overtime will be $200 million higher than planned in 2023.

In 2019, the former 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.

Staffing Levels

The size of the MTA's workforce has fluctuated based on the Authority's financial position and operational need since the Great Recession. 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, about 84 percent of which were operations and maintenance personnel, peaking at 72,800 in December 2018 (see Figure 11).

FIGURE 11
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 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 expanded to operational positions in response to fiscal pressures created by the pandemic.

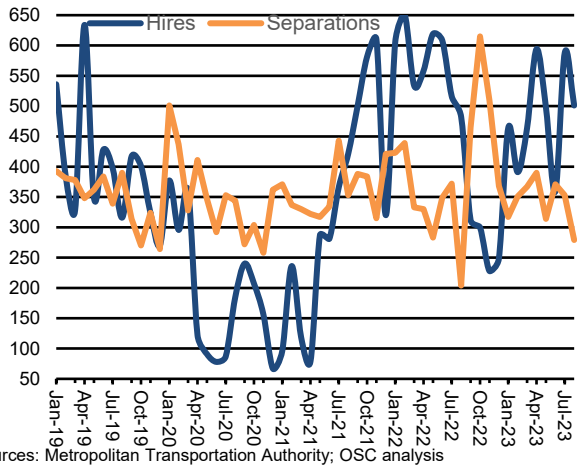
The hiring freeze on operational positions was lifted in February 2021 as the MTA's budget pressures eased and operational struggles mounted, but the MTA initially had difficulty hiring as fast as employees were retiring or leaving. In December 2021, the workforce was about 1,200 employees lower than the year before and at the lowest level since 2013. By December 2022, hiring had picked up, as 1,557 positions were added compared to the year before.

In the first eight months of 2023, the MTA has added another 912 employees, more than two-thirds of whom were for maintenance and operations. As of August 2023, the MTA work force totaled 69,460 employees, 3,340 fewer than at the end of 2018. Operational and maintenance headcount that month totaled 61,873, 2,241 more than in December 2021 but 2,364 fewer than in December 2018, after the rollout of the Subway Action Plan.

The July Plan authorizes the MTA to hire 5,112 employees between August 2023 and December 2024 (including 3,678 operational and maintenance positions) to reach 74,572 employees, which would be a record (see Appendix B). The MTA then expects the number of staff to drop slightly in 2025 and 2026 before reaching 74,485 in 2027.

Hiring of operational and maintenance positions has exceeded separations in 20 of the last 25 months (see Figure 12). Nevertheless, the MTA's operational and maintenance positions are staffed at lower levels than pre-pandemic levels, which led to service delays which have since eased. The weekday subway percentage of scheduled service delivered in July was 94 percent, better than the level in July 2022 (91 percent) but lower than the July 2019 level of 96 percent. If lower service levels continue, they could hinder ridership recovery, and potentially impact the Authority's revenue projections. The July Plan forecast for operational and maintenance staff in 2024

FIGURE 12
MTA Operations & Maintenance Staffing



Sources: Metropolitan Transportation Authority; OSC analysis

(65,551) would be more than 1,300 higher than the peak in 2018 and would require a substantial increase in hiring. Staffing is expected to be slightly higher in 2027.

Administrative staffing in August 2023 declined by 779 since December 2018. However, the MTA has added 159 administrative employees since the beginning of 2023. The July Plan authorizes the MTA to hire another 675 in administrative positions by the end of 2024.

Public safety positions are expected to increase by 558 by December 2024 mostly to complete the hiring of additional MTA Police officers to support efforts to reduce fare evasion and quality of life infractions throughout the MTA subway and rail system and hire more than 100 new members of the bus system's Eagle teams. Capital and engineering positions are expected to increase by 202 between August 2023 and December 2024.

The MTA historically does not hire up to its authorized level, so it is unlikely that all those positions will be filled. For example, staffing in August 2023 was 4,635 positions below the July Plan forecast. As a result, there is potential for savings of about $175 million in 2023 if the MTA does not pick up its pace of hiring.

MTA Savings Program

In the February Plan, the MTA assumed that it would achieve unidentified savings of $100 million in 2023, $400 million in 2024, $408 million in 2025 and $416 million in 2026. In the July Plan, the MTA identified $107 million of financial plan savings in 2023, $207 million in 2024, $206 million in 2025, $220 million in 2026 and $181 million in 2027 (more than half of the February target has been identified.) These actions are expected to lower headcount by as many as 495 positions in 2026. The July Plan has increased the overall savings target to more than $500 million starting in 2025. Unidentified savings actions in the financial plan total $1.1 billion during the 2024 through 2027 period.

NYCT has identified $688 million in savings during the five-year financial plan period. NYCT plans to use predictive maintenance technology to allow it to extend the overhaul period for subway cars from six years to 6 and a half years and extend the subway car inspections period from every 68 to 78 days to every 75 to 85 days. These together are expected to save $41 million in 2024 rising to $54 million in 2026. Savings in 2027 are expected to decline to $14 million. Using predictive maintenance for buses is expected to save another $10 million annually. Bringing enhanced station and subway car cleaners in house is expected to produce a net savings of $45 million annually.

As authorized by the enacted State budget, another 700 buses will have automated bus lane enforcement cameras installed on MTA buses which is expected to generate $22 million in FY 2024 and lower amounts in subsequent years from fines imposed on vehicles in the bus lanes. The increased usage of the paratransit app to schedule trips is expected to reduce call center expenses by $4 million. The MTA plans to eliminate manual elevator operators at the subway stations that deploy them to save $2 million annually but this has already been temporarily delayed by a court order. NYCT is pursuing another $150 million annually in savings for the MTA's November Plan.

