IBO

New York City Independent Budget Office

Fiscal Brief

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Running on Empty: The MTA's 2005 Budget and Financial Plan

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SUMMARY

THE METROPOLITAN TRANSPORTATION AUTHORITY faces budget shortfalls over the next few years that are very real and very large. Even after proposals for fare and toll hikes and service reductions, the authority faces a shortfall of $695 million in 2006 (9 percent of revenues). This shortfall grows to $1.2 billion in 2008 (15 percent of revenues).

The authority's budget problems have been known for some time. To forestall the agency's fiscal problems, in 2002 the authority refinanced most of its existing debt. This provided the authority with considerable short-term savings but saddled it with debt-service obligations of more than $1 billion annually over the next 30 years.

Among the other findings in IBO's review and analysis of the Metropolitan Transportation Authority's 2005 preliminary budget and financial plan through 2008:

- Debt service along with pension and fringe benefit expenditures for authority employees are projected to increase much faster than fare, toll, and subsidy revenues.
- Tax revenues dedicated to the authority are projected to decline by $150 million in 2005 and will still be slightly below their 2004 peak in 2008.
- If fares and tolls remain at their current levels, revenues from them are expected to rise 1 percent annually.
- By 2008, debt service will absorb 20 percent of the agency's revenues, up from 12 percent in 2004.

The authority's capital plan for 2005-2009 also presents significant budgetary problems. The $27.8 billion plan contains a $16.2 billion funding gap, including shortfalls of $11.3 billion for maintenance and repair projects and $4.2 billion for projects to expand the system. If the authority fills these gaps by borrowing and paying the debt service itself, the agency's operating budget gaps will grow.

In recent years the authority has used one-time measures such as the debt restructuring and additional state aid to close its budget gaps and defer fare increases. Even if such measures are available in the future, they will not address the more fundamental imbalance between revenues and expenditures. In addition to looking at options for cost savings, fare and toll increases, and more intergovernmental aid, the authority along with state and local policymakers may need to consider new revenue sources dedicated to funding the Metropolitan Transportation Authority such as tolling the East River and Harlem River bridges and a revived commuter tax.

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The Metropolitan Transportation Authority (MTA) released its preliminary 2005 operating budget and financial plan for 2005-2008 on July 29, 2004. These documents presented a plan for a balanced budget for 2005 based on fare hikes and service and administrative cuts, but large gaps remain in subsequent years.

The authority also presented in July a $27 billion five-year capital program, covering the period 2005 through 2009, including a $17.2 billion "core" program designed to continue the progress made in restoring and maintaining the authority's capital assets, and a nearly $10 billion expansion program. The authority identified $11 billion in funding for the capital program, leaving a $16 billion hole to be filled. If the authority is forced to rely exclusively on debt to finance the balance of the program, expansion, and perhaps even the core program, are likely to be at risk, with debt service consuming a rapidly expanding share of the operating budget.

In September the authority presented a scenario from its financial model that included an updated estimate of its operating budget gaps, calculated under the assumption that MTA bonds will cover $15.2 billion in funding for the next capital program, for which other sources of funding have yet to be identified. Even after a gap-reduction program, the MTA faces huge deficits: $695 million in 2006 (9 percent of revenues, including proposed fare increases), $801 billion in 2007, and $1.2 billion in 2008 (15 percent of revenues).

This IBO Fiscal Brief reviews recent trends in the MTA's finances, together with the authority's projections for the years 2004-2008. The brief finds that the MTA faces a structural deficit that will be difficult to eliminate. Certain expenses—particularly debt service, as well as pensions and fringe benefits—are projected to increase much faster than fare, toll, and subsidy revenues. At the same time, no new revenues or cost savings measures have yet been proposed by the MTA's "funding partners"—the city and state. The paper also reviews the MTA's capital budget, and explains how it is tied to the operating budget through debt service. The paper concludes by analyzing some alternatives for closing the MTA's projected budget gaps in 2006-2008.

