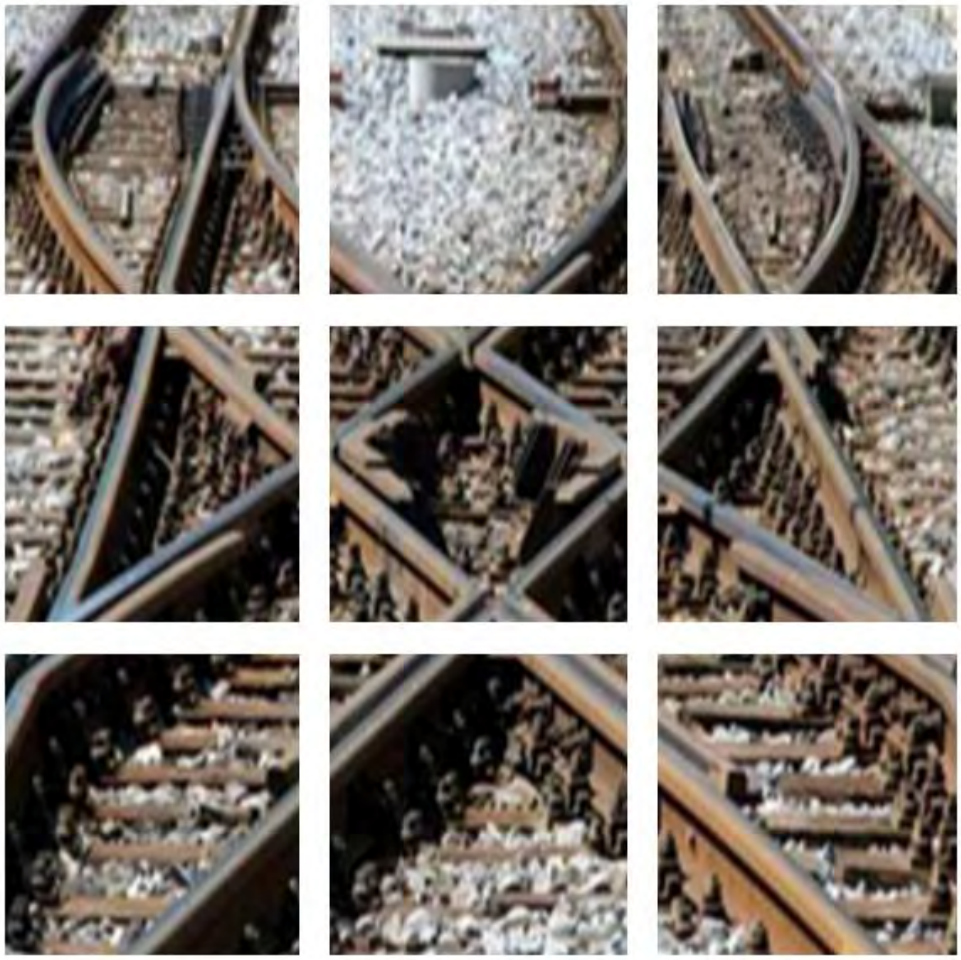
A BETTER WAY TO PAY FOR THE MTA

October 2012



CITIZENS · BUDGET · COMMISSION
NEW YORK
1932

THIS PAGE INTENTIONALLY BLANK

FOREWORD

Founded in 1932, the Citizens Budget Commission (CBC) is a nonprofit, nonpartisan civic organization devoted to influencing constructive change in the finances and services of New York State and New York City governments. This report was prepared under the auspices of the CBC Transportation Committee, which we co-chair. The other members of the committee are Cathy A. Bell, Thomas J. Brodsky, Robert L. Burch, IV; Lawrence B. Buttenwieser, Randall S. Campbell, Vishaan Chakrabarti, Herman R. Charbonneau, Laura Gallo, Bud H. Gibbs, William J. Gilbane, III; H. Dale Hemmerdinger, Brian T. Horey, Steven J. Kantor, Robert Krinsky, James L. Lipscomb, Anthony Mannarino, Robinson Markel, Carol E. Rosenthal, David Schiff, Timothy Sheehan, Sonia Toledo, Claudia Wagner, and Kenneth D. Gibbs, ex-officio.

In focusing on the MTA's finances, the Transportation Committee is building on previous work of the CBC's Competitiveness and Debt and Capital Investment Committees. In 1999 the Competitiveness Committee completed a study of Transportation Infrastructure and New York's Competitiveness. It compiled comparative information on the transportation systems of the world's leading cities and concluded that New York suffered competitive weaknesses in the high cost of its services and their relatively low quality. In 2004 the Debt and Capital Investment Committee completed a report on *Financing Transportation Services in the New York Region* that developed the CBC's principles for financing transportation services. In 2006, the Competitiveness Committee released a study detailing the structural problems in the MTA's financing arrangements, and first suggested the 25-50-25 policy.

In 2007 the Transportation Committee was formed to build on the work of the Competitiveness Committee. We began by assessing the effectiveness of the MTA's management of its five-year capital plans. In 2009 the committee released a study assessing the implementation of the Authority's capital plan through an examination of projects scheduled from January 2005 to December 2007. The report revealed a serious lack of transparency and detailed delays in project implementation. Partly in response to the report, the MTA launched its web-based "dashboard" on the capital program.

This report returns to the issue of how to finance the MTA, particularly its mass transit services. It updates and revises the findings and recommendations of CBC's 2006 report and seeks to provide guidelines for future MTA budget decisions.

The report was prepared under the direction of Charles Brecher, Consulting Research Director at the CBC and Professor at New York University's Wagner School. Rahul Jain, Research Associate, provided critical research support and helped draft the report.

MTA staff was cooperative in providing information for developing the revenue and expenditure projections presented in this report and in clarifying ways in which they differ from usual MTA practices. Robert Foran, Chief Financial Officer, Patrick McCoy, Director of Finance, and Olga Chernat, Deputy Finance Director, provided helpful comments on a draft report. Steve Berrang, Director of Capital Program Management, also added insight into the history of the MTA Capital Program. The willingness of these individuals to provide assistance and suggestions does not necessarily mean they agree with the recommendations, but it does reflect their concern for the subject and generosity in sharing their expertise and time.

Seth P. Bernstein

Steven M. Polan

October 8, 2012

TABLE OF CONTENTS

EXECUTIVE SUMMARY

New York's central business district, the 8.5 square miles below 60th Street in Manhattan, is one of the most prosperous clusters of economic activity in the world. This dense concentration of jobs – nearly 2.3 million people work in the central business district – is critically dependent on an extensive and efficient transportation system that enables workers from surrounding boroughs, counties and neighboring states to get to work. The Metropolitan Transportation Authority (MTA) is by far the largest provider of transportation services in the region.

In order for the New York region to maintain a strong and vibrant economy, its transportation system must be operated efficiently, well maintained and expanded to meet future needs. Yet despite its essential role in sustaining the New York economy, the MTA is not financed in a sensible and stable manner. Its current financing arrangements are so volatile and insufficient that they result in 1) repeated operating deficits and 2) serious underfunding of capital assets such that facilities cannot be brought to a state of good repair nor system enhancements implemented.

This report examines these problems and suggests a new financing policy for the MTA to encourage efficiency, balance its operating budget and provide sufficient capital to accelerate the pace at which its facilities are brought to a state of good repair and to complete currently planned system enhancements. The recommended financing policy recognizes all New Yorkers benefit from the New York region's mass transit system to varying degrees and that all should contribute to its support. There are three major sources of revenue for the MTA: fares, tolls and other fees paid by those who use its facilities; cross-subsidies from auto users who get additional indirect benefits from the reduced congestion and pollution that mass transit makes possible; and local and state taxpayers generally who benefit from the efficient regional labor market facilitated by the mass transit system.

To fund this system adequately, the CBC suggests a formula – referred to as 25-50-25 – to allocate the costs of operating and maintaining the MTA among the three categories of revenue and the sectors of the public from which they each derive. While no formula is perfect, this one would lead to an equitable, efficient and easily understood basis for generating the necessary revenue. It is based on four principles:

1. ***Auto user fees should pay for the facilities available to drivers.*** Therefore, the cost of bridge and tunnel facilities should be funded entirely through tolls and fees paid by the motorists who use them.
2. ***Motorists' tolls and fees should also generate a surplus large enough to cover approximately one-quarter of the cost of providing mass transit services.*** The cross-subsidy is justified by the need to compensate for the negative effects of auto use on the environment and the benefits to drivers from the reduced road congestion made possible by mass transit.
3. ***Mass transit users should pay fares sufficient to cover approximately one-half the operating cost of those services.*** Riders get a direct benefit, and it is reasonable that they should pay a significant portion of the costs.
4. ***State and local tax subsidies to mass transit should cover at least one-quarter of the operating cost of those services and fund "catch-up" capital investments needed to***

bring the system to a state of good repair. The subsidy is justified by the broad economic benefits to employers, workers and shoppers provided by an efficient mass transit system.

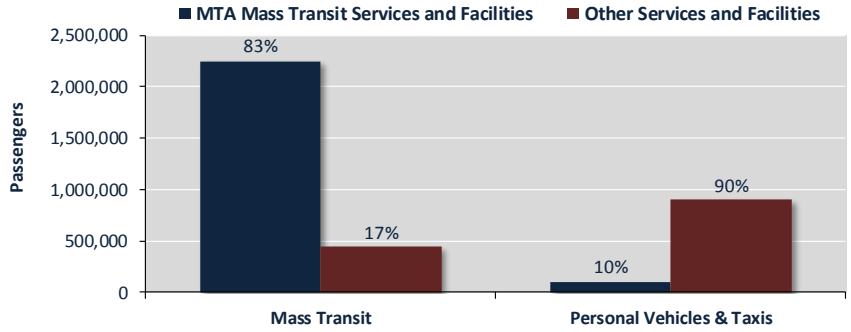
If each category of funder – driver, transit rider and general taxpayer – contributes to the cost of the region's mass transit system in accordance with these principles, it will get the MTA off the wrong track and chart a better route for the region's economic future. By 2016 the 25-50-25 policy would provide nearly $2.6 billion in additional annual revenue without new taxes.

