New York City Independent Budget Office

Focus On:
The Preliminary Budget

March 2021

Back On Track? Federal Aid for the MTA May Be Coming, But Fiscal Problems Remain

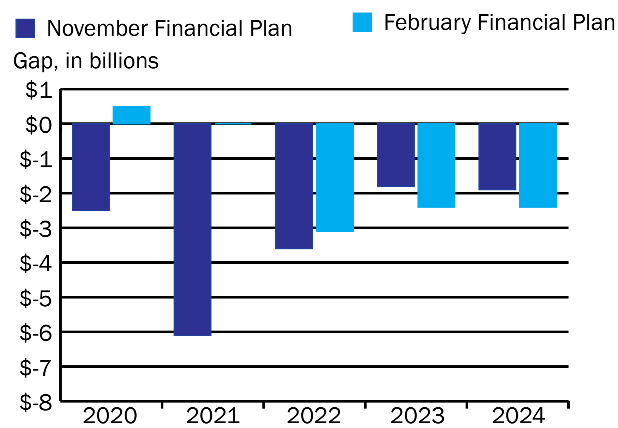
Although not a city agency under the Mayor's control, the Metropolitan Transportation Authority's (MTA) subway, bus, and rail services, as well as the bridges and tunnels under its purview, are an integral part of the city's economic and social fabric.[1] Pre-pandemic, 56 percent of New York City residents used public transit to get to work and more than half of households did not own a car.[2] While remote work remains popular and people are now more used to relying on personal cars and bicycles for commutes, the centrality of the public transit supplied by the MTA to New York City remains.

The MTA managed to balance last year's operating budget and eliminate what had been a yawning gap in its financial plan for this year (the MTA's fiscal year aligns with the calendar year), but it was only able to do so through extensive borrowing and two federal relief bailouts. Even so, the authority has been facing serious budget gaps starting in 2022, although a third shot of federal assistance provided by the nearly enacted American Rescue Plan package should help in closing them. Furthermore, even though the expected infusion of federal funds will greatly ease the MTA's near-term budget woes, the longer-term rebound of ridership and tax revenues remain ongoing concerns. The authority has yet to fully explain how it will cover operating expenses, or the continuing need for capital improvements once the federal spigot is closed.

Borrowing and Bailouts From Washington. In its Preliminary Financial Plan, released in November 2020, the MTA was anticipating a $2.5 billion budget gap for operating expenses in 2020 and a $6.1 billion gap in 2021. These projected gaps represent 14 percent and 33 percent of the 2020 and 2021 operating budgets, respectively. The preliminary plan reflected the April 2020 federal pandemic relief bill that provided $3.9 billion to the MTA, but assumed no other federal funds would become available. Since then, the agency identified budget actions of $1.3 billion for 2020 and $1.5 billion for 2021 through internal savings, redirecting capital funds to the operating budget, and by tapping into a trust fund intended to cover health and other benefits for retirees. In addition, year-end actuals for 2020 showed better-than-expected farebox and toll revenue,

The MTA also tapped the Federal Reserve System's Municipal Liquidity Facility (MLF), which the Federal Reserve and the U.S. Treasury Department created in April 2020 as an option for state and local governments and authorities to access credit during the pandemic emergency. The MTA was able to borrow a total of $2.9 billion through the MLF, which was the maximum it could access under the program.[3] The MLF was created at a time when there was concern about liquidity in the municipal bond market, but it quickly recovered and remained accessible to most borrowers at favorable rates. Ultimately, only two borrowers found it advantageous to use the MLF: the MTA and the State of Illinois. Further federal assistance

MTA Closes Budget Gap in Current Year



SOURCES: MTA Board Presentations on 11/18/2020 and 2/18/2021

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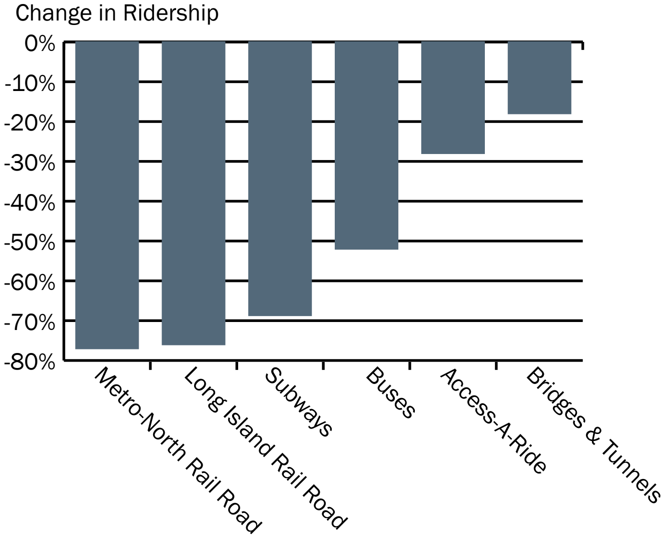
Commuter Rail Sees Greatest Loss in Ridership, Bridges and Tunnels Least Changed

Average Change in Daily Ridership, January 2020 Compared to January 2021



SOURCE: MTA Recent Ridership Data

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came in the December 2020 pandemic relief bill; the $4.0 billion the MTA received under the legislation is reflected in its operating budgets for 2021 and 2022 Together, all of these adjustments allowed the MTA to erase the $6.1 billion gap in its 2021 budget.

