Metropolitan Transportation Authority

July 2022 Financial Plan Presentation

7/25/2022

Recap of February Financial Plan

- Federal COVID relief funds were projected to cover operating deficits through 2025
- Ridership forecast was based on the McKinsey “Midpoint” from November 2020
- Regular biennial 4% fare and toll increases were included for 2023 and 2025
- 2021 fare increase was cancelled thanks to additional State appropriations
  - Bridge and tunnel toll increase of 6% occurred in 2021
- Fiscal cliff was expected to occur in 2026
  - $2 billion+ deficit with federal aid fully exhausted in 2025

Changes in the July Financial Plan

- Reforecast of ridership recovery, based on updated factors by McKinsey
- Re-estimated agency expense budgets and debt service projections
- No material changes in State dedicated revenue
- Additional ARPA discretionary grant
- No change in biennial 4% fare and toll increases in 2023 and 2025
- Congestion pricing remains a critical source of funding for the 2020-24 Capital Program
- Forecast period extends one year, giving a preliminary view of 2026 estimates

Primary factors in revising the ridership forecasts

Future of office work (“work from home”)

Fewer non-work trips

Customer sentiment

Employment levels

Population growth

Fare evasion

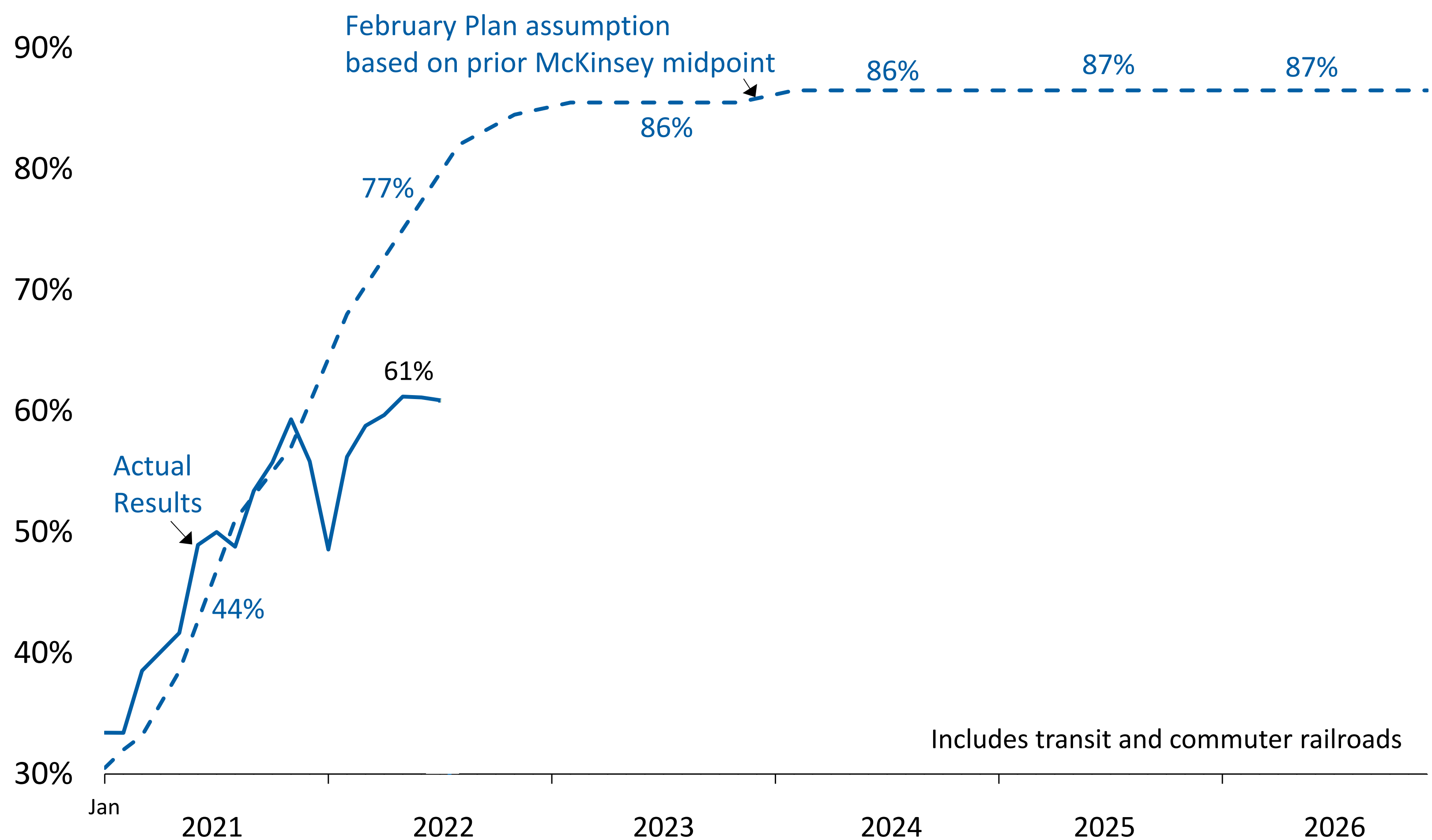
Shift to transit from Congestion Pricing

