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How to Pay for the MTA

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May 23, 2015

The Metropolitan Transportation Authority is vital to the region's economic well-being. Its mass transit services—New York City subways and buses, the Long Island Rail Road (LIRR) and the Metro-North Railroad (MNR)—and its seven bridges and two tunnels comprise a $1 trillion asset. On an average weekday, the system's trains and buses move people on more than 8.5 million trips, and nearly three out of four people entering Manhattan's central business district do so via an MTA facility. The authority is the circulator for the largest and most economically dynamic metropolitan area in the United States.

How Much Does the System Cost?

Operating this system requires more than $14 billion per year. Roughly half, or $7.4 billion, pays for the New York City subway and bus system. Another $2.7 billion covers the commuter railroads—$1.5 billion or 10 percent for the LIRR, and $1.2 billion or 8 percent for the MNR. The MTA Bus Company, which operates interborough express bus service on a budget of $632 million, and Bridges and Tunnels ($495 million) each account for around 4 percent of the total cost. The MTA devotes $2.5 billion per year, or 17 percent, to servicing debt on bonds sold in previous years. The remaining $836 million (6 percent) includes authoritywide expenditures and general reserves.

The majority of these costs, nearly $8.6 billion, are related to labor. In 2014 the MTA paid $5.4 billion in wages, including overtime; an additional $3.2 billion covered fringe benefits, including health insurance for current workers ($991 million) and for retirees ($474 million), pension fund contributions ($1.3 billion), and other benefits ($640 million). The MTA is constrained in reducing labor costs because they are determined by collective bargaining with current agreements spanning 2012 to 2017. Non-labor expenses account for about one quarter of all agency costs, or $3.1 billion.

How Do We Pay for It?

The resources to pay for this system come from three basic sources. The first is mass transit fares. The second is motor vehicle user fees generated directly from tolls and indirectly through motor fuel taxes, license and registration fees, and taxes on motor vehicle rentals. This source fully funds Bridges and Tunnels and provides revenue for mass transit services. The third is general tax subsidies, raised specifically for funding mass transit services and allocated from state and local governments' general tax funds.

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The fare box generates more than $5.7 billion annually for the MTA. This amount has increased in recent years, driven by growing ridership and biennial fare increases beginning in 2009. The latest fare increase of 4 percent occurred in March 2015 and is expected to generate an additional $250 million annually; another 4 percent increase is scheduled for March 2017.

Tolls on MTA bridges and tunnels generate $1.7 billion annually. Like fare revenue, toll revenue has increased in recent years, though this is primarily owing to rate increases implemented in concert with fare increases, and not added volume. Toll revenue in excess of Bridges and Tunnels operating expense and debt service, $587 million in 2014, supports mass transit services.

A complex array of state, regional and local taxes, subsidies and fees comprise the rest of the MTA's revenues. The two largest sources are the Payroll Mobility Tax, and the Metropolitan Mass Transportation Operating Assistance (MMTOA), each generating nearly $1.6 billion. The Payroll Mobility Tax is levied on wages paid by most employers in the MTA region and the MMTOA includes sales tax raised in the MTA service region, regional and state corporate taxes, and a portion of the Petroleum Business Tax (PBT) levied on businesses importing petroleum to the state for motor fuels and other uses. PBT collected separately from the MMTOA raises an additional $622 million annually for the MTA. The agency also receives revenue generated from real estate transactions via the Urban Tax ($757 million) and Mortgage Recording Tax ($349 million). Motor vehicle user fees collected from drivers in the MTA region and taxes on taxicab trips and automobile rentals provide $311 million for the MTA. Local and state governments appropriate $1.1 billion from general funds.

A Better Way to Pay for the MTA

Who should pay for the MTA? The answer is "everybody." The Citizens Budget Commission has recommended guidelines allocating the costs among three categories of revenue and the sectors of the public from which they each derive. These guidelines are designed to lead to an equitable, efficient and easily understood basis for funding the MTA.

First, mass transit users should pay fares sufficient to cover 45 to 50 percent of the operating costs of those services. Second, the cost of road infrastructure—bridges and tunnels in the MTA's case—ought to be borne entirely by motorists. Third, motor vehicle user fees should generate a surplus large enough to cover 20 to 25 percent of the cost of mass transit services to help compensate for the negative externalities of vehicle use—namely traffic congestion and air pollution. Fourth, tax subsidies to mass transit should comprise 25 to 30 percent of the operating costs and also fund "catch up" capital investments needed to bring the system to a state of good repair, reflecting the broad economic benefits of mass transit and the costs associated with restoring the system.

The MTA should move toward following these guidelines more closely in the future. In 2018 mass transit services, excluding Bridges and Tunnels, will require an estimated $16.6 billion. Under current

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policies fares will cover 41 percent of this need, general tax subsidies 35 percent, and motor vehicle cross-subsidies 11 percent. A deficit of about $2.1 billion will remain unfunded.