City of New York **June 1, 2007**
Independent Budget Office

A Review of the Metropolitan Transportation Authority's Financial Outlook and Options for Closing the Gaps

After reporting a surplus of nearly $1 billion for 2006, the Metropolitan Transportation Authority (MTA) projected in its February 2007 Financial Plan a dramatic deterioration of its financial situation over the next three years, with projected gaps of $799 million in 2008, $1.46 billion in 2009, and $1.78 billion in 2010. IBO has reviewed and evaluated these projections, especially the MTA's revenue forecast, and considered options available for closing the projected gaps.

Summary of MTA Revenues, Expenses, and Gap Projections, 2006-2010
Dollars in millions

	2006	2007 (budget)	2008	2009	2010	Change 2006-2010	Avg. Annual Change
Revenues							
Operating	$5,407	$5,403	$5,477	$5,531	$5,576	$169	0.8%
Subsidies	3,975	3,765	3,690	3,775	3,881	(94)	-0.6%
Total, Revenues	**$9,382**	**$9,168**	**$9,167**	**$9,306**	**$9,457**	**$75**	**0.2%**
Expenses (excluding depreciation)							
Operating	$7,421	$8,257	$8,636	$9,025	$9,371	$1,950	6.0%
Debt Service	1,310	1,457	1,598	1,749	1,884	574	9.5%
Total, Expenses	**$8,731**	**$9,714**	**$10,234**	**$10,774**	**$11,255**	**$2,524**	**6.6%**
Prior Year Surplus	582	941	270	-	-		
Adjustments	(296)	(125)	(26)	(50)	(61)		
Gap Closing Prog.	0	0	24	63	77		
Net Cash Balance	**$937**	**$270**	**$(799)**	**$(1,455)**	**$(1,782)**	**($2,719)**	

SOURCES: IBO; Metropolitan Transportation Authority February 2007 Financial Plan and Review of MTA-Consolidated 2006 Actual Results.
NOTES: MTA fiscal year corresponds to the calendar year. The prior year surplus of $941 million in 2007 reflects the net cash balance for 2006 in the February 2007 Financial Plan. The actual end-of-year balance for 2006 was $937 million.

FORECAST ANALYSIS: PLUS ÇA CHANGE ...

Like the current plan, previous MTA financial plans have shown large operating budget gaps in the medium to long term. For example, the MTA's 2000-2004 Financial Plan, released in September 1999, projected that the deficit would reach $1.3 billion by 2004. By the beginning of 2004 the projected deficit had become a modest surplus. The MTA was still forecasting a $1.3 billion budget gap, but for 2007. By the time the February 2007 Financial Plan was released, the MTA was expecting a $270 million cash surplus for 2007, and the $1 billion-plus deficit had been pushed out to 2009.

The MTA's projections for 2006 reveal a particularly dramatic turnaround. In October 2003 the MTA projected a negative net cash balance of $1.3 billion for 2006. In April 2007 the MTA reported its final results for 2006: a positive cash balance of $937 million, implying a swing of more than $2.3 billion in the space of 42 months. The primary contributors to the improved outlook were higher-than-projected dedicated tax receipts, of around $1.2 billion, a surplus from 2005 of $582 million, and a decrease of around $250 in actual debt service compared to the level forecast in 2003. The MTA's projected 2007 net cash balance has also changed dramatically, from a gap of $1.5 billion in October 2003 to a positive balance of $270 million in the February 2007 plan.

