CITIZENS BUDGET COMMISSION

BLOG | TRANSPORTATION

What to Look for in the February Update to the MTA's Financial Plan

February 17, 2021

The MTA's December Financial Plan forecasted a three-year, 2022 to 2024 cash shortfall of $7.9 billion.[1] The 2020 and 2021 budgets were balanced only by borrowing $2.9 billion to support operations, implementing one-time cash management actions, drawing from the retiree health benefits trust, and assuming receipt of $4.5 billion in additional federal aid. The federal COVID relief bill, passed after the MTA published its projection, will deliver $4 billion in aid, leaving the MTA's 2021 financial plan approximately $500 million short pending further updates.[2]

More favorably, the MTA subsequently reported that 2020 ended with $1.5 billion more cash than expected, including higher than planned operating revenues ($160 million in fares and $216 million in tolls) and dedicated taxes and subsidies ($355 million), and lower than planned operating expenses ($723 million).[3] The federal administration also has directed FEMA to waive the local 25 percent match on federal emergency aid, which will provide additional resources.[4]

While the MTA's plan uses the federal aid to delay a permanent wage freeze and steep service cuts until 2022, and the 2021 baseline biennial fare increase has been delayed, further actions will be needed to stabilize the MTA's finances in the long term. (See CBC's "How Will the MTA Fight its Four-Alarm Fire?".) The MTA's February Financial Plan update on revenue, ridership, and expenses will help inform the scale of needed further change and possibly present additional recurring plans for stability. The following elements are worthy of examination when the MTA releases its update.

Revenues

- **Fare & Toll Increases** – In January, the MTA board deferred the biennial baseline fare and toll increases that are designed to keep fares and tolls essentially constant over time, accounting for inflation.[5] The fare increase has been delayed for "several months," but a toll increase by 7.1 percent on average is likely to be approved at the February Board meeting.[6] Decoupling fares and toll increases in the current crisis remains appropriate—especially since car traffic mostly has returned, but transit ridership has not.[7] Delaying fare increases temporarily is reasonable given the current hardship being experienced by many New Yorkers, but the MTA should not substantially change its policy of regular increases. Implementing and ensuring full uptake of Fair Fares is a key companion of such policy in order to assist low-income riders.

- **Ridership and Fare Revenue** – In November 2020, the MTA reduced its projection of ridership and fare revenue, based on the "worst case" scenario of an updated McKinsey farebox forecast instead of the midpoint case of McKinsey's previous forecast. Preliminary fare revenue has already outperformed the earlier, more optimistic 2020 plan by 7 percent. This may continue and ridership may be higher than the more pessimistic worst-case baseline. However, the long-term outlook remains uncertain, especially for commuter rail.[8] The MTA may update its farebox revenues based on recent experience. If the 2021 farebox achieved the midpoint of McKinsey's best and worst cases, revenues would be $764 million higher than planned.
- **Toll, Dedicated Taxes and Subsidy Forecast Update** – Revenue in 2020 came in higher than planned for both tolls ($216 million) and dedicated taxes and subsidies ($355 million). The MTA incorporated new "worst-case" forecasts from McKinsey for mass transit ridership and farebox revenue in the November Plan update but did not update its forecast for tolls and dedicated taxes and subsidies.[9] Higher than planned 2020 receipts should be incorporated into the forecast and suggest that the MTA may increase estimates in subsequent years. These could be incorporated in the February update but the MTA may wait until the July Plan to update these forecasts.
- **FEMA Reimbursement** – The MTA budgeted for $220 million FEMA reimbursement in 2021 in its November and December Plans. Typically, FEMA requires a 25 percent local match, which was waived by a new executive order on February 2, 2021.[10] Eliminating the local match should increase the 2021 planned FEMA receipt to nearly $300 million. This 100 percent aid will be applied retroactively to 2020 and is currently set to continue for expenditures incurred through September 30, 2021.[11] Depending on MTA's accounting of eligible expenses and if full retroactive aid is delivered, actual FEMA receipts in 2021 may exceed $500 million.
- **Congestion Pricing** – MTA last year delayed its planned launch of congestion pricing to 2023 since the federal government had not provided appropriate guidance on the environmental review. Fully 30 percent of the 2020-2024 capital plan relies on bonding out $1 billion in annual net revenue from congestion pricing. This portion of the capital plan cannot proceed until congestion pricing is authorized and implemented.