FOLLOW THE MONEY: HOW SURPLUSES BECAME DEFICITS

Revenue growth during the late 1990s into the early part of this decade exceeded the growth in expenditures—a trend that began to reverse course during the last couple of years. The driving force behind the MTA's projected deficits in 2004-2008 is a rapid increase in certain expenses—most notably debt service—coupled with slow growth in the authority's main revenue sources. Even with two proposed increases in fare and toll revenues, and an expense savings program that envisions some significant service cuts, the growth rate of revenues for the financial plan period is projected to be less than half the projected rate of growth in spending.

In the late 1990s the MTA was also projecting large deficits. The difference between the MTA's current forecasts and those of past years are 1) the gaps for 2006 and beyond are calculated *after* factoring in fare and toll increases, as well as service cuts; and 2) the likelihood of an unanticipated surge in revenues, whether from tax-supported subsidies, new government operating assistance, or another source, seems remote at this time. In recent years the MTA has used one-time measures such as debt restructuring and additional state aid to close its budget gaps and defer fare increases. Even if such measures were available in the future, however, they will not address the more fundamental imbalance between revenues and expenditures.

Revenues. The growth in fare and toll revenues from 2000 through 2004 was almost entirely due to the fare hikes enacted in the spring of 2003. The slow baseline growth in fares and tolls was offset by the very strong growth in the authority's dedicated tax sources, fueled by a strong real estate market. Operating assistance from the city and state remained flat.

Projected MTA Closing Cash Balance, 2004-2008

Dollars in millions

	2004	2005	2006	2007	2008
Operating Revenues (before increases)	$7,517	$7,418	$7,525	$7,673	$7,766
Expenditures (before cuts)	7,643	8,396	8,951	9,402	9,869
Fare and toll increases, 2005 & 2007	-	238	242	480	485
Service & administrative cuts	(20)	(208)	(392)	(400)	(446)
Cash Surplus/(Gap)	$329	$31	($695)	($801)	($1,151)
Surplus/(Gap) as Percent of Revenues	4.4%	0.4%	-9.2%	-10.4%	-14.8%

SOURCES: IBO; Metropolitan Transporation Authority.
NOTES: Expenditures exclude depreciation, which is a non-cash expense. Closing cash balance includes adjustments for other cash conversions and rollover of prior-year surpluses.

Fare and Toll Revenues. The MTA finances a greater share of its operations from fares and tolls than any other large transit system in the United States. The MTA projects that fare revenues will

Growth of Key MTA Revenue and Expense Items
Dollars in millions

	2000	2004	2008	Average Annual Percent Change 2000-04	Average Annual Percent Change 2004-08
Fare & Toll Revenues					
without increases	$3,883	$4,515	$4,709	3.8%	1.1%
with proposed increases	3,883	4,515	5,194	3.8%	3.6%
Dedicated Taxes	1,462	2,087	2,054	9.3%	-0.4%
State & Local Operating Assistance	589	565	617	-1.0%	2.2%
*Total Revenues (without increases)**	*n.a.*	*$7,517*	*$7,766*	*n.a.*	*0.8%*
*Total Revenues (with increases)**	*n.a.*	*$7,517*	*$8,251*	*n.a.*	*2.4%*
Wages & Salaries (before spending cuts)	$3,091	$3,614	$4,006	4.0%	2.6%
Benefits (before spending cuts)	915	1,571	2,321	14.5%	10.2%
Non-Labor Expenses	n.a.	1,758	2,051	n.a.	3.9%
Debt Service	846	916	1,672	2.0%	16.2%
*Total Expenditures (before spending cuts)**	*n.a.*	*$7,643*	*$9,869*	*n.a.*	*6.6%*
*Total Expenditures (with spending cuts)**	*n.a.*	*$7,623*	*$9,423*	*n.a.*	*5.4%*
Surplus/(Gap)** before fare increases and spending cuts	***n.a.***	***$309***	***($2,081)***		
Surplus/(Gap)** with fare increases and spending cuts	***n.a.***	***$329***	***($1,151)***		

SOURCES: IBO; Metropolitan Transportation Authority
NOTES: 2000 figues are actuals; 2004 is estimated; 2008 is projected. *Total revenue and expenditure lines include other items not shown. **Surplus/gap includes cash and other adjustments not shown. Comparable totals are not available for 2000.

exceed $3.4 billion in 2004, almost $2.4 billion of which is from NYC Transit users. Toll revenue from the MTA's bridges and tunnels is expected to reach almost $1.1 billion, which is about three times as large as the operating and debt service costs of the bridges and tunnels. Surplus toll revenues—an estimated $647 million in 2004—subsidize transit and commuter railroad operations.