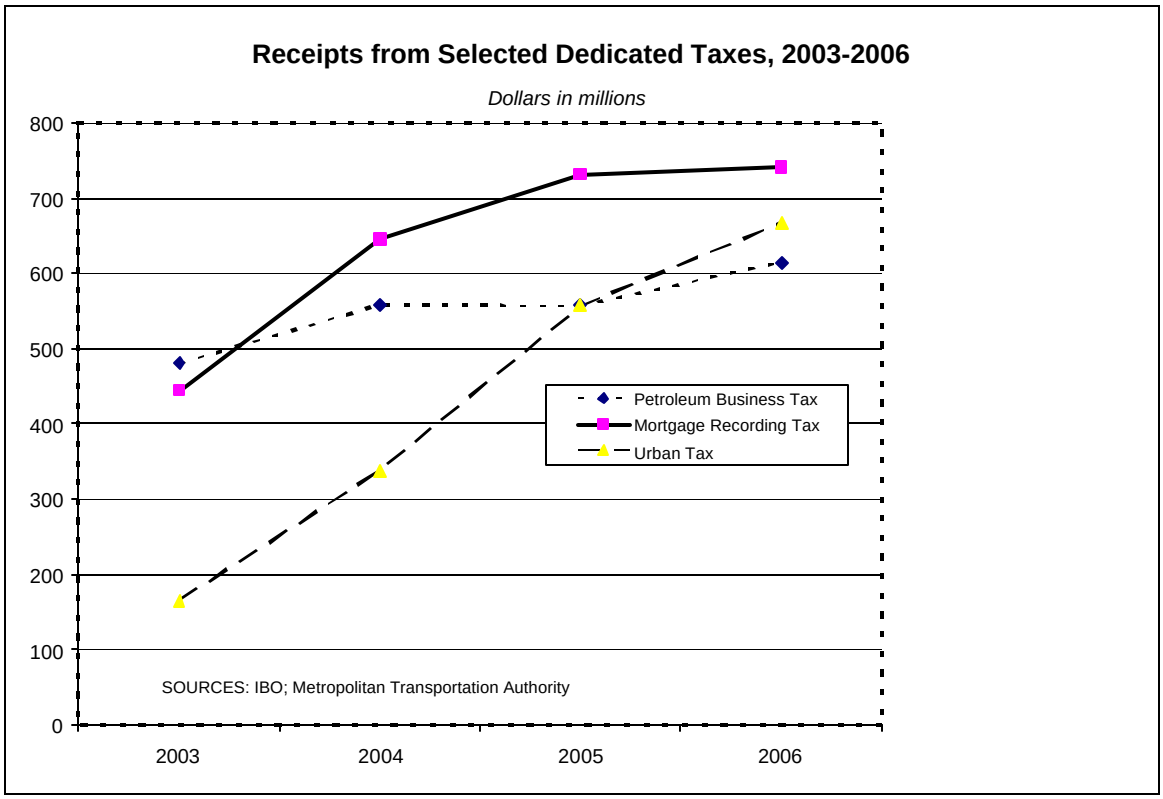
The MTA cannot run a deficit, according to Section 1205(1) of the New York State Public Authorities Law, and must therefore take steps to eliminate any operating deficit each year. To help bring its budget into balance, the MTA increased fares in 2003 and 2005. The across-the-board increase in 2003 included a rise in the base fare on New York City Transit (NYC Transit) to $2.00 from $1.50 and was designed to raise about $400 million in 2003 and $650 million in 2004. The 2005 increase maintained the base fare at $2.00 but raised other fares and tolls (including unlimited ride MetroCards); the MTA expected the 2005 increase to raise roughly $240 million a year. Other MTA actions to reduce the shortfalls included such one-time measures as debt restructuring, asset sales, and a "spin-up" (early receipt) of state aid.

The most important factor behind the disappearing gaps, however, has been the unexpected strength of dedicated tax revenues—which by itself would have completely eliminated the 2006 gap. In particular, the growth in revenues from the taxes related to the sale or refinancing of property—the mortgage recording tax (MRT) and real property transfer tax (RPTT)—have played a key role in strengthening the MTA's finances.

The Outlook. Despite the recent success in closing projected gaps, the MTA is projecting large operating shortfalls for 2008 through 2010. The budget gap for 2008 has shrunk from the $1.2 billion forecast in July 2004, to $799 million in February 2007 (and is likely to shrink further based on higher-than-expected dedicated tax revenues). Conversely, the out-year gaps have actually increased slightly since July 2005, and now stand at $1.5 billion for 2009 and $1.8 billion for 2010.

No forecaster correctly anticipated the sustained increase in revenues from property-related taxes, which have also buoyed the city's revenues in the last few years. The following graph shows the increase in annual revenues from the three most important dedicated tax sources: the petroleum business tax (PBT), the mortgage recording tax collected in the 12-county region served by the MTA, and the urban tax, which consists of a separate mortgage recording tax and a real property transfer tax collected only within New York City. PBT revenues have increased at a moderate rate that was anticipated reasonably well in MTA forecasts. Revenues from real-estate-related taxes, on the other hand, have increased at a much faster rate that was not captured in initial forecasts. This is especially true of the urban tax, receipts from which more than quadrupled between 2003 and 2006. As late as February 2006, the MTA's urban tax forecast for 2006 was still

50 percent below what would become the actual value for the year.

