New York City Independent Budget Office Fiscal Brief

June 2015

A Matter of Time:

Tracking the Pace of Spending Under Metropolitan Transportation Authority Capital Plans

Summary

Last October, a state oversight body rejected the Metropolitan Transportation Authority's proposed $32 billion capital plan for 2015-2019 ($29 billion excluding bridges and tunnels, which are funded through tolls) because funding was not identified for nearly half of the projects. Since then state and local lawmakers, transportation experts, and others have been grappling with the question of how to fully fund the plan.

The lack of funding and the delay in approval for the new plan does not mean much needed investments in repairs, upgrades, and equipment will come to a screeching halt—at least not in the short term. As IBO's review of Metropolitan Transportation Authority capital plans over the past two decades shows, much of the work contained in these plans winds up being performed and paid for outside the formal plan period. Among our findings:

- By the end of 2014, the transportation authority had signed contracts to spend $18.0 billion out of its $31.9 billion 2010-2014 capital plan—leaving 44 percent of the funding still uncommitted.
- The actual expenditure of funds, which comes after commitments have been made, lags further behind. Only 37 percent of the funds for the 2010-2014 plan (excluding funds earmarked for Hurricane Sandy-related projects) had been spent by the time the formal plan period ended. By the end of the 2000-2004 and 2005-2009 plan periods, about 45 percent of each plan's total funds had been spent.
- Of the $4.0 billion the transportation authority spent on capital projects in 2014, about 76 percent was for projects in the 2010-2014 plan, 20 percent for projects in the 2005-2009 plan, and 4 percent for projects in the 2000-2004 plan. But there was even a small amount spent that dated back to the 1992-1999 plan.

As these findings reflect, Metropolitan Transportation Authority capital plans function more as frameworks for carrying out a specific set of projects rather than a precise timetable for investments. This is particularly true because of the delays that are often inherent to construction work or major purchases such as subway cars that are built to order. Nonetheless, if the transportation authority's new capital plan continues to remain on hold for much longer, it could compromise the agency's ability to continue its capital investments at a steady pace.

IBO

New York City
Independent Budget Office
Ronnie Lowenstein, Director

110 William St., 14th floor
New York, NY 10038
Tel. (212) 442-0632

Fax (212) 442-0350
iboenews@ibo.nyc.ny.us
www.ibo.nyc.ny.us

Six months into 2015, the Metropolitan Transportation Authority (MTA) is still without an approved 2015-2019 capital plan after a state oversight body vetoed the authority's proposed plan last October due to a funding shortfall of over $15 billion (a commitment of $1 billion in the recently enacted state budget reduced the shortfall to $14 billion). Given the historical pattern of MTA capital spending, however, the practical impact of a roughly six month or seven month delay may be limited.

As IBO explores in this report, much of the work contained in specific MTA capital plans is carried out and paid for outside the formal plan period. Even if a 2015-2019 plan had been in place on January 1, 2015, very little if any MTA capital spending during the first half of this year would have corresponded to the 2015-2019 plan. Still, if approval of the new capital plan is postponed beyond mid-2015, this will likely lead to greater than normal administrative and planning delays, as a certain amount of lead time is necessary before new projects can be initiated. This IBO brief explains how MTA capital plans function more as a framework for carrying out a specific set of projects, rather than a strict timetable for investment. A clearer understanding of the mechanics of the MTA's capital plans will ultimately inform the debate over transit investment in the region.