Between 1999 and 2002, MTA fare and toll revenues rose 5 percent, well below the 11 percent increase in the number of passengers carried by the MTA during the same period.[1] The main reason that passenger revenues did not keep pace with ridership was the increased use of volume discounts and unlimited-ride MetroCards on NYC Transit. NYC Transit's fare discounts, combined with the cumulative effects of inflation, have helped ease the impact on riders of increases in the base fare. The nominal base fare on city subways and buses has risen 60 percent since 1994, to $2.00 from $1.25. According to MTA figures, however, the average fare paid per trip has increased less than 10 percent during this period, to $1.24 from $1.14. In real (inflation-adjusted) terms, the average fare paid per trip has fallen around 14 percent since 1994.

Passenger revenues rose 11.1 percent in 2003, following the fare and toll increases in May of that year, and are projected to rise by almost 7 percent in 2004. In the absence of further increases the MTA projects fares and tolls to grow at roughly the same rate as the growth in ridership—about 1 percent per year. In its July preliminary budget plan, the authority assumed two increases of around 5 percent each in total fare and toll revenues in 2005 and in 2007, bringing the average annual growth in fare and toll revenues to 3.6 percent from 2004 through 2008.

Tax-Supported Subsidies. After fares and tolls, tax-supported subsidies are the largest single revenue sources for the MTA's operating budget. Dedicated tax revenues, particularly from the property transaction-based taxes (the real property transfer tax—RPTT—and the mortgage recording tax—MRT), have been very strong in recent years. The MTA expects to receive $2.1 billion from these subsidies in 2004, compared with $1.5 billion in 2000 (when an increase in the share of the petroleum business tax and other receipts dedicated to the MTA was enacted). The combination of low interest rates and rising property prices has increased both the number and value of real estate transactions. In addition, low interest rates have led to a record number of mortgage refinancings, many of which are subject to a mortgage recording tax.

The MTA projects that dedicated tax revenue will decline by around $150 million in 2005, however, and then increase only slowly. Revenues in 2008 are expected to be $2.05 billion, about $35 million below their 2004 peak. The Mortgage Recording Tax and the two so-called "urban taxes" (the RPTT and a separate MRT on certain transactions in New York City)

Projected Dedicated Tax Receipts
Dollars in millions

	2004	2005	2006	2007	2008	Avg. Annual Pct. Change
MMTOA	$768.7	$867.2	$905.3	$937.6	$972.5	6.1%
Petroleum Business Tax	554.6	551.6	552.8	556.5	559.3	0.2%
Mortgage Recording Tax*	573.5	356.4	340.2	345.4	329.5	-12.9%
Urban Taxes	189.8	155.7	164.0	180.6	177.9	-1.6%
TOTAL, Dedicated Taxes	**$2,086.6**	**$1,930.9**	**$1,962.3**	**$2,020.1**	**$2,039.2**	**-0.6%**

SOURCES: IBO; Metropolitan Transportation Authority.
NOTE: *Including use of prior-year balances; net of transfers and reimbursements. Total excludes investment income.

are expected to fall off substantially. Urban tax revenues are projected to recover in 2006-2008, but to remain below their 2004 peak.

Tax revenues from the Metropolitan Mass Transportation Operating Assistance Fund (MMTOA) are expected to grow more strongly between 2004 and 2008, thanks to the strength of the sales tax and the corporate tax surcharge. Petroleum business tax receipts are projected to remain flat.