The Long Island Rail Road has identified $30 million in annual savings mostly from improving equipment maintenance workflows in shops which is expected to save $12 million annually starting in 2024. The LIRR will also reduce maintenance overtime by hiring more staff and

strengthening management oversight which is expected to save $8 million annually.

Metro-North has identified more than $30 million in savings annually starting in 2024 of which more than $20 million will reduce future budget gaps. The remainder of the savings are attributed to the New Haven line which allows Connecticut to reduce its subsidy to the MTA.

Slower than planned hiring at Metro-North in 2024 is expected to save $16 million. Starting in 2025, increased hiring is expected to decrease maintenance overtime by $10 million annually while improved inventory management at Metro-North is expected to save $11 million by 2027. The commuter railroads are also pursuing another $50 million in savings in the November Plan.

Federal Operating Funding

The MTA has relied on an unprecedented level of federal funding to balance its operating budget since the onset of the pandemic. The MTA received operating funding from three different federal funding allocations to help it balance its budgets during this crisis: the Coronavirus Aid, Relief and Economic Security (CARES) Act, the Coronavirus Response and Relief Supplemental Appropriations (CRRSA) Act and the American Rescue Plan Act (ARPA).

The MTA received $8.1 billion from the CARES and CRRSA acts and used it to fund monthly operating deficits between January 20, 2020, and April 30, 2021. This funding allowed the MTA to maintain robust service to enable essential workers to reach their jobs and to enable the economy's recovery.

The MTA received $7 billion from ARPA. As the State has provided substantial levels of additional recurring funding for operations, the MTA is able to stretch out the use of these monies made available due to ARPA funding for a total benefit of $7.5 billion over eight years, from 2022 through 2029 (see Figure 13). The MTA is using $3.4 billion of the total to fund deficits through 2028, including $603 million for MTA Bus and Staten Island Railway, which would reduce New York City's subsidies for these services as required by funding agreements with the City.

By spreading the use these monies to receive the benefit of them over a multi-year period, the MTA also expects to fund about $1 billion in spending outside of the financial plan. This approach should help alleviate some risks to the Authority's operating budget in the future.

The usage of the monies made available due to ARPA funding is described below:

- $1.4 billion of debt and interest prepayments in 2023, reducing expenses by $1.5 billion through 2026.
- $1.3 billion paid into the MTA's Other Post-Employment Benefits Trust to invest and prepay retiree health costs through 2029, saving $1.5 billion, mostly in 2028 and 2029.
- $1.1 billion to prepay pension costs in 2023 and 2024.

FIGURE 13
Financial Plan Impact of Federal American Rescue Plan Funding
(in millions)

	2022	2023-2027 Financial Plan Period	2028	2029	Total
Operating Expenses/Deficits	$ 599	$ 2,058	$ 106	- - -	$ 2,763
Debt Prepayments	- - -	1,494	- - -	- - -	1,494
Pension Prepayments	- - -	1,136	- - -	- - -	1,136
Retiree Health Prepayments	- - -	258	400	857	1,515
MTA Bus/SI Railway Reserve	- - -	612	- - -	- - -	612
Total Financial Plan Impact	**$ 599**	**$ 5,558**	**$ 506**	**$ 857**	**$ 7,520**

Source: Metropolitan Transportation Authority; OSC analysis

Potential Budget Risks

The MTA has identified various risks to its financial plan that include a recession and ridership not returning as quickly as it forecasts. OSC projects that other risks to the MTA's July Plan could increase the MTA's budget gaps by $25 million in 2023, $341 million in 2024, $509 million in 2025, $569 million in 2026 and $594 million in 2027 (see Figure 14).

The MTA has self-identified a number of risks, which are reasonable concerns and should be monitored for their impact on its financial plan. The first and largest of these risks are macroeconomic trends that would increase recurring costs or reduce revenues. The biggest risk to the MTA's finances is that a recession would further adversely impact ridership and tax revenues. The MTA estimates that a recession could lower dedicated tax revenues, as forecasted by the State, by $250 million to $750 million annually.

Even if the economy improves as quickly as the MTA expects, there is still a risk that ridership will not return to planned levels. The July Plan assumes the MTA will reach the middle point — 69 percent of pre-pandemic ridership in 2023 rising to 79 percent by the end of 2026 — of McKinsey's ridership forecast. If ridership tracks closely with the less optimistic scenario, which is 73 percent of the 2019 level by the end of 2026, then the MTA estimates that fare revenue could be lower by $325 million annually for each drop of 5 percent in ridership recovery.

Balancing the July Plan requires the MTA to implement $400 million in savings starting in 2024 and another $100 million annually starting in 2025.The MTA acknowledges that less than full implementation of the budgeted efficiencies could constitute a budget risk of $400 million to $500 million annually.