Network expansion

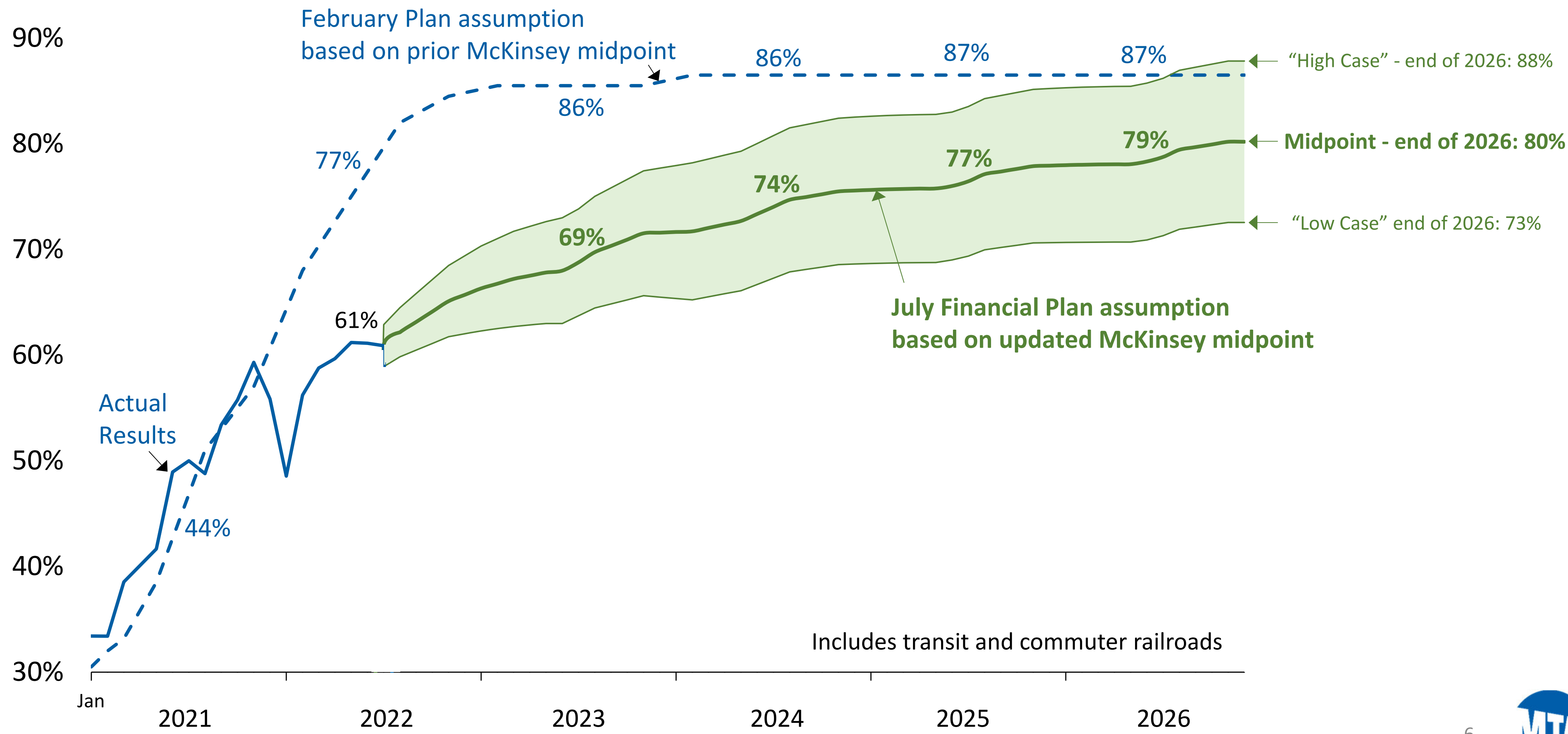
Mode shifts (bikes, etc.)

