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M.T.A. and Its Debt, and How They Got That Way

By RAY RIVERA

When Richard Ravitch was named chairman of the Metropolitan Transportation Authority in 1979, he inherited a subway system in decay. Trains derailed or collided on average every 15 days. Stations were filthy and crime was rampant. Ridership sank to lows not seen since World War I.

To revive the system, Mr. Ravitch, a former construction executive, persuaded lawmakers to allow the authority to do what countless cities and states had long done to build and maintain their infrastructure: Issue bonds.

“The system was falling apart, and the only way I could get the money to rebuild it was to borrow it,” Mr. Ravitch said in a recent interview.

Nearly 30 years later, the system is by all accounts better. But the authority’s debt has ballooned, and like stressed homeowners across the country, the system is groaning under the pressure to repay it. Indeed, debt payments are the system’s largest single cost after payroll, and by 2012 they will account for one of every five dollars the authority spends.

Until recently, the authority was flush with tax revenue from the booming real estate market and had no trouble paying for its borrowing. But the market is down now, fuel costs are way up, and the debt is crushing. More than any other reason, that is why the authority, after raising fares in March, wants to do it again twice more in the coming three years.

The problems facing the agency now are no surprise. Independent analysts and the agency’s own financial planners have warned of rising debt costs for years — most loudly and urgently after a huge debt restructuring in 2000.

Called at the time the largest deal in the history of American municipal finance, the refinancing — taking advantage of lower interest rates — led to lower debt payments. The agency, facing political resistance to fare increases and new taxes, decided to sell new bonds to finance the system’s first major expansion since the 1930s. In a few short years, the debt burden it had amassed over nearly 20 years had doubled.

“The principal goal was to reduce the short-run debt service and push it off until later,” said Charles M. Brecher, research director of the Citizens Budget Commission and a professor of public policy at the Wagner School at New York University. “That’s what’s coming home to roost now.”

As the state once again looks for solutions for the struggling authority, it has come full circle, once again turning to Mr. Ravitch.

In April, Gov. David A. Paterson appointed Mr. Ravitch to lead a commission of finance and transportation experts to find answers to the authority's monetary straits. Its report is due by December.

In 1979, it was Gov. Hugh L. Carey who came calling. At the time, the subway was suffering under decades of neglect. The city was just beginning to emerge from a fiscal crisis that had brought it to the brink of bankruptcy.

Money for capital improvements hovered around $50 million — not the billions Mr. Ravitch and his analysts knew it would take. So he went to Albany.

"The Legislature squawked," recalled Mr. Ravitch, 75. "They said that will result in a fare increase, and I said 'That's absolutely correct.' But I said it will also result in an improvement in the system and attract more riders and avoid the dysfunctionality in the system, and they were persuaded."

The law passed in 1981, and the next year the authority issued its first bonds, totaling $350 million.

The authority issued hundreds of millions of dollars in new debt over the next 20 years, nearly all of it going toward new stainless steel cars and buses, and track repairs, signal replacements and other system improvements. By 2000, the agency's outstanding debt had reached $12 billion.

At the same time, though, the city and state were contributing less toward the authority's capital budget. According to data provided by the authority, 26 percent of capital plans from 1989 to 1991, totaling $15.4 billion, came from the city and the state. In addition, 32 percent came from the federal government, and the rest from bonds and other transportation authority sources.

From 1992 to 1999, as its capital budgets grew, the agency's reliance on debt increased. The federal share of those capital budgets remained at about a third, but the city and state shares fell to 9 percent.

In late 1999, the agency began laying the groundwork for a major restructuring of its outstanding debt. The plan, which called for refinancing all $12 billion of the debt, was recommended and structured by the former Wall Street investment giant Bear Stearns, which eventually got a large share of the underwriting duties worth tens of millions of dollars.

Critics said the plan was unsound, and unduly influenced by Bear Stearns.

Current and former authority officials who were involved in the deal, including Marc V. Shaw, the agency's executive director at the time, say they had little choice. Voters rejected the Transportation Bond Act of 2000, which would have sent $1.6 billion to the authority. And fares had not risen since George E. Pataki became governor in 1995.

"Politicians make choices, and at the time they made a determination that it would be wrong to raise taxes and raise the fares," Mr. Shaw said.

David M. Catalfamo, a spokesman for Mr. Pataki, acknowledged that the governor favored keeping fares low. "But the M.T.A.," he said, "is an independent authority responsible for its financial soundness, and they were always encouraged to take actions that were consistent with their needs."

The deal, finally completed in 2002 (though it's commonly known as the 2000 restructuring), was hailed as the municipal deal of the year by several financial publications. In the short term, it led to savings and allowed the authority to take on more debt. The long-term effect, though, was to extend its existing debt, some of which would have been retired by 2015, until 2032 at a cost of a $1 billion a year.

"I do remember lots of people, including me and including Marc, were anxious about what effect it would have, because it does delay the day of reckoning," said Gary J. Dellaverson, the authority's chief financial officer who was deputy executive director at the time.

Gene Russianoff, the staff lawyer for the Straphangers Campaign, a riders' advocacy group, said the authority did have alternatives.

"It could have borrowed smaller and more responsible amounts," he said. "It could have told the governor, the mayor and the Legislature that it needed more money to keep its rebuilding program going."

Doug Turetsky, chief of staff of the Independent Budget Office, said the restructuring bought them a little time. The booming economy helped extend that time, even as the authority acquired more debt; its current outstanding debt is about $24 billion, double what it was before the restructuring, including money for the 2005-9 capital plan.

"Without that extraordinary revenue, they could no longer cover the strain from the rising toll of debt," Mr. Turetsky said.

In the end, the percent of state and local subsidies for the 2000-4 capital plan totaled a staggeringly low 2 percent. By comparison, state and local subsidies pay for 19 percent of the current plan, including money from a voter-approved bond act in 2005.

Mr. Shaw, who defends the restructuring, said that with the decline of the 1970s and before still seared in the memory of New Yorkers, the choice was clear: "We needed to protect the infrastructure and not have that happen again."