FIGURE 14
OSC Risk Assessment of MTA July Plan
(in millions)

	2023	2024	2025	2026	2027
Projected Cash Balance	**$ - - -**	**$ - - -**	**$ - - -**	**$ - - -**	**$ - - -**
NYCERS Pension Contributions	- - -	5	11	17	22
Unidentified Savings	- - -	(193)	(302)	(298)	(348)
Overtime	(200)	(140)	(115)	(95)	(75)
Payroll	175	- - -	- - -	- - -	- - -
NYC Paratransit Contribution	- - -	- - -	(83)	(165)	(165)
GCM Fare Revenue	- - -	(13)	(20)	(28)	(28)
Total Risks and Offsets	**(25)**	**(341)**	**(509)**	**(569)**	**(594)**
MTA-Identified Risks					
State Tax Revenue	- - -	(750)	(750)	(750)	(750)
Low Case Ridership Scenario	- - -	(325)	(325)	(325)	(325)
Timing of Casino Revenue	- - -	- - -	- - -	(500)	(500)

Sources: Metropolitan Transportation Authority; OSC analysis

The MTA also has identified a risk in the timing of casino revenue in the downstate region as the financial plan relies on $500 million from casinos in both 2026 and 2027. Any delay in approving the casinos would lead to a delay in the MTA receiving license fee revenue and open up potential budget gaps.

OSC has also projected risks that are not included in the MTA's figures. For example, overtime costs paid out of its operating budget through August 2023 were $750 million, $145 million higher than forecast in the July Plan for the same period. Overtime spending would have to average $44 million each month for the remainder of 2023 to meet the budgeted amount of $927 million when it averaged $94 million a month in the first eight months of the year. Since vacancies and availability challenges are still leading to higher-than-planned overtime at NYCT, this may be unrealistic. As a result, OSC forecasts that overtime costs could be at least $200 million higher than planned in 2023 with the risk declining to $75 million in 2027.

The MTA has identified $920 million in savings in the July financial plan period (see Savings Action section). The July Plan is balanced through 2027 but relies upon the MTA identifying an additional $193 million of savings in 2024, $302 million in 2025, $298 million in 2026 and $348 million in 2027. Until all the savings have been identified, there are no guarantees that the MTA will achieve the desired savings.

In the July Plan, the LIRR lowered its forecast for revenue from its Grand Central Madison (GCM) service in 2023 from $9.5 million to $6.7 million due to ridership of 914,000 expected to be about 400,000 less than expected in February. Nevertheless, the LIRR expects ridership on GCM to increase to 2.8 million in 2024 and close to 5 million riders in 2027 which may be unrealistic. If GCM ridership increases at the same rate as the LIRR forecasts for the rest of its service, fare revenues could be lower by $13 million in 2024 rising to $28 million in 2026.

The Enacted State Budget increased the City's contribution to paratransit for the period July 1, 2023, through June 30, 2025. The July Plan reflects this additional revenue but also assumes that the City will pay this increased share after this period. If State law is not changed to extend the additional contribution, MTA revenues will be lower by $83 million in 2025 and $165 million in both 2026 and 2027.

OSC forecasts lower pension costs for the MTA than in the July Plan. All MTA Bridge and Tunnel employees and two-thirds of NYCT 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 an 8.18 percent gain in the fiscal year ending June 30, 2023, OSC estimates that the MTA's pension contribution to NYCERS will be lower by $5 million in 2024, rising to $22 million lower in 2027.

Even with the increased overtime, given the MTA's slower than expected hiring, there is potential for offsetting payroll savings. Although the MTA has increased hiring, staffing in August 2023 was 4,635 positions below the July Plan forecast. Through August, payroll costs were $119 million lower than the July Plan and could be $175 million lower by the end of 2023.

In addition to quantifiable risks and offsets, there are a number of items that are less likely or clear in their potential cost to the Authority. The MTA assumes that future labor agreements will follow the pattern set by the TWU

agreement. Any agreements that provide higher wage increases than the TWU agreed to would be an unbudgeted risk. The TWU, since it has a “me-too” clause in its contract, would also receive even higher wages to match the new pattern established by the commuter railroads.

Through August, farebox revenue is $36 million higher than the July Plan forecast, fueled by higher-than-planned ridership on the subway and Metro-North. If these ridership gains continue, the MTA could receive further budget relief.

These risks may also be offset by other savings or reserves. The July Plan includes an annual general reserve of 1 percent of operating expenses (excluding debt service) to be used in each year. In 2023, the reserve is $185 million, rising to $210 million in 2027. As much as $398 million in one-time funding that has been set aside for bridge and tunnel capital projects can also be used for operating purposes, if needed.

Status of MTA Capital Programs

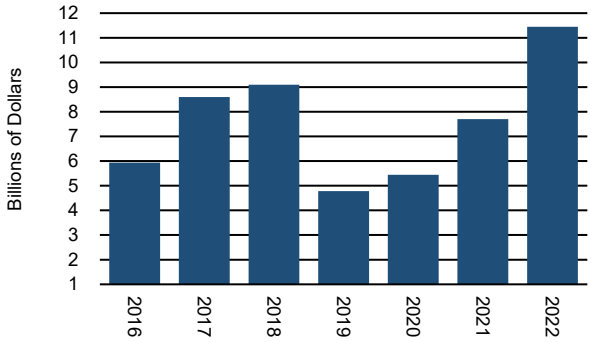
The MTA's capital programs, which generally span five-year periods, are critical to bringing the overall system into a state of good repair, maintaining normal replacement of assets, and improving and expanding the system to meet its riders' needs. Capital investment in the system is directly tied to the ridership experience and can have substantial operational impact. Capital programs are funded through various sources including debt issued by the Authority. The vast majority of MTA debt has been issued to fund its capital programs (see Capital Funding section).

Historically, the MTA has multiple capital programs active at the same time. It normally takes more than five years to commit (i.e., award) to contractors all the projects in a capital program and even more time to complete the work. The Authority uses a seven-year target for making capital commitments and a 10-year target for completing its capital plan work. The pace of commitment and related funding has implications for the size of the Authority's debt and related payments. In addition, these factors can make it difficult for stakeholders to get a clear and comprehensive picture of the MTA's progress. For various reasons, both the 2010-2014 and 2015-2019 capital programs have taken longer than seven years to commit their projects.

