Keeping New York's Transit System Safe and On-Track for the Future: the MTA Operating and Capital Budgets

An Analysis Based on Governor Pataki's
January 2005 Executive Budget

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Why are mass transit and the MTA important?

- An effectively functioning mass transit system is essential to the effective functioning of the NY metropolitan economy. A vibrant NY metro economy is critical to NYC, NYS and federal government finances.
- The NY metro area has a much more extensively developed and utilized mass transit system than any other metro area in the U.S., and the MTA is responsible for most of the region's mass transit system.
- The MTA moves 2.4B riders a year (1 in every 3 mass transit users in the U.S.). 25% of all NYS workers use mass transit, with most of that usage in 12-county MTA District (the 5 boroughs of NYC plus Nassau, Suffolk, Westchester, Putnam, Dutchess, Rockland, and Orange counties).
- MTA moves 4 out of every 5 rush hour commuters to Manhattan, the heart of the downstate economy that accounts for two-thirds of NYS employment and 75% of total NYS personal income.
- NY's heavy reliance on mass transit translates into very low energy consumption and promotes a cleaner environment and sustainable development. NYS ranked 4th in a composite energy efficiency index developed by the Corporation for Economic Development.

How is the MTA funded?

- Operations forecast to generate $3.5B in farebox revenues and $1.1B in tolls in 2005.
- Dedicated NYS taxes provide operating budget with $2.1B, and state and local subsidies provide $573M (Nov. 2004 financial plan for 2005-08).
- Capital projects are funded by Federal subsidies, NYC contributions, asset sales, and by borrowing that is backed by fare and toll revenues or dedicated taxes. NYS has only made a very small (less than one percent) direct contribution to one of the last three five-year capital plans. A rapidly growing share of recent capital plans has been borrowed.

The over-reliance on debt is the major cause of the MTA's financial problems

- By far the single most serious MTA financing problem over the past decade has been the over-reliance on borrowing to fund recent 5-year capital programs. This results mainly from the elimination of any direct State capital subsidy, and, to a lesser extent, a reduction in NYC's direct capital contribution. This over-reliance on borrowing has dramatically pushed up the debt service burden in the operating budget.

Twin budget challenges

(1) **Operating budget:** Deficit of $586 million in 2006 in $7.6B operations budget largely due to past borrowing to fund capital plans. This is after fare increases and service reductions approved in December 2004. Deficit rises to $700 million in 2007 and $1B in 2008.

(2) **Capital program:** The five-year 2005-2009 capital program as proposed in July by the MTA includes $17.2B for core "state of good repair" and replacement needs (including purchase of new subway cars and buses), $9.9B for expansion projects (2nd Ave. subway, East Side Access, extension of #7 line), and $500M for security needs. Less than half of the overall $27.8B capital program is funded at this point, with risk of continued over-reliance on borrowing.

The increased reliance on borrowing to fund the MTA's Capital programs has grown to the point where 61% of the $20B 2000-2004 5-year plan was borrowed.

Sources of funding for 5-year MTA capital plans

($millions, nominal)	1982-1986	1987-1991	1992-1996	1995-1999	2000-2004
Government subsidies	$4,209	$5,232	$4,899	$5,160	$6,659
Federal	$2,012	$3,117	$3,673	$3,770	$6,208
New York State	$1,509	$879	$0	$104	$0
New York City	$688	$1,236	$1,226	$1,286	$451
Debt (see note below)	$2,615	$2,032	$3,080	$5,245	$12,424
Other	$859	$880	$1,093	$2,148	$1,280
TOTAL, each 5-year plan	$7,683	$8,144	$9,072	$12,553	$20,363
(percentage of total)	1982-1986	1987-1991	1992-1996	1995-1999	2000-2004
Government subsidies	55%	64%	54%	41%	33%
Federal	26%	38%	40%	30%	30%
New York State	20%	11%	0%	1%	0%
New York City	9%	15%	14%	10%	2%
Debt	34%	25%	34%	42%	61%
Other	11%	11%	12%	17%	6%
TOTAL, each 5-year plan	100%	100%	100%	100%	100%

Note: Debt includes debt restructuring of $4,544 billion and MTA Bonds worth $7,919
Source: MTA and Office of the State Deputy Comptroller for New York City

Rising debt service pushes up the MTA operating budget deficit

- The debt service on this increased borrowing to fund capital spending needed to bring system to state of good repair is now coming due and it largely accounts for the projected $600M deficit in the operating budget in 2006. Debt service payments averaged about $700M a year in the late 1990s, then rose to $800M in 2000-04. This year, debt service jumps to $1.2B and in 2006 it will be $1.4B.