The authority's revenue estimates may prove to be too conservative. Projected MRT revenues for 2004 will likely exceed the figure shown in the July budget. Real estate-related taxes like the MRT and RPTT are notoriously hard to forecast. Nonetheless, the factors that drove increases in these revenues during the late 1990s and early 2000s seem likely to moderate in coming years.

City and State Subsidies. Operating assistance from New York State and New York City is projected to remain flat, at roughly $190 million each, during the plan period.

Expenditures. While the main sources of operating revenues—fares and tolls, and dedicated taxes—are projected to stagnate, operating expenditures will rise sharply over the financial plan period, driven by pension and health insurance costs, and particularly by the rising burden of debt service.

Labor Expenses. Labor expenses make up almost three-fourths of the MTA's cash operating costs. Labor cost growth is expected to moderate slightly during the financial plan period, compared to its 2000-2004 growth. But the cost of fringe benefits—particularly health insurance and pension contributions—is projected to grow at four times the rate of basic labor costs—10.2 percent per year on average.

Basic labor costs (wages and salaries, including overtime) rose by 17 percent from 2000 through 2004, while spending on pensions, health and welfare, and other fringe benefits rose by over 70 percent. During this time the MTA increased the level of rail and bus service, as measured by "revenue vehicle miles," by around 6 percent, and the number of MTA employees increased by roughly 5 percent, to 64,138 from 61,261. The MTA projects that contractual wages will rise at roughly the same rate as the consumer price index from 2005 through 2008—about 2.6 percent annually (the authority's contract with the Transport Workers Union expires in December 2005). However, if the proposed cuts are implemented, the MTA's total headcount will fall by about 8 percent, and basic labor costs will grow at a slower rate as a result.

The cost of health plans has been increasing at a rate far exceeding the overall cost of living. The MTA projects that its health and welfare expenses will rise by 13 percent in 2005, to $837 million, 10 percent in 2006, and 9 percent in both 2007 and 2008. These projections are based on estimates made by the Empire Plan, the benefits program for New York State employees. In contrast, the City of New York expects its spending on fringe benefits to rise around 6 percent per year through 2008.

Pension contributions will grow from $478 million in 2004 to a projected $819 million in 2008. The financial health of the pension plans is greatly affected by the performance of the stock market. In the wake of the stock market boom of the late 1990s, legislation was passed that reduced employee contributions and enhanced benefits. When the market subsequently declined, employers (in this case the MTA) had to increase their own contributions. Rule changes instituted by the Governmental Accounting Standards Board in recent years require public pension systems to make up funding shortfalls within a relatively narrow time period. The MTA projects that its pension costs will increase by 31 percent in 2005, 16 percent in 2006, and 6 percent each in 2007 and 2008. Barring further shortfalls in expected investment earnings, however, pension contributions should grow at a slower rate in future years.

Debt service. As the MTA has publicly recognized, debt service is the single most important factor behind its current financial difficulties. MTA debt service is projected to rise from $916 million in 2004 to $1.7 billion in 2008. The growth rate of

Debt Service as Percent of Revenues	2004	2005	2006	2007	2008
Fares (before increases)	27%	36%	41%	44%	46%
Fares & Tolls (before increases)	20%	27%	31%	34%	36%
Fares & Tolls (after increases)	20%	26%	30%	31%	32%
Total Revenues	12%	16%	19%	19%	20%

SOURCES: IBO; Metropolitan Transportation Authority.

debt service—16.2 percent per year on average—is more than three times the growth rate of other operating expenses. Debt service will consume 12 percent of operating revenues in 2004 and 20 percent by 2008, according to the authority's July budget projections.

The increase is a direct consequence of the MTA's earlier decision to restructure its outstanding debt, and the need to continue funding a large part of its capital program through the issuance of new debt. In 2002, the MTA restructured and refinanced its outstanding debt. In the short run, this provided both operating budget savings and resources to fund the 2000-2004 capital program. But it saddled the authority with debt service payments of over $1 billion annually through 2031. The MTA needs to continue issuing bonds to support its capital program and expects to borrow $7 billion for the 2000-2004 plan and $2 billion for the 2005-2009 plan (although debt service for this $2 billion is in the operating budget, the 2005-2009 capital plan does not include any proceeds from bonds issued by the MTA). Each dollar of new debt issued adds to the debt service burden on the operating budget.