MTA Capital Plans: Background and Structure

Concurrent with New York City's fiscal crisis of the 1970s, the MTA faced a downward spiral of deteriorating service and declining ridership. In the years immediately prior to 1982 the MTA was averaging around $300 million per year in capital spending, far below the level needed to maintain the system, much less improve it. In 1981, the state Legislature passed the Transportation System Assistance and Financing Act.[1] This act directed the MTA to submit five-year capital plans to a newly created state oversight body, the Capital Program Review Board, by October 1 of the year prior to each plan's commencement, and authorized the MTA to issue revenue-backed bonds in support of capital expenditures once the plans are approved.[2]

In accordance with state law, the MTA's capital plans have generally been five years in length. The 1982-1986 and 1987-1991 plans, however, are often analyzed together as a 1982-1991 plan, and the original 1992-1996 plan was extended by three years to form the 1992-1999 plan.[3] Initial plans are proposed by the MTA and then submitted to the review board for approval. Major changes over the course of the plan must also be approved by the review board. Each version of the capital plan identifies the expected amounts of commitments by project, expenditures by agency and project category, and plan funding by source. Commitments refer to the registering of a contract to perform work or purchase an asset, and expenditures refer to monetary amounts disbursed under those contracts. Funding refers to amounts received from different sources (including internal MTA funding) for capital projects. The sums of planned commitments across all projects, planned expenditures across all MTA subsidiary agencies, and anticipated funding from all sources are all equal to each other, although initially not all funding sources may be identified.[4]

The MTA commits capital funds in anticipation of work being done.[5] Capital plans are initially developed under the assumption that all funds will be committed within the plan period. As unanticipated delays occur, some commitments are postponed until later years. Because expenditures follow commitments, spending extends beyond the formal plan period. When commitments are delayed, expenditures are further stretched beyond the plan period. The MTA does not normally move unfinished projects from one capital plan into subsequent ones. While the MTA sometimes removes projects from a capital plan—either canceling them permanently or transferring them to the next plan—projects generally remain in their original plan, even if they are begun after the formal plan period ends. Because of this, at any given point in time, work is proceeding on projects from multiple plans.

Delays In Approval Are the Norm

The very first MTA capital plan (1982-1986) was approved by the review board on December 22, 1981, just days before it was scheduled to begin.[6] No plan since then has been in place on January 1 of its start year. Both the 1987-1991 and 1992-1996 (later extended to 1999) plans were delayed by negotiations in Albany. The MTA's initial capital plan for 2000-2004 was rejected at the end of 1999, and a revised plan was not approved until the state budget negotiations of spring 2000. The 2005-2009 plan was rejected following its initial submission in October 2004. After being revised and resubmitted in 2005, the plan was again rejected. Following additional changes, the 2005-2009 plan was finally approved in July 2005. Similarly, the MTA's 2010-2014 capital plan was approved well after its scheduled start date of January 1, 2010.

The initial version of the 2010-2014 plan, proposed in October 2009, was rejected by the review board because almost 39 percent of the $25.6 billion plan was unfunded.[7] In June 2010, the capital review board approved a slightly

How Other Transit Agencies do Capital Planning

The structure of the MTA's capital budget differs from that of other major U.S. transit agencies. As this report explains, while each MTA capital plan has a time period attached to it (generally five years), the plan functions as a list of projects that span a much longer period of time.

Most other large transit agencies in the U.S. have rolling multiyear plans that specify planned outlays (whether they are commitments or expenditures is not always clear) and the sources of funding on an annual basis. Similar to how New York City's capital budget functions, when a new plan is published, scheduled commitments or expenses that are not carried out in a particular year are rolled over into the following year.

The Massachusetts Bay Transportation Authority, which serves the Boston region, issues rolling five-year capital plans. The Southeastern Pennsylvania Transportation Authority, the main provider of transit services in the Philadelphia region, publishes annual capital budgets and rolling 12-year capital programs. The Washington Metropolitan Area Transit Authority uses a six-year rolling capital improvement program to develop an annual capital improvement budget. Finally, the Chicago Transit Authority uses a rolling five-year capital improvement program.