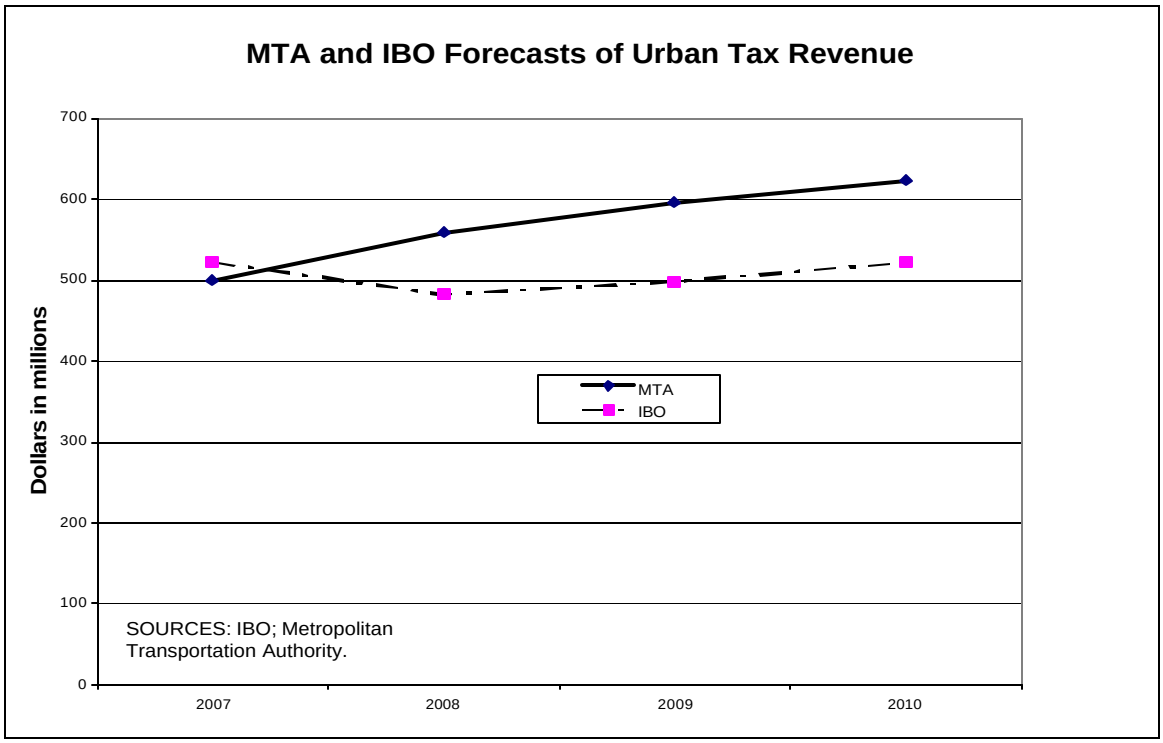


Urban Tax Forecasts: MTA and IBO. The urban tax is the one budget item that has contributed more than any other to inaccuracies in the MTA's forecasts. The urban tax is a portion of the real property transfer tax and the mortgage recording tax collected on large commercial real estate transactions (above $500,000, with the first $10,000 of the total value being exempt from the tax) in New York City. While IBO does not publish a forecast specifically of the urban tax, together with the Mayor's budget office it does forecast overall RPTT and MRT revenues.

In general, the forecasts of real-estate-related tax revenue made by the MTA, the Mayor's budget office, and IBO were fairly stable and accurate through 2003. Beginning in 2004, however, there was a sustained increase in the level and value of transactions that sent revenues skyrocketing. The immediate explanations for this real estate boom were the historically low interest rates and the movement of capital out of a depressed stock market. In retrospect, it appears that revenues have reached a new benchmark level, and are unlikely to return to pre-2004 levels even if interest rates rise substantially. In New York State and City, real estate transactions over $500,000 are taxed at a higher rate than lower-valued transactions. The resulting "bracket creep" has caused revenues from the MRT and RPTT to grow even faster than the aggregate value of sales or mortgage activity. (See IBO's, *Analysis of the Mayor's Preliminary Budget for 2008 and Financial Plan through 2011*, p. 19.) Forecast models that use past history to predict the future do

not do a good job in a period of structural shift such as the one we have been experiencing.