ANOTHER FUNDING GAP: THE CAPITAL BUDGET

The MTA capital budget provides funding for major rehabilitation, asset replacement, and system improvement and expansion. Projected capital expenditures are organized into five-year plans rather than an annual budget.[2] The 2000-2004 plan currently has a value of $20.1 billion.

The MTA's preliminary capital program for 2005-2009 is valued at $27.8 billion, an increase of 38 percent in nominal terms over the 2000-2004 program. The core program is valued at $17.2 billion, and is aimed at maintaining and improving existing infrastructure and assets, such as buying new subway cars and buses, rehabilitating stations, track, signals, and tunnel lighting, among other things. Four network expansion projects, including East Side Access, the first leg of the 2nd Avenue subway, the extension of the #7 line to the far West Side, and the initiation of the planned downtown rail link to Kennedy airport, add another $9.9 billion to the program. Finally, there are two smaller components of the capital program: a group of security initiatives valued at $500 million and a $144 million interagency program that supports computer systems and the MTA police.

Funding the Capital Program. The current proposal for the 2005-2009 capital plan does not include an amount for MTA bonds. Instead, the plan contains a $16.2 billion "funding gap," some of which the MTA expects to cover with additional government assistance and MTA non-bond funding such as asset sales, and some of which may be financed with MTA bonds.

The MTA's contribution to its current capital program, covering 2000 through 2004, is expected to be $12.1 billion or 63 percent of the total. The authority anticipates issuing nearly $7 billion in bonds to finance projects not yet completed in the approved 2000-2004 program. (Because actual project spending lags contract commitments, financing the program typically extends beyond the time frame covered by the plan.) A significant share of the 2000-2004 MTA contribution was funded through savings realized by the restructuring of its outstanding debt in 2002. This option will not be available for the 2005-2009 program. The $1.4 billion in non-bond financing includes program and investment income and yet to be identified asset sales—most likely to include the air rights over the West Side rail yards and the Atlantic Yards in Brooklyn.

The federal government provides a significant share of the MTA's capital funding. Although the dollar amount of federal funding is rising, because each plan is larger than the preceding one, the federal share has declined slightly, from 33 percent in the 1992-1999 plan to 32 percent in 2000-2004 and 30 percent in 2005-2009. The 2005-2009 federal share could be smaller than the MTA projects, however, if its assumption of 50 percent federal financing for two major expansion projects—East Side Access and the 2nd Avenue Subway—proves wrong. Some observers expect that, while the Federal Transit Administration has rated the two projects very highly, there will be insufficient total federal funds available to finance

MTA 2005-2009 Capital Program
Dollars in billions

Source	Program Core	Program Expansion
Capital Program	$17.1	$9.9
Funding Sources		
Federal Aid	4.5	3.7
City (#7 line)	-	2.0
MTA Non-Bond	1.4	-
Total Funding	5.9	5.7
Funding Gap	**$11.3**	**$4.2**

SOURCES: IBO; Metropolitan Transportation Authority. Excludes security and interagency programs.

both projects at 50 percent and still leave enough for other areas of the country. If the federal government were ultimately to limit its funding to 25 percent of the projects' costs, the MTA's funding gap could increase to $18 billion—65 percent of the total capital program.

Federal funding for the core program—projected to be $4.5 billion in total, or approximately $900 million annually—is formula-driven. The figure will depend on how much Congress authorizes in the six-year federal transportation funding bill, passage of which has been delayed by disagreements among the Senate, House, and White House.

New York State made a small direct contribution to the 1992-1999 capital program ($104 million). The funding tables for the 2000-2004 and 2005-2009 capital programs list no direct state subsidies. But Albany is paying $165 million per year in debt service on State Service Contract Bonds, the proceeds of which were used for capital projects in the 1982-1986 and 1987-1991 capital programs. In addition, the state argues that it provides indirect capital assistance through the tax-supported subsidies that are ultimately used to pay expenses, including debt service on MTA bonds.