smaller plan ($23.8 billion), with funding sources arranged in such a way that the plan was fully funded for the first two years only.[8] At the time of the approval, the MTA committed to returning to the review board with a plan to fund the remaining three years of the plan. The 2010-2014 plan was subsequently reduced slightly in size, and full funding for the plan was achieved largely through increased MTA borrowing. This revised plan was approved by the review board in early 2012. The plan was later amended to reflect some cost savings, which were off-set by repair and restoration spending added in response to Hurricane Sandy at the end of 2012. Additional "resiliency" spending to protect the MTA's assets against future extreme weather events was added in mid-2013. These additions of nearly $10.0 billion, to be financed almost entirely by federal funds and insurance proceeds, plus subsequent minor additions, brought the final 2010-2014 plan's total cost up to $31.9 billion.[9]

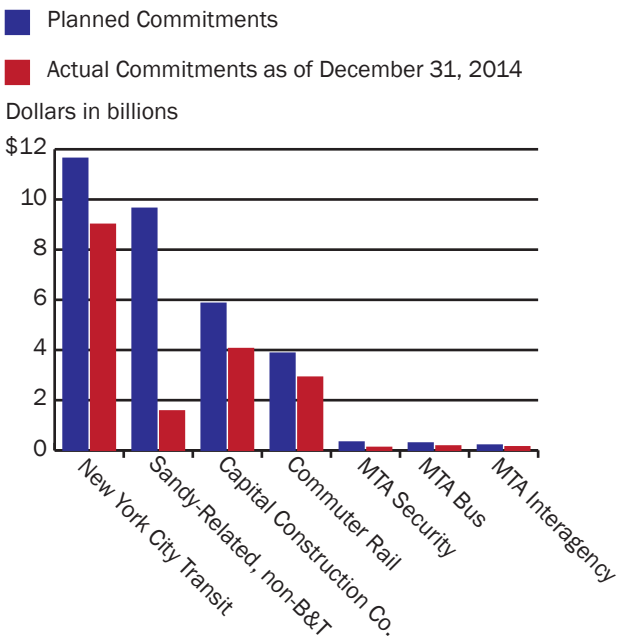
Prior to 2010, the Capital Program Review Board had never approved a plan that was not fully funded. While the MTA has publicly expressed its intention to present a fully funded capital plan for approval in 2015, it is conceivable that the review board could again approve a plan with funding gaps in the latter years.

Lagging Commitments of Capital Funds

As previously mentioned, MTA capital plans typically assume that all funds will be committed by the end of the plan period, but some projects inevitably fall behind schedule. Early versions of the 2010-2014 capital plan assumed that all funds would be committed by the end of 2014, but after resiliency spending was added in 2013, the MTA projected that $26.8 billion, or 83 percent, of total funding would actually be committed by the end of 2014, leaving $5.0 billion (mostly Sandy-related) to be committed post-2014.

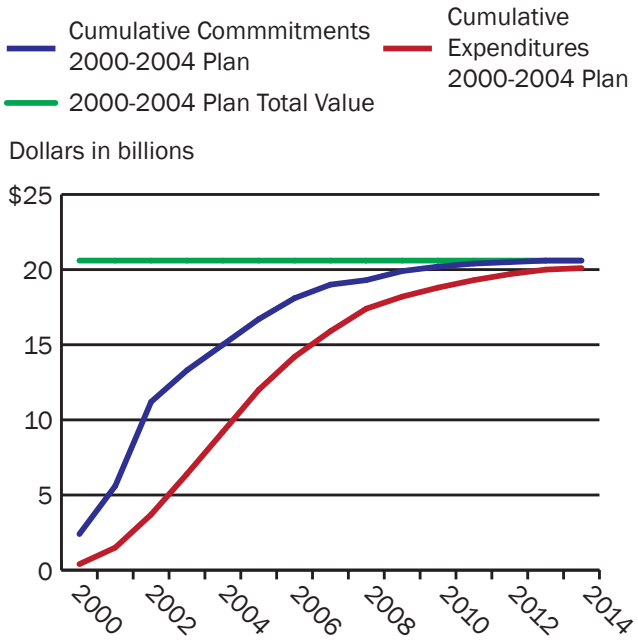
In fact, the MTA fell substantially short of this goal. By the end of 2014 the MTA had entered into contracts to spend $18.0 billion of its $31.9 billion 2010-2014 capital plan, or just 56 percent, leaving almost $14 billion yet to be committed.[10] The majority of the funds left uncommitted were for Sandy-related projects for which the federal government has yet to fully appropriate the expected funds. Excluding Sandy-related work, 74 percent of the 2010-2014 plan was committed by the end of 2014, virtually identical to the shares of the 2005-2009 and 2000-2004 plans that had been committed by the end of the formal plan periods:

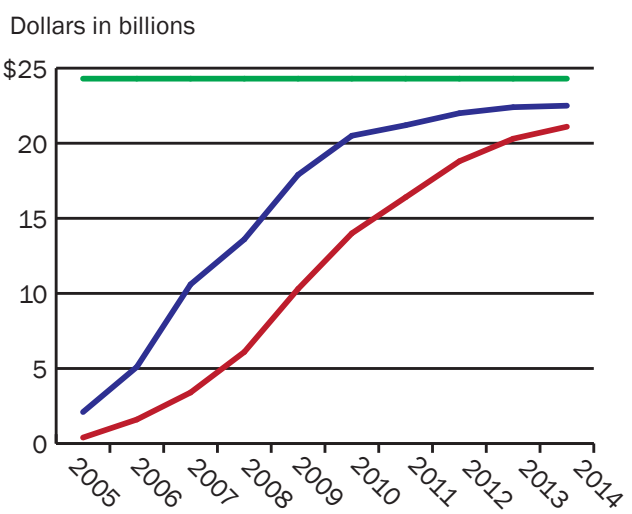
Commitments for the 2010-2014 Plan Are Behind Schedule Primarily Due to Delays in Sandy-Related Projects



SOURCE: IBO analysis of Metropolitan Transportation Authority data
NOTE: Commitments not readily legible in chart include Security ($122 million out of $335 million planned), MTA Bus ($179 million out of $297 million), and MTA Interagency ($147 million out of $214 million).
New York City Independent Budget Office

Close to Three-Fourths of the 2000-2004 and 2005-2009 Capital Plans Were Committed by The End of the Plan Periods; Less Than Half of Funds Were Expended





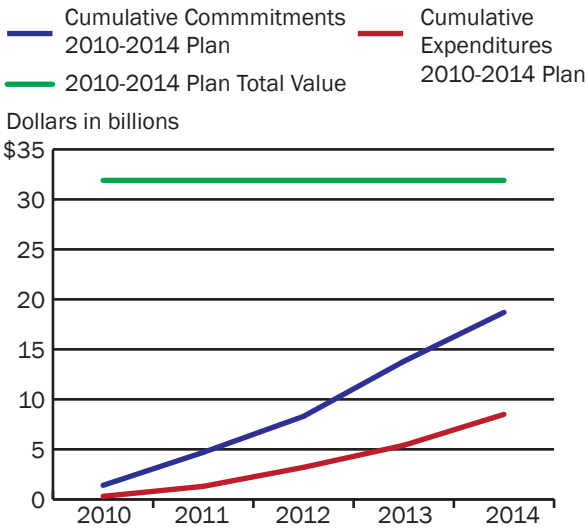
SOURCE: IBO analysis of Metropolitan Transportation Authority data
NOTE: Charts are based on data provided directly by the MTA, and some numbers differ slightly from the commitment and expenditure totals published in the annual *Combined Continuing Disclosure Findings.*

New York City Independent Budget Office

74 percent and 73 percent, respectively. Only 16 percent of funding for Sandy-related projects had actually been committed by the end of 2014 ($1.6 billion of $9.7 billion).