The MTA had difficulty before the pandemic sustaining the level of its capital commitments. In the four years prior to the pandemic, 2016 through 2019, it committed an average of $7.1 billion per year. In 2020, $5.4 billion across all capital programs was committed, slowed by the pause in capital spending at the onset of the pandemic (see Figure 15).

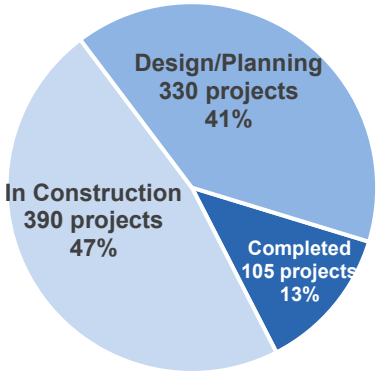
In 2021, when the pause was lifted, commitments rose to $7.7 billion. In 2022, the MTA was able to commit $11.4 billion of capital projects, a record and more than $3 billion higher

FIGURE 15
MTA Capital Commitments



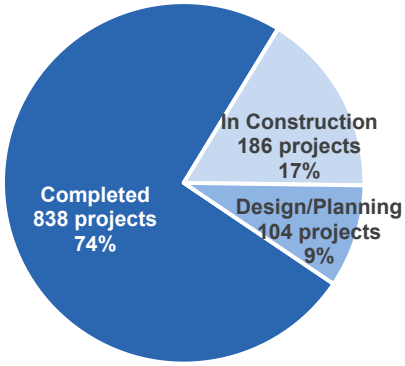
Source: Metropolitan Transportation Authority

FIGURE 16
Status of MTA 2020-2024 Capital Program
(825 Projects)



Note: As of March 31, 2023.
Sources: Metropolitan Transportation Authority; OSC analysis

FIGURE 17
Status of MTA 2015-2019 Capital Program
(1,128 Projects)



Note: As of June 30, 2023.
Sources: Metropolitan Transportation Authority; OSC analysis

than the MTA's goal, mostly through the earlier-than-planned $1.8 billion commitment for new subway cars. Eight months into 2023, the MTA has committed $2.4 billion to capital projects of $9.2 billion planned. At the current pace, the MTA would fall short of the $10 billion goal in 2023 and the 2022 commitment level.

As of September 1, 2023, the MTA's capital programs since 2010 still have $40.7 billion that must be committed. As of September 1, 2023, $20.1 billion (36.3 percent) of the 2020-2024 program has been committed, leaving $35.3 billion still to be committed. This is an improvement from March 2022, when only $8.3 billion had been committed for this program, as the MTA has ramped up the level of commitments to make up for the delayed start to the program because of the pandemic construction slowdown.

According to the MTA capital dashboard, as of the latest update on March 31, 2023, 495 of 825 projects in the 2020-2024 capital program were completed or were underway (see Figure 16). The program had gotten off to a slow start in 2020 as the MTA halted capital commitments at the start of the pandemic. As in the past, the MTA is expected to split larger projects into smaller segments during the life of the program, which ultimately will increase the total number of projects as the plan continues.

The MTA must also finish its 2015-2019 and prior programs. Partly due to a funding dispute between the State and the City, which led to the 2015-2019 program being approved 18 months late, 26 percent of the 1,128 projects that make up the 2015-2019 capital program were not finished as of June 30, 2023 (see Figure 17). The MTA had completed 838 projects, but 186 (17 percent) were still in construction (although components may already be of beneficial use) and the remaining 137 projects (9 percent) were in the design or planning stage. As of September 1, 2023, $3.1 billion (9.1 percent) of this $33.8 billion program still must be committed.

The 2010-2014 capital program has completed 91 percent of the 1,264 projects in the program, with 82 projects still in construction and 35 in the design or planning stage. Most of the outstanding projects are for Superstorm Sandy-related work, commuter railroad rolling stock purchases and improvements at New York City Transit, including the new fare payment system. As of September 1, 2023, of this $31.6 billion program, about $2.3 billion (7.2 percent) still must be committed.

State law requires the MTA to send its updated 20-year capital needs assessment to the state Capital Program Review Board on or before October 1, 2023 as the first step in developing a proposed 2025-2029 capital program set for release in 2024. (The MTA has indicated that it will present the needs assessment at its board meeting in late October.) The needs assessment operates as a measuring stick for capital investments and provides the long-term planning context for developing the MTA's five-year capital programs containing a list of needed work unconstrained by available funding. It is currently uncertain how the MTA will fund the needed projects. The 2020-2024 program is funded with lockbox revenue, which is not expected to be available at the same level for future capital programs. If the 2025-2029 capital program is the same size as the previous program, there could remain as much as a $25 billion funding gap in the next program.

Lockbox Debt and Congestion Pricing

In 2019, the State provided congestion pricing, internet marketplace sales tax and mansion tax revenues totaling $25 billion for the MTA's 2020-2024 capital program. These funds are

separated from the MTA's operating budget and placed in a lockbox to reduce pressure on the operating budget. This is a fundamentally sound public financing rationale that allows the MTA to free up dollars for its operating needs. As required by State law, congestion pricing is expected to provide $15 billion of this funding; tax revenues are expected to provide another $10 billion.