“High Case” and “Low Case” ridership scenarios created

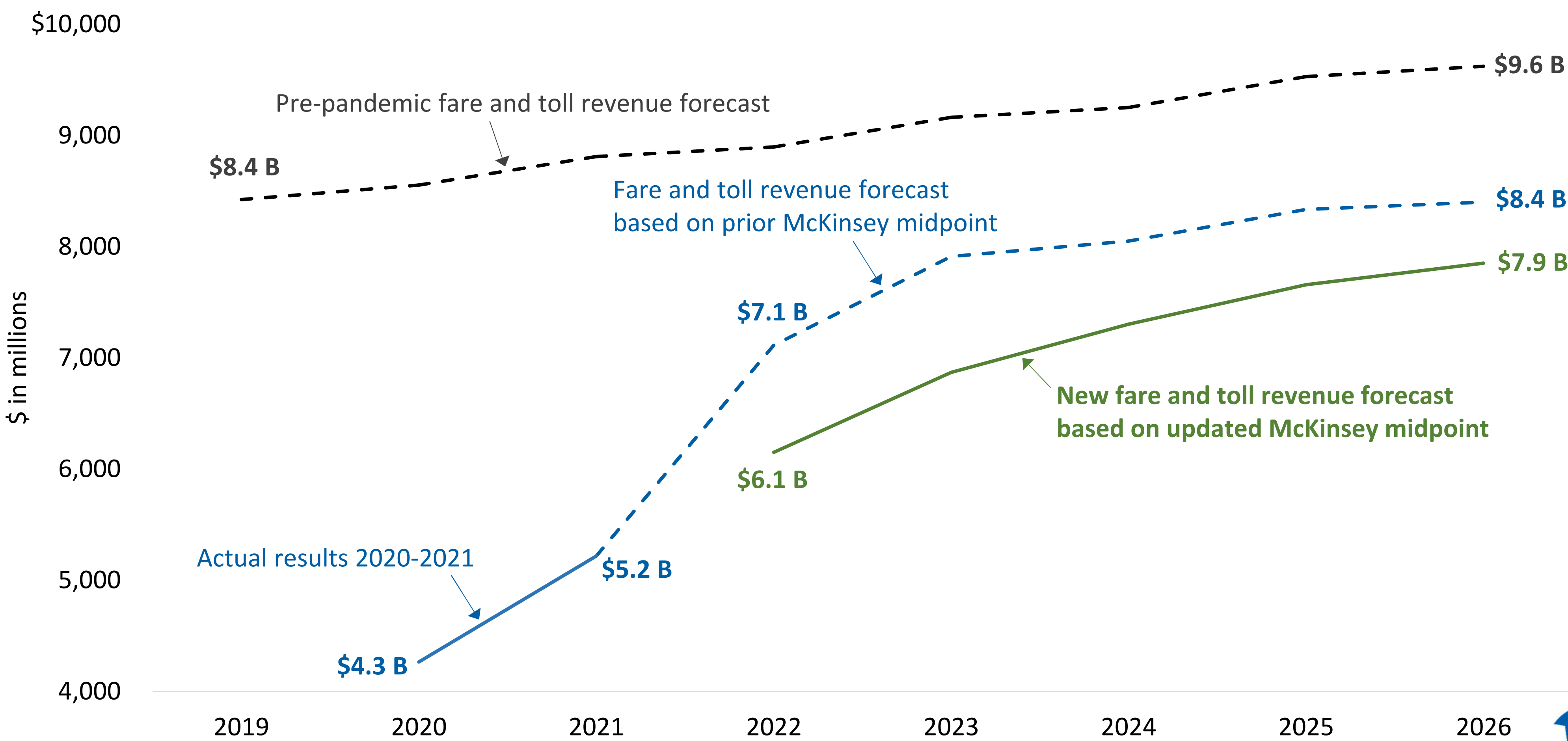
Ridership tracked prior McKinsey midpoint until Omicron



