



How to Fill the MTA's Budget Gap

By Charles Brecher

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Nearly six of every 10 of the 3.7 million people entering New York's central business district each weekday rely on the Metropolitan Transportation Authority's commuter rails, subways and buses. New York's vibrant economy relies on the MTA's services, and providing these services is expensive. The MTA will spend \$13.5 billion in 2014, and it requires substantial additional capital funds to sustain and enhance its nearly \$1 trillion in physical assets.

The MTA is now preparing its capital plan for 2015 to 2019. The plan determines the future condition of everything from subway cars to drainage pumps and ventilation fans, as well as any improvements or expansion to the system, such as new subway routes or commuter railroad stations.

The MTA Board approved an early version of the plan calling for \$32 billion in investments, but it was vetoed by the Capital Plan Review Board—a body appointed by state elected officials. Two issues make the plan controversial: Would the money be spent on the right things? How would the money be raised?

MISPLACED PRIORITIES

The MTA Board's plan has been faulted by the Citizens Budget Commission (CBC) on three grounds:

1. It does not make sufficient progress in bringing aged infrastructure to a state of good repair. Despite more than 30 years of investment, most MTA assets are not in a state of good repair. At New York City Transit, for instance, only two out of 14 categories of assets—subway cars and mainline track and switches—are rated 100 percent. Metro-North Railroad and the Long Island Rail Road also have major components falling short of good repair. The proposal leaves many features of these systems, such as stations and less visible power stations and pumps, in need of repairs and renovations. The consequence will be less reliable and less safe service than the public needs.
2. It does not make sufficient progress in modernizing the signal and communication systems in the subways. A long-standing MTA goal is to install Communications-Based Train Control (CBTC), a system that improves safety, permits greater capacity by reducing the time between trains, and promotes efficiency by requiring fewer operators on the trains. The schedule for adopting CBTC is too slow: In the next five years work will begin on only two additional



segments, leaving the vast majority of the system with outdated components for at least 20 years.

3. The proposed plan allocates \$5.5 billion, and implicitly commits even more in the future, to projects that would expand the network without sufficient planning or capacity for implementation. About \$2.6 billion is for cost overruns on the East Side Access project that will bring the Long Island Rail Road into Grand Central Terminal. The remainder would be used to begin two new projects whose total costs have not been specified— extending the Second Avenue Subway from 96th Street to 125th Street and bringing the Metro-North Railroad into Pennsylvania Station as well as building three new Metro-North stations in the Bronx. MTA leaders have not demonstrated why these projects rank ahead of others, such as a new station at 10th Avenue on the 7 line, an extension of that line to Secaucus, or expansion of the Second Avenue Subway south. Better planning and greater transparency should precede investments in new expansions.

CLOSING THE FUNDING GAP

The MTA's plan requires \$32 billion, but it identifies sources for less than \$17 billion. How to fill the \$15 billion gap, and perhaps find more for additional worthwhile investments, is an open question.

The Citizens Budget Commission identifies three categories of revenue—tax subsidies, user fees and cross-subsidies—that would tie funding to those who benefit from public transportation.

Employers and the labor force benefit from the greater efficiency transit networks engender in the labor market. It is appropriate to have a public subsidy from taxes on regional residents and employers that covers one-quarter of the cost of these services.

Individual users benefit directly and should pay a price, typically a fare or a toll, but also indirect user fees such as auto registration fees and gasoline taxes. Mass transit fares should cover one-half the cost of these services.

Motorists' user charges should pay for the bridges and tunnels they rely on, but also cover one quarter of the cost of mass transit services. The cross-subsidy compensates for the negative effects of vehicle use on the environment and the benefits of reduced road congestion made possible by mass transit.

This "25-50-25" approach provides the basis for funding the MTA. The exact amounts needed from each source will vary depending on the scale of the new capital program, but three broad implications are clear.

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First, little or no new funding is needed from general tax subsidies. The large increase (about \$1.6 billion annually) in funding from the payroll mobility tax authorized in 2009 on top of existing dedicated taxes already provides the MTA more than 25 percent of its funding.

Second, modest fare increases are necessary. The planned increases in 2015 and 2017 will bring fares closer to the 50 percent target, but greater increases are needed to fund the new capital plan. A CBC study in 2012 projected that a single-ride subway fare should increase to \$2.75 by 2016, but in constant dollars would cost just three cents more than in 1996.

Third, the biggest change is needed in the motor vehicle users' cross-subsidy. This source would need to more than double to reach its 25 percent target. Fortunately, sensible mechanisms for raising such large sums are available. Increases in existing tolls, license and registration fees, and the gasoline tax would not make New York uncompetitive with other states. More innovative possibilities include the so-called Move New York plan proposed by former transportation commissioner Sam Schwartz, which alters and expands current bridge tolls and features a newly designed vehicle-miles-traveled tax that could potentially employ new technology to monitor and charge vehicles based on how much they use roads with varying levels of congestion. Motorists would face increased costs in the range of \$167 to \$293 annually; the charges would be consistent with those in other global metropolises and related to the benefits drivers derive from a well-functioning transportation system. Designing new ways to raise revenue from motor vehicle use is a key challenge for the future of all modes of transportation.