Federal Aid Eases Shortfalls. Although the projected 2021 gap now appears to have been closed, the MTA's February Financial Plan expects budget shortfalls of $3.1 billion in 2022, $2.4 billion in 2023, and $2.4 billion in 2024. Part of the 2022 gap includes an adjustment downward of revenue estimates by $145 million, reflecting a proposal in the Governor's Executive Budget to move funds from dedicated transit revenue sources over to the state's operating budget.

These gaps are not as large as the 2021 shortfall, but the agency's usual mix of fare increases and efficiency savings are unlikely to be sufficient to close expected future gaps without other actions. In February 2021, the MTA projected that farebox and toll increases planned for 2021 and 2023 would raise an additional $1.27 billion over the plan period, under the assumption that ridership levels would remain depressed, at least in the near term. This revenue estimate reflects the board's recent decision to postpone the 2021 fare increase for subways, buses, and commuter rail—slated to begin March 2021—for at least six months, citing the economic hardship the pandemic has posed for riders, particularly essential workers, low-income residents, and communities of color. Ridership on the Metro-North and Long Island Railroads in January 2021 was down more than 76 percent compared with January 2020. Subway and bus numbers also remain depressed, with ridership this January falling by 69 percent and 52 percent, respectively, from the levels of a year ago.

If the 2021 fare increase is canceled entirely, the MTA would forgo around $500 million during the plan period; because ridership is expected to remain low in the coming months, the MTA estimates the already approved six-month delay only reduces fare revenue by $32 million. Bridges and tunnels toll increases in 2021 and 2023 are going forward, with the 2021 increase approved at the February board meeting. January 2021 bridge and tunnel crossings are down 18 percent from January 2020, although that is still much closer to pre-pandemic levels than commuter rail, subway, and bus ridership. The toll increases are projected to bring in an additional $512 million over the plan period.

In addition to fare and toll increases, the MTA has outlined service cuts as a potential way to close gaps in future years. An extreme option the MTA outlined in November 2020 and could be needed, should federal relief not materialize or ridership not bounce back over the next few years, would be a 40 percent cut in subway and bus service and 50 percent cut in commuter rail service. This would allow the system to serve its remaining customers if ridership does not recover and realize substantial savings— albeit with much longer waits and headway times, and more crowding. According to the MTA, such cuts would reduce spending by $1.27 billion in 2022 with smaller savings in 2023 and 2024 of $696 million and $212 million, respectively, as ridership gradually returns and service increases again. However, the MTA is currently not budgeting any additional service cuts to subways and buses in 2022, and with $6.5 billion for the MTA expected through the American Rescue Plan legislation, additional drastic cuts across the MTA are presumably off the table.

For the city, fiscal risks abound with or without service cuts. If the city's public transit system is allowed to deteriorate, it would affect the city's economic vibrancy, placing tax revenues at risk as unreliable transportation weighs on business and leisure activity and real estate values. Another fiscal risk is that given the state's own considerable budget problems coupled with its control over MTA governance, the city could be forced to assume more of the burden of funding the MTA in the future.

State of Future Capital Improvements. With many open questions as to how the MTA will meet operating expenses, even more questions surround the MTA's ability to finance capital improvements. When New Yorkers suffered through the public transit "summer of hell" in 2017, the MTA promised capital improvements to tracks and signals so that widespread train failures would no longer be a regular occurrence. Although some capital improvements have been made, the bulk of the needed improvements were planned for future years: signal system upgrades, additional track work, the move to all-electric buses, accessibility upgrades, and extending the Second Avenue subway. The authority's 2020-2024 Capital Plan, issued late in 2019, included $52 billion in capital investments to address these necessary improvements. In the MTA's present fiscal condition, whether these plans can be funded or whether they will be delayed further is an open question.

When the 2020-2024 Capital Plan was adopted, the MTA expected that $15 billion in funding for capital improvements would be generated through congestion pricing in Manhattan's central business district. Central Business District Tolling, as congestion pricing is formally titled, had state authorization to start as early as January 2021. The Trump Administration held up the environmental review, however, and at a more local level, state and city officials have yet to agree on how to set prices and locations for the congestion tolls. With a new presidential administration in Washington and the outsized need for financing to pay for capital improvements, congestion pricing may now move forward on a delayed timeline, becoming operational as early as 2022. In addition to the loss of congestion pricing revenue, the MTA borrowed from the Federal Reserve through its Municipal Liquidity Facility to fund operating expenses. This debt could crowd out available borrowing capacity for capital expenses by increasing the MTA's debt load and potentially boosting interest rates for future bond offerings.

We Apologize for Any Inconvenience. In the medium-to- long term, the MTA appears to be on increasingly shaky ground, especially if ridership does not quickly rebound to near pre-pandemic levels. Federal aid will tide over the MTA during the worst of the decline in ridership, but considerable financial uncertainty will likely remain until the public transit system recovers to something close to its previous levels of use. Long-term changes spurred by the pandemic in commuting patterns and the region's ability to attract workers, visitors and residents could result in a permanent reduction in MTA ridership. Even if the MTA does bounce back, delays in congestion pricing and use of borrowing to cover operating costs could delay the capital program further, bringing the city back to a time where commutes were wracked with delays from faulty signals and track failures. As the city looks to spur its post-pandemic economy, whether the ridership returns to the MTA and the ability for the MTA to move residents and visitors around reliability and efficiently are difficult questions that have yet to be fully answered.

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Endnotes

[1]The MTA Board consists of 21 members, with state appointees making up the largest voting bloc within the board.
[2]2019 American Community Survey 1-year estimates.
[3] Under the legislation authorizing the MLF, municipalities and public authorities could borrow up to 20 percent of their 2017 revenue.