Using a separate forecast of large commercial sales that incorporates the assumption of a structural shift, IBO has projected the urban tax for 2008-2010. IBO's forecasts for 2009 and 2010 are about $100 million (16-17 percent) lower than those of the MTA. This suggests that the MTA's projections are not particularly conservative, and that the projected budget gaps are a real possibility.



OPTIONS FOR CLOSING THE GAP

In theory the MTA can close its operating budget gaps through expense reductions, revenue increases, or some combination of the two. This section explores both expense and revenue options. We then discuss options for reducing debt service, which is paid out of the operating budget.

Expense Measures. In general, IBO does not have the detailed operational data necessary to estimate cost savings from service reductions or greater efficiency. For this reason, we have generally relied on the MTA's own analysis to determine the magnitude of these savings.

Service Reductions. The MTA's analysis indicates that the immediate cost savings from service cuts are generally small compared to the potential inconvenience to riders. MTA board members and rider advocacy groups have frequently expressed a preference for fare increases over service cuts.

There is generally greater potential for cost savings from cutting peak-hour service than from cutting off-peak service, because peak service requires extra trains and buses and employees that are not needed during the rest of the day. However, given the crowding that exists on MTA "rolling stock," cuts in peak service might be especially unpopular with riders and advocacy groups.

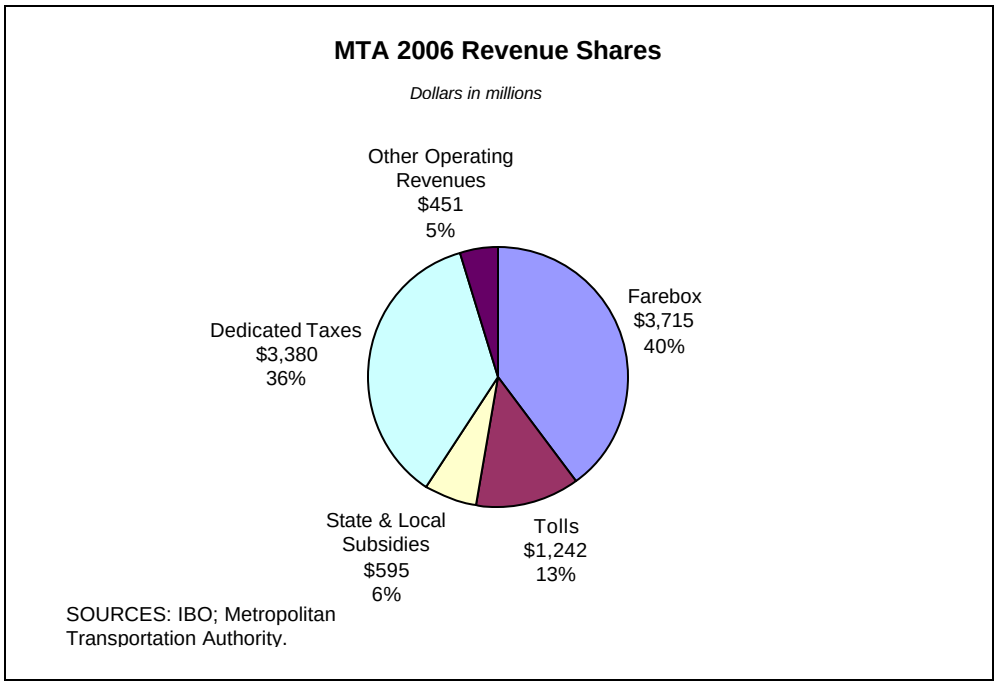
As an illustration of the relatively modest savings available from reductions in service, in 2004 the MTA proposed a number of service cuts set to begin in 2006. These cuts were never implemented, but if they had, their impact on the MTA's total expenses would have been quite small relative to the projected budget gaps. For example, a proposal to abandon four branches of the Long Island Rail Road, eliminate weekend service on several other branches, and close ticket windows at all but 10 stations was projected to save $24.1 million in 2006, reducing the agency's expenses by less than two percent. Discontinuing service on 95 NYC Transit bus routes between the hours of 1 am and 5 am was projected to save $8.7 million, about one-sixth of one percent of NYC Transit's total operating expenses.

