ISSUER COMMENT
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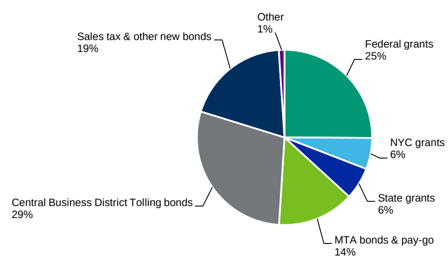
# Metropolitan Transportation Authority, NY

## Delayed MTA congestion pricing plan leaves transit authority with capital funding gap

On June 6, New York State (Aa1 stable) Governor Kathy Hochul directed the Metropolitan Transportation Authority (MTA, A3 positive) to indefinitely delay the planned June 30 implementation of a congestion pricing toll program in New York City (Aa2 stable) that would charge vehicles a fee to use local Manhattan streets below 60th Street.

Suspending the Central Business District Tolling program, commonly called congestion pricing, would be credit negative for the MTA, the agency that operates mass transit in and around the city. The program's likely suspension[1] will leave MTA without $1 billion in new annual revenue to finance $15 billion of its 2020-24 capital program, opening a nearly 30% gap in its capital funding (see Exhibit).

**MTA's 2020-24 capital program relies heavily on congestion pricing bond proceeds**




Central Business District Tolling program is also known as the congestion pricing program; PMT stands for payroll mobility tax; TRB stands for transportation revenue bonds.
*Source: MTA 2020-24 Capital Program*

Nonetheless, given the state's history of robust support for the MTA's capital and operating needs, we would expect the MTA and state to quickly identify temporary funding solutions to shore up near-term liquidity and funding for committed projects and prevent delays of forthcoming projects. A longer-term solution for MTA's funding needs might not be available until the state's next legislative budget session in calendar 2025.

The MTA's alternatives to congestion pricing revenue include issuing debt to be repaid with operating revenue such as payroll mobility taxes (PMT), fares or state subsidies. Additional debt of this magnitude would be credit-negative and require MTA Board and state approval of the capital plan amendment. New MTA PMT- or fare-backed debt would increase leverage and new debt service would crowd out spending on transit service. Debt repaid from new annual state subsidies would be less negative but would still increase the MTA's leverage and leave the agency exposed to future state budget cuts. The state made a similar commitment for MTA's original 2015-19 capital program when it agreed to increase its annual contributions to match the MTA's debt service costs on approximately $8 billion of bonds.

The congestion pricing plan would provide the MTA with a more credit-positive borrowing option because the debt would be repaid with new revenue dedicated to capital needs. Leverage metrics would also increase only slightly, while operating revenue would not be diverted to pay debt service.

Other capital funding options without congestion pricing revenue include additional direct state funding in the form of new dedicated taxes, general annual subsidies or state debt. New taxes on residents and businesses in the MTA service area would be credit negative for New York City and the state, both of which have a high cost of doing business.

The benefit to the MTA of the alternate revenue streams would depend on whether the new revenue could support the same level of financing planned under the congestion pricing program. For example, a dedicated tax that can support $15 billion of borrowing would be credit neutral for the MTA, while $1 billion of general annual subsidies over 15 years would delay project completion. The best alternative for the MTA would be the state issuing debt directly to fund the capital program, as it did during the pandemic.

Although debt issuance for transit projects would be credit negative for the state, New York's low leverage provides capacity for additional borrowing without significant credit risk. The state's long-term liabilities were 93% of total revenue in fiscal 2023 (ended March 31, 2023), compared with the 50-state median of 155%.

Without new funding, the MTA's remaining alternatives for its current capital program include credit-negative cuts in capital projects. Deep capital spending cuts would slow necessary improvements to equipment and service levels, and potentially impede MTA's post-pandemic ridership recovery. In February 2024, MTA suspended most new construction contract solicitations for the 2020-2024 capital program because of mounting uncertainty from lawsuits, making further cuts more risky.

If congestion pricing is canceled, the MTA's capital funding gap would more than double when the next capital program is released in October. MTA's 2025-29 program will likely be equivalent to the current $52 billion program, and bring its own substantial funding gap.

A delay in congestion pricing implementation would be somewhat credit positive for the Triborough Bridge and Tunnel Authority (TBTA, Aa3/A1/A1 stable), a component unit of the MTA, and credit positive for the Port Authority of New York and New Jersey (Aa3 stable), which will for now avoid decreased traffic from drivers shifting to mass transit or opting to forgo trips. Assuming the congestion pricing program is suspended, TBTA could be negatively affected given an increased risk that the MTA taps its revenue or debt capacity for support.

## Endnotes

1 For congestion pricing to move forward it would require federal, State, and City approvals, as the start date of June 30 was still subject to FHWA's completion of its reevaluation of the adopted toll rate schedule and execution of an agreement authorizing tolling under the VPPP, which requires all parties, MTA Bridges and Tunnels, New York State Department of Transportation and New York City Department of Transportation (collectively, the Project Sponsors) to execute.

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