The MTA expects to issue $18.8 billion of lockbox debt with the remainder of the lockbox revenues used as pay-as-you-go capital funding. The MTA expects to receive about $1.7 billion annually from lockbox revenues including $1 billion from congestion pricing. Debt service on these bonds is expected to be about $1.1 billion annually and the remaining $550 million annually will be used to pay for capital projects.

Congestion pricing received its final federal approval in June 2023 and the Traffic Mobility Review Board has begun to meet to determine the tolls and any discounts that might be given as required by State law upon which the MTA board will then vote. New Jersey has recently sued the federal government saying that the Federal Highway Administration (FHWA) found that congestion pricing will have no significant impact on the environment when it did not conduct a complete environmental impact statement. The MTA was allowed to use a less time-consuming environmental assessment process.

The MTA originally assumed revenue from congestion pricing would start to be received in 2021 and now expects the program to start in mid-2024. Any further delay in the program would open a large funding gap in the MTA's 2020-2024 capital program. As a result, the MTA might choose to further delay needed projects. If the MTA decided to fund some of this shortfall with bonding backed by its operating budget revenue, it could open an annual operating budget gap of as much as $400 million until congestion pricing becomes operational. At a time when the MTA has balanced its budget through 2027, this could create new operating pressures that might lead to negative consequences such as service reductions, higher fares and tolls. It could also make it more difficult to fund the 2025-2029 program if projects deferred from the 2020-2024 program must be funded.

MTA Debt Outstanding and Debt Service

The amount of outstanding long-term debt issued by the MTA more than doubled from 2000 to 2010, from $11.4 billion in 2000 to $29 billion in 2010. The pace of growth slowed to 22 percent from 2010 to 2019, to reach $35.4 billion, as State support rose from the decade prior. Since 2019, however, debt has risen to accommodate increased capital spending, reaching $42.3 billion in 2022, a 19 percent increase since 2019 (see Figure 18).

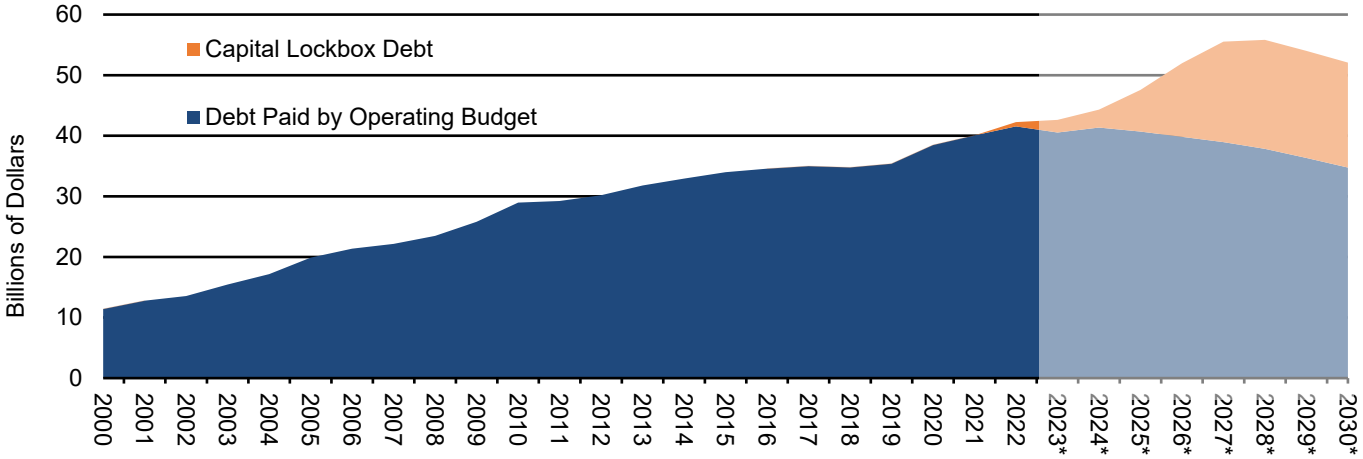
The use of capital lockbox debt, which is kept outside of the operating budget to eliminate any impact on operational spending (the majority of which is backed by congestion pricing revenues) is critical to managing the overall debt load of the MTA and its impact on debt service and its operating budget. Future declines in debt outstanding for non-lockbox debt are reliant on capital lockbox debt providing funds to pay for capital projects. Including capital lockbox debt, the MTA expects debt outstanding to be $42.6 billion in 2023 and increase to $55.8 billion in 2028. Non-lockbox debt outstanding is expected to decline from $41.6 billion in 2022 to $37.8 billion in 2028 and $34.8 billion in 2030 as the MTA focuses on issuing its lockbox debt. As a result, debt service paid from the operating budget is also expected to stabilize in the short term. Any bonding needed to fund future capital programs after the 2020-2024 program is not included in the MTA's forecast and would increase both the projected debt outstanding and debt service.

The MTA's July Plan assumes that $18.8 billion of bonding backed by capital lockbox revenues including congestion pricing will be issued through 2028 including $2 billion already issued. Most of the initial planned lockbox borrowing is expected to be backed by City internet sales tax contributions as the MTA waits for congestion pricing to begin.[2]

Capital lockbox debt is expected to grow from 5 percent of debt outstanding in 2023 to 32 percent by 2028. However, risks over the implementation of congestion pricing could have an impact on the MTA's 2020-2024 capital program, either in the form of reducing planned spending or further

FIGURE 18

MTA Debt Outstanding including Capital Lockbox Debt



Note: Excludes short-term bond anticipation notes (BANs). Shaded areas beginning in 2023 are projections.