The 25-50-25 policy would mean that mass transit riders would pay higher – but still reasonable – fares. The cost of a single ride ticket would increase to at least $2.75 by 2016 but in constant dollars a subway ride would cost at most three cents more than it did in 1996. Motorists would face increased costs for the use of their vehicles, in the range of $167 to $293 more annually, but the charges would be consistent with those in other global metropolises and related to the benefits drivers derive from a well-functioning transportation system.

THE VITAL ROLE OF THE MTA

The MTA transports the majority of people who enter Manhattan's central business district. Of the 3.7 million workers, shoppers, tourists and others entering the central business district (CBD) on a typical weekday more than 70 percent come by mass transit and less than a third by auto; of the 2.4 million using mass transit, fully 83 percent or 2.1 million rely on the MTA's commuter rail, subway or bus services, while the remainder rely primarily on services operated by New Jersey Transit or the Port Authority of New York and New Jersey. (See Figure 1.) The MTA's bridges and tunnels account for about 10 percent of the vehicles that pass directly into the hub on a weekday morning, with the others coming from New Jersey via Port Authority facilities or using the non-tolled bridges over the East River operated by the City of New York. The proportion of auto users entering the CBD via MTA facilities is even greater if people using routes that rely on MTA bridges not directly connected to Manhattan, such as the Bronx Whitestone Bridge and the Robert F. Kennedy Bridge, are included.

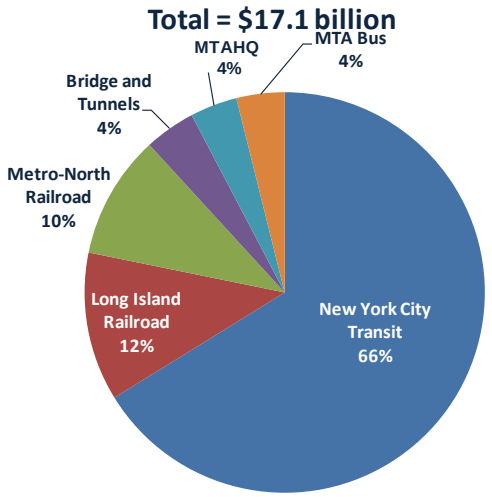
Figure 1: Passengers Entering the New York Central Business District On a Weekday, Fall 2010



Sources: New York Metropolitan Transportation Council, *Hub Bound Travel Data 2010 Report,* December 2011. The figure for autos using MTA facilities is conservative as it only accounts for vehicles using the Queens-Midtown Tunnel and Brooklyn Battery Tunnel into the CBD and excludes vehicles that use other MTA bridges, including the Triborough, Throgs Neck, Henry Hudson, and Bronx-Whitestone, as a part of their route to the central business district.

Providing these services is expensive. The annual operating and financing expenditures of the MTA's agencies are budgeted to be $17.1 billion in 2012. (See Figure 2.) Nearly two-thirds of the cost is for New York City subways and buses. More than one-fifth supports commuter railroads, and about 4 percent goes toward the bridges and tunnels for motor vehicles.

Figure 2: MTA Projected Expense by Type of Service, 2012



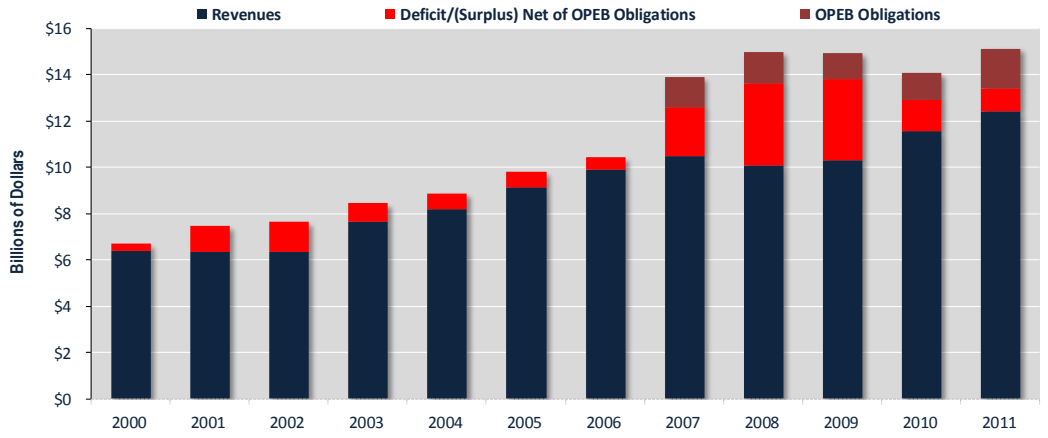
Source: Total expenditures are estimated on a GAAP basis using data from Metropolitan Tranportation Authority, *MTA 2013 July Financial Plan 2013-2016,* July 2012. Total includes non-reimbursable and reimbursable expenses as presented by agency in Volume 2, Part V and adjusted by MTA-Wide "Plan Adjustments" in Volume 1, Part II. Total expendiutures excludes debt service as shown in the source document, but includes an estimate by CBC staff of interest on long term debt. Interest expense was estimated at 70 percent of agency debt service in Volume 2, Part II, pages II-71 to II-74. Debt service for commuter rail is assumed to be divided equally between Long Island and Metro-North Railroads. MTAHQ figures include First Mutual Transportation Assurance Company, the MTA Office of the Inspector General and MTA Capital Construction Company. "Other" expenses included in the financial plan but not attributed to any single agency were pro-rated across all agencies.

PROBLEMS

Problem 1: Recurring Deficits

The MTA has been operating with significant deficits over the past decade, a continuation of a long-term trend. In 1996 after a large fare increase, the agency generated a modest surplus, but otherwise the record in that decade was one of repeated deficits sometimes exceeding $500 million annually or as much as 9 percent of operating expenses.[1] This trend worsened after 2000, and the deficits became notably larger in the most recent years. (See Figure 3.) In 2007 accounting rules for the first time required public entities to include the cost of obligations to provide future retirees health insurance as a current expense. This item is referred to as Other Post-Employment Benefits or OPEB. The inclusion of this expense is reflected in the sharp increase in deficits beginning in that year. The deficits exceeded $2.3 billion from 2008 to 2011, sums that are the equivalent of more than 15.9 percent of operating expenses. The reduction in the deficit in 2010 was mainly a function of the new Payroll Mobility Tax raising new revenues of more than $1.3 billion.

Figure 3: MTA Operating Deficits, 2000-2011



Sources: Metropolitan Transportation Authority, *Consolidated Financial Statements*, 2000 to 2011 editions. The number for the deficit is equivalent to the line "loss before appropriations" in the "Consolidated Statement of Revenues, Expenses, and Changes in Net Assets" net of OPEB obligations, which are equivalent to the "Increase in net OPEB obligations" line in the Other Post Employment Benefits Note in each edition.

These deficits, which are based on the MTA's audited financial statements using Generally Accepted Accounting Principles (GAAP), differ from what is often referred to as the deficit (or surplus) in the MTA's operating budget. The MTA Board and state law do not require the agency to use GAAP in "balancing" its budget. Instead the MTA uses a definition of a balanced budget which is based largely on cash needs in a given year. Similar approaches are used by many units of general government including the State of New York. However, budgeting in accord with GAAP is more appropriate for authorities and enterprise type activities such as the MTA, and the MTA Financial Plan documents begin with a presentation of expenses and revenues that largely conforms to GAAP and then makes adjustments for non-cash items. Indeed, even for states and other units of general government, budgeting on a cash basis has been criticized by the State Budget Crisis Task Force co-

chaired by former MTA Chairman Richard Ravitch as "a major enabler of budget gimmickry," and it recommends budgeting on a basis conforming more closely to GAAP.[2] For these reasons, the GAAP approach to defining a balanced budget is used in this report. (See Table 1 for a summary of the differences between deficits as defined by GAAP and by the MTA.)

Table 1: Differences Among MTA, GAAP, and CBC Deficit Amounts 2012 - 2016
(in millions of dollars)

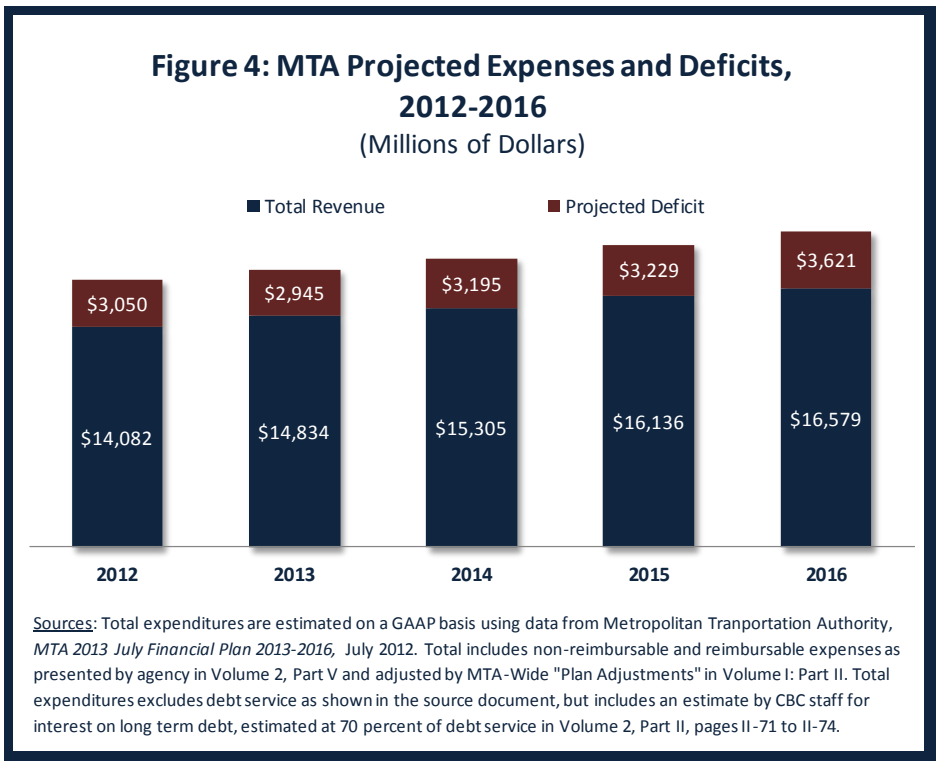
	2012	2013	2014	2015	2016
MTA Reported Surplus/(Deficit)	**$47**	**$45**	**($131)**	**($15)**	**($233)**
Items that increase the deficit:					
Use of Prior Year Surplus	(297)	(47)	(46)	-	-
Depreciation	(2,186)	(2,250)	(2,327)	(2,423)	(2,523)
OPEB Liability	(1,712)	(1,756)	(1,827)	(1,897)	(1,968)
Items that decrease the deficit:					
Payment of Debt Principal	652	729	800	871	928
OPEB Account Deposit	77	82	86	89	92
Dedicated Tax Funds Committed to Capital	132	124	85	38	-
Other Cash Accounting Adjustments	238	128	165	108	83
GAAP Deficit	**(3,050)**	**(2,945)**	**(3,195)**	**(3,229)**	**(3,621)**
CBC Adjustment for Potential 50 percent OPEB Reduction	856	878	914	949	984
CBC Adjusted Deficit	**(2,194)**	**(2,067)**	**(2,282)**	**(2,281)**	**(2,637)**