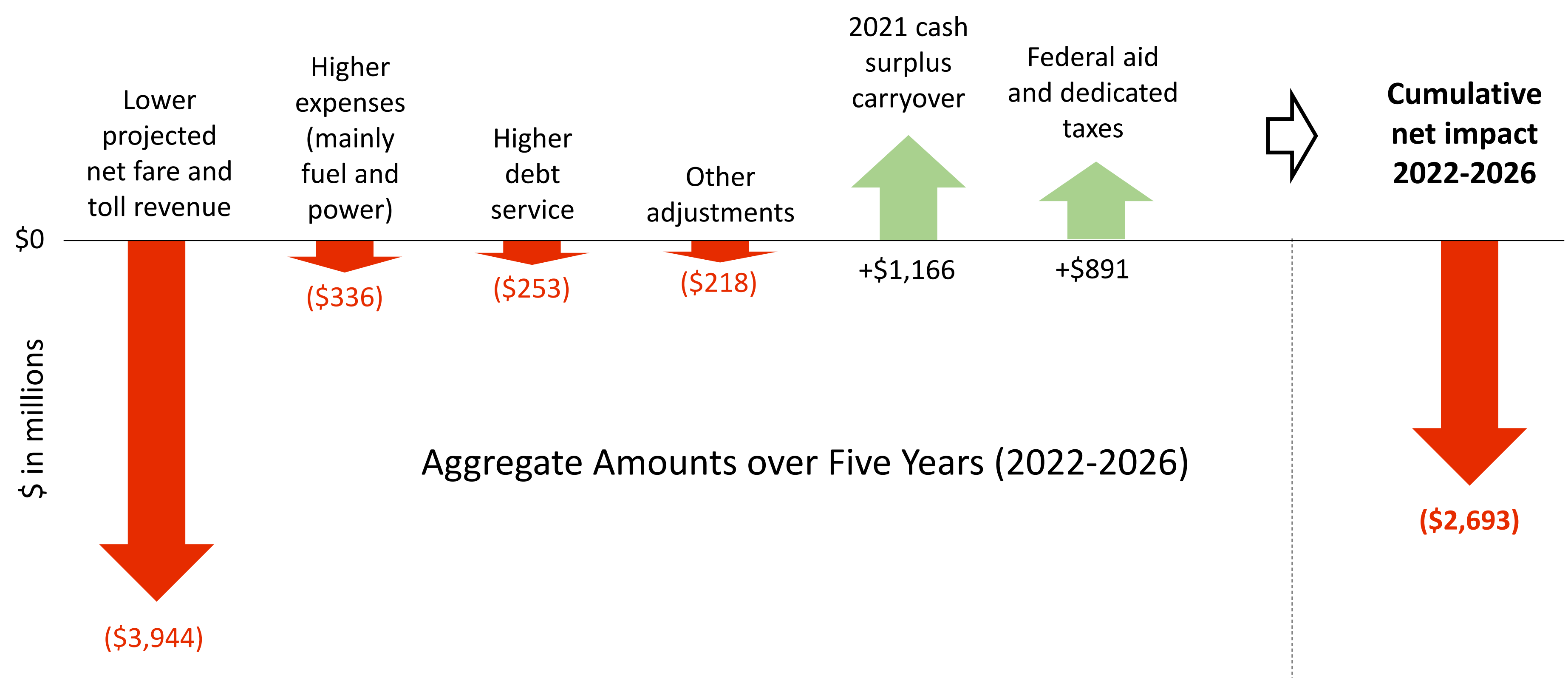
McKinsey's ridership recovery forecasts have been lowered substantially