Sources: Metropolitan Transportation Authority; OSC analysis

*MTA forecast

[2] These sales tax contributions are the result of the elimination of a tax exemption for third-party internet marketplace providers from collecting and remitting New York sales taxes on transactions conducted on their sites. The MTA has so far issued $2 billion of debt backed by NYC sales taxes.

reliance on existing types of debt which are paid from operating revenues. The MTA has already pushed back the receipt of the congestion pricing funds from the beginning of 2021 to mid-2024.

In the July Plan, the MTA expects to issue an additional $8 billion of non-lockbox debt for projects in the transit and commuter portions of the 2020-2024 capital program. However, the debt is not expected to be issued until the 2030 through 2034 period, 10 years after the start of the program.

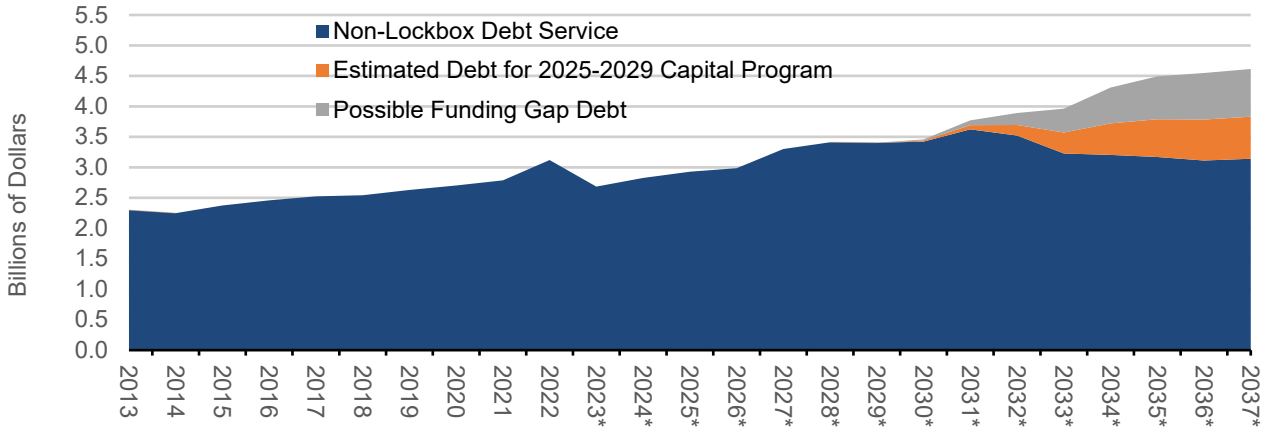
The MTA makes use of Bond Anticipation Notes (BANs) which are short-term financing vehicles that mature in periods of less than five years and are expected to be refinanced with long-term bonds after maturity. As result, a BAN and the long-term bond associated with it can extend the final maturity date to longer than 30 years. The MTA may continue to issue BANs in the future. However, one disadvantage is that the long-term bonds to refinance the BANs must be issued when they mature, which may reduce flexibility to respond to market conditions. This approach could also lead to higher costs from interest rate fluctuations.

Debt Service and Debt Burden

Debt service is the payment made for combined principal and interest for existing debt obligations. Debt service on any issued bond is a fixed cost that can stretch to 30 years or more after issuance, potentially crowding out operating spending of other types, as there is limited control over the ability to reduce these costs over time. MTA-budgeted debt service paid out of the operating budget is projected to reach $3.6 billion by 2031 (see Figure 19), $502 million more than in 2022 (16 percent higher). Debt service is expected to rise, even as overall non-lockbox debt outstanding is expected to decline, mostly due to the MTA still having to issue long-term bonds to pay outstanding BANs and fund a portion of the 2020-2024 capital program.

As noted earlier, federal aid has allowed the MTA to free up $1.4 billion of other resources, which it is using to cash call bonds and pre-pay interest in 2023. These moves are expected to save $1.5 billion between 2023 and 2026, which accounts for most of the $438 million decrease in debt service in 2023 compared to the previous year.

FIGURE 19
MTA Debt Service



Note: Non-lockbox debt service as of the MTA's July 2023 Financial Plan. *MTA forecast
Sources: Metropolitan Transportation Authority; OSC analysis

The MTA's debt service forecast includes the issuance of $8 billion in anticipated debt backed by the payroll mobility tax for the 2020-2024 program but the impact is not felt until 2030. The MTA does not anticipate issuing BANs for this capital contribution until 2027 and the long-term bonds to pay back these BANs would not be issued until 2030. The federal infrastructure law is expected to provide the MTA with an additional $1.7 billion of formula funds, which will allow the MTA to reduce debt issued for the 2020-2024 capital program by that amount saving as much as $130 million annually in debt service.

Debt service on the assumed $18.8 billion of lockbox bonding is expected to rise to $1.1 billion annually starting in 2028.[3] This debt service, however, is expected to be paid from the capital lockbox, which is separate from the MTA's operating budget and will not compete for other resources in the operating budget without changes to State law.

The MTA's debt forecast does not include any future bonding that might occur to fund future capital programs. The 2025-2029 capital program is scheduled to be released in September 2024. It is unknown how large the program will be compared to the 2020-2024 capital program (the MTA's largest in history) and was funded with lockbox revenues which are not expected to be available to fund the same level of projects outside that program. The MTA is committed to bond around $11 billion backed by revenues in its operating budget in both the 2015-2019 capital program and the 2020-2024 program. If the MTA bonds a similar amount for the 2025-2029 program, debt service paid out of the operating budget could increase by $689 million to reach $3.8 billion in 2037 or $528 million more than in 2027.