Debt service in the MTA operating budget

($ in millions)	2002	2003	2004	2005	2006	2007	2008
Total MTA operating expenses	$6,198	$6,326	$6,639	$7,312	$7,589	$7,865	$8,160
Debt service	$692	$888	$856	$1,208	$1,401	$1,525	$1,631
Projected cash surplus (deficit) (before Dec. 2004 gap closing actions)			$639	($116)	($1,267)	($1,540)	($1,884)
Projected cash surplus (deficit) (after Dec. 2004 gap closing actions)			$459	$55	($586)	($684)	($980)
Debt service ratio	11.2%	14.0%	12.9%	16.5%	18.5%	19.4%	20.0%

Recently enacted fare and toll increases will not take care of the operating deficit, neither will Governor's Executive Budget

- Even if there was no borrowing to fund the 2005-09 capital program, existing debt service will continue to be a major drain on the operating budget for the foreseeable future.
- A modest fare increase every two years, as is planned by the MTA, will not by itself offset the higher level of debt service in the operating budget. The MTA's current proposal to increase fares and tolls again in 2007 would increase revenues by $240M, making a negligible dent on existing debt service of 1.5B+ in 2007 .
- The Governor's budget did little for the MTA operating budget. Increased state aid of $161M is mostly the result of projections for higher collections for dedicated taxes. (The Governor's recommendations for MTA capital needs are discussed on the two following pages.)

The MTA operating deficit could be addressed by increasing state and local subsidies

- Fares already cover a higher proportion of operating expenses than in any other mass transit system in the U.S. Transit riders in NYC pay 53% of the system's operating costs, compared to 42% in Chicago, 29% in Boston, and 27% in Los Angeles.
- Public subsidies to mass transit are justified given the many positive "externalities" an extensive mass transit system creates: higher density and more productive economic activity, a cleaner environment, lower energy consumption, and reduced surface transportation congestion.
- Under the state's section 18-b operating assistance program, the State provides about $190M annually to the MTA, and NYC and the seven other counties in the MTA service area collectively provide a matching amount.
- However, 18-b assistance has remained the same for the last 15 years. If adjusted for inflation, total state and local 18-b assistance would increase by $210M from $380M to $590M (NYC share would increase by $87M to $245M).
- NYC used to reimburse the MTA about $135M annually to cover a reduced fare program for school students. In 1995, NYC reduced its reimbursement by $90M to $45M annually. While the State agreed to match the City's $45M payment, the MTA still came up short. If the City restored the pre-1995 reimbursement level and the state maintained its $45M payment, the MTA would receive an additional $90M (that would cover about half of student costs).
- With MTA takeover of private bus lines, NYC will continue and increase annual subsidy (about $180M).

The Governor's Executive Budget provides some new funding, but still leaves theMTA's 5-year capital plan well short of its need.

- The MTA's proposed 2005-2009 Capital Program totals $27.6B, with $17.2B for Core Program Needs, $9.9 B for Expansion plans, and $500M for security needs. The core plan is the same amount as previous capital plan, largely adjusted for inflation. Still, the proposed plan falls short of investment needs identified by each agency.
- The $9.9B in expansion plans includes $4.6B for East Side Access (bringing the LIRR into Grand Central Station), $2.8B for the 1st phase of the full-length Second Avenue Subway, $2B for the extension of the #7 subway on Manhattan's Far West Side, and $520M for planning work related to the Lower Manhattan-JFK-Jamaica link and overall capital administration costs.

- The Governor's budget provided a total of $19.2B for the 5-year MTA capital program: $14.7B for the core program, $2.5B less than the MTA core plan, and less than half of the funds needed for the expansion plans.
- While few details of the Governor's proposals have been provided, the following general outlines are apparent:
  - Federal funds included in the Governor's budget could be as high as $8.2B, the amount the MTA indicated would be forthcoming in its $27.6B proposal, with $4.5B for core needs, and $3.7B for expansion plans. However, federal funding for expansion plans is at risk because it is contingent on matching dollars.
  - NYC is footing the $2B bill for the #7 extension (although the City says it will not be responsible for any cost overruns).
  - The Governor is proposing increases in Motor Vehicle fees and to raise the Mortgage Recording Tax to generate new revenues that will most likely be dedicated to repay debt service on roughly $3B in new borrowing.
  - The Governor's budget also indicated that an additional $3.3B in funding would be provided for the MTA capital program through the existing dedicated taxes (this will probably involve new borrowing).
  - Finally, the Governor's budget calls for $2B in new funds during the last two years of the 5-year capital program that are vaguely specified as "obtained from a combination of public/private partnerships, innovative financing mechanisms, cooperative projects with the Port Authority and/or increased Federal aid."