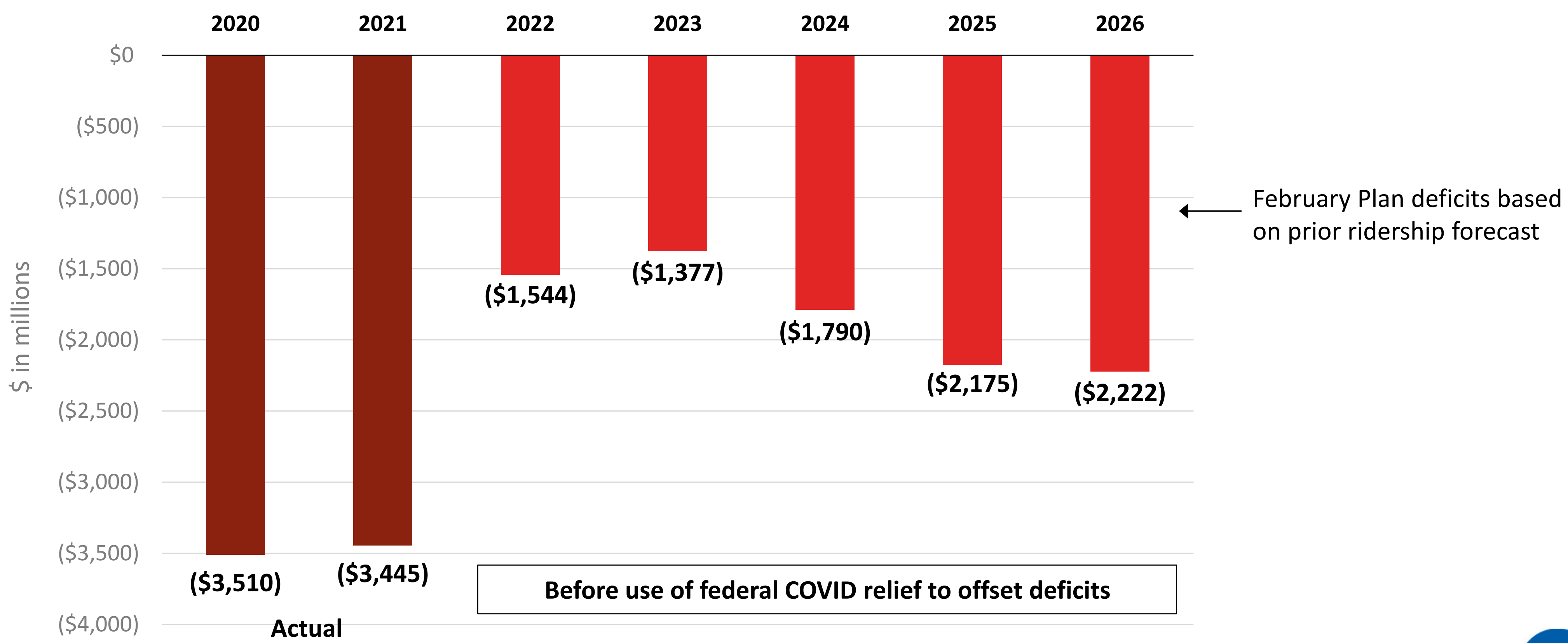
Slower ridership recovery has lowered fare and toll revenue projections