In terms of commitments by other project types, the share of commitments made by the end of 2014 was relatively

In Contrast, the 2010-2014 Capital Plan Was Only 56 Percent Committed and 27 Percent Expended by the End of 2014



SOURCE: IBO analysis of Metropolitan Transportation Authority data
NOTE: Charts are based on data provided directly by the MTA, and some numbers differ slightly from the commitment and expenditure totals published in the annual *Combined Continuing Disclosure Findings.*

New York City Independent Budget Office

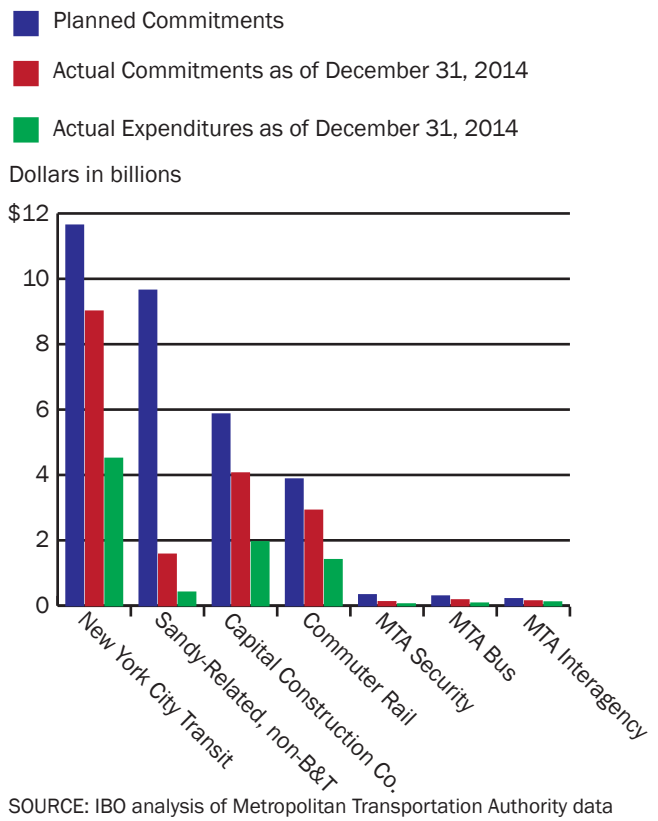
high for NYC Transit, which operates the city's subways (77 percent), and the commuter railroads (75 percent for the Long Island Rail Road and Metro-North Railroad combined). The MTA Capital Construction Company, which manages system expansion projects such as the Second Avenue subway, East Side Access, and the No. 7 subway line extension, committed 69 percent of its plan total by the end of 2014. Commitments for the smaller components of the 2010-2014 capital plan varied widely: 69 percent for interagency (planning and infrastructure projects involving multiple agencies), 60 percent for MTA Bus, and 36 percent for security projects.

While most capital commitments are made within the formal plan period, some take place much later. For example, in 2014 the MTA committed small amounts for projects contained in each of the three prior capital plans: $165.5 million for 2005-2009, $11.6 million for 2000-2004, and just under $2 million for the 1992-1999 plan.

Expenditures Follow Commitments

Because capital spending cannot take place until funds have first been committed, cumulative spending lags behind cumulative commitments over the life of a capital plan. Even if all funds were committed within the formal capital plan period, expenditures would extend into later years. As commitments are postponed, expenditures are pushed out further in time.

