

March 2016

Pledges Made by the City and State to The MTA, but Uncertainties Persist

Legislation included with the Governor's executive budget commits the state and city to fund the Metropolitan Transportation Authority's (MTA) 2015-2019 capital program at unprecedented levels compared with past programs: \$10.8 billion in total, of which \$8.3 billion would come from the state and \$2.5 billion from the city. The legislation would codify an agreement the city and state made last October to fill a funding gap in the MTA's still unapproved \$26.1 billion capital program, although so far only \$1 billion of the state's promised contribution and \$657 million of the city's promised contribution have actually been budgeted. These amounts were added to the state and city spending plans last year, before the October agreement.

Instead of appropriating the remaining funds, the MTA Capital Financing Act of 2016, included with the Governor's executive budget in January, commits the state to provide the remaining \$7.3 billion of its share only after the MTA's own capital resources are exhausted, *or at the latest by state fiscal year 2025-2026, or "by the completion of the capital program,"* which could conceivably be even later. (As IBO has [documented](#), MTA capital spending often extends far beyond the end of the formal program period). The de Blasio Administration's preliminary budget, released a week after the Governor's proposed budget, did not include the city's \$1.8 billion remaining contribution. However, when the city and state agreed to fill the MTA's funding gap in October, one of the terms was that they would provide funds on the same schedule, making it likely that the city's contribution will also be pushed out in conjunction with the state's piece.¹ In addition to the still ambiguous spending timeline, both the city and the state have yet to specify exactly how they will actually pay for the remaining \$9.1 billion contributions they have committed to.

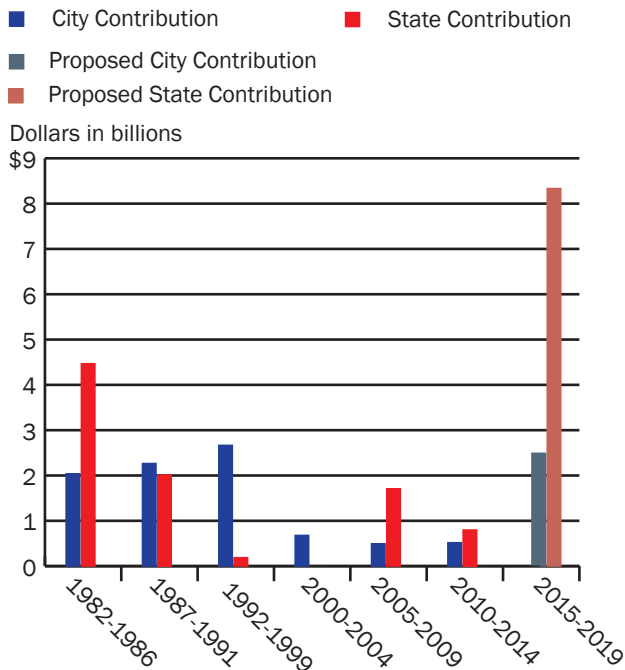
A Record Level of Commitments. In October the mayor and the governor reached an agreement to fill a more than \$10 billion hole in the MTA's 2015-2019 capital program. The agreement, which came 10 months after the program was scheduled to begin, contained record commitments by both the state and the city, particularly by the state. The \$8.3 billion total in direct aid from the state proposed for the 2015-2019 program exceeds the state's inflation-adjusted contribution to any prior MTA capital program. In constant 2015 dollars, the state gave just under \$4.5 billion in direct support to the 1982-1986 program, the MTA's first five-year capital program. Direct state contributions were much lower for subsequent programs, including less than \$200 million total for 1992-1999, no funding for 2000-2004, and around \$800 million for the most recent 2010-2014 program.²

The proposed \$2.5 billion city contribution to the MTA's 2015-2019 capital program is also considerably higher than the levels of support the city has provided in recent years: measured in 2015 dollars, city support was about \$680 million for the 2000-2004 program, and roughly \$500 million for 2005-2009 and 2010-2014. However, the amount proposed for 2015-2019 is similar to contributions the city made to the 1982-1986 program (\$2.0 billion in constant 2015 dollars), the 1987-1991 program (\$2.3 billion), and the significantly longer 1992-1999 program (\$2.7 billion).

According to the deal reached between the city and state in October, each agreed to fund the MTA's capital plan on "the same schedule on a proportionate basis" with the expectation that the schedule, along with the sources of funds for the city and state's contributions, would be outlined in the Mayor's and Governor's respective budgets.



Proposed State Aid to the 2015-2019 Capital Plan Is Much Higher than in Past Plans. Proposed City Aid is Similar to the 1982-1986, 1987-1991, and 1992-1992 Plans.



SOURCE: IBO analysis of Metropolitan Transportation Authority data
 NOTE: Values for the capital plans through 2014 are in constant 2015 dollars. Proposed contributions for the 2015-2019 are in nominal dollars (i.e., not adjusted for inflation).
 New York City Independent Budget Office

The legislation “anticipates,” but does not require, that specific amounts of state aid be disbursed over a multiyear period after the MTA’s resources are exhausted: \$1.5 billion in the first year, \$2.6 billion in the second, \$1.8 billion in the third, and \$1.4 billion in the fourth year. At the same time, the legislation leaves it up to the state budget director to annually determine the level of funding required to meet the state’s commitment and recommend such amounts for inclusion in the executive budget. In the event the state’s disbursements are not enough for the MTA to meet its capital expenses in any given year, the MTA may, with the approval of the state budget director, issue revenue anticipation notes or other obligations secured by future state aid.