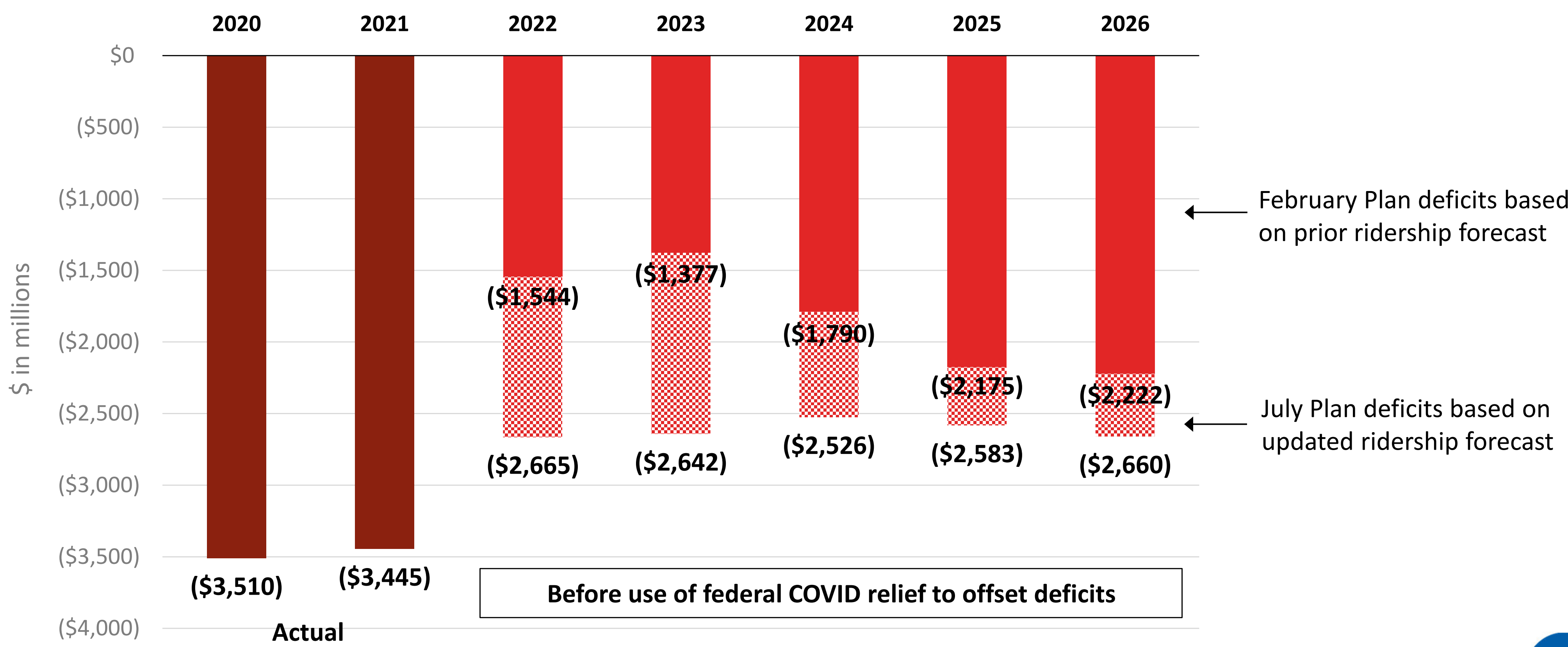
Major financial changes in July vs. February Plan