Question marks about the implications of the Governor's budget for the MTA capital program

- Implications of the Governor under-funding the Core Plan by $2.5B? Since the core plan is for maintenance and normal replacement, under-funding potentially jeopardizes safety, system performance and ridership. This under-funding is highlighted by the recent fire in the relay room at the Chambers Street station. While the MTA has modernized 158 relay rooms out of 200 in the system, the modernization process has likely been slowed due to the inability of NYCT to meet its own state of good repair deadlines stemming from funding shortages in previous capital plans. In fact, the MTA's target dates for achieving a State of Good Repair for its signal system has been pushed from 2012 to 2020.

- Within the core plan, the MTA will give priority to fund critical infrastructure (track, signals, lighting, fans, pumps, substations, and safety needs) before funding rolling stock (buses and rail cars) or station rehabilitation and improvements.

- MTA Chairman Kalikow has stated that if sufficient funding is not identified for the 2005-2009 capital program by mid-2005, the MTA will transfer monies (about $2B) from the 2000-2004 capital plan that are authorized but not spent for the two main expansion projects (East Side Access and the 2nd Avenue Subway) to help fund core program needs.

- The significant lack of funding for the Expansion Plan means that portions of either or both East Side Access and the 2nd Avenue Subway will be delayed or curtailed, and that the federal funding already pledged for these projects is at risk.

- It is very likely that the new revenues proposed (motor vehicle fees and increased mortgage recording tax) and the increase in funds from the Dedicated Mass Transportation Trust Fund will be used to pay the debt service on several billion dollars in new borrowing. It is not clear if the Governor is proposing the issuance of additional new debt for capital purposes that would otherwise have to be borne by the MTA operating budget, including fares.

What will the MTA receive from asset sales?

- The MTA proposed that various asset sales would generate up to $1B to help fund capital needs. It is not clear how much the MTA can expect to receive (or the timing) from the sale of development rights over the two sites connected with the Far West Side plans -- the Jets Stadium site (the West Rail Yards) and the East Rail Yards site to be controlled by NYC and designated for commercial development and open space.

- The West Rail Yard appraisal completed for the MTA reportedly put the value at $900M. According to the New York Times, the Jets appraisal values the site at $365M-$390M. However, both sides started negotiations at one-third of the total value on the grounds that the stadium would only utilize one-third of the parcel's 6.5 million square feet of development rights. The MTA could then sell the remaining development rights (air rights to development) to other developments projects in the vicinity of the stadium. (On February 1, the Jets and the MTA agreed to bring in former Senator George Mitchell to mediate the negotiations.)

- With respect to the East Rail Yards (east of 11th Avenue), the City is planning to sell development rights from the site to help generate some of the revenue needed to pay off the debt sold to pay for the extension of the #7 line and other associated infrastructure costs. The City has said that it will share the proceeds of the development rights with the MTA, but only after the Hudson Yards debt has been paid off.

- If the Forest City Ratner proposal to construct an Arena in Brooklyn for the Nets professional basketball team moves forward, the MTA should receive payment for the development rights to the Atlantic Yards used by LIRR trains.

What has to happen to adequately fund the MTA 2005-2009 capital program?

- MTA Chairman Peter S. Kalikow proposed in a December 3, 2004, letter to Transportation Commissioner Joseph Boardman that the taxes dedicated to the MTA, with the exception of the .25% portion of the sales tax, be increased by 50% to generate about $850M annually. Kalikow indicated "this dedicated additional yearly income would be sufficient to pay annual debt service on the funding gap that currently exists in the 2005-2009 Capital Plan."

- The dedicated state transit taxes include: corporate franchise taxes, a temporary franchise surcharge, petroleum business taxes, motor fuel taxes, motor vehicle fees, mortgage recording and real estate property transfer taxes, and 1/4 of a percent on the sales tax in the MTA district.