Operating Efficiencies. The MTA could also seek to reduce expenses through enhanced operating efficiencies. In 2004 the State Comptroller released a report that suggested that there was a significant potential for administrative staff reductions at the MTA. However, the report did not quantify these reductions or their financial impact. The MTA itself has projected savings of $11 million in 2008, $41 million in 2009, and $55 million in 2010 through its "shared services" initiative of consolidating administrative functions. However, these savings have already been incorporated into the current Financial Plan.

Labor Settlements. Labor costs make up the bulk of the MTA's operating expenses. In 2006 the MTA spent $3.5 billion on wages and salaries, almost $400 million on overtime, and over $800 million on health and welfare benefits, for a total of around $4.7 billion. While an absolute reduction in labor costs is unlikely, policies that slow the growth of spending, either through average compensation or the number of employees, would generate savings for the MTA. But the MTA's main labor contract (with TWU Local 100) does not expire until January 2009, so any initiative in this area would be a long-term strategy.

In summary, expense reductions alone are not likely to bring the MTA's budget into balance, particularly in the short run. We turn now to balancing the budget through increased revenues.

Revenue Options. The MTA has four main revenue sources: fares, tolls, dedicated taxes, and state and local subsidies. Almost everyone in the 12-county MTA service area contributes to the transportation authority's budget through multiple pathways—as a property owner or renter, shopper, transit user, or driver.



In 2006, farebox revenue contributed roughly 40 percent of the MTA total revenues of $9.4 billion. Bridge and tunnel tolls (which help subsidize transit operations) comprised 13 percent. Dedicated taxes were about 36 percent, and state and local operating budget subsidies were 6 percent. Finally, other operating revenues were just under 5 percent.

Farebox Revenue. The MTA collected $3.7 billion in fares in 2006, of which $2.7 billion was from NYC Transit subways and buses. The MTA funds over half of its transit operating expenses through fares, a considerably greater share than most transit agencies. For example, the farebox recovery ratio of the Chicago Transit Authority was just 36 percent in 2005, according to the National Transit Database.

Tolls. The MTA collected $1.2 billion in tolls from its seven bridges and two tunnels in 2006. Toll revenues are far in excess of what is needed to operate and maintain the bridges and tunnels, and the surplus is used to support transit services. In 2006, MTA Bridges and Tunnels provided over $400 million in operating assistance to NYC Transit and the commuter railroads, and an additional amount of more than $300 million in debt service payments for bonds that support transit capital projects.

State and Local Subsidies. The state and localities provide operating assistance to the MTA under section 18-b of New York State transportation law. The amounts have remained roughly constant at $188 million from the state and $191 million from localities ($159 million of it from New York City) since the mid-1990s. Other state and local government payments to the MTA are described in the section on gap-closing options.

Dedicated Taxes and Subsidies. The MTA classifies dedicated tax revenues into five categories, listed below:

1. The Metropolitan Mass Transportation Operating Assistance (MMTOA) account consists of four state taxes imposed within the 12-county MTA Transportation District: a portion of the petroleum business tax (PBT), a sales tax of 0.375 percent, a corporate franchise tax imposed on certain transportation and transmission companies (also known as the "long lines" tax), and a corporate surcharge set to expire in 2009 imposed on the portion of the franchise tax and other taxes attributable to business activity within the MTA district.

2. The petroleum business tax is the term used by the MTA to refer to a group of fuel and motor vehicle taxes and fees deposited into the Statewide Dedicated Funds Pool. Under state law, 34 percent of the Dedicated Funds Pool is deposited into the Mass Transportation Trust Fund (MTTF) for the benefit of the MTA.

3. The mortgage recording tax refers to two separate taxes collected in the MTA service area: a tax on borrowers equal to 0.30 percent of the value of the mortgage, and a tax on lenders, equal to 0.25 percent of the value of mortgages on one- to six-family residences.

4. The Urban Tax consists of two New York City taxes on large commercial real estate transactions. One component is a real property transfer tax of 1 percent of the sales price of commercial properties over $500,000. The other component is a mortgage recording tax of 0.625 percent of the value of commercial mortgages over $500,000.

5. Finally, the MTA receives investment income from its dedicated tax accounts. The amount is projected to be less than 1 percent of dedicated tax revenues in 2008-2010.