Commitment Delays in the 2010-2014 Plan Push More Spending Beyond 2014

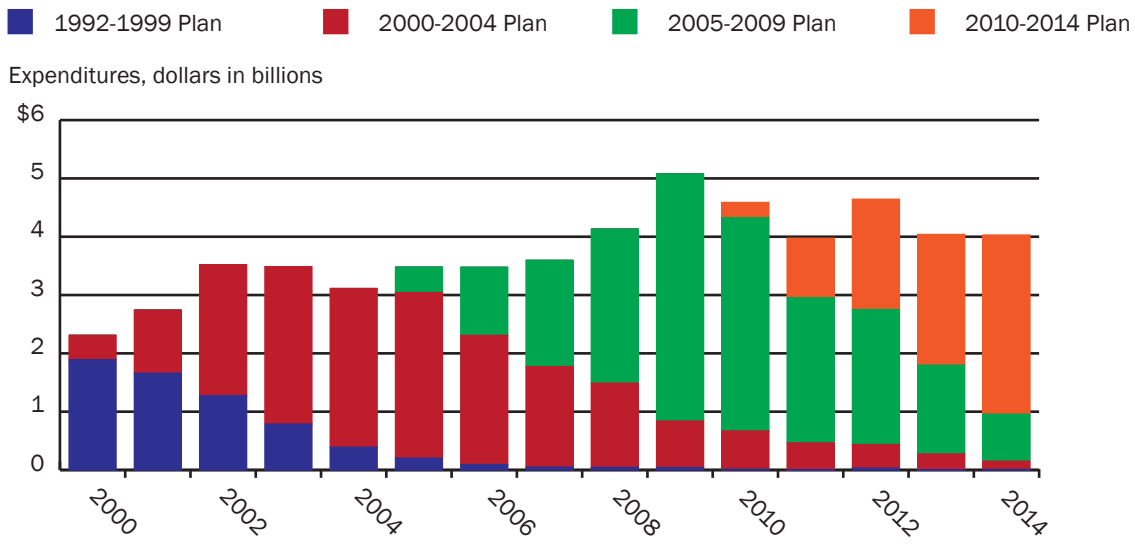


SOURCE: IBO analysis of Metropolitan Transportation Authority data
NOTE: Expenditures not readibly legible in chart include Security ($55 million), MTA Bus ($80 million), and MTA Interagency ($115 million).
New York City Independent Budget Office

As of December 31, 2014, only $8.5 billion (27 percent) of the 2010-2014 plan total had been spent. As was the case with commitments, the lag in spending is partially driven by the addition of Sandy-related projects midway through the plan period. Excluding Sandy funds, 37 percent of funds were expended by the end of the plan period. This is somewhat less than what was spent by the end of the 2000-2004 and 2005-2009 capital plans, with 45 percent and 46 percent of the total plans expended, respectively. In terms of project types, expenditures for the 2010-2014 plan follow the pattern of commitments. Of the major project categories, NYC Transit and commuter railroad projects spent the highest share of the funds allocated to them by the end of the plan period, 39 percent and 36 percent, respectively. About a third of the funds planned for the MTA Capital Construction Company projects were spent, while just 4 percent of funds for Sandy-related projects were expended by the end of the plan period.

Because capital projects take so long to plan and carry out, spending on particular projects often extends well beyond the formal plan period. Therefore, in any given year the MTA is "spending down" projects from multiple plans. During the first years of each plan period, most spending corresponds to the previous plan. For example, in 2010, the first year of the most recent capital plan, only 6 percent of the MTA's $4.6 billion in capital spending was on projects contained within the current 2010-2014 plan. The majority of expenditures (80 percent) were for projects contained within the preceding 2005-2009 plan, with smaller shares coming from the 2000-2004 plan (14 percent) and the 1992-1999 plan (less than 1 percent). By 2014, the last year of the plan period, spending had largely shifted to the current plan, but not completely. Of the $4.0 billion the

During the First Years of Each Plan Period, Most Spending Corresponds to the Previous Plan



