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Mr. Thomas F. Prendergast
Chairman & Chief Executive Officer
Metropolitan Transportation Authority
2 Broadway
New York, NY 10004

Dear Chairman Prendergast:

I am writing on behalf of the Citizens Budget Commission (CBC) to present our views on the fare and toll increase proposals before the MTA board. CBC stresses two points:

- The Board should continue the policy of regular and predictable fare increases and move toward a long-term goal of covering approximately half of mass transit expenses with fare revenue; and
- Additional revenue should be raised from motor vehicle users to achieve a long-term goal of fully covering bridge and tunnel expenses and generating a surplus sufficient to fund one-quarter of mass transit operating expenses.

CBC recommends between 45 and 50 percent of expenses should be funded by fares; linking fares to expenses maintains pressure on management and labor to keep expenses down, and it makes clear to riders the implications of the outcomes of collective bargaining for the fare. The remaining share of expenses should be paid with tax subsidies (25 to 30 percent) and a cross-subsidy from motor vehicle users (20 to 25 percent) via tolls, other user fees, or both. Current MTA policy contrasts with this funding mix in two important ways.

First, revenues do not fully meet expenses on the basis of Generally Accepted Accounting Principles (GAAP), which include non-cash expenses of depreciation and of unfunded liabilities related to other postemployment benefits (OPEB), primarily retiree health care costs. Even after halving the annual OPEB liability to reflect the desirable policy of seeking to reduce the obligation through future collective bargaining, the MTA's deficit using GAAP is expected to surpass $2.7 billion in 2017.

Second, the current mix of revenues relies less than is appropriate on fares (40 percent of relevant expenses) and on cross-subsidies from motorists (12 percent). Since the MTA initiated biennial fare increases in 2009, the agency has moved closer to CBC's recommended mix, but moving even closer to the guideline requires two changes to the current planned fare and toll increases:

1. **Transit fares should increase greater than 4 percent in 2017 and 2019.** Operating expenses have increased an average of 3.9 percent annually since

the MTA implemented a fare increase in 2009. Fringe benefits for employees and retirees have increased 42 percent over that period. Yet the MTA has reduced the size of its initially planned fare increases in multiple ways: the original commitment of biennial increases of 7.5 percent was reduced to 4.0 percent; the effective dates of increases have been delayed from January to March; the percentage target was modified from a change in revenue yield to a price change. Even if 2017 and 2019 fare increases are implemented as planned, fares still are projected to cover less than 39 percent of total operating expenditures by 2020. Greater fare increases should be set in order to increase the share of expenses they cover.

2. **The MTA should seek additional motor vehicle use charges to cross-subsidize transit.** Like transit fares, tolls should be increased more than the current target of 4 percent. But increasing MTA bridge and tunnel tolls at a level high enough to meet CBC's guideline—77 percent using 2017 estimates—is not practical. Instead, the MTA should seek other motor vehicle user charges such as tolling of the City's East River Bridges, increasing gasoline taxes, levying additional motor vehicle fees, or introducing a vehicle-miles traveled user fee. The latter can better reflect the actual use of roads and bridges than motor fuel taxes, particularly as vehicles become more fuel efficient. Additionally, with the use of GPS technology, a vehicle-miles traveled user fee can be used to more accurately price a road's use according to its congestion.

In addition to these two recommendations, CBC has advocated other fare-related policies to improve MTA's services and finances including capping the number of allowed rides for weekly and monthly passes, which we estimated could have yielded more than $90 million in 2015; exploring peak pricing on subways and buses to reduce rush hour crowding; extending the fare calculation policy used for Senior Citizen EasyPay MetroCards to all EasyPay customers; and working with the federal government to pursue a more limited senior citizen discount policy that increases the age threshold, reduces the discount percentage, adds an income test, or some combination of these options.

The benefits of regular, predictable fare increases have helped bolster the MTA's financial condition and have allowed riders to plan for and adjust to the cost pressures on the system. While for most New