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Next Step: Trouble

By **Eliot Brown**
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Elliot Sander has begun to add a bit of flair to his public remarks.

Earlier this month, the normally staid, modest CEO of the Metropolitan Transportation Authority told an Assembly hearing that the agency's finances are "going over the cliff," warning that another fare hike could come in 2009. On Monday, speaking to reporters gathered at the agency's Madison Avenue headquarters, he added that the agency was "facing a crisis," that "riders should be concerned" and that "we are really approaching a time of reckoning."

The turn to apocalyptic verbiage comes at a time when the straits are growing increasingly dire for transit infrastructure in New York, particularly for the M.T.A. Rising payments on billions in outstanding debt are straining the existing system; construction costs are soaring and putting projects well overbudget; and the population and ridership are growing, adding a new strain on the system. All this leaves operations, maintenance and expansions of that transit infrastructure facing daunting funding gaps.

The largest of the gaping holes is that of the M.T.A.'s upcoming five-year capital plan, which stands to be somewhere around \$20 billion short of the \$30 billion-plus to be included in the plan. Should those billions fail to materialize, the laundry list of complaints by New Yorkers about today's subway system—the air-conditioning is broken, rides are too crowded, trains are backed up during rush hour, signals are always failing, heavy rains cause delays—can be expected to grow quickly, especially as a rapidly growing population tries to pack into an already crowded system.

Trains packed to their brims in the morning commute would move closer to bursting; 40-year-old train cars could live into a fifth decade; and long-awaited projects such as the Second Avenue Subway could be delayed once again.

Shortfalls outside of the M.T.A.'s capital plan are hardly in short supply.

New Jersey Transit's planned tunnel under the Hudson River is facing huge challenges, as its price tag is likely to top \$10 billion as currently envisioned—nearly \$3 billion more than budgeted—according to an industry source familiar with the project. And the M.T.A. acknowledged earlier this month it will likely have to raise the subway fare for a second straight year in 2009 should no new money come into the system, as tax revenues have fallen short of expectations and its operations face a deficit.

The broader challenge to the M.T.A. is a lack of funding sources, as the agency has tapped out its existing faucets of money and has an impressive \$25 billion in outstanding debt, an amount that, as Governor Paterson has said, is higher than the debts of the vast majority of U.S. states and cities.

"The M.T.A. is in desperate shape—on both the operating and the capital budgets," said U.S. Representative Jerrold Nadler. "You can't borrow another \$20 billion. They've been funding the last few capital plans mostly through borrowing, and that's not sustainable."

The most pressing challenge from the billions in debt is the substantial amount being spent on annual payments to lenders, an amount expected to pass \$2 billion a year in 2011, up from just \$868 million in 2003, a level that puts significant strain on the annual operating budget.

Under the Pataki administration, the agency refinanced billions in debt so that payments were deferred for years to allow for a fully funded capital plan at the time. Now the payments are kicking in, making the load that much heavier for the current administration.

In terms of the money coming into the agency, the sour economy isn't making things any easier. The main reason Mr. Sander now says a 2009 fare hike is possible is because the amount the agency is taking in from real-estate-related taxes, amid the slow market, has plummeted below what was anticipated, leaving a hole of hundreds of millions of dollars.

On the capital side, rising construction costs are a constant source of headaches, as almost every major project needs substantial amounts of new money to see completion. Between the Second Avenue Subway, the Long Island Rail Road's expansion into the Grand Central area and the Fulton Street Transit Center downtown, the agency is facing overruns of about \$1.5 billion. That's not to mention the No. 7 line extension, for which the M.T.A. and the city have not come to a solution over which side pays for overruns.

DISCUSSION ABOUT THE upcoming capital plan—which will likely call for more than \$20 billion for repairs, replacements and maintenance along with completing expansion projects like the first phase of the Second Avenue Subway—comes amid a backdrop of an expanding population that increasingly crowds and strains the transit infrastructure. This forces the M.T.A. to expand just to maintain the same level of comfort for riders, as the status quo would just mean more crowded trains and buses.

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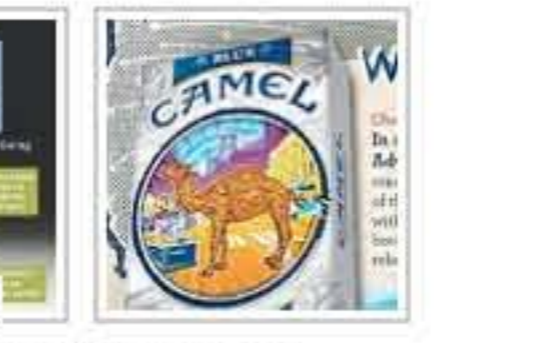
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