CITIZENS BUDGET COMMISSION

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Testimony on Metropolitan Transportation Authority's 2020-2024 Capital Program

Submitted to the New York City Council Committee on Transportation

November 25, 2019

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The Citizens Budget Commission (CBC) appreciates the opportunity to submit testimony on the Metropolitan Transportation Authority's (MTA's) 2020-2024 Capital Program. CBC is a nonpartisan, nonprofit think tank devoted to influencing constructive change in the finances and services of New York City and New York State government, including MTA and other public authorities.

Improving MTA infrastructure is essential for the New York City region's competitiveness, quality of life, and environmental sustainability. While some of today's MTA riders may not recall the system's decay in the late 1970s and early 1980s, it serves as a stark reminder of the potential impacts of system degradation. For this reason, CBC's longstanding position is that MTA capital investments must first emphasize state of good repair and routine replacement before projects to expand the system or provide enhanced amenities.

At $54.8 billion the proposed 2020-2024 Capital Program is the MTA's most ambitious yet, and it has been heralded for addressing a wide range of critical needs and desires identified by public officials, advocates, and others. Unfortunately, the simple truth is in five years this plan's promise will not be fulfilled. While admirably ambitious, the plan's sheer size—combined with a backlog of past projects, the MTA's delivery capacity, and lack of transparency—render it impossible to determine what investments should and will happen in the next five years and what that will mean for riders' experience and the stability of the system's finances and infrastructure. Six issues warrant consideration:

1. **There actually are $70 billion of projects planned.**

   In addition to the $54.8 billion proposed in the 2020-2024 Capital Program, the MTA has almost $15 billion in previously planned and approved capital projects it has yet to commit. Presumably, work on these projects will occur concurrently with the new investments outlined in the 2020-2024 plan.

2. **The MTA is unlikely to be able to commit $70 billion in projects over the next five years. If the MTA were able to increase its historic commitment rate by 50 percent, it would be able to commit $45 billion, which may be achievable if not optimistic.**

   Over the 2010 to2018 period, the MTA has been able to commit an average of $6 billion in capital projects annually. This includes the past three years when commitments were higher than previous averages primarily due to large projects including $663 million for East Side Access, $1.8 billion for the third track for Long Island Rail Road (LIRR), and $1.5 billion for a subway car procurement. The previous rate of commitments was approximately $4.9 billion annually.

   To execute both the new capital plan and the backlog of projects in five years would require the MTA to more than double its annual projected commitment rate from $6 billion to $14 billion. This is an unrealistic expectation. While the MTA asserts that bundling projects will help increase its throughput—and we hope this will be the case—it remains unclear what the impact of MTA's significant restructuring will be on its delivery capacity, especially in the near term. If the MTA is able to commit $45 billion over the next five years, it would be a 50 percent increase in throughput over prior performance—which is arguably very ambitious, but may be achievable with ongoing and future reforms.

3. **The 2020-2024 Capital Program places a high priority on state of good repair, system replacement, signal upgrades and service improvement, which are necessary and urgent.**

   CBC commends the MTA for focusing two-thirds of the 2020-2024 capital plan on state of good repair and normal replacement projects. The plan allocates $13.6 billion, or 25 percent, to state of good repair and $23.3 billion, or 42 percent, to normal replacement. Importantly, it includes $5.9 billion for subway signal upgrades and $5.1 billion for accessibility improvements at 70 subway stations.

4. **Failure to publish a needs assessment and the plan's lack of annual project schedules make it difficult to assess the impact on the rider experience and the system's long-run state of good repair and stability.**

   In a departure from past practice, the MTA did not publish a 20-year needs assessment documenting state of good repair needs for critical components in each of its business lines. Furthermore, unlike prior capital plans, the 2020-2024 plan does not include schedules for planned projects and details on priorities within project categories. For example, while the plan includes $5.1 billion for accessibility improvements at 70 New York City Transit (NYCT) stations, it does not list all of the stations or provide a schedule for when the work will occur or how much each station will cost.