The budget legislation does not specify the sources the state will use to provide this financing. In the recent past the state has funded its direct contribution to the MTA capital plan through proceeds from general revenue bonds, including bonds authorized under the Transportation Bond Act of 2005. Going forward, the MTA could use a combination of bond proceeds and direct cash appropriations (“pay as you go”) to provide this support. Alternatively, according to the budget legislation, the state may fund the capital costs “through financing mechanisms undertaken by the MTA.” In other words, the MTA would issue debt, and the state would pay it off. New York State could use a mechanism similar to the so-called “service contract” it employed with the MTA until the early 2000s. Under this arrangement, the MTA issued bonds whose debt service was paid through annual appropriations by the state. The requirement that the state give “additional funds sufficient for MTA to pay” \$7.3 billion in capital costs implies that any use of debt financing would obligate the state to provide \$7.3 billion to the MTA and pay any additional interest costs.

City Funds Outstanding. No additional funds were added in the mayor’s January 2016 preliminary budget to pay for the city’s contribution to the MTA’s 2015-2019 capital program. Of the \$2.5 billion the city has agreed to finance, \$657 million was included in the city’s capital budget last May. The de Blasio Administration maintains that it is committed to providing the additional \$1.8 billion in funding, but has yet to budget the funds because the state board that oversees the MTA has yet to approve the capital program and because it is waiting on the details of the state’s contribution. As previously mentioned, according to the city and state’s agreement, the city and state payments are to be made on the same schedule. Given the state budget language, it seems likely then that city’s contribution would

But both the Governor’s and Mayor’s budget largely lack these specifics.

Proposed State Budget. According to the Governor’s proposed budget legislation, \$7.3 billion in state aid for the MTA 2015-2019 capital program will be made available only after all of MTA’s other capital resources are exhausted or are otherwise unavailable. (The first \$1 billion of the state’s \$8.3 billion contribution was appropriated as part of the Fiscal Year 2015-2016 New York State Budget.) Given the MTA’s other resources such as revenue-backed bonds and federal aid, plus the fact that MTA capital spending associated with a particular capital program usually extends well beyond the formal plan period, the state would not have to appropriate additional money for several years, quite possibly not until after a new capital program period begins in 2020. According to the legislation, however, the state must provide the MTA with the total \$7.3 billion no later than state fiscal year 2025-2026 or by the completion of the capital program. While most of the work from the 2015-2019 capital plan will likely have been completed by state fiscal year 2025-2026, some projects may still be underway. This could give the state a justification for delaying some aid payments even further into the future.

also then be delayed until after the MTA's other resources are exhausted.

Without the additional funds budgeted, it is still unclear exactly how the city will pay for the remaining \$1.8 billion. According to the city and state's agreement, the city is contributing \$1.2 billion from direct city sources—presumably the city's capital budget, which has historically been the source for the city's MTA capital contributions. The remaining \$600 million would be funded through sources other than city tax revenues. These alternative sources might include the sales and/or redevelopment of property used by the MTA but owned by the city.

Possible Implications. It is still unclear what, if any, impact the timing of the state and city contributions and the current lack of information on funding sources for those contributions will have on the MTA's ability to complete its capital program. While there is agreement on the total amount of funding, the requirement that the MTA first exhaust other resources, plus the fact that once those resources are exhausted the disbursement schedule for the state aid is suggested rather than legally mandated, means that the MTA could experience delays in obtaining needed funds. In the case that state aid were not forthcoming in a timely manner and the MTA were forced to issue revenue anticipation notes, obtaining approval from the state budget director and formally issuing the notes would add to the delays. Some federal capital aid for transit carries with it a local matching component. In the case of the MTA, part of the match is typically covered by New York State. Delays

in state aid could affect the timing and progress of specific capital projects subject to this matching requirement, although other MTA revenues, including proceeds from the revenue anticipation notes, potentially could be used to meet the match requirement.

While the legislation establishes a level of city and state aid considerably above the historical average, it then stipulates at the outset that the payments will be delayed, most likely until after the 2015-2019 plan period is over. This maneuver almost certainly guarantees that difficult decisions regarding how to increase city and state funding to the MTA in the context of other budget priorities will be postponed until after the mayoral election of 2017 and the state elections of 2018. In addition, if the MTA receives the bulk of the promised aid after the new plan period begins in 2020, there is a danger that the city and state might forgo making a contribution to the 2020-2024 program, with the argument that they are already providing substantial—albeit delayed—support to the MTA.

Report prepared by Alan Treffeisen

Endnotes

¹ [Governor Cuomo, Mayor de Blasio and Chairman Prendergast Announce Agreement on Funding for MTA Capital Program](#)

² All historical amounts are in constant 2015 dollars. Dedicated state taxes used to pay MTA operating budget expenses, including debt service on MTA bonds that support the capital program, are excluded from these calculations. The amount of state and city dedicated tax revenue flowing to the MTA has grown dramatically over time, reaching almost \$3.8 billion in 2015.

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