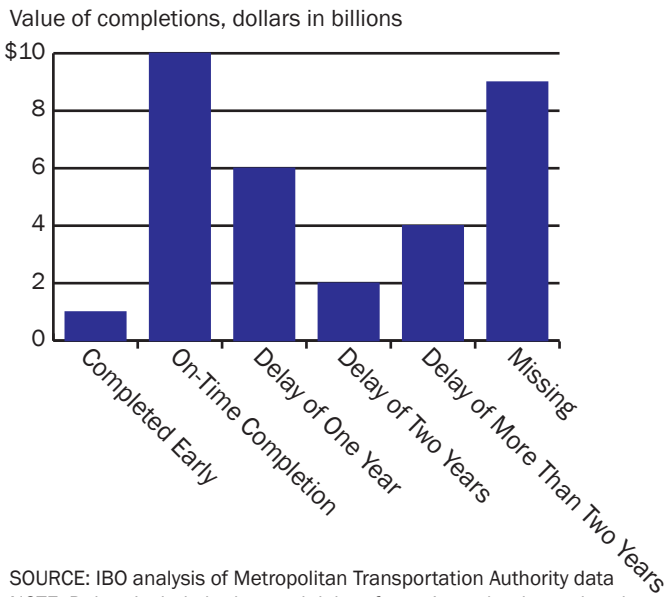
SOURCE: IBO analysis of Metropolitan Transportation Authority data
NOTE: Expenditures from the 1982-1991 plan (not shown) were $65 million from 2000 through 2014.
New York City Independent Budget Office

MTA spent on capital projects in 2014, 76 percent was for projects in the 2010-2014 capital plan, 20 percent for projects in the 2005-2009 plan, 4 percent for projects contained within the 2000-2004 plan, and again less than 1 percent from the 1992-1999 plan.

Project Completions Behind Schedule

In addition to commitments and expenditures, the MTA also tracks completions, which are defined as when the project enters into "beneficial use." For many projects the original planned completion date falls outside the capital plan period, even before delays occur. This is true of projects involving extensive construction and even some major purchases that have a long lead time between planning and execution and often require many years to finish. As the plan period progresses, completion dates for some projects are pushed back, or in a few cases, moved up. Comparing the current projected completion dates of individual capital projects with the original planned completion dates provides an alternative measure of capital project delays. The MTA has published project-level completion information for its 2010-2014 capital plan on its website. For around 18 percent of projects (roughly 30 percent of total plan value), though, either the original completion date, the revised completion date, or both, are missing,

As of March 2015, Project Completions Delayed at Least One Year Represented 37 Percent of the Total Value of the 2010-2014 Capital Plan



SOURCE: IBO analysis of Metropolitan Transportation Authority data
NOTE: Delays include both actual delays for projects that have already been completed and projected delays for projects that have not been completed. "Missing" refers to projects for which either the original completion date, the revised completion date, or both, are missing.
New York City Independent Budget Office

The projects that can be identified as being behind schedule (defined here as an actual or projected year of completion that is later than originally planned) represent around 25 percent of the total number of projects, and roughly 37 percent of the total value of the 2010-2014 capital program. Because of the large number of projects for which original or revised completion dates are missing, the 25 percent and 37 percent figures should be considered a lower bound estimate of the actual magnitude of delays.

Delays affect not only construction projects such as the Second Avenue subway and East Side Access, but also the purchase of assets. For example, the 2010-2014 capital plan contained over $1 billion in funding for the purchase of subway cars for both the A Division (numbered) and B Division (lettered) lines. Because subway cars are not stock items and are built to order, the new cars were not originally scheduled to enter into service until 2016 and 2017, respectively. Due to delays, however, the MTA has now pushed back the anticipated completion date for the B Division lines (the majority of the procurement, $735.6 million) from 2017 to 2018.

The Bottom Line: Do Delays In Plan Approval Matter?