New York City contributed $1.5 billion to the 1992-1999 capital program, and is set to contribute $0.5 billion to the 2000-2004 program. The city has committed to providing $2.0 billion in the 2005-2009 capital program for the extension of the #7 subway line to the far West Side of Manhattan. The MTA is currently negotiating with city officials a sales price for the Eastern and Western Rail Yards owned by the MTA, part of the city's proposed West Side development plans. MTA Chairman Peter Kalikow has said that the authority will demand fair market value for the property as a means of funding its 2005-2009 capital program.

Because actual project spending lags funding commitments, the impact of the capital program on the operating budget makes itself felt gradually. Even in a worst case scenario in which the MTA plugs the entire capital funding gap from the 2005-2009 plan with bonds, the impact on the operating budget will hardly be felt until after 2008. Still, under current projections, debt service will grow from 12 percent of the operating budget in 2004 to 20 percent by 2008. Such a rate of growth cannot be sustained indefinitely.

CLOSING THE GAPS

The MTA faces unprecedented fiscal pressure in the coming years. Like many public and private employers, the authority must deal with potentially large increases in pension liabilities and health care costs. In addition, by refinancing substantially all of its existing debt in 2002, the MTA assumed annual debt service obligations of over $1 billion for the next 30 years. Additional debt the MTA may issue simply adds to this total.

The MTA proposed administrative and service cuts of over $200 million in 2005 that include closing 49 full-time and 115 part-time subway station booths, reductions in off-peak bus service, and the termination of the G line at Court Square at all times. Additional savings would reduce the gap by another $200 million each year starting in 2006, but would involve much deeper service cuts. Some of the proposed cuts include eliminating 33 NYC Transit bus routes, abandoning four branches of the Long Island Rail Road, and decreasing evening, night, and weekend subway service. These service reductions would be highly visible to the riding public, but would still leave the MTA with significant budget gaps.

During recent public hearings, the MTA's executive director also has raised the possibility of another fare increase in 2006.

Fare and Toll Increases. In the absence of major new revenue sources, it is likely that the MTA will try to eliminate its budget gaps through a combination of fare and toll increases, service cuts, and cost efficiencies. Although it is unlikely that the MTA would attempt to close the gaps solely through higher fares and tolls, it is a useful to know

Funding Sources for MTA Capital Programs
Dollars in millions

	1982-1991		1992-1999		2000-2004		2005-2009 (as proposed)	
Federal	$5,129	32%	$5,597	33%	$6,208	32%	$8,211	30%
New York State	2,388	15%	104	1%	0	0%	0	0%
New York City	1,924	12%	1,470	9%	451	2%	1,990	7%
MTA debt restructuring	0	0%	0	0%	4,505	23%	0	0%
MTA bonds (new money)	$4,647	29%	$6,285	37%	$6,978	36%	-	-
MTA non-bond	300	2%	2,185	13%	651	3%	$1,400	5%
Other sources	1,439	9%	1,301	8%	541	3%	-	-
Funding gap	*0*	*0%*	*0*	*0%*	*0*	*0%*	*16,170*	*58%*
TOTAL	**$15,827**	**100%**	**$16,942**	**100%**	**$19,334**	**100%**	**$27,771**	**100%**

SOURCES: IBO; Metropolitan Transporation Authority Report to the Finance Committee, July 2004; Metropolitan Transportation Authority Preliminary Capital Program 2005-2009.

Closing Projected Gaps Would Require Annual Increases of 10 Percent in Fare and Toll Revenues

Dollars in millions

	2004	2005	2006	2007	2008
Net Cash Balance	$329	($227)	($967)	($1,279)	($1,636)
10 percent increase in fare & toll revenues in:					
2005		452	457	462	467
2006			497	502	507
2007				547	552
2008					603
Cumulative increase	-	452	954	1,512	2,129
Surplus	**$329**	**$206**	**$98**	**$182**	**$481**

SOURCE: IBO.
NOTES: Net cash balance after administrative and service reductions and before fare increases. Surplus includes rollover of previous year's surplus.

how much these revenues would have to increase if other resources were not forthcoming.