Note: Payment of Debt Principal estimated as 30 percent of debt service, including Build America Bond subsidies. Other Cash Accounting Adjustments include environmental remediation expenditures.

Source: See source in Table 3 and text.

In the current and coming years the MTA's deficits will be substantial. (See Figure 4.) In 2016 the deficit is projected to be more than $3.6 billion or approximately 18 percent of operating expenses.[3] The growing deficit arises despite significant cost cutting efforts begun in 2010, despite the assumption of a three-year wage freeze for most workers, and despite planned fare and toll increases in 2013 and 2015 that will raise almost $1 billion in new revenue in 2016.

Using 2011 as a baseline, the major factors causing future deficit growth are large and rapid increases in expenses for interest on long-term debt and for fringe benefits. Interest increases more than 8 percent annually for a total rise of more than $670 million.[4] Health insurance for current employees and retirees increases an average of more than 8 percent annually for a total gain of more than $400 million, and pension fund contributions increase more than 6 percent annually for a gain of nearly $400 million. The cost of electric power rises more than 8 percent annually for a gain of more than $220 million, and the paratransit program is projected to grow $200 million despite efforts at cost containment.

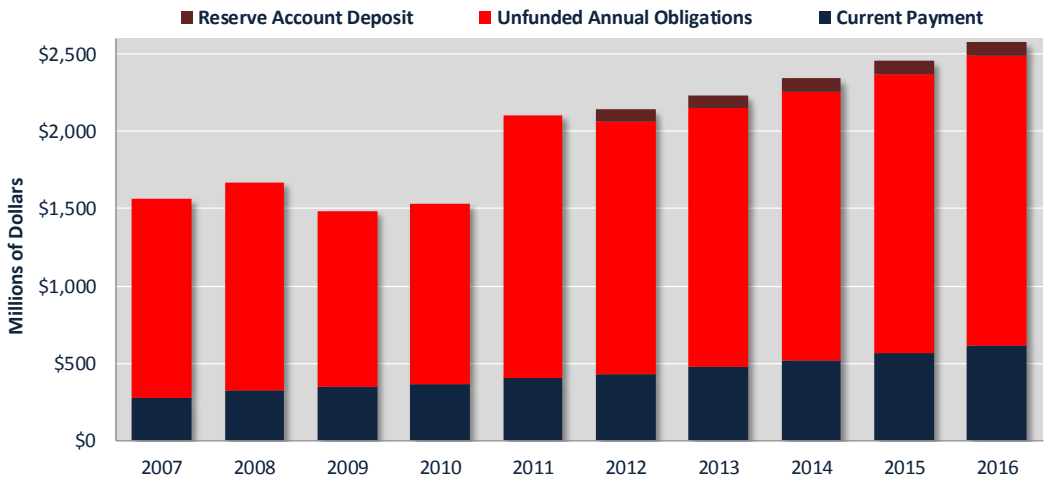


How can the MTA repeatedly run large deficits, but not go bankrupt?

The MTA, like many fiscally stressed organizations, relies on two strategies to cope with its insufficient revenues: (1) *avoid or defer paying certain obligations*, and (2) *borrow to cover expenses.*

***The deferral strategy is used for the OPEB obligations*.** The previously mentioned new accounting standards effective in 2007 oblige the MTA to recognize its full obligations to pay for health insurance for future retirees, but these commitments are not fully funded. Instead the MTA pays for the current annual cost of retiree health insurance; the accrued future costs of commitments to current workers are not fully funded. The MTA not only reports these future obligations, it also has made varying annual deposits (and withdrawals) to a trust fund to help cover them. In the July 2012 Financial Plan, deposits ranging from $77 million to $92 million annually are budgeted. (See Table 1 for the annual amounts.) But these deposits are modest relative to the future costs. As Figure 5 illustrates, the deferred OPEB obligations typically exceed $1 billion annually, and in 2016 they are projected to approach $2 billion. As of the end of 2011, the cumulative unfunded liability was $17.8 billion.[5]

Figure 5: MTA Annual Other Post Employment Benefit Obligations, 2007-2016



Source: Data from 2007 to 2011 is from the Other Post Employment Benefits note in the Metropolitan Transportation Authority, *Consolidated Financial Statements ,2007-2011 editions.* Data for 2012 to 2016 from Metropolitan Transportation Authority, *July Financial Plan 2013-2016,* July 2012 . Volume 1, Section II. Reserve account is the amount budgeted for "GASB 45 Account".

It should be noted that the MTA is not alone among public entities in its deferral of OPEB obligations. In 2010, the latest year for which comprehensive data are available, only Arizona among the 48 states with OPEB obligations (Nebraska and Oklahoma do not acknowledge any retiree commitments) fully funded its annual OPEB liability. Just six other states funded 25 percent or more of their annual OPEB obligation. On average the states paid 34 percent of the annual obligation and the total shortfall in annual funding for the states in that year was $34 billion. That is, states paid only $17 billion of the $51 billion in OPEB liability accrued that year.[6] However, even if unfunded OPEB liabilities are excluded, the MTA faces substantial deficits ranging from $1.1 billion to nearly $1.7 billion between 2012 and 2016.

Not fully funding OPEB liabilities can be justified as a reasonable fiscal strategy. Public officials, including MTA leadership, have sought in collective bargaining to reduce funding obligations for current and future retirees by requiring more cost sharing for premiums from the retirees. Progress toward this goal in future negotiations would lower obligations, so current full funding may not be necessary. In addition future federal policies may shift part of any financing obligations from public employers to the federal government and/or may impose health care cost containment measures that lower projected future obligations. Thus, for budgeting purposes some degree of partial funding of OPEB obligations can be a reasonable decision. As indicated in Table 1 and explained more fully below, the CBC believes current funding of half the OPEB liability is a practical approach for the MTA.

Borrowing is used to pay for ongoing replacement and some repair needs. It is important to distinguish between the acquisition or building of physical assets (which are investments, not expenses, in accounting terms) and the wear and tear on existing assets in the course of providing

services (which is termed depreciation and is an expense in accounting terms even though it requires no cash outlay). It is appropriate to borrow for the creation of new physical assets, because those assets have a long life over which their initial cost can be spread fairly to enable those who use them in future years to help pay for them. For example, the extension of a subway line and building of new stations is appropriate for long-term financing because future riders benefit from the new asset and should help pay for its creation.

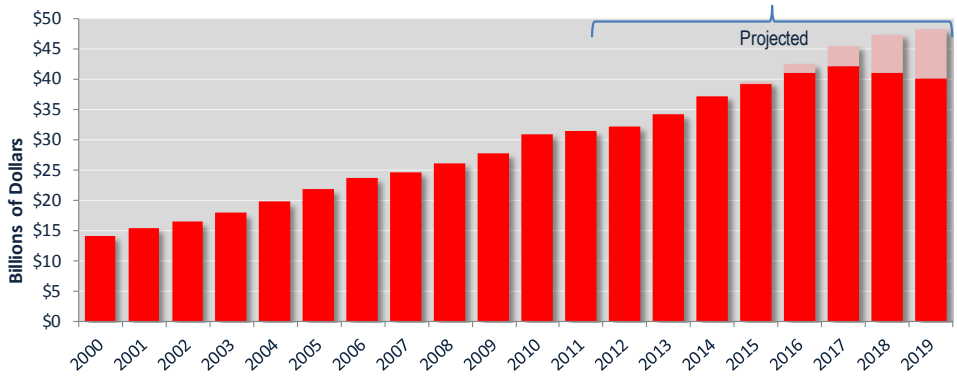
In contrast, the day-to-day decrease in the value of assets related to their ongoing use should be treated as an operating expense and paid for from current revenues. These funds do not prevent the deterioration of the assets, but they can be set aside to pay for their replacement. For example, subway cars and buses that are replaced on regular cycles can be funded by budgeting amounts equal to their depreciation on an annual basis. Currently annual depreciation at the MTA is about $2 billion.[7]

After enactment of the new, dedicated Payroll Mobility tax in 2009 the MTA devoted a portion of the new revenues for "pay-as-you-go" capital investments in recognition of the need to fund ongoing capital needs from recurring revenue streams. The July 2009 Financial Plan allocated $50 million for "pay-go" capital in 2010 with the annual amount growing $50 million each year to reach $450 million in 2018. However, in November 2011 the plan was revised to lower the amounts for "pay-go" by $630 million over the 2012 to 2016 period and used those funds to support debt service; the July 2012 Financial Plan increases the sum reallocated to debt service over the same five-year period to $871.7 million. Despite the retreat from a growing commitment to "pay-go" capital financing, the MTA's current practice still reflects a desire to offset some part of depreciation with "pay-go" financing.