MTA Dedicated Tax Revenues
Dollars in millions

	2006	2007 (budget)	2008	2009	2010
Metropolitan Mass Transit Operating Acct.	$1,311	$1,514	$1,371	$1,404	$1,465
Petroleum Business Tax	613	598	615	621	623
Mortgage Recording Tax (Net)	727	529	511	504	502
Urban Tax	705	500	559	596	623
Investment Income	24	9	9	9	9
TOTAL, Dedicated Taxes	**$3,380**	**$3,150**	**$3,065**	**$3,134**	**$3,222**

SOURCES: IBO; Metropolitan Transportation Authority.
NOTE: The mortgage recording tax amount is net of several deductions, including amounts transferred to three suburban counties, Dutchess, Orange, and Rockland, that receive relatively less MTA service.

IBO has reclassified the dedicated taxes according to the economic activity on which they are imposed: transfer and/or mortgaging of real property (the mortgage recording tax and the Urban Tax), sales of goods and services (sales tax), fuel and motor vehicle taxes (the taxes deposited into the Mass Transportation Trust Fund, plus the PBT portion of the mass transit operating account), and corporate activity (the corporate franchise tax and the corporate surcharge within the mass transportation operating account).

The largest share of dedicated tax revenue comes from the real estate-related taxes, which provided $1.4 billion, or 42 percent, of total tax subsidy revenues in 2006. The corporate

taxes provided 22 percent in 2006, followed by petroleum business tax at 19 percent, and the sales tax, 17 percent. The MTA projects that revenues from these taxes will decline to $1.1 billion, or 35 percent of tax subsidy revenues, in 2008. The real estate-related taxes will continue to comprise the largest share of dedicated tax revenue through 2010.

Closing the Gap. One way to consider the effort needed to close the MTA's projected budget gaps solely by increasing revenues is by looking at how much revenue would need to increase from each of the major sources (fares, tolls, dedicated taxes, and state and local subsidies) while keeping the share coming from each the same as today. This approach essentially "freezes" the shares of fares, tolls, taxes, and operating assistance at their 2006 levels, and then determines how much additional revenue from each source is needed to close the budget gaps. This is done not as a policy prescription, but to provide a reference point. To close the gap total revenues would have to increase by 9 percent in 2008 over their 2006 level, 17 percent in 2009, and 20 percent in 2010.

Using this approach, revenue from fares would need to increase by $342 million in 2008 over their 2006 level, growing to an increase of $764 million in 2010. Likewise, revenues from the dedicated taxes would need to rise by $307 million in 2008, growing to an increase of $685 million in 2010.

Using Revenues to Close Gaps, Keeping Shares Constant

Dollars in millions, based on shares for 2006

	2008	2009	2010
Farebox	$342	$624	$764
Tolls	114	208	255
Dedicated Taxes:			
Property Transfer	129	237	290
Corporate	69	125	153
PBT	56	101	125
Sales	53	96	117
Dedicated Taxes Total	307	559	685
18-b Operating Assistance	36	64	78
TOTAL	**$799**	**$1,455**	**$1,782**

SOURCES: IBO; Metropolitan Transportation Authority.

Revenue Options

In this section we discuss some possible revenue options for closing the projected budget gaps. These options are meant to be illustrative rather than exhaustive, and are intended to give some sense of the effort required to balance the MTA's budget.

Fares and Tolls. The average fare paid on NYC Transit is the combined result of customers paying the full cash fare (currently $2), paying the fare with a 16.7 percent volume discount, receiving a free transfer, or using an unlimited-ride card. Clearly, many different configurations of fare adjustment can potentially give the same overall revenue increase.

Under the scenario in which all major revenue sources increase roughly 20 percent over their 2006 levels by 2010 (as described in the previous section), and assuming an across-the-board fare hike, the cash fare would have to rise from its current level of $2.00 to $2.40, and the cost of a 30-day unlimited MetroCard would have to rise from the current $76 to $92. The average fare paid per trip would rise to $1.57, from its current level of around $1.30. A 20 percent increase in commuter rail fares would push the average fare paid to $6.72 on the Long Island Rail Road (up from $5.58 in 2006) and to $7.29 on Metro-North Railroad (up from $6.05). An equivalent increase in tolls at MTA bridges and tunnels would leave the E-Z Pass toll at $4.82 (up from $4.00). This analysis assumes no change in the number of passengers or the type of fare paid in response the 20 percent fare increase. In reality, any increases would likely have to be somewhat greater, as these calculations assume no decline in ridership in response to higher fares. (The decline in transit ridership following the MTA's 2003 fare hike was relatively small, in part because a significant number of NYC Transit riders shifted from paying per ride to using unlimited ride MetroCards in order to keep their costs down.)