- **Additional Federal Aid** – The Biden Administration promised $20 billion for transit, and the concurrent resolution passed by the House and Senate promises $30 billion. These funds would provide significant relief to the MTA, in addition to any revenues and expenses that continue to be better than planned. While the final amount included in the next relief bill remains uncertain, a letter from Speaker Pelosi reportedly indicates that $8.8 billion will be directed to transit providers in the NYC area, of which the MTA is likely to receive a significant share.[12] MTA may include its own estimate in its budget update, just as it did in its December update ahead of the December federal relief package. In addition to the amount potentially assumed, it will be important to understand whether the MTA uses it to reduce future budget gaps or to reverse previously identified plans, such as planned service reductions or converting the $2.9 billion in short term debt for operations into long term debt.

Expenditures

- **Savings from Temporary Service "Right-Sizing"** – LIRR has joined Metro-North in running reduced peak-hour schedules amid lower ridership. Metro-North has been running about 63 percent of normal service; LIRR on February 1, 2021, began running about 75 percent to 80 percent of normal service.[13] Temporary service reductions yield modest savings because most rail operating costs are fixed in the short run. It will be important to follow the nature and timing of projected service cuts currently forecasted for 2022, and whether interim reductions are scheduled. Subject to key minimum service delivery guidelines to protect job access and the nascent recovery, further service "right-sizing" tailored to the reduction and resumption of economic activity and commuting are appropriate.[14]
- **COVID Cleaning Expenses** – The 2020 November Plan reclassified COVID cleaning expenses into the baseline budget, thus removing the detail of annual costs. The previously itemized expenditures were $379 million annually, declining to $377 million in 2024. The procedures as implemented have required the subway system to close to the public overnight to allow cleaning—though on February 15th the MTA announced a phased reopening of public access to overnight train service. [15] While enhanced cleaning is justified and will be reimbursed by FEMA through September 2021 based on the federal emergency declaration, there may be merit to adjusting the spending in the long run.
- **Capital Plan and Borrowing Actions** – The 2020-2024 capital plan remains all-but-on hold. The stressed operating budget has rendered pay-as-you-go and new borrowing for capital investment currently fiscally unfeasible; funds previously dedicated to capital projects have been temporarily redirected to the operating budget; congestion pricing has

been delayed; and most aid from the City, State and federal government has not yet been provided. Federal MTA operating budget relief, better than expected MTA revenues and expenses, federal funding for the 2nd Avenue Subway, and more stable State and City budgets would allow additional capital spending. Whatever resources become available, they will not be sufficient to support the full capital plan and the unspent balance of prior plans within the current plan period ending in 2024; in the meantime, it will be critical for the MTA to focus its investment on the highest priority state of good repair and critical system replacement work.

