Published in the

WALL STREET JOURNAL

MTA's Costs Loom Large

Pension liabilities top $7 billion, as finances are cast in a new light; bonds are highly rated

By Andrew Tangle

July 17, 2016

New accounting rules are shining a light on more than $7 billion in pension liabilities facing the Metropolitan Transportation Authority.

While the disclosures won't force the MTA to raise tolls or cut service, they quantify the authority's tab for commitments to pay retirees, and some critics detect a mounting potential burden on riders and taxpayers.

"I would hope there would be some sticker shock" with the pension-cost reporting, said Charles Brecher, director of research at the Citizens Budget Commission, a civic group based in Manhattan. "You want to inform people about the cost of these promises."

The MTA pays steeper costs for employee pensions and other retirement benefits than its peers in London and Paris, Moody's Investors Service analysts said in March report. For each ride, the MTA paid $3.06 in overall personnel costs in 2014, compared with $1.05 for Paris and 75 cents for London, according to the report. Nearly $1 of every MTA ride goes to health care, pension and retirement costs.

To be sure, as the report noted, French and British taxpayers foot more of the bill for social-welfare benefits such as health care and pensions.

But the MTA's labor-related costs could reduce its budget flexibility and compete with capital improvements, the Moody's report noted.

An MTA spokeswoman said the market understands the authority's cost structure "and still rates our bonds highly." A downgrade in the MTA's bond ratings could increase its borrowing costs.

The MTA operates the New York City subway and buses in addition to two commuter railroads and key tunnels and bridges.

The relatively high cost of the MTA's pension liabilities could increase pressure to raise fares and tolls or cut service. "If you have some downturn in your revenues, those are expenses you can't cut so all the cuts have to come out what's left of your budget," said Marcia Van Wagner, a Moody's analyst.

Published in the

WALL STREET JOURNAL

John Samuelsen, head of the union representing MTA employees who run New York City's subway and buses, said the workers toil in often backbreaking jobs at relatively lower pay in exchange for a pension that offers them a "dignified retirement."

Mr. Samuelsen, president of the Transport Workers Union Local 100, dismissed scrutiny from financial analysts, saying they didn't understand how tough MTA jobs can be, citing assaults on bus drivers.

"They would pee themselves if they had to drive a bus up Utica Avenue for an eight-hour shift," he said.

MTA pension costs came as no surprise to analysts, who are accustomed to seeing the information in MTA financial documents. The authority has simply changed the way it reports the data in its financial documents through the end of last year, following new rules from the Governmental Accounting Standards Board, a professional-standards organization.

The inclusion of more than $7 billion in net pension liabilities resulted in a reduction of the MTA's "net position," akin to a company's book value in corporate accounting. The authority's net position was $5.8 billion at the end of 2015, down from $13.3 billion the previous year.

Unlike in corporate accounting, such restatements have little tangible effect on government balance sheets.

"In the corporate world that sometimes happens, and so these types of adjustments could have some implications, but that's not our situation," said Bob Foran, the MTA's chief financial officer.

For analysts who follow the MTA's finances for investors who buy the agency's bonds, the pension disclosures don't come as a surprise, said Alessandra D'Imperio, senior director at Kroll Bond Rating Agency Inc.

Ms. D'Imperio said the MTA has been "pretty consistent" about funding its pension at healthy levels, and has taken steps to shore up a retirement fund for Long Island Rail Road employees.

But fluctuations in the pension liabilities could shed light onto how well the MTA is funding its pensions or whether the authority is increasing its staff, she said. The MTA employed 68,824 people as of the end of 2015, up from 67,445 from the previous year.

"That will provide us an indicator of what we should be asking," she said, adding that the MTA's current ability to pay down those liabilities wasn't a concern.

The MTA's financial statements don't take into account all employee retirement costs. Other new rules set to go into effect next year would require the MTA to factor into its financial statements the long-term cost of paying for postretirement benefits such as health care.

Published in the

WALL STREET JOURNAL

The MTA's net obligation for such post-employment benefits: $13.6 billion at the end of last year.

Howard Cure, the director of municipal bond research at Evercore Wealth Management, said steep labor costs could make raising fares and tolls harder to sell to the public.

"They're hard jobs, and they're dirty and they're dangerous," he said. "But we're dealing in a world where these cuts have been made in the private sector."