The practice of not fully funding depreciation has important implications for the MTA's financial condition. It borrows for most of its capital needs, including regular replacements and some repairs. That is, a part of the capital budget devoted to replacement needs such as buying buses and subway cars is offsetting the depreciation expenses for this equipment. For example, New York City Transit's approximately 4,600 buses each have a "useful life" of 12 years. If 383 buses (one-twelfth the fleet) were replaced each year, the cost would be close to that of the annual depreciation amount for the fleet. If operating revenues were raised to cover depreciation and placed in reserve for this use, then little or no borrowing would be needed to maintain regular replacement cycles. However, in practice the MTA buys buses less regularly and pays for them with borrowing. The same practice is applied to subway cars, commuter rail cars and other assets. Consequently, the MTA relies heavily on borrowing for its regular replacement needs rather than meeting these needs by funding depreciation with operating revenues.

The MTA's large and recurring reliance on borrowing for replacement needs as well as new investments is a major cause of its heavy and growing indebtedness. From 2000 to 2011 the MTA's debt outstanding increased from $14 billion to $32 billion; in 2015 it is projected to reach $39 billion. (See Figure 6.) What happens in subsequent years is difficult to predict because there is no 2015-2019 Capital Plan yet. If no new borrowing occurs, debt outstanding would peak at $42 billion in 2017. However, it is likely that borrowing will be part of any future capital plan. If the 2015-2019 Capital Plan provides for no new expansion projects (but funds completion of East Side Access), sustains other investment levels at the current rate and requires that the MTA fund half the plan with borrowing, then outstanding debt would approach $48 billion in 2019.

Figure 6: MTA Debt Outstanding, 2000 - 2019



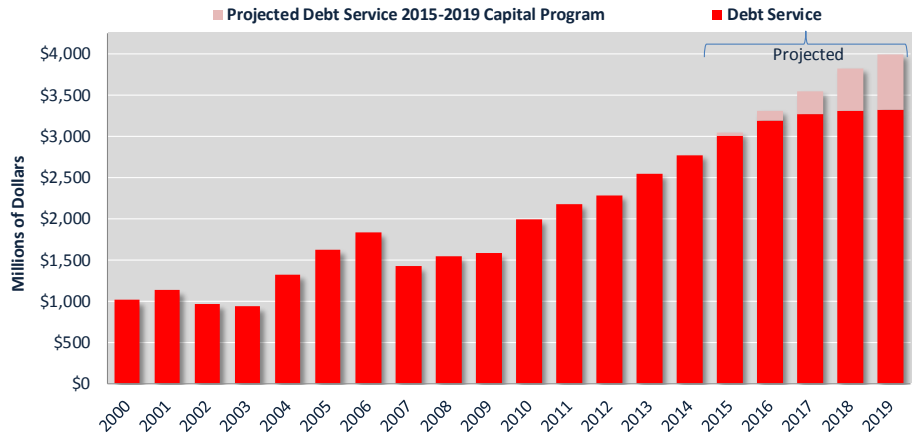
Sources: Data for 2000-2011 from Metropolitan Transportation Authority, *Consolidated Financial Statements*, 2001-2011 editions. Figures for 2012-2019 debt outstanding include projected issuances for the 2010-2014 Capital Program from Metropolitan Transportation Authority, *2012-2014 Capital Funding Proposal Update*, November 2011, p. 16. Projected figures for post-2014 capital investments estimated by CBC staff based on investments equaling the 2010-2014 Capital Program excluding network expansion or $18.5 billion, plus $700 million for the East Side Access project, totaling $19.2 billion. The CBC staff projections also assume the MTA funds 50 percent of the new capital program through bonds. The assumed drawdown rate for the resulting $9.6 billion in new debt is 5, 10, 20, 30, 20, 10, and 5 percent over a seven year period beginning in 2015.

Can the MTA continue indefinitely on this path of steadily increasing indebtedness? The answer, of course, is no, although the precise breaking point is not easily predicted. The reason borrowing cannot expand indefinitely is that it must eventually be repaid. The repayment of debt is known as debt service and, like a mortgage payment, includes both interest expense and repayment of a portion of the principal. The funds for debt service come from current revenues, and as debt grows so too does the amount of current revenues that must be used to cover debt service. As debt service requirements expand the operating budget is squeezed, and eventually there may not be sufficient revenue remaining to support all current services.

The MTA is already feeling the pressure of expanding debt service. (See Figure 7.) Its debt service grew from $1 billion in 2000 to $1.6 billion in 2005 to nearly $2 billion in 2010. Under the newly approved 2012-2014 Capital Plan debt service is projected to grow to $3 billion in 2015, a 50 percent jump from 2010, and projected to surpass $3.3 billion by 2019. The sharp rise in debt service projected for coming years may be partially abated through a planned refunding of debt at lower interest rates in 2012. However, the outlook becomes even worse if, as indicated above, the 2015-2019 capital plan requires new borrowing. Under the same assumptions used to project debt outstanding, debt service increases to $3.9 billion in 2019.

The implications of rising debt service for the operating budget are ominous. Debt service grew as a share of total revenues from 12 percent in 2003 to nearly 18 percent in 2011; it will be 21 percent in 2016 and likely grow beyond that if future borrowing is necessary for the 2015-2019 Capital Plan.

Figure 7: MTA Debt Service Payments, 2000-2019



Sources: Figures for 2000-2011 from Metropolitan Transportation Authority, *Comprehensive Annual Financial Report*. 2000-2011 editions. *"Consolidated Statement of Cash Flows."* Projections for debt service from 2012-2019 are based on Metropolitan Transportation Authority, *July Financial Plan 2013-2016, Vol. 2: Section II. "Summary of Budgeted Debt Service,"* July 2012. Projected data are adjusted by CBC staff to be consistent with previous actual debt service figures. Projected figures include Build America Bond subsidies based on Metropolitan Transportation Authority, *July Financial Plan 2013-2016, Vol. 2: Section II. "Summary of Budgeted Debt Service,"* July 2012 for 2012-2016 and a CBC staff estimate of $96 million annually thereafter. Projected figures for 2012-2019 also include a CBC staff estimate for debt service for State Service Contract Bonds; the estimate is based on a continuation of the annual rate of decline for these payments in the 2007-2011 period. Figures for projected debt service for the 2015-2019 Capital Program are CBC staff estimates calculated for debt service based on 2 percent issuance costs and a 6 percent coupon rate utilizing the same debt issuance assumptions in Figure 6.

Problem 2: Inadequate Capital Investment

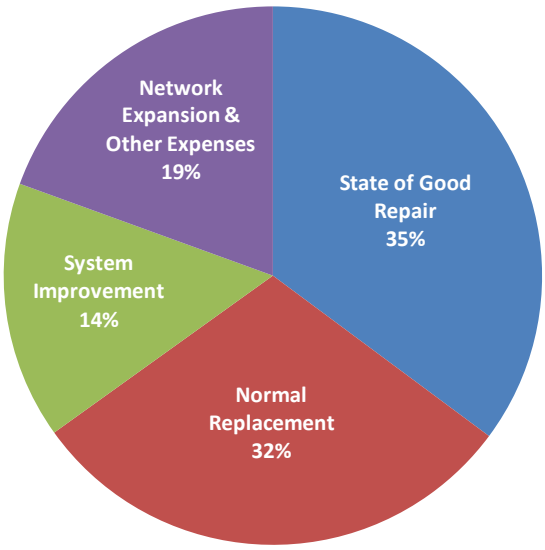
When the MTA was chartered in 1965 as an amalgam of six previously established agencies operating in the region, the system's facilities had already suffered from decades of neglect. For the first 15 years of the MTA's existence, its facilities continued to deteriorate and were on the brink of collapse by the late 1970s. In the early 1980s, a new system of capital planning, usually spanning five-year periods, was established to promote adequate capital investment.

The MTA is currently in its sixth capital plan cycle. From 1982 thru 2009, the MTA was authorized to commit $79.8 billion to capital investments. In June 2010, the MTA's Capital Program Review Board approved a $26.3 billion plan for 2010-2014; the Board in March 2012 amended the 2010-2014 plan downward to $24.2 billion due in part to efficiencies identified in capital project delivery.

As shown in Figure 8, the bulk of the money provided in earlier plans had been devoted to improving the existing systems. About 35 percent went for state of good repair (SOGR) projects, projects that correct past deferred maintenance. Another 32 percent went for normal replacement, projects that keep assets in a SOGR once that has been achieved. Thus, a combined total of 67 percent was devoted to bringing assets to and keeping assets in a SOGR. In addition about 14 percent was allocated to system improvements. These projects also involve existing assets, but go beyond normal replacement to include enhancements or efficiencies.

Figure 8: MTA Capital Plan Spending by Category, 1982-2009

Total Capital Spending: $79.8 Billion



Source: Unpublished capital spending data made available by the Department of Finance, Metropolitan Transportation Authority.

In the original 2010-2014 plan, about 63 percent of the total funding is devoted to SOGR and normal replacement. Another 13 percent is allocated to system improvements and 24 percent to network expansions and other expenses.[8]

Despite the large investments in existing assets, major components of the system are still not in a SOGR. The latest *Twenty Year Needs Assessment*, a document that guides the Capital Program, was prepared in August 2009 for 2010-2029.[9] It identifies major categories of assets that are not in a SOGR and indicates when planned investments would achieve a SOGR.