The MTA has assumed in its financial plan a 5 percent increase in fare and toll yields in 2005, and an additional 5 percent increase in 2007. To close the gaps relying on fare and toll increases alone would require annual revenue increases on the order of 10 percent. Since hikes of such a magnitude would probably have a negative effect on ridership, the actual percentage increase in fare prices would likely have to exceed 10 percent a year.

New Dedicated Revenue Sources. Two possible sources of MTA funding that have been proposed in the past are toll revenues from the city's East River and Harlem River bridges and reinstatement of the "commuter tax." IBO has estimated that tolls on the four East River bridges could raise $500 million per year, while tolls on the nine Harlem River bridges could raise $190 million, for a total of $690 million. The city currently spends about $65 million per year to operate all of its bridges, and contributes around $100 million for capital spending on waterway bridges. If these expenses and the cost of administering tolls were deducted from the total amount collected, there would still be over $400 million available to support mass transit on an annual basis.[3]

The commuter tax, repealed by the New York State Legislature in 1999, was a tax on individuals who work in New York City but live elsewhere. The tax was collected at a rate of 0.45 percent on wages and salaries, and 0.65 percent on self-employment income. IBO has estimated that reinstating the tax at previous levels would raise $443 million in revenue in 2005, increasing to $550 million by 2008. These revenues (previously part of the city's personal income tax revenue) could be dedicated to transit.

Together, new tolls and a reinstatement of the commuter tax could make a significant contribution to erasing the MTA's deficits. If both measures were instituted in 2006, that year's gap would be eliminated. But the growth in revenues from these two sources would not keep pace with the rising costs, leaving a $600 million gap remaining in 2008, absent other actions.

The MTA is actively seeking additional governmental aid. While there are not yet any commitments for new assistance, one proposal that has been floated is for the state to make annual appropriations to cover debt service on any new bonds issued to finance the capital program.

Gap-closing options on the expense side are harder to develop and quantify. The expense areas with the greatest expected growth in the coming years—debt service and health and welfare expenses—are not easy to cut. Unless a new source of funding for the capital program is found, reductions in debt service would be synonymous with delaying the repair, maintenance, and/or expansion of the transit system. Assuming that the MTA bargains astutely with the providers of health care plans, its options for reducing its health and welfare expenses are: 1) to pass more of the cost onto employees (i.e., reducing their total compensation); 2) to reduce the level of benefits offered; or 3) to eliminate employees. Again assuming that the MTA provides transit services in an efficient manner, reductions in the workforce could adversely affect service quantity and quality. The state Comptroller has recently identified potential further opportunities for savings on the administrative side that would not affect service directly.

CONCLUSION

IBO's review shows that the MTA faces a major challenge in the coming years: it must find a combination of revenue enhancements and/or expense reductions that will bring its budget into balance.

Many advocates for transit have argued for increases in governmental assistance, particularly direct as opposed to tax-supported subsidies. The MTA's latest financial plan assumes no increases in existing direct subsidies, and tax-supported subsidies are expected to decline. This leaves fares and tolls, or entirely new revenue sources, as the MTA's main options on the revenue side. Even with these measures, however, the

pressure of continuing rapid growth in debt service will put pressure on the spending side.

Despite its financial difficulties, overall the MTA is in much better shape now than when it began its capital programs in 1982. The physical condition of the system is vastly improved, ridership is up, and on average city subway and bus riders are paying a smaller share of their income to travel. During the coming months and years the MTA will be challenged to build on these successes.

Written by Alan Treffeisen

END NOTES

[1] The number of tolled crossings on the MTA's bridges and tunnels rose just under 4 percent during the same period.
[2] The MTA's first three capital programs covered the years 1982-1986, 1987-1991, and 1992-1996. In 1996, with much of the planned work not yet completed, the MTA requested and was granted permission to extend the existing capital program to 1999.
[3] This estimate assumes that the newly-tolled bridges have tolls equal to those currently charged on MTA crossings. The MTA proposes to raise these tolls in 2005.

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