The MTA faces significant challenges as it seeks to fund its new capital program. Bipartisan agreement in Washington on a new long-term federal transportation bill has been elusive. The New York State Legislature seems unlikely to enact a new tax package to support the MTA similar to the one it approved in 2009, although legislation for such a package has been introduced in Albany.[11] A proposal known as the "Move NY Fair Plan" would impose tolls on the Department of Transportation-operated East River bridges, and on vehicles crossing 60th Street in Manhattan from points north, and reduce charges on currently tolled MTA facilities in the city. According to its supporters, this plan would provide a funding stream that could be used to back bonds that could fill the $14 billion gap in the MTA 2015-2019 capital plan. However, the passage of such a proposal in the state Legislature is uncertain. Without a resolution to the gap in funding, the timeline for approval of the capital plan is similarly unclear.

With the exception of the very first plan (1982-1986), no MTA capital plan has been approved until at least several months into the formal plan period. Given that the MTA typically ends each plan period with a considerable amount of funding yet to be committed, and an even greater amount yet to be expended, the typical delays

in plan approval (three months to six months into the first year of the plan) have not been a constraint on the authority's ability to carry out capital investments. But a delay that continues for much longer than six months could compromise the MTA's ability to maintain its capital investments at a steady pace. If funding issues are not resolved in the near future, the Capital Program Review Board may again have to consider, as it did in 2010, the option of approving a plan that is not yet fully funded.

Prepared by Alan Treffeisen

Endnotes

[1]For a detailed history of the MTA capital programs since 1981, see The Road Back: A Historic Review of the MTA Capital Program. New York, NY: Permanent Citizens Advisory Committee to the MTA.
[2]The Capital Program Review Board consists of four voting members appointed by the Governor: one recommended by the State Senate President, one by the Speaker of the Assembly, and one by the Mayor of New York City. In addition, the Governor appoints two nonvoting members, recommended by the minority leaders of the State Senate and Assembly, respectively.
[3]A six-year program covering the years 2008-2013 was developed in anticipation of new revenues from congestion pricing, and this plan would have led to the truncation of the 2005-2009 program. Congestion pricing was not adopted, however, and the 2005-2009 program was retained.
[4]The initial version of the 2005-2009 plan was submitted to the capital review board in October 2004 and rejected, due to the fact that not all funding sources were identified. However, as noted later in the report, in 2010 the review board approved a 2010-2014 plan for which not all funding was identified.
[5]The MTA can only make commitments if the project is contained in an approved capital program and the money is either in hand or anticipated from a confirmed funding source, such as an anticipated bond sale or a signed funding agreement with the Federal Transit Administration.
[6]State law stipulates that the Capital Program Review Board must approve or disapprove capital plans within 90 days of submittal to the review board. Approval requires a unanimous vote in favor, or if no vote is taken, a plan is deemed approved by the end of the 90-day period if no voting member has expressed opposition in writing. When a plan is rejected and later resubmitted, the review board has 30 days to act on it. Again, any one voting member may veto a plan, and if no voting member expresses opposition in writing by the end of this period, the plan is deemed approved.
[7]An additional $2.5 billion in spending, not subject to review board approval, was proposed for MTA Bridges and Tunnels. This program, funded entirely through toll revenues, was subsequently reduced in size to reflect project savings and efficiency initiatives. The program was then expanded to a final value of $2.9 billion through the addition of Sandy-related projects, funded largely through insurance proceeds and federal aid.
[8]The unfunded portion was still $9.9 billion, making the overall plan shortfall larger in relative terms than in the initial proposal.
[9]This does not include the additional $2.9 billion for MTA Bridges and Tunnels, which is not subject to Capital Program Review Board approval and is self-funded.
[10] These numbers, which exclude MTA Bridges and Tunnels, are calculated from data contained in the MTA Combined Continuing Disclosure Findings, Appendix A, April 30, 2014.
[11]The proposed bill provides a bondable revenue source for the MTA through an increase in the state's gasoline tax, a targeted increase in the state's income tax, and a mandated increase in the city's contribution to the capital plan. It has been introduced in the New York State Assembly.

Clarification: This report was updated on June 22, 2015 to clarify where IBO used one of two different Metropolitan Transportation Authority sources, each of which contained slightly different commitment and expenditure figures.