The Long Island Railroad (LIRR) is in the best shape with all of its components except line structures, such as tunnels, bridges and supports for elevated lines, at a SOGR; line structures will not be restored fully until 2024, although the structures are maintained to provide safe service. Metro-North also has many components including rolling stock and track in a SOGR, but line structures, Grand Central Terminal, stations, the Port Jervis Line infrastructure and the shops and yards still need restoration work. The shops and yard will be brought to a SOGR by 2024, but the other elements will not be fully restored until after 2029.

New York City Transit facilities are in the poorest condition. Two of the 14 major transit investment categories, Subway Cars and Mainline Track/Switches, were in a state of good repair as of 2009. The summary rating for the other categories placed elevators and escalators at 96 percent of SOGR; buses and pumps each at 87 percent; signals and structures at 81 percent and 79 percent, respectively; the five categories of communications, stations, bus depots, tunnel lighting and power each fell between 63 and 70 percent; ventilation facilities were at 57 percent, and subway shops at

39 percent. The document does not provide an explicit schedule for when each of these backlogged categories of assets will be brought to a SOGR; it is likely that several major categories of transit assets will still not be at a SOGR by 2029.

Achieving a state of good repair has been a high priority since the capital planning process began, so why is it taking so long to achieve a system-wide state of good repair? Two factors play an important role.

- ***The MTA must balance repair needs and customer service demands and has been hesitant to work toward a state of good repair at a pace that creates numerous service disruptions.*** The agency is concerned that service disruptions and other inconveniences would become intolerable to customers if SOGR work was done more extensively.

The initiation of the FASTRACK program in January 2012, a new approach to subway inspection and maintenance that shuts down subway lines for extended blocks of time, holds promise of accelerating SOGR work. The MTA is still evaluating the program, but initial success in reducing repair costs and schedules has led to increased FASTRACK work for the rest of 2012. FASTRACK is currently limited to in-house work and used only for track and switch repair, power and signal maintenance, and some cleaning; it is expected to extend to station environment rehabilitation and extensive cleaning. If it continues to prove effective, a similar approach might be applied to more extensive SOGR work by outside contractors.

- ***A significant portion of available capital resources are devoted to expansion projects.*** Prior to 2010 about 20 percent or $13.3 billion of the available capital resources were allocated to network expansion projects; this includes $6.9 billion or 29 percent in the 2005-2009 plan.[10] In the 2010-2014 plan, $5.7 billion or 24 percent of the total resources are allocated to expansion projects.[11]

South Ferry Terminal – This project provided an enlarged and improved platform and entrances at the existing South Ferry subway station. Despite some delays it went into service in March 2009 and was fully completed including the above ground improvements in February 2011. The cost rose 29 percent to $541 million from $420 million.

Fulton Street Transit Center – This project is a new terminal for multiple subway lines at the existing Fulton Street subway station. The initial plan was for completion in July 2009 at a cost of $750 million; the latest estimates are for completion in June 2014 at a cost of $1.4 billion.

Flushing Line Extension – This project was added at the request of Mayor Michael Bloomberg as part of a larger plan to develop an area on the west side of Manhattan with the City of New York financing its initial costs. The project included the necessary tunnel and track extension, a station at 34th Street and Eleventh Avenue, and a "box" for a station to be completed in the future at 41st Street and Tenth Avenue. The planned completion date was June 2013 at a cost of $1.9 billion. To help keep the project within budget the box for the 41st Street station was dropped, but estimated costs still have risen to $2.2 billion with a completion date in June 2014.

Second Avenue Subway - This project expands subway service on the East Side of Manhattan by connecting a new station at 96th Street and Second Avenue to existing subway lines at 63rd Street with additional stations on Second Avenue at 86th Street and 72nd Street. Originally projected to cost $3.8 billion and be operational in 2014, the project is now expected to begin operation in 2016 at a cost of $4.5 billion.

East Side Access - This project connects the Long Island Railroad to the East Side of Manhattan through new and existing tunnels and a new terminal located below the existing Grand Central Terminal. East Side Access was initially approved at a projected cost of $6.3 billion and expected to begin operation in August 2014. It has required multiple cost adjustments resulting in a currently expected cost of $8.2 billion and completion in August 2019.

The cumulative investment in five "megaprojects" has been substantial, and these projects have consumed more resources than initially anticipated because of cost overruns. The five projects are the South Ferry Terminal, the Flushing Line Extension, the Second Avenue subway line, East Side Access (linking the LIRR to Grand Central Terminal), and the Fulton Street Transit Center. Together these projects represent a total investment of about $16.8 billion, with cost overruns of more than $3.6 billion.[12] (See Table 2.) See the accompanying box on the previous page for more information on these projects including their delays and cost overruns.

Table 2: MTA "Megaproject" Cost and Completion Schedules
(dollars in millions)

Project Name	Original Projection		Current Projection	
	Estimated Cost	*Completion Schedule*	*Estimated Cost*	*Completion Schedule*
South Ferry Terminal	$420	Apr-09	$541	Feb-11
Fulton Street Transit Center	750	Jul-09	1,400	Jun-14
Flushing Line Extension	1,900	Jun-13	2,153	Jun-14
Second Avenue Subway	3,800	Jun-14	4,500	Dec-16
East Side Access	6,300	Aug-14	8,244	Aug-19
Grand Total	**$13,170**		**$16,838**	

Source: Original Projection Cost and Schedule figures from Citizens Budget Commission, *Working In the Dark: Implementation of the MTA's Capital Plan,* October 2009. Current projection figures for Fulton Street Transit Center, Flushing Line Extension and Second Avenue Subway from the Metropolitan Transportation Authority, *February 2012 Transit Committee Meeting.* Figures for East Side Access Project from Metropolitan Transportation Authority, *May 2012 Capital Program Oversight Committee Report,* February 2012. South Ferry Terminal Cost Projection figure from Metropolitan Transportation Authority, *March 2010 Capital Program Oversight Commitee Report* , March 2010. South Ferry Projection Schedule date from Metropolitan Transportation Authority, *February 2011 Capital Program Oversight Committee Repor* t, February 2011.

A 2009 report by the CBC found that delays and cost overruns were not confined to the megaprojects.[13] Signaling and communication projects suffered from weak management in their implementation, and a variety of station rehabilitation and other types of projects had significant delays or cost overruns. The report recommended an improved management information system for tracking capital projects and greater public transparency in reporting on their status. The MTA has pursued these recommendations and has established a "dashboard" with capital project information on its website. Also, the 2012 amendment to the Capital Plan for 2010-2014 included $2 billion in savings due to expected new efficiencies in capital project implementation.

GUIDELINES FOR A BETTER SYSTEM

The MTA needs a better way to pay for its services. It should stop running large deficits and lower its future debt burden by funding regular replacement needs with operating revenues rather than borrowing.

How should the needed money be raised? The answer should be related to an analysis of who benefits from, and who is harmed by, transportation services. The benefits are of two types – to specific individuals and to a broader public.

Individuals benefit directly from the use of highways and bridges and from the use of mass transit facilities. Accordingly they should pay a price for the use of these services. For mass transit the price is typically a fare; for highways and bridges it can be a toll but also includes indirect user fees such as registration fees and gasoline taxes.

In addition, transportation networks provide broader benefits than just the convenience for individual riders. Notably, employers and the labor force benefit from a more efficient labor market made possible by the transportation facilities in the region. It is therefore appropriate to have a public subsidy for the service. For mass transit, riders should pay some of the cost, but the broader set of regional residents and employers should share a part of the cost through public subsidies. For bridge and highway users, the issue is complicated by the presence of significant harmful consequences along with the broader benefits.

The harmful consequences, or "negative externalities" in economic parlance, of driving on the highways include noise, congestion, air pollution and greenhouse gas emissions. Because of these consequences, user fees imposed on motorists should include some compensation for the negative externalities; the charges should exceed the direct cost of providing the highways, bridges and tunnels on which vehicular travel relies.

The three concepts of individual benefits, public benefits and negative externalities point to three categories of operating revenue for transportation services – user fees, general tax subsidies, and cross-subsidies from auto users to mass transit services. As noted, user fees are charges such as transit fares and bridge tolls paid by individual users of a service. Gasoline taxes and vehicle license and registration fees may also be regarded as motorist user fees. They should be set to reflect the benefits received by individual users. Auto and truck users should cover the full cost of the transportation infrastructure on which they rely; mass transit fares should cover a portion of the full cost and there should be support from public subsidies as well, because there are benefits to the general public from a public mass transit system. Indeed, mass transit deserves a substantial tax subsidy because of its broad regional benefits.

Cross-subsidies from motor vehicle users to mass transit services are the mechanism for coping with the negative externalities associated with auto use. Motor vehicle use should have a price higher than the direct cost of the highway infrastructure to offset its disadvantages to others. For reasons explained below, this additional revenue should be dedicated to mass transit instead of going into general public revenue.

While these economic concepts identify the categories of revenue for transportation services, they do not easily determine the precise mix. Specifying the optimal role of each source requires difficult judgments. Recognizing these inherent difficulties and the possibility for reasonable variations, the Citizens Budget Commission offers these guidelines for allocating responsibility for generating MTA operating revenues.

1. ***The cost of bridge and tunnel facilities should be funded entirely through user fees paid by motorists*.** Vehicle owners and drivers receive direct benefits from the use of public highways, and they should pay for this service in a way related to use. The MTA currently follows this practice in the toll rate it sets for its bridges and tunnels, which is intended to cover the full cost of their operation.

2. ***User fees paid by motorists should also generate a surplus large enough to cover approximately one-quarter of the cost of providing mass transit services*.** The price for using highways, bridges and tunnels should exceed their direct cost in order to help compensate for the negative externalities of auto use including traffic congestion, air pollution and greenhouse gas emissions. This additional price can be paid directly through tolls that more than cover costs and through indirect user charges such as fuel taxes and motor vehicle fees collected by the state.