Average Fares and Tolls Paid, under Different Gap-Closing Assumptions

	NYC Transit			Long Island Rail Road			Metro-North Railroad			MTA bridges & tunnels[1]		
MTA budget gap closed by:	**2008**	**2009**	**2010**	**2008**	**2009**	**2010**	**2008**	**2009**	**2010**	**2008**	**2009**	**2010**
All major revenue sources	$1.42	$1.52	$1.57	$6.09	$6.51	$6.72	$6.60	$7.06	$7.29	$4.37	$4.67	$4.82
Fares only	1.58	1.81	1.92	6.78	7.77	8.26	7.35	8.42	8.95	4.00	4.00	4.00
Fares and tolls	1.51	1.68	1.77	6.48	7.22	7.59	7.03	7.83	8.22	4.64	5.17	5.44
MEMO: Current average fares and tolls	$1.30	$1.30	$1.30	$5.58	$5.58	$5.58	$6.05	$6.05	$6.05	$4.00	$4.00	$4.00

[1]Toll for automobiles using E-ZPass, on most MTA facilities

SOURCES: IBO; Metropolitan Transportation Authority.

Closing the MTA's budget gap through fares *alone* would require an increase of 48 percent over 2007 levels by 2010. The average fare paid per ride on NYC Transit (including transfers) would rise to $1.92, compared with the present value of $1.30. Assuming all NYC Transit fares were raised proportionally, the cash fare would rise to almost $3, the cost of a seven-day unlimited ride MetroCard would rise to $36 from the present $24, and the cost of a 30-day MetroCard would rise to $112 from the current $76. The average fare on the Long Island Rail Road would rise to $8.26, and Metro-North average fares would reach $8.95.

Closing the budget gaps through fares alone would of course dramatically increase the farebox recovery ratios and farebox operating ratios, two measures used by the MTA to determine the share of transit costs that falls directly on riders. IBO estimates that if the MTA's projected deficits were eliminated solely through fares, NYC Transit's farebox operating ratio would rise from its current level of around 59 percent, to over 70 percent by 2010.

If the budget gap were closed with equivalent increases in both transit fares and MTA bridge and tunnel tolls, the increase needed by 2010 would be 36 percent. This implies an average fare paid of $1.77 on NYC Transit, $7.59 on the Long Island Rail Road, and $8.22 on Metro-North. The toll using E-Z Pass would increase to $5.44 on most facilities.

Tax and Subsidy Options. Closing the MTA's projected budget gaps through dedicated taxes and operating subsidies *alone* would require an increase of roughly 47 percent from current levels by 2010. In this section we discuss some possible options for increasing revenues from these sources.

Operating Subsidies: Section 18-b. Section 18-b of New York State transportation law establishes a statewide mass transit operating assistance program, under which state assistance is matched by localities. The amount of the state subsidy depends on legislative appropriations. The maximum amount is capped through a formula that involves the number of riders carried and the number of vehicle miles operated. Current levels of the subsidies ($187.9 million from the state and $190.9 million from localities) have remained roughly constant since the mid-1990s. IBO estimates that under the established formula, the maximum permitted state subsidy would have been $444 million in 2006, $256 million above the actual level. The extra state aid would require an additional $256 million in local government assistance.

If the 18-b operating subsidy had increased at the same rate as the MTA's operating expenditures (excluding debt service) since 2003, local government payments in 2008 would stand at about $262 million, and the state's at $258 million—together, $142 million above their current budgeted levels. Increasing the local and state payments at the same rate as expenditures would yield an additional $20 million annually.

Operating Subsidies: School Transportation. City law stipulates that NYC Transit is to provide reduced or free fares to school children at the request of the Mayor. In turn, the city is supposed to reimburse NYC Transit for the lost revenue. Until the mid-1990s the city contributed a net amount of $59 million to the MTA for school transportation—a gross amount of $128 million, with $69 million reimbursed by the state. Since 1995 the city and state have each contributed $45 million a year, with the MTA absorbing the remaining costs. Returning to the prior aid levels would give the MTA $14 million in additional city aid, and $24 million in additional state aid, on an annual basis.