- Chairman Kalikow reiterated the rationale that supported the initial imposition of dedicated transit taxes in the early 1980s. These taxes impact two groups who derive significant benefit from an effectively functioning mass transit system: (1) the business community and property owners because mass transit provides businesses with wider access to a high quality labor pool and higher density development both raises business productivity and property values, and (2) motor vehicle users since an efficient mass transit system relieves congestion and enhances their mobility.

- In their report to Transportation Commissioner Boardman, the New York State Advisory Panel on Transportation Policy for 2025 recently concluded: "trouble lies ahead for transportation without bold leadership and substanital new investments of tens of billions of dollars in just the next five years alone. … If bold leadership is not shown and adequate, meaningful funding is not provided, the infrastructure will deteriorate, the economy will falter, jobs will be lost, and the quality of life in NYS will suffer dramatically." The panel urged that the state examine "all possible sources of revenue for transportation investments, including user fees, taxes, tolls and private investment."

- Other groups have made the case that additional dedicated funding streams are necessary to finance the MTA capital program. The Regional Plan Association urged consideration for a range of toll increases and congestion fees, reinstatement of some form of regional commuter tax, and higher gas taxes and motor vehicle fees. The NYC Independent Budget Office suggested that a revived commuter tax would be a logical method to fund regional mass transit, and the Partnership for New York has supported a commuter tax and some form of congestion pricing.

Adequately funding mass transit is a good investment for New York

- *Fosters sustainable, environmentally sound development.*

Effective mass transit lessens energy usage and promotes cleaner environment. New York needs an expanded regional mass transit system to support new development in the urban core rather than see this development go to the outer fringes of the region in a manner that promotes sprawl and ultimately, a more costly form of development.

- *Supports and expands the state's tax base.*

An effective and expanded transit system will enable NYC to better retain and attract the high-value economic activity and high-paying jobs that contribute so greatly to the NYC and NYS economy and local and state tax revenues.

- *Supports manufacturing jobs upstate producing mass transit equipment.*

Mass transit investments are also good for the upstate New York economy since several transit equipment producers are scattered around upstate manufacturing areas.

- *Public spending on mass transit yields a high return on investment for New Yorkers.*

Because mass transit relies so heavily on labor, goods and services that are largely supplied locally within New York State, the IMPLAN input-output model indicates that spending on local mass transit has by far the highest economic multiplier among all industries. (This is remarkable particularly since the model does not capture in the transit multiplier the higher business productivity in other industries that mass transit makes possible.) Thus, dollar for dollar, spending on local mass transit produces a greater local (NYS) economic benefit than public spending to subsidize financial activities, manufacturing, or any other leading NY "export-oriented" economic sector.

Spending on mass transit in NYS yields a high return on investment in terms of output and jobs

- A billion dollars in spending on public mass transit in NYS yields:
  - $3.4B in total economic output
  - 37,500 jobs
  - $1.8B in employee compensation

  All of these impacts occur in New York State and generate state tax revenues
- The 37,500 jobs supported by a billion dollars in spending on public mass transit includes: 12,500 *direct* jobs within local mass transit, 14,800 jobs in supplier (*indirect*) industries, and 10,200 jobs throughout the economy providing *consumer goods and services* that are purchased with the incomes of workers in the direct and indirect industries.
- As the table below shows, Construction and Manufacturing (mostly upstate) are the sectors of the NYS economy that benefit most from mass transit spending. Economic activity and employment in a range of sectors across the economy -- wholesale trade, electric and gas, computer and professional (architects, legal, accounting) services, trucking and warehousing, real estate, banking, and repair shops – increase when spending on mass transit increases.

New York Output and Jobs Supported in Supplier Industries by Transit Expenditures of $1 Billion

Top 10 Supplier Industries	**Output (MIL$)**	**Jobs**
Maintenance and Repair (Construction)	$574.2	8,700
Manufacturing Industries	$251.2	935
Wholesale Trade	$173.6	1,224
Electric Services	$119.9	218
Computer and Professional Services	$64.2	759
Motor Freight Transport and Warehousing	$24.9	239
Real Estate	$22.8	101
Banking	$20.1	56
Miscellaneous Repair Shops	$19.4	266
Gas Production and Distribution	$19.2	29
Top 10 Supplier Industries Total	$1,327.0	12,527
All Supplier Industries	$1,485.0	14,761

Source: IMPLAN and Fiscal Policy Institute