While it is clear auto user fees should significantly exceed the cost of road infrastructure in order to compensate for negative externalities, this excess revenue could be treated as part of the general fund, and the mass transit subsidy could be appropriated by the legislature. However, a direct cross-subsidy designated specifically for mass transit is preferable for the following reasons:

a. Linking the size of the premium above costs that motorists pay to mass transit financing needs provides a relatively objective basis for setting this premium. The concept of negative externality and the amount needed to compensate for it is imprecise, and the recommended guideline gives it an operational definition.

b. Dedicating this revenue to mass transit provides more predictable and stable revenue for these services than does relying heavily on general fund appropriations.

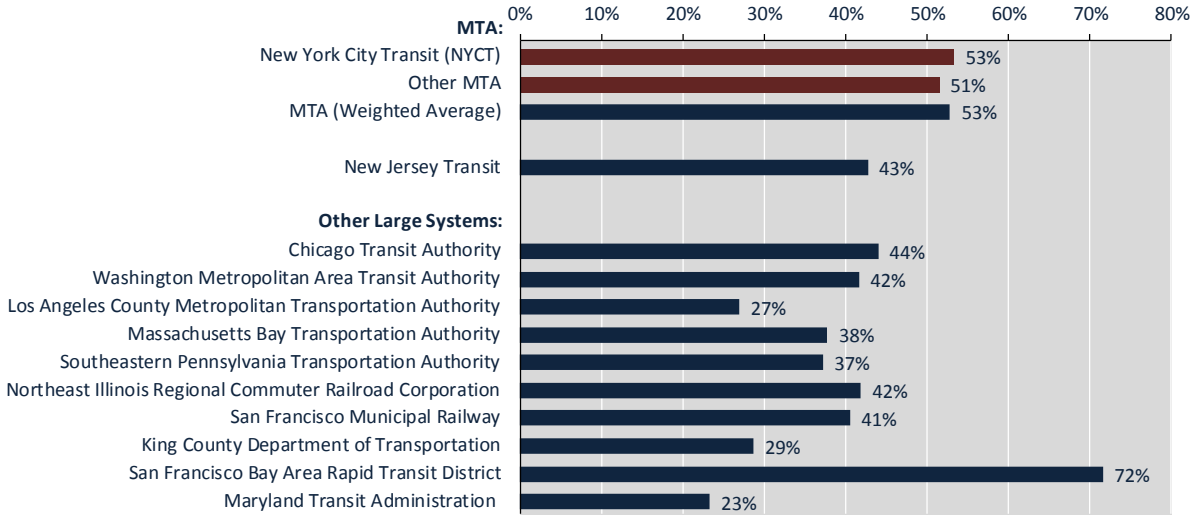
c. Motorists are likely to find it more acceptable to have the premium they pay dedicated to alternative transportation services (thereby, in effect, making their ride less congested) than to have the funds support a variety of public services.

3. ***Mass transit users should pay fares sufficient to cover approximately one-half the operating cost of those services*.** Mass transit provides a combination of direct benefits to individual riders and "public goods" benefiting many more people through a more efficient labor market and less negative externalities than autos generate. Accordingly, mass transit costs should be divided between user fees (fares) and subsidies. Setting fares at approximately one-half the cost has an inherent appeal of fairness in dividing the burden among categories of beneficiaries.

Compared to the other major mass transit systems in the United States, the MTA's "farebox operating ratio," or share of operating costs covered by fares, is relatively high. (See Figure 9.) In 2010 the MTA had a 53 percent ratio system-wide. New York City Transit, subway and bus lines also had a ratio of 53 percent; commuter lines and Staten Island Rapid Transit had a combined ratio of

51 percent. The major system in the United States with the highest ratio is the BART in San Francisco (72 percent). The NJ Transit ratio is 43 percent. The Washington D.C. Transit Authority (42 percent) and CTA in Chicago (44 percent) also have farebox ratios above 40 percent. All other large systems combined have an average ratio of 38 percent. Rather than use this statistic to argue against fare increases in New York, it is appropriate to view New York and other systems with high recovery ratios as heading in the right direction.

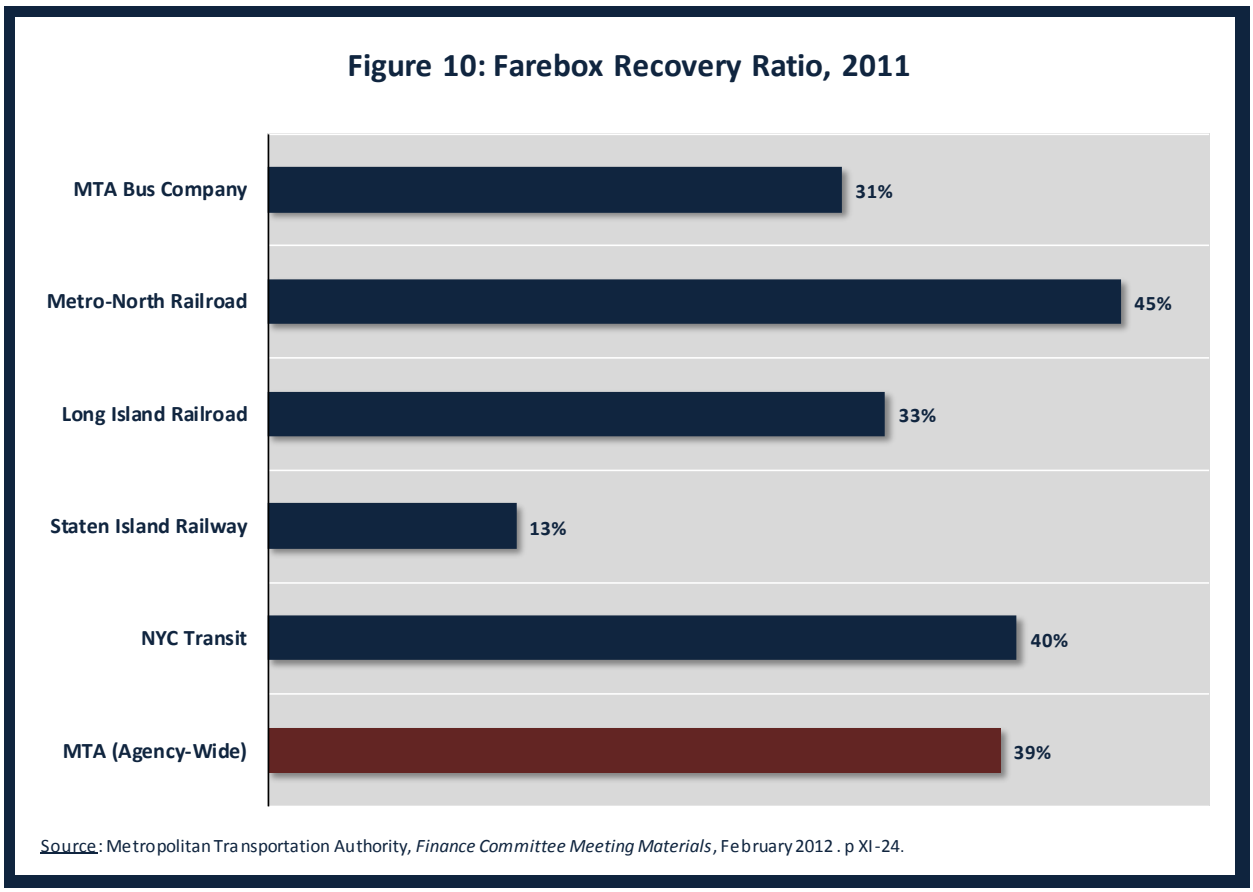
Figure 9: Share of Operating Costs Covered by Fares in Large U.S.Mass Transit Systems, 2010



Source: CBC Calculations. Data from Federal Transit Adminstration, *National Transit Program: RY 2010 Database*, 2011.

Despite its usefulness in benchmarking against other large systems, the farebox operating ratio is an inappropriate basis for setting revenue policies because it does not include depreciation or other measures of the cost of capital or annual OPEB obligations. These omissions make the MTA's (and other systems') reliance on fare revenue look larger than it actually is. Recognizing the limits of the farebox operating ratio, monthly reports to the MTA's Finance Committee also include an indicator called the "farebox recovery ratio." This ratio includes non-cash liabilities such as depreciation, OPEB obligations and interest expense in its calculation of expenses. The farebox recovery ratio provides a more meaningful measure of the agency's reliance on fare revenues.

Based on this more meaningful indicator, the MTA recovers less than 39 percent of its operating expenses through fares. The only service recovering more than 40 percent is Metro-North, while the LIRR has a lower figure of 33 percent. (See Figure 10.) None of the services approach the recommended 50 percent goal.



4. ***State and local subsidies to mass transit should cover at least one-quarter of the operating cost of those services and fund "catch-up" capital investments needed to bring the system to a state of good repair.*** If riders pay about half the operating cost of mass transit and motorists cover about one-quarter through a cross-subsidy, then the remainder should be paid with direct tax subsidies. This reflects the broad economic benefits derived from mass transit. In addition, tax subsidies should bear the cost associated with restoring the system to a state of good repair due to inadequate policies in earlier periods. It is unfair to put this "catch up" burden on current riders or motorists.[14]

MEETING FUTURE EXPENDITURE REQUIREMENTS

The CBC's funding recommendations, summarized as "25-50-25," can be used to determine how the MTA's budget can be balanced in the future. The starting point for this task is to estimate future expenditure requirements. The MTA's latest four-year financial plan provides projections of future revenues and expenses. For purposes of this analysis, the expenses for Bridges and Tunnels are excluded; these expenditures are covered by tolls and any surplus revenue is transferred to the MTA's transit operations. Expenditures are shown as projected by the MTA, except that to conform with GAAP only the interest portion of debt service is included. Also, OPEB obligations are not fully included; instead only one-half the annual OPEB liability is counted as a current expense to reflect the desirable policy of seeking to reduce the obligation in future collective bargaining. Additional initiatives to improve efficiency can and should lower these expenditure requirements, but in light of recent cost cutting measures these projections are a reasonable baseline.

