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Testimony on Congestion Pricing and the MTA's Fiscal Health

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Good morning. I am Ana Champeny, Vice President for Research at the Citizens Budget Commission (CBC), a nonpartisan, nonprofit think tank and watchdog dedicated to constructive change in the finances and services of New York City and New York State governments, and the Metropolitan Transportation Authority (MTA). Thank you for the opportunity to testify on congestion pricing and the MTA's fiscal health.

Four essential points that I would like to highlight today are:

1. The congestion pricing system and its implementation should be as clear and consistent as possible to ease implementation and ensure that the benefits are balanced among three goals—reducing congestion, reducing emissions, and supporting the MTA's capital plan;
2. Congestion pricing revenues are expected to support $15 billion in borrowing for the MTA's 2020-2024 Capital Plan, but the $1 billion in annual revenue may not go as far as expected because project costs may increase due to inflation and the MTA's ability to leverage those revenues may be constrained by higher interest rates;
3. Development of the MTA's 2025-2029 Capital Plan, which begins this fall, should focus on bringing the system to a state of good repair; projects will need to be prioritized as capital needs will exceed available resources; and
4. The State's stabilization plan and updated revenue forecasts have stabilized the MTA's operating budget, but there are significant risks that could weaken finances.

Congestion Pricing

As long-time supporters of congestion pricing, CBC is pleased that the MTA has secured federal approval and moved into the implementation phase. The current phase of congestion pricing implementation focuses on the Traffic Mobility Review Board (TMRB) developing fee structure recommendations—the tolls, exemptions, and credits—to provide to the Triborough Bridge and Tunnel Authority, which will decide on the final pricing schedule.

Congestion pricing furthers three goals: reduce congestion, reduce emissions, and support the MTA's capital plan. Some stakeholders have recommended additional credits and exemptions, pricing options, and ways to address pre-existing issues within congestion pricing. CBC strongly recommends keeping the system and its implementation as clear and consistent as possible to ease implementation and ensure that the benefits are balanced among the three goals. CBC's five specific recommendations, which we have previously shared with the TMRB, are:

1. **Limit exemptions to public and some private transit providers, those specified in the law, and those agreed to in the Final Environmental Assessment.** Proliferating exemptions would likely reduce the program's ability to achieve the above stated goals and risk the program's support among those who pay higher charges. The MTA should monitor results over time and adjust fee schedules as warranted to maximize progress toward goals.
2. **Do not provide credit for payment of MTA or Port Authority of New York and New Jersey tolls.** Credits will increase the congestion charge for drivers who are required to pay, given the law's $1 billion annual revenue mandate. While toll shopping among these facilities should be addressed, doing so through credits to the congestion charge would increase the program's complexity and significantly increase the congestion toll paid by other travelers.
3. **Vary the congestion charge by time of day and day of the week, and ensure the charge is easily understood and well-communicated.** Clear and timely communication will enable drivers to know the fee for trips at different time periods and to modify their trips, as the law intends. Avoid dynamic pricing that rapidly changes the charge based on vehicle levels in the zone, which would make it hard for drivers to plan ahead or to adjust plans and may engender public backlash.
4. **Consider charging a vehicle-miles travelled (VMT) fee for those that stay inside of the zone.** While a VMT fee for in-zone travel may not be feasible for the initial launch, in the future it would help meet the program's goals and remove in-zone vehicles' de facto exemption from the charge.
5. **Monitor and report congestion pricing outcomes and operational metrics to inform future policy adjustments.** Adjustments should be considered at regular intervals to ensure the program is meeting its revenue, congestion, and emissions goals. This should include an evaluation of limiting taxicabs and for-hire vehicles to one charge per day, as agreed to in the environmental assessment, which will increase the charges on other payers and shift more trips to these vehicles rather than mass transit, reducing the program's progress toward its goals.

MTA Capital Plan and Achieving a State of Good Repair

As noted, one of the goals of congestion pricing is to support the MTA's 2020-2024 Capital Plan. These revenues will fund essential investments in state of good repair projects that are critical to ensuring the transit system's safety, reliability, and efficiency.