In the absence of another dedicated funding source at the level congestion pricing would bring, the MTA might decide to increase its level of bonding to fund half of the $25 billion congestion pricing lockbox funding gap. If the MTA decided to bond another $12.5 billion (for a total of $23.5 billion) debt service could increase by $1.5 billion to reach $4.6 billion in 2037 or $1.3 billion more than in 2027 (see Figure 19).

There are a number of other ways the MTA can choose to structure its debt and how it pays for the related costs. Some of these choices are based on a fundamentally sound public financing rationale like using lockbox debt. However, other choices may have been made to put off more difficult decisions, particularly during recent periods of fiscal stress. An example is "backloading debt" to defer principal payments for 10 years or more such as in the MTA's forecast for the transit portion of its own share of bonding for the 2020-2024 program. The MTA has also become more reliant on debt with maturities longer than 30 years as described in OSC's recent report on the MTA's debt..

The share of total revenue needed to fund debt service averaged 16.1 percent from 2010 through 2019. In 2020, as revenues plummeted due to the impacts of the COVID-19 pandemic, the debt burden increased to 17.4 percent.

As part of the enacted State budget, the MTA is expected to receive $799 million in 2023, $1.3 billion in 2024 and 2025 and $1.9 billion in both 2026 and 2027 in new aid for its operating budgets allowing the MTA to lower its debt burden. Partially as a result, the MTA's July Plan reports that its debt burden is expected to drop

[3] The remaining $6 billion of the $25 billion expected from capital lockbox resources is anticipated to be used as pay-as-you-go cash contributions to the MTA's 2020-2024 capital program.

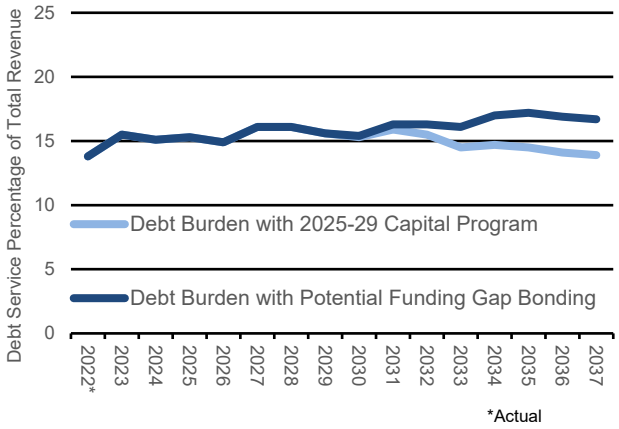
from 15.8 percent in 2021 to 14.8 percent in 2024, increasing to around 15 percent in 2025, dropping to 14.6 percent in 2026 and increasing to 15.6 percent in 2027. These totals assume a 4 percent increase in fares and tolls in both 2025 and 2027.

The separation of funds for the explicit purpose of paying for the capital program, such as the lockbox, is a means of avoiding conflating pressures from the operating budget onto the capital program. If the capital lockbox debt service and revenues were not separated but were instead included as part of the operating budget, the debt burden would be even higher than currently budgeted, rising to 19.1 percent by 2031, assuming all $18.8 billion of lockbox debt is issued.[4]

Assuming revenues grow by 3 percent annually and the MTA bonds $11 billion to fund the 2025-2029 capital program, the debt burden would be at 16 percent in 2031 and drop to about 14 percent in 2036 as existing non-lockbox debt is amortized (see Figure 20). Absent increases in funding from its funding partners, if the MTA decides to increase its bonding to $23.5 billion to cover half of the congestion pricing funding gap, the debt burden would be at 17 percent starting in 2034. The MTA has targeted limiting the debt burden in the future to not exceed 20 percent, but there is no assurance it will be able to do so.

If the MTA bonded $23.5 billion for the 2025-2029 capital program, for the MTA to maintain a similar debt burden in 2037 as in 2027 of around 16 percent, operating revenues would have to increase by more than $8 billion (3.5 percent annually) during that period which would necessitate multiple fare and toll increases if not externally funded.

FIGURE 20
MTA Debt Burden with Future Capital Program



Note: Revenues are assumed to grow 3 percent annually.
Sources: Metropolitan Transportation Authority; OSC analysis

[4] OSC analysis includes 100 percent of anticipated capital lockbox revenue being available for debt service of related bonds. The analysis assumes 3 percent growth in revenue for 2028 through 2031.

APPENDIX A

MTA Revenue and Expenditure Trends in the July Plan

(in millions)