Total mass transit expenses in 2016 are projected at nearly $16.9 billion. (See Table 3.) This is about $2.6 billion more than current policies would yield in revenue; this deficit is equivalent to 15 percent of projected expenditure requirements.

Table 3: MTA Projected Revenues by Source, 2011 and 2016
(dollars in millions)

	MTA Actuals 2011	MTA Projected 2016	CBC Guideline 2016	2016 Percent Difference
Total Revenues Necessary for Operations	**$14,458**	**$16,863**	**$16,863**	**0%**
Farebox and Other Earned Income	$6,042	$6,846	$7,285 - $8,095	6% - 18%
% of Total	42%	41%	45% - 50%*	
Dedicated Taxes & Subsidies	$3,833	$5,515	$4,720 - $5,530	0% - (15%)
% of Total	27%	33%	25% - 30%*	
Cross-Subsidies	$1,882	$1,865	$3,238 - $4,047	73% - 117%
% of Total	13%	11%	20% - 25%*	
Unfunded Deficit	$2,701	$2,637	$0	100%
% of Total	19%	16%	0%	

*Percentage share is net of allocation of $673 million for interest on borrowing for State of Good Repair (SOGR) work to tax subsidies. The $673 million figure is based on 35 percent of total interest of $1,923 million for SOGR projects, based on the share of such commitments in capital plans for 1982-2009 as shown in Figure 8.

Source: Figures for 2011 from Metropolitan Transportation Authority, *Consolidated Financial Annual Report 2011*, May 2012. Total Revenue Necessary for Operations and Farebox and Other Earned Income is reduced by a sum equal to Bridge and Tunnel operating and financing expenses. Bridge and Tunnel financing expenses estimated by CBC staff as a share of total MTA interest expense equal to Bridge and Tunnel share of total MTA debt service. Revenue from Dedicated Taxes and Subsidies is reduced by auto Cross-Subsidies, including Petroleum Business Taxes (PBT), MTA and NYCT PBT share of Metropolitan Mass Transportation Operating Assistance and MTA Aid Trust Fund as reported in Metropolitan Transportation Authority, *July Financial Plan 2013-2016*, July 2012: Vol 2. Section II: Subsidies. Pages 34, 41 and 44. Figures for 2016 from Metropolitan Transportation Authority, *2013-2016 Financial Plan*, July 2012. MTA figures adjusted by CBC staff. MTA figures adjusted to exclude debt service and include interest expense, assumed to be equal to 70 percent of MTA projected debt service. MTA figures for Other Post Employment Benefit Expenses adjusted to be equal to 50 percent of 2016 total projection. Total Revenue Necessary for Operations and Farebox and Other Earned Income is reduced by a sum equal to Bridge and Tunnel operating and financing expenses. Bridge and Tunnel financing expenses estimated as a share of total MTA interest expense equal to Bridge and Tunnel share of total MTA debt service. Revenue from expected fare and toll increases of 7.5 percent allocated to tolls and fares based on proportion of baseline fare and toll revenue. Revenue from Dedicated Taxes and Subsidies is reduced by auto Cross-Subsidies as described above for 2011.

If the CBC policy were followed to balance the MTA budget, then the needed additional money would not come equally from the three potential sources. Current tax subsidies (including the payroll mobility tax now under court challenge) are projected to exceed the 25 percent target by nearly $800 million. (The share for tax subsidies reflects the inclusion of state funds for catch-up SOGR capital project interest costs in addition to the 25 percent of operating costs.) Any projected "surplus" tax subsidy funds could be used to support additional state of good repair catch-up capital projects and/or reduce outstanding debt.

To cover half of expenses, transit fare revenues and other earned income would need to increase by approximately 18 percent more than currently projected for 2016; however, the fare component would need to increase 20 percent because the other sources of earned income, such as rents and advertising, are projected to grow less rapidly than fares. If fares were targeted to cover 45 percent of expenses, then the additional fare increase would be approximately 7 percent. Since the MTA's projected fare revenues include two increases of 7.5 percent each in 2013 and 2015, the total increase from 2011 would need to be between 22 percent and 35 percent. The lower increase would bring the current $2.25 per ride subway fare to $2.75 and the current monthly fare of $104 to $127; the corresponding fares with a 35 percent hike would be $3.04 and $140. While increases of this magnitude in a five-year period may seem burdensome, a broader time perspective shows them to be reasonable. (See the accompanying insert on the following page for an illustration of price changes for mass transit and other items essential to New Yorkers.)

In 1996, before the Metrocard technology was fully implemented, most mass transit riders bought tokens for $1.50 and each token was good for either one subway or bus ride. Adjusting for the modest discounts available at that time, primarily to senior citizens, the average fare revenue per subway and bus ride was $1.38 in 1996. After Metrocards were accepted on all buses and in subway stations, the MTA introduced policies of free transfers between the subway and buses and gave discounts for people buying weekly, monthly and other types of cards. Despite multiple fare increases between 2003 and 2011, the average revenue per ride was $1.63 in 2011. Adjusting for inflation makes the 2011 figure just $1.11 in 1996 dollars, cheaper than the $1.38 actual price per ride in that year.[15]

If current fares were increased between 21 and 35 percent by 2016 and use of discount Metrocards continued the current patterns, then the average fare revenue per ride would be between $1.99 and $2.20 in 2016 dollars. Adjusting for projected inflation the figures would be $1.27 and $1.41 in 1996 dollars.[16] Amazingly, after 20 years and seemingly large nominal fare increases, the constant dollar cost to customers of a mass transit ride would be between 11 cents lower and three cents higher.

Moreover, needed fare increases could be lessened if higher priority were given to capital investments and other changes that increase ridership and/or reduce collection costs.[17] Expansion of the use of countdown clocks in the subways is an example of capital investments that are "rider-friendly" and might increase ridership. Despite the success and wide popularity of this improvement on the A Division there are no plans in place at this time to expand countdown clocks to the B division. Modernization of fare collection on the subway and commuter lines could reduce collection costs and increase net revenue per ride.

Price Changes for Selected Items

	1996	2012	% Change
Metrocard Base Fare	$1.50	$2.25	+50%
Metrocard Revenue Per Ride	$1.38	$1.63	+18%
Electric Bill Rental Apartments Citywide	$60	$94	+57%
Movie Ticket	$8.50	$14	+65%
Taxi Fare 2-mile trip with 3-minute wait	$5.30	$9	+70%
H&H Bagel	70¢	$1.20	+71%
One-Bedroom Apartment Monthly Rent Citywide	$696	$1,308	+88%
Large Pizza Lombardi's	$10.50	$20.50	+95%
New York Post	50¢	$1.00	+100%
Cup of Coffee Coffee Cart, 10 oz.	50¢	$1.00	+100%
Pastrami Sandwich Katz's	$7.60	$15.95	+110%
Gallon of Milk	$1.59	$3.59	+126%
Gallon of Gas Unleaded Regular	$1.31	$3.62	+177%
Yankees Ticket Playoff Bleacher Seat	$11	$34	+209%

Sources:
Bureau of Labor Statistics
Metropolitan Transportation Authority
New York City Rent Guidelines Board
New York Daily News
New York Post
New York Times
South Florida Sun Sentinel
Taxi & Limousine Commission
U.S. Census
Yankees.com

The "25-50-25" guidelines have the most dramatic implications for the cross-subsidy from auto users. Under current policies these revenues, largely bridge and tunnel tolls plus an appropriation of state vehicle registration and license fees and of motor fuel and petroleum business taxes, fall between $1.3 billion and $2.2 billion short of the recommended amount for 2016. How could such a large sum be raised from auto users?

First, each of the existing sources could be increased. Bridge and tunnel tolls could be increased more than the currently planned 15 percent. For example, an additional 7 to 20 percent increase, paralleling the recommendation for mass transit fares, would yield an additional $120 million to $343 million annually. What would this mean for the actual amount of the tolls auto drivers would pay? In 2012 the toll in each direction at the "major crossings," defined as the Brooklyn-Battery Tunnel, Queens Midtown Tunnel, Robert F. Kennedy Bridge, Whitestone Bridge and Throgs Neck Bridge, is $4.80 for E-ZPass users and $6.50 for autos paying cash.[18] The planned 15 percent increase by 2015 would raise those amounts to about $5.50 and $7.50, respectively. An additional increase of 7 to 20 percent would put the E-Z Pass toll at between $5.90 and $6.60 and the cash toll at between $8.00 and $9.00. As a point of comparison, the current peak hour auto roundtrip toll on Port Authority Hudson River bridges and tunnels is $9.50 for E-ZPass users and $12.00 for cash customers; these tolls are likely to be increased by 2015.

Other motor vehicle charges can also be tapped. New York State's motor vehicle registration fees and drivers' license fees are low by comparative standards. A typical four-door sedan cost approximately $24.85 to register in 2008, lower than in all but 15 states in the country.[19] New York significantly raised its fees in 2009, but more recent comparative data are not readily available. Phasing in a doubling of the current fees over the next five years could raise an additional $350 million annually.[20] The state could also increase the gasoline tax from 34 cents to 42 cents per gallon, equal to neighboring Connecticut. The increase would yield an additional $120 million for the state, 20 percent of which goes to the Dedicated Mass Transportation Trust Fund. This fund allocates approximately 91 percent of revenues to the MTA, raising an additional $22 million for the MTA per year.[21]

In addition, new congestion pricing policies are a means for raising the needed funds. Congestion pricing arrangements impose charges for access to the central business district by motor vehicles. The primary intention is to encourage a shift from autos to mass transit for hub-bound trips, but they can also have the impact of raising new revenue from the auto users who do not shift.

In the context of New York City, congestion pricing schemes have two basic variations – East River bridge (ERB) tolls and a London-like arrangement under which a fee is collected electronically from autos using any of multiple access points (not necessarily limited to bridges and tunnels) to the central business district. Estimating the fiscal impacts of each plan is difficult, but each has the potential to yield significant new revenue.

