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**NYS Senate Joint Public Hearing: To review the finances and projections of the Metropolitan Transportation Authority (MTA) in the aftermath of COVID-19 and receipt of federal aid, to review the implementation of the Transformation Plan, and to seek updates on major capital projects, September 29, 2021.**

**Testimony of Rahul Jain, Deputy Comptroller for New York City**
**Office of the State Comptroller Thomas P. DiNapoli**

**to the Senate Standing Committee on Transportation**
**and the Senate Standing Committee on Corporations, Authorities & Commissions**

Chairs Senator Timothy Kennedy and Senator Leroy Comrie, and distinguished Committee members:

Thank you for providing me with the opportunity to testify today. I am here on behalf of New York State Comptroller Thomas DiNapoli. My name is Rahul Jain and I am the State Deputy Comptroller for New York City, a division that provides State oversight of New York City's fiscal issues.

The MTA, already in a state of fiscal crisis, is approaching its biggest challenge yet.

On July 21, 2021, the MTA released its midyear update to its 2021 budget and a four-year financial plan, also known as the "July Plan." Even with revenues that are better than the MTA's worst-case scenario, which informed budget projections, the July Plan still forecasts substantial gaps of $4.8 billion in 2021, $2.9 billion in 2022, $2.5 billion in 2023, $2.8 billion in 2024 and $3.3 billion in 2025.

The MTA, to its credit, has laid out how it plans to close each year's budget gap in the July Plan. However, the development of this strategy relies heavily on one-time federal aid, and highlights a fundamental and increasing long-term imbalance between the MTA's revenues and expenditures. Baseline spending in the July Plan is projected to increase at an average annual rate of 4.2 percent between 2021 and 2025, but revenues will remain flat despite operating and tax revenue growth because federal funding will be exhausted in 2025.

The MTA's strategy to close the budget gaps from 2021 through 2025 relies on six main elements: $10.5 billion of non-recurring federal aid; $1.9 billion from fare and toll increases; $1.3 billion from deficit financing in 2025; about $200 million annually from service reductions to align with demand; $150 million annually from transformation plan savings; and $734 million from a wage freeze during 2022 through 2025. Federal aid makes up nearly two-thirds of gap-closing measures through 2025, underscoring the agency's reliance on these funds and the risks that will arise when they dry up.

Each of these gap closing actions carries risks during the financial plan period as well. Disagreement over the distribution of emergency federal pandemic transportation funding, which is currently under negotiation with New Jersey, could reduce federal aid by $730 million over the plan period.

The largest source of MTA-derived funding is planned fare and toll increases. Already, the MTA board has expressed an interest in postponing fare increases in 2021, which presents a risk to the anticipated revenue included in the July Plan.

Planned fare increases coincide with about $200 million in new recurring cost savings from aligning service with expected “new normal” ridership levels starting in 2023. Implementing the service reductions, however, has the potential to further dampen ridership and its attendant revenue.

Comptroller DiNapoli has noted since early in the pandemic that the MTA will have to carefully manage fare increase decisions while continuing to encourage a return in ridership amid greater competition from alternative forms of commuting and the emergence of expanded work-from-home options. These decisions must also consider the long-term health of the system and economic recovery.

July Plan projections were also updated to shift from a worst-case scenario to a midpoint scenario for the return of ridership. While the shift is reasonable given ridership patterns since the beginning of the pandemic, actual revenues are unlikely to exceed projections as much as they have through the first half of 2021. Additional complications could occur if the Delta variant pushes commuters to change travel patterns or employers to further postpone a return to work.

To illustrate the scope of this uncertainty, Comptroller DiNapoli’s office estimates that fare revenue in 2022 could be $300 million higher than projected if workers telecommute an average of 1.5 days per week starting next spring, but it could be $500 million lower than planned if workers telecommute an average of 3 to 4 days per week.

The July Plan also includes $150 million in recurring future savings from the MTA’s transformation plan associated with cuts to administrative staff. Earlier this year, in its February 2021 financial plan, the MTA included $325 million in recurring savings beginning in 2022 from the planned elimination of 2,725 positions. A look at MTA data, however, reveals that most of these eliminated positions were not administrative, as recommended during the development of the transformation plan, but resulted from operational and maintenance vacancies that opened during the pandemic, and that these vacancies are having a direct impact on service.

Of those positions, 2,295 (84 percent) were in maintenance and operations, and 1,840 of those were hourly employees, not managers and supervisors. To mitigate the impact to operations, the MTA will have to replace some of these positions.  Given this, it is unclear whether the MTA will be able to generate the new planned savings from administrative cuts and whether baselined savings from operational and maintenance vacancies will continue after the MTA begins hiring again.

The July Plan also relies on negotiations with, and management of, the MTA work force. There is no guarantee that the agency's collective bargaining units that still lack contracts will agree to new contracts that call for only two years of wage increases, or that the next round of collective bargaining will align with MTA expectations.

These and other perennial risks to the July Plan, including overtime costs, could increase budget gaps by at least $347 million in 2022, $496 million in 2023, $400 million in 2024 and $309 million in 2025. Difficult to quantify risks could compound the gaps further.

Despite these significant implementation efforts, and in light of their associated risks, the MTA is still only able to balance the 2025 budget with the use of deficit financing. Concerningly, the MTA also has identified additional deficit financing as a potential means for balancing its 2024 budget if the risks laid out above should materialize. Doing so would accelerate and expand the use of deficit financing for operations to a total of $2.9 billion through 2025.

Deficit financing manages short-term needs by creating a long-term liability. This practice ends up creating more costly fixed expenses to pay for services already rendered, while adding to the MTA's debt burden and taking valuable funds away from long-term capital investments. Comptroller DiNapoli has long cautioned against the use of such practices, which, when used on a recurring basis, become unsustainable.

This planned reliance on debt to manage operations, even if held to a one-time action, comes as the MTA's debt burden already continues to be a significant area of concern. The MTA expects the burden to stay relatively high at around 20 percent of total revenue for the duration of the financial plan period.

The MTA plans to delay the issuance of debt to manage debt service levels, which could slow the pace of capital commitments further, and lead to deteriorating service, and potentially, safety of the system. The MTA has also continued a pre-pandemic practice of structuring some bond sales to defer the payment of principal, effectively reducing short-term debt service but placing the burden on future MTA budgets.

In addition, congestion pricing is expected to generate $15 billion for the MTA's 2020-2024 capital program. But the starting date of the program is still unknown, although it is assumed to be in 2023. The timely implementation of the congestion pricing program could bring more riders to the system and reduce ever-increasing traffic congestion.

One potential positive for the agency comes from the federal infrastructure bill (H.R 3684 – Infrastructure Investment and Jobs Act) now being considered in Congress. If passed, the MTA could receive more federal support than its capital plan currently anticipates.

Concerns over full and timely funding of the capital program, and the increasing likelihood of more frequent inclement weather events, also suggest that the MTA should reassess its capital needs and publish a new, up-to-date needs assessment; the most recent assessment was planned for 2018, but was deferred and has still not been conducted. Prioritization of the capital program requires an accurate analysis of the areas that are not in a state of good repair in order to keep the system operating effectively and protected against future emergencies.

Overall, the MTA's financial picture through 2023 has brightened in the short term, but many risks remain over the long term, and the agency faces major decisions about how to achieve lasting budget balance once federal funding is exhausted. The outcome of these decisions will have long-term implications for the health of the system.

Comptroller DiNapoli believes the greater New York City region cannot achieve a full economic recovery without a financially stable MTA. State and local leaders must come together and work toward finding solutions to the agency's challenges so that the region's transportation infrastructure will enable it to recover and thrive.