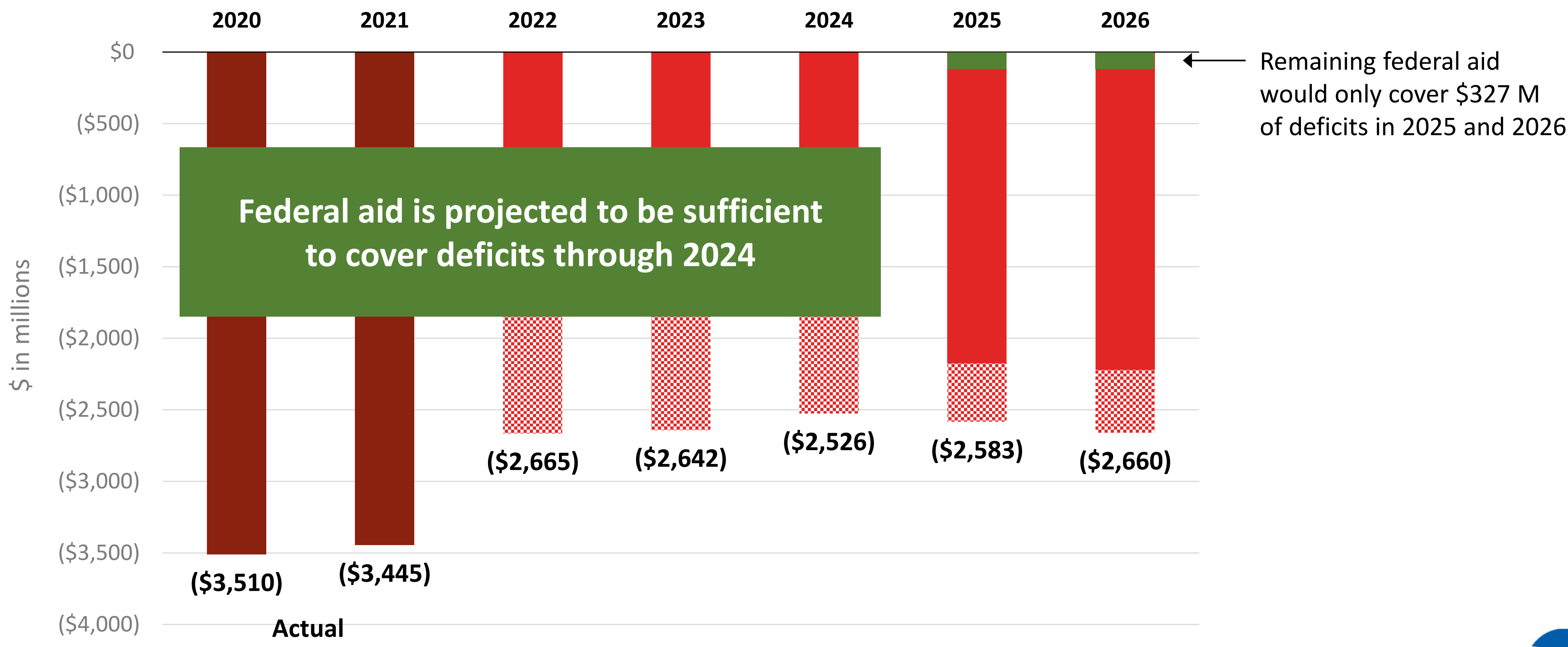
Previously projected underlying annual deficits



Projected underlying annual deficits have increased



Federal COVID aid now projected to cover deficits through 2024 (not 2025)