By Alex Armlovich

Endnotes

1. Metropolitan Transportation Authority, *MTA 2021 Budget and & 2021-2024 Financial Plan Adoption Materials* (December 16, 2020), page I-1, https://new.mta.info/document/26941.
2. Testimony of Bob Foran, CFO, Metropolitan Transportation Authority, at the MTA January Board Meeting, (January 21, 2021), https://new.mta.info/document/26941.
3. 2020 expenses are $982 million lower than the baseline budget, but $259 million of that sum is allocated to the "Additional Savings Actions" below-the-line plan adjustment, leaving $732 million in net favorable bottom-line spending. See Metropolitan Transportation Authority, *Budgetwatch January 2021 Flash Report* (February 2020), https://new.mta.info/document/26941.
4. The White House "Fact Sheet: President Biden Announces Increased Vaccine Supply, Initial Launch of the Federal Retail Pharmacy Program, and Expansion of FEMA Reimbursement to States," (press release, February 2, 2021), http://www.whitehouse.gov/briefing-room/statementsreleases/2021/02/02/fact-sheet-president-biden-announces-increased-vaccine-supply-initiallaunch-of-the-federal-retail-pharmacy-program-and-expansion-of-fema-reimbursement-tostates/.
5. MTA committed in 2010 to a biennial review of fare & toll policy, with a baseline expectation of 4 percent biennial increases necessary to keep fares and tolls from declining in real terms after the Federal Reserve's annual inflation target of 2 percent. Annual inflation over the next decade will likely exceed 2 percent in order to make up for recent shortfalls below 2 percent. See Richard H. Clarida, "The Federal Reserve's New Framework: Context and Consequences" (speech at the "The Road Ahead for Central Banks," a seminar sponsored by the Hoover Economic Policy Working Group, *Hoover Institution*, Stanford, California, January 13, 2021), http://www.federalreserve.gov/newsevents/speech/clarida20210113a.htm.
6. Paul Berger, "New York's MTA to increase tolls at bridges and tunnels by 7 percent," *The Wall Street Journal*, (February 11, 2021), www.wsj.com/articles/new-yorks-mta-to-increase-tolls-atbridges-tunnels-by-7-11613088690.
7. Fare revenue will not be maximized by blunt, flat fare increases implemented without regard to post-COVID price elasticities of travel demand by mode. Maximization eventually requires a new,

re-targeted fare structure modeled on other systems with high farebox recovery that price discriminate by trip type and time of day to minimize ridership losses—while protecting lowincome riders with Fair Fares.

8. Near-term outperformance over plan should continue barring any major stumbles in the pace of vaccination or any unexpected new virus variant-induced reversal of the current phased reopening, either of which could pull ridership back down closer to “worst case.”
9. Metropolitan Transportation Authority, “MTA 2021 Final Proposed Budget: November Financial Plan 2021–2024” (presentation to the MTA Board, November 18, 2020), https://new.mta.info/document/24121.
10. The White House “Fact Sheet: President Biden Announces Increased Vaccine Supply, Initial Launch of the Federal Retail Pharmacy Program, and Expansion of FEMA Reimbursement to States,” (press release, February 2, 2021), www.whitehouse.gov/briefing-room/statementsreleases/2021/02/02/fact-sheet-president-biden-announces-increased-vaccine-supply-initiallaunch-of-the-federal-retail-pharmacy-program-and-expansion-of-fema-reimbursement-tostates/.
11. Federal Emergency Management Agency, ”FEMA Statement on 100% Cost Share“ (press release, February 3, 2021), www.fema.gov/press-release/20210203/fema-statement-100-cost-share.
12. Chris Sommerfeldt and Denis Slattery, “NY to get $50B from next stimulus, likely averting draconian budget cuts“ *New York Daily News*, (February 12, 2021), www.nydailynews.com/coronavirus/ny-covid-ny-stimulus-cuts-20210212ag25cmldqfcqxdaoccbtgamjfm-story.html.
13. See Metropolitan Transportation Authority, *January 2021 MTA Board Action Items* (January 21, 2021), https://new.mta.info/document/26886.
14. MTA service delivery guidelines promise a maximum headway between subway trains of 10-12 minutes all day and 20 minutes overnight, regardless of ridership. A 10- to 15-minute policy headway is a rule of thumb in transit planning as the headway window in which the loss of ridership from further service reduction steepens per incremental cut, all else equal. FTA specifically defines frequent service as 10 minutes peak and 15 minutes off-peak. See Transportation Research Board, *Transit Capacity and Quality of Service Manual, 3rd Edition* (April 2017), http://onlinepubs.trb.org/onlinepubs/tcrp/tcrp_rpt_165ch-02.pdf.
15. See *Eyewitness News* ”Coronavirus Update New York City: MTA adjusting hours of overnight subway shutdown” (February 16, 2021), https://abc7ny.com/covid-vaccine-nyc-subway-closuremta-overnight-hours/10342014/.