The $1 billion in annual congestion pricing revenue is expected to support $15 billion in capital investment in the 2020-2024 Plan. However, there are risks that the funds may not go as far as initially expected. First, the cost of planned capital projects has likely increased due to inflation and to further deterioration of assets; projects in the 2020-2024 Plan are unlikely to be committed before 2027. Second, significantly higher interest rates may reduce the amount of funding the MTA can raise with $1 billion in annual revenue. Nonetheless, these critical revenues support roughly one-quarter of the 2020-2024 Plan.

This is also an opportune time to look forward to the 2025-2029 Capital Plan. The MTA's expansive transit assets are in significant need of ongoing capital investment to achieve and maintain a state of good repair.

MTA capital planning is a multi-step process, commencing with the release of the needs assessment this fall, then moving to a proposed capital plan that identifies projects and funding in fall 2024, and culminating with approval of a capital plan by early 2025.

- **Identify the needs:** The Twenty-Year Needs Assessment, due to be released by October 1, 2023, should provide elected officials, riders, and policy makers with a detailed presentation of the systems' capital needs over the next two decades.
- **Prioritize projects based on needs and available funds:** As the MTA's capital needs will exceed available funding resources, it should prioritize projects based on needs and available funding. While revenue from federal funds, MTA PAYGO dollars, MTA-supported bonds, the State, and the City will be identified, they will likely be insufficient to fully support the next capital plan based on prior plan levels; fully 45 percent of the $55 billion in funding for 2020-2024 capital plan is from sources that will not recur in the next cycle.

Operating Budget and State Stabilization Plan

It also is important to have a clear-eyed view of the stability of the MTA's operating budget.

CBC's analysis, updated after the release of the July 2023 Financial Plan, finds that the State stabilization plan and updated revenue forecasts largely addressed the MTA's operating budget gaps through 2029.

While this is positive news, the MTA continues to face significant fiscal risks:

- **Ridership recovery:** The MTA assumes ridership returns to 80 percent of pre-pandemic levels by 2026. If the recovery is slower, revenues would be below forecast. According to the MTA, a 5-percentage point shortfall in ridership would reduce revenue by $325 million.
- **High rates of fare evasion:** Similarly, the financial plan assumes fare evasion decreases. The recent spike has resulted in a fare revenue shortfall of $500 million annually. If the MTA's comprehensive actions are not successful, fare evasion could continue to result in revenue shortfalls.
- **Future labor costs:** The plan reflects the cost of the Transportation Workers Union pattern through 2026. However, after 2026, the MTA budget assumes annual employee raises will be 2 percent annually. If future contracts are higher, budget gaps would open. Each additional percentage point increase in raises costs about $100 million annually.
- **Achievement of efficiency savings:** Currently, the MTA assumes it will achieve $400 million of operational savings by 2024, increasing to $500 million by 2025. While CBC research finds even greater efficiency savings are possible, the MTA has not always been successful in implementing such savings efforts.
- **Funding for the upcoming capital plan:** MTA issued long-term debt is a likely funding component for the 2025-2029 Capital Plan, which would increase MTA debt service costs above what is in the financial plan. The amount and timing of this cost won't be known until the capital plan is approved next year.
- **Uncertainty of casino revenue:** The MTA is expecting $1.5 billion in one-time revenue from the awarding of three new downstate casino licenses and on-going revenue of approximately $200 to $400 million per year once the three casinos are operating. If licenses are delayed or revenue underperforms, gaps could open.
- **New York City contribution:** State law requires New York City to increase its support of paratransit by $165 million for two years; the MTA's financial plan assumes the higher contribution is on-going, beyond the current statutory requirement.
- **Economic uncertainty:** The July 2023 Financial Plan reflected some positive and negative tax revenue variances. While a recession is becoming less likely, there is still a risk that the economy weakens, and revenues fall below forecast.

Thank you for the opportunity to testify and I will be happy to answer any questions you may have.