- ***East River Bridge Tolls.*** On a typical weekday about 290,000 vehicles enter the central business district via one of four bridges connecting the area to Brooklyn or Queens.[22] These bridges are owned by the City of New York, and no tolls are collected on them. One policy option is to begin collecting tolls on these bridges. The "Ravitch Report," commissioned by Governor Paterson in 2008 as a response to capital and operating fund deficiencies for the MTA, included this form of congestion pricing in its recommendations. The plan estimated that setting tolls at East River bridges to match MTA bridge and tunnel tolls and Harlem

River bridges to the cost of a subway ride would raise $600 million annually.[23] The figure reflects the tolls in 2008, which were lower than current rates. Some of the money collected presumably would go toward maintenance for the East River bridges, but added funds also would be available for the MTA.

- ***London-like Congestion Fees.*** In 2003 local government in London implemented a program of motor vehicle charges, initially of approximately £5 (with incremental raises bringing the toll to about £8 in 2005 and £10 in 2011) for entering the central business district. It has proven to be successful at diverting motorists to mass transit (mostly buses) and reducing traffic and thereby speeding the route times for buses. It has yielded substantial gross revenues, but these have been partly offset by added expenses for the additional bus service and the new collection system.[24]

Versions of this congestion pricing plan for Manhattan's CBD have been proposed by the Mayor and more recently by Samuel Schwartz. These plans would impose tolls on the Brooklyn, Manhattan, Williamsburg and Ed Koch Queensboro Bridges and would apply the same fee amount to all drivers entering the CBD in Manhattan. These plans have resulted in various estimates of revenue based on fee structures, and net funds raised after implementation costs range from $200 million to more than $950 million annually. The funds would be distributed among multiple uses, but the MTA would receive significant additional revenue.[25]

None of these options by itself is a practical source for $1.3 billion to $2.2 billion in additional revenue, but some combination could be a realistic approach. The added burden on motorists would be substantial, but in an incremental rather than radical fashion. In 2011 residents and businesses in the region served by the MTA owned more than 5.6 million motor vehicles.[26] Based on the estimated current cross-subsidy to mass transit (Refer to Table 3), each vehicle owner now is paying about $335 annually or less than one dollar daily to support mass transit. Bringing the cross-subsidy to the level recommended by the CBC guidelines would increase that figure in 2016 to between $502 and $628 annually or between $1.38 and $1.72 daily. Of course, these are average amounts; depending on the particular charges relied upon, and especially whether a form of congestion pricing is included, the amount paid by drivers entering the central business district daily could be far higher than the amount for suburban residents who make only local auto trips.

CONCLUSION

Current financing policies will not bring the MTA to the destination most New Yorkers desire – fiscal stability for service operations and capital investments that place and keep facilities in a state of good repair and eventually provide for needed enhancements. The "25-50-25" strategy recommended by the CBC is a better way to pay for the MTA.

Change is never easy. Moving to new financial policies will put new burdens on some, but the benefits are large and spread among a wide range of New Yorkers. The "25-50-25" guidelines do *not* require tax increases; rather, transit fares must rise beyond currently planned levels and the use of autos and trucks should contribute much more to support mass transit services.

While no one is happy about paying more, the transit fares proposed, when discounts and inflation are taken into account, are well in line with historic levels. Straphangers will still get a bargain, paying no more than half the cost of a ride, and about the same amount in constant dollars as they did two decades ago.

The burden on auto users can be shared widely through a combination of increases in existing tolls, increases in existing license and registration fees, and higher fuel taxes. In addition New York should adapt and implement new policies imposing fees for vehicle access to the central business district.

Together these measures can provide the needed revenue for an improved transportation network that benefits the entire region economically, while also speeding travel time and reducing stress for those who continue to rely on their motor vehicles.

ENDNOTES

[1] See Citizens Budget Commission, *How to Balance the MTA's Budget* (Citizens Budget Commission, June 2006) Table 2, p. 4.

[2] State Budget Crisis Task Force, *Report of the State Budget Crisis Task Force* (State Budget Crisis Task Force, July 2012) p. 60.

[3] Unfunded OPEB obligations are projected to be $1,712 million in 2012, $1,756 million in 2013, $1,827 million in 2014, $1,897 million in 2015 and $1,968 million in 2016; excluding this amount from projected deficits would reduce the deficit to $1,338 million in 2012, $1,189 million in 2013, $1,369 million in 2014, $1,333 million in 2015 and $1,653 million in 2016 or between 6.5 and 8.4 percent of operating expenses in each of the projected years.

[4] Interest expense estimated as 70 percent of debt service. Debt service increases from $2,172 million in 2012 to $3,092 million in 2016, including Build America Bond Subsidies. See Metropolitan Transportation Authority, *July Financial Plan 2013-2016, Volume 2, Section II.*

[5] Metropolitan Transportation Authority, *Consolidated Financial Statements as of and for the Years Ended December 31, 2011, and 2010,* May 2, 2012, p. 61.

[6] Pew Center on the States, *The Widening Gap Update* (Pew Charitable Trusts, June 2012) pp.6-7.

[7] Metropolitan Transportation Authority, *July Financial Plan 2013-2016, Volume1, Section II "MTA Consolidated Statement of Operations by Category,"* July 2012.

[8] Metropolitan Transportation Authority, *MTA Capital Plan 2010-2014,* June 2010 and December 2011 versions. The amount and share for network expansion projects is from the December 2011 version, "All Agency Summary." Other category shares are from the June 2010 version based on CBC staff calculations using "Annual Commitments by Element."

[9] Metropolitan Transportation Authority, *Twenty Year Capital Needs Assessment 2010-2029,* August 2009. Retrieved from www.mta.info/mta/capital/pdf/TYN2010-2029.pdf.

[10] Metropolitan Transportation Authority, *Amended 2005-2009 Capital Program*, July 2008. "All Agency Budget Summary."

[11] Metropolitan Transportation Authority, *Amended 2010-2014 Capital Program*, December 2010. "All Agency Budget Summary."

[12] The Flushing Line Extension is financed primarily with dedicated funds from the City of New York and the other megaprojects receive substantial federal funding. To the extent these funds would not be otherwise available, they do not divert capital resources; however, they represent an opportunity cost for additional local and federal funding for other purposes.

[13] Citizens Budget Commission, *Working in the Dark: Implementation of the Metropolitan Transportation Authority's Capital Plan,* (Citizens Budget Commission, October 2009).

[14] The state and local subsides should be primarily regional in nature reflecting the regional economic benefits. Since multiple local governments serve the region, coordination and participation of these localities is likely to require state action including state imposition of statewide and regional taxes.

[15] Revenue per ride data from Metropolitan Transportation Authority, *Transit Committee Meeting: February 2012,* February 17, 2012. Figures exclude revenue from express bus service and discounted student fares.

[16] Future inflation based on projections in Congressional Budget Office, "Baseline Forecast – Data Release, CPI-U," January 2012.

[17] Aside from increases in base fares there are other fare policy options that the MTA could adopt to increase farebox revenue. One worthwhile approach advocated by the MTA in the past would be to place a ceiling on the number of trips permitted by weekly and monthly passes, primarily to reduce abuses from the sharing of cards and illegal sale of rides from discounted cards.

[18] The toll at the Verrazano Narrows Bridge is effectively the same, but it is collected in only one direction for a round-trip equivalent. The toll at the Henry Hudson Bridge is $2.20 for E-Z pass and $4.00 cash; the toll at the Marine Parkway-Gil Hodges Memorial and Cross Bay Veterans Memorial Bridges is $1.80 for E-Z Pass and $3.25 cash.

[19]Federal Highway Administration, *Highway Taxes and Fees 2008*, retrieved from http://www.fhwa.dot.gov/policyinformation/motorfuel/hwytaxes/2008/mv103pt1.cfm.

[20] New York State Division of Budget. *2012 Executive Budget Economic and Revenue Outlook,* April 2012. p. 363-367. Retrieved from http://publications.budget.ny.gov/eBudget1213/economicRevenueOutlook/economicRevenueOutlook.pdf.

[21] New York State Division of Budget, *2012 Executive Budget Economic and Revenue Outlook,* April 2012. p 232. Retrieved from http://publications.budget.ny.gov/eBudget1213/economicRevenueOutlook/economicRevenueOutlook.pdf.

[22] New York Metropolitan Transportation Council. *Hub Bound Report, 2010*, December 2011.

[23] Commission on Metropolitan Transportation Authority Financing, *Report to Governor David A. Paterson*, December 2, 2008. Retrieved from http://graphics8.nytimes.com/packages/pdf/nyregion/20081204_MTAREPORT.pdf.

[24] Todd Litman, *London Congestion Pricing: Implications for Other Cities,* November 24, 2011. Retrieved from http://www.vtpi.org/london.pdf.

[25] Estimates based on multiple iterations of the Mayor's Plan and Samuel Schwartz's Plan. Sources: Committee on Corporations, Authorities and Commissions, New York State Assembly, *Interim Report: An Inquiry into Congestion Pricing as Proposed in PlaNYC 2030 and S.6068*, July 9, 2007. Metropolitan Transportation Authority, *MTA Comments on New York City Traffic Congestion Mitigation Plan,* October 25, 2007. Samuel Schwartz, *A More Equitable Transportation Formula for NY Metro Area,* February 2012. Retrieved from http://www.capitalnewyork.com/files/equitable-transportation.pdf

[26] The exact figure is 5,620,113 for all registered vehicles as reported by the New York State Department of Motor Vehicles, *Statistics-Vehicle Registrations in Force – 2011,* www.dmv.ny.gov/statistics/regin11.htm accessed September 4, 2012.

THIS PAGE INTENTIONALLY BLANK

Citizens Budget Commission

Two Penn Plaza, Fifth Floor
New York, NY 10121

540 Broadway, Fifth Floor
Albany, NY 12207

Tel: 212-279-2605

www.cbcny.org