Operating Subsidies: Paratransit. Pursuant to an agreement with the MTA, the city subsidizes paratransit—door-to-door public transportation for the disabled—with a payment equal to one-third of operating expenses, *after* deducting fare revenue, urban tax revenue, and the program's administrative expenses. There is an additional proviso, however, that the year-to-year increase in the city's contribution cannot exceed 20 percent. This cap has been effective every year since 2000, and as a result the increase in the city's contribution has been exactly 20 percent each year. The city gave $36 million in funding for Access-a-Ride in 2006, but without the cap, it would have been obligated to give around $26 million more, for a total of $62 million.

Dedicated Taxes. Subject to state and local legislative approval, the MTA could use increased allocations of dedicated taxes to close its budget gaps. Some options to raise the rates or extend the bases of existing taxes are discussed below.

- *Sales Tax*. An additional 0.125 percent sales tax collected in the MTA district would raise around $236 million annually.

- *Increase in the Real Property Transfer Tax for Very Large Commercial Transactions.* IBO estimates that adding an additional 0.125 percent to the RPTT on commercial real estate transactions valued over $10 million would raise $30 million annually in New York City. (Extending the tax to the rest of the MTA district would increase the total, although the other seven counties have relatively few large commercial real estate transactions.)

- *Extending the Mortgage Recording Tax to Coops*. Currently, coops are not subject to the MRT, because the loans used to purchase coops are not technically mortgages. Assuming that all the revenue was dedicated to the MTA, IBO estimates that extending a similar tax to coops and dedicating the money to transit would provide $140 million annually to the MTA.

Options for Reducing Debt Service

Thus far the analysis has focused on the MTA's operating budget gap. The MTA has a separate capital program to pay for replacement of rolling stock, major maintenance, and the improvement and expansion of the transit system. The capital budget is closely intertwined with the operating budget, because a large proportion of capital expenditures (around half in the 2005-2009 program) are funded through bonds issued by the MTA; debt service on these bonds is paid out of the MTA's operating budget. The remainder of the capital program is funded by federal aid, a state bond act, a small city contribution, money carried over from the previous program, and investment income.

Depending on the particular issue, MTA bonds are backed by dedicated taxes, tolls, or a combination of all operating revenues. The original rationale behind providing dedicated tax revenues to the MTA was that these would be used exclusively for debt service, according to a personal communication with former MTA Chairman Richard Ravitch. At present the amount of dedicated tax revenue received far exceeds the annual debt service requirements, and as a result the taxes are being used to cover both debt service and a portion of other operating expenditures. Allocating a greater share of tax revenue to debt service would allow the MTA to expand its capital program, or better ensure that its expansion projects are fully funded. However, in the absence of other revenue and/or expense initiatives, this funding shift would exacerbate the operating budget gap.

Some options that would reduce the MTA's debt service burden without diminishing the capital program are discussed below.

Increase City Capital Contribution. From 1987 through 1996, the city's annual subsidy to the MTA capital program averaged well over $200 million. Beginning in the late 1990s, the city established $105 million as its annual contribution. This was reduced to $75 million in 2003, and later adjusted to $80 million. Increasing the city's capital contribution to $150 million annually would reduce the MTA's annual borrowing need

by $70 million, and would save approximately $4.5 million annually in debt service costs.

Increase State Capital Contribution. New York State made significant direct contributions to the MTA's first two capital programs. The state gave around $1.5 billion for the 1982-86 program, and $879 million for the 1987-91 program. The state provided a relatively small amount, $98 million for the 1995-1999 program. A state bond act that would have provided $1.6 billion for the 2000-2004 capital program failed to win voter support in 2000. Four years later voters approved a state bond act that will eventually provide $1.45 billion for the 2005-2009 capital program.

Establishing an additional $100 million annual state contribution to the MTA capital program would reduce the MTA's borrowing need by an equivalent amount, and would save approximately $6.5 million annually in debt service costs.

CONCLUSION

Based on our review of budget projections for the MTA, it is unlikely that the agency will be able to forestall anticipated budget gaps beginning next year through the continued receipt of better-than-expected tax revenues. Given the likelihood of budget shortfalls in the coming years, IBO has sought to quantify some of the many different options for closing the gaps. While we do not endorse or recommend any of the options presented here, given the size of the MTA's projected shortfalls it is likely that remedying the problem will require a mix of actions and sources that will spread the burden across a broad range of the region's businesses and residents.