	← Forecast →					Average Four-Year Growth Rate
	2023	2024	2025	2026	2027	
Revenues						
Farebox Revenue	**4,602**	**5,070**	**5,216**	**5,366**	**5,538**	**4.7%**
Toll Revenue	**2,449**	**2,522**	**2,526**	**2,529**	**2,532**	**0.8%**
Dedicated Taxes						
Payroll Mobility Tax	2,483	3,265	3,394	3,522	3,648	10.1%
Metro. Mass Trans. Operating Asst.	2,839	2,991	2,991	2,991	3,051	1.8%
Real Estate Related Taxes	1,020	1,166	1,221	1,261	1,255	5.3%
Petroleum Business Tax	611	615	615	615	615	0.2%
Casino Revenue	- - -	- - -	- - -	500	500	N/A
Other	610	676	689	688	689	3.1%
Subtotal – Dedicated Taxes	**7,563**	**8,713**	**8,911**	**9,577**	**9,757**	**6.6%**
State and Local Subsidies	**1,823**	**1,400**	**1,474**	**1,615**	**1,720**	**-1.4%**
Other Revenue	**892**	**962**	**977**	**1,002**	**1,021**	**3.4%**
Total Baseline Revenues	**17,329**	**18,667**	**19,104**	**20,089**	**20,569**	**4.4%**
Expenditures						
Payroll	5,909	6,111	6,247	6,402	6,587	2.8%
Debt Service	2,683	2,826	2,928	2,986	3,303	5.3%
Health and Welfare (with Retirees)	2,567	2,797	3,005	3,233	3,489	8.0%
Pensions	1,379	1,416	1,557	1,613	1,690	5.2%
Overtime	927	859	884	904	923	-0.1%
Other Fringe Benefits	1,069	1,112	1,168	1,222	1,289	4.8%
Maintenance and Other Contracts	997	939	951	928	954	-1.1%
Professional Service Contracts	736	660	650	651	652	-3.0%
Energy (Fuel and Electric)	787	861	887	894	935	4.4%
Claims	384	410	422	435	444	3.7%
Paratransit Service Contracts	511	512	544	575	604	4.3%
Other	1,021	1,081	1,146	1,159	1,295	6.1%
Reimbursable Overhead	(453)	(464)	(463)	(477)	(460)	0.4%
General Reserve	185	190	200	205	210	3.2%
Other Adjustments	14	12	13	13	13	N/A
Total Baseline Expenditures	**18,716**	**19,322**	**20,139**	**20,743**	**21,928**	**4.0%**

Note: May not add due to rounding.

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	Actual	Actual	Projected for the End of the Calendar Year			
	December 2021	December 2022	August 2023	2024	2025	2026	2027
Administration	**3,610**	**3,508**	**3,666**	**4,342**	**4,220**	**4,215**	**4,215**
NYC Transit	903	718	684	975	976	972	972
Long Island Rail Road	411	415	427	493	483	482	482
Metro-North Railroad	369	412	428	480	480	480	480
Bridges & Tunnels	51	46	51	79	79	79	79
Headquarters	1,692	1,756	1,884	2,108	1,995	1,995	1,995
Staten Island Railway	18	18	2019	31	31	31	31
Capital Construction Co.	82	71	96	63	63	63	63
Bus Company	84	72	78	113	113	113	113
Operations	**29,806**	**30,473**	**30,448**	**31,851**	**31,808**	**31,781**	**31,892**
NYC Transit	22,461	22,897	22,785	23,817	23,787	23,763	23,760
Long Island Rail Road	2,583	2,671	2,786	2,799	2,796	2,795	2,909
Metro-North Railroad	2,008	2,062	2,138	2,305	2,305	2,305	2,303
Bridges & Tunnels	94	98	100	167	167	167	167
Headquarters	---	---	---	---	---	---	---
Staten Island Railway	134	134	137	152	142	142	142
Capital Construction Co.	---	---	---	---	---	---	---
Bus Company	2,526	2,611	2,501	2,611	2,611	2,611	2,611
Maintenance	**29,826**	**30,775**	**31,426**	**33,700**	**33,665**	**33,668**	**33,722**
NYC Transit	20,556	21,243	21,784	23,116	23,012	22,974	22,924
Long Island Rail Road	4,047	4,291	4,339	4,586	4,660	4,701	4,805
Metro-North Railroad	3,642	3,694	3,773	4,266	4,266	4,266	4,266
Bridges & Tunnels	335	335	329	388	388	388	388
Headquarters	---	---	---	---	---	---	---
Staten Island Railway	189	190	186	199	197	197	197
Capital Construction Co.	---	---	---	---	---	---	---
Bus Company	1,057	1,022	1,015	1,145	1,142	1,142	1,142
Engineering/Capital	**1,548**	**1,570**	**1,726**	**1,928**	**1,912**	**1,912**	**1,912**
NYC Transit	1,037	951	905	1,240	1,240	1,240	1,240
Long Island Rail Road	166	158	155	208	208	208	208
Metro-North Railroad	69	62	61	98	98	98	98
Bridges & Tunnels	149	130	122	158	158	158	158
Headquarters	---	---	---	---	---	---	---
Staten Island Railway	2	7	6	6	4	4	4
Capital Construction Co.	103	240	457	192	178	178	178
Bus Company	22	22	20	26	26	26	26
Public Safety	**2,202**	**2,223**	**2,194**	**2,752**	**2,745**	**2,745**	**2,745**
NYC Transit	601	594	597	834	834	834	834
Long Island Rail Road	---	---	---	---	---	---	---
Metro-North Railroad	---	---	---	---	---	---	---
Bridges & Tunnels	485	440	402	585	585	585	585
Headquarters	1,106	1,178	1,185	1,320	1,313	1,313	1,313
Staten Island Railway	---	---	---	---	---	---	---
Capital Construction Co.	---	---	---	---	---	---	---
Bus Company	10	11	10	13	13	13	13
Baseline Total Positions	**66,992**	**68,548**	**69,460**	**74,572**	**74,349**	**74,320**	**74,485**

Source: Metropolitan Transportation Authority

Prepared by the Office of the State Deputy Comptroller for the City of New York
Leonard Liberto, Chief Municipal Financial Analyst
Wesley Kirby, Associate Municipal Financial Analyst
Office of the New York State Comptroller
110 State Street, Albany, NY 12236

(518) 474-4044 www.osc.state.ny.us