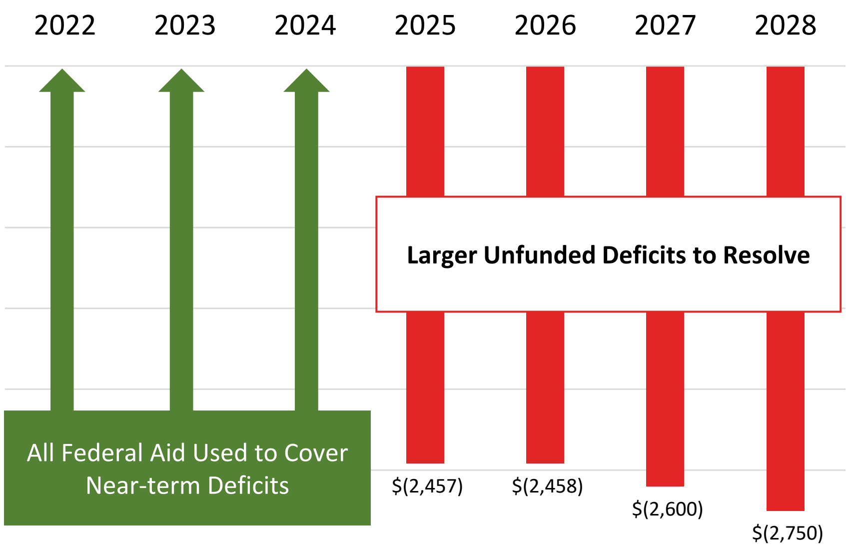


Additional risks to the deficit

Assumption		Risk	Potential Annual Cost
1	McKinsey Forecast	"Low Case"	($350 million) per year
2	Dedicated taxes as projected in State financial plan	Slower economy / recession	($500 million to 1.0 billion) per year
3	Inflation reverts to 2%	Higher inflation	($150 million) per year from 1% additional increase in operating expenses
4	Labor settlements (2% wage growth)	Outcome of labor negotiations	($100 million) per year for additional 1% wage increase above 2% assumption
5	Biennial 4% fare/toll increases	Deferral	($500 million) per year in 2025 and thereafter

Starting to solve the deficit in 2023 can lower the fiscal cliff by $1 B per year

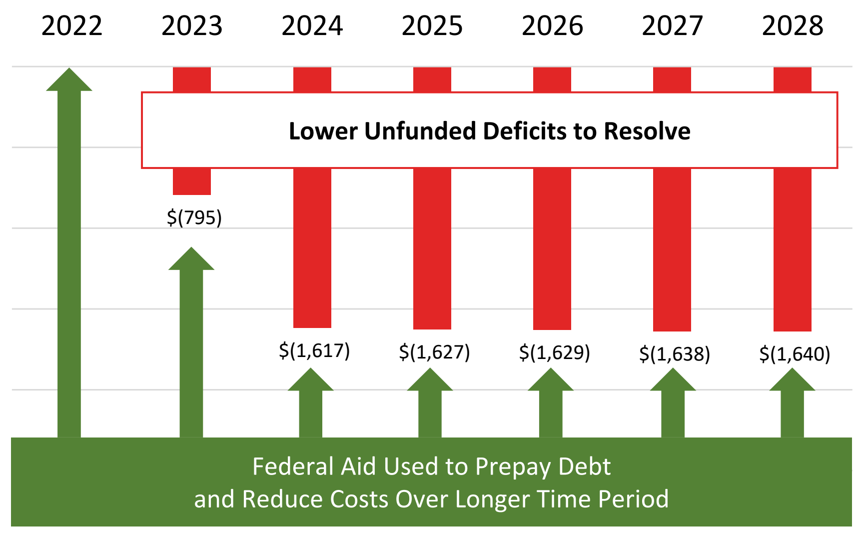
$2.5 - $2.7 Billion Fiscal Cliff



Results for 2027-2028 are not included in the published financial plan.
Deficits in those years are only high-level estimates based on the 2026 deficit.

OR

$1.6 Billion Fiscal Cliff



Deficits are lowered by:

- Taking action early
- Applying a portion of the federal aid to reduce debt service costs, and
- Avoiding the long-term cost of deficit borrowing

Key takeaways

- Fiscal cliff moved up, from 2026 to 2025
- Deficit projected to be approximately $2.5 Billion per year
- Operating efficiencies will be key to managing risks
- **Fiscal cliff can be reduced by up to $1 Billion, by:**
  - Using federal COVID relief funds to lower medium-term cost structure
  - Avoiding costly deficit borrowing
  - Taking action in 2023

New dedicated funding is necessary
to avoid large fare increases, service cuts and layoffs