   The MTA likely will not complete a significant portion of the $70 billion of projects. Therefore, it is critical that the MTA prioritize the most impactful projects and initiate those as soon as practicable. Absent a needs assessment and year-by-year project schedules, it is virtually impossible for oversight and approving officials, and interested parties including the CBC, to provide specific recommendations. In the plan's current form, we cannot assess each project's relative impact on state of good repair and how much the plan can be expected to achieve to bring infrastructure to a state of good repair and to enhance service reliability and the rider experience.

5. **The MTA should provide a plan for capital investment over the next five years—which this five-year capital plan is not.**

   The 2020-2024 Capital Program may be a reasonable outline for projects to stabilize and improve the system. However, there is no public blueprint for what will or should be committed over the next five years, given that $70 billion is unlikely to be committed. The MTA should allocate its human and financial resources to the highest priority projects, and its capital plan documents should reflect these priorities by including, at minimum, the year in which the MTA plans to commit and complete each project. The MTA should provide the detail needed and present a five-year plan for investment so the MTA Board, oversight bodies and watchdogs like CBC, and the public can assess whether it is appropriate and hold the MTA accountable for implementation.

6. **Financing of the 2020-2024 Capital Program relies on bonding out new revenue streams, which will put pressure on the operating budget and will mean that future capital plans will require additional new revenues.**

   Almost half of the 2020-2024 Capital Program financing comes from new revenue streams approved in the last legislative session. The largest, central business district tolling revenue, is estimated to annually generate $1 billion, which is planned to support $15 billion in bonds. For this to be feasible, the MTA and other public officials must ensure that exemptions and credits to the central business district tolling charge are limited, so that the revenue promised is available to support the plan. Another $10 billion for the plan is to come from bonds backed by the expansion of the real estate transfer "mansion" tax and a newly dedicated portion of State and City sales tax revenue.

   The balance of the plan is to be financed with $9.8 billion of MTA bonds and with pay–as-you-go capital; $6 billion from the State and the City; $2.8 billion in a federal New Starts grant; $7.7 billion in federal formula funding; and $3.3 billion of MTA Bridge and Tunnel bonding.

   While some of this funding appears uncertain—the City has not yet committed to new funding, the federal New Starts grant has not been awarded, and the federal mass transit allocation may be altered upon reauthorization in 2021—it is clear the MTA will issue a significant amount of new debt. Long-term debt is an appropriate financing mechanism because it reflects the useful life of the assets and spreads the cost over time to those who use them. Still, its impact on the operating budget should be carefully considered. Debt service is paid with funds that otherwise pay for car cleaners, station maintenance, and other operating budget needs that improve the customer experience.

   This financing plan raises two issues. First, bonding out these new revenue streams entirely will require the MTA to seek new revenue sources to fund subsequent capital plans.

   Second, this will put additional pressure on the operating budget, which has a nearly $1 billion cash shortfall over four years, assuming the MTA's restructuring plans and labor contracts are executed as budgeted. Debt service now comprises 15.8 percent of total operating spending. The July financial plan forecasts debt service will grow 31 percent, from $2.7 billion in 2019 to $3.5

billion in 2023, driving debt service up to 18.6 percent of operating spending— before the planned bonding for the 2020-2024 capital program is included.

Since the MTA will not commit its entire plan in five years, the impact of new borrowing on the next five years' operating budgets is uncertain. However, that impact should be considered as the MTA and State and City leaders determine how to finance the investments that will be made.

One source to reconsider is the new real estate transfer taxes, since they are highly sensitive to the New York real estate cycle, and signs are already present that the luxury market is weakening. Rather than using this volatile revenue source to support debt, the MTA should consider this a source for pay-as-you-go capital projects.

The MTA's 2020-2024 Capital Program is highly ambitious. While identifying all that is needed to stabilize and improve the system is important, the plan that is ultimately approved and executed over the next five years should focus on the priority projects that will yield the greatest benefits for system reliability, accessibility, and customer service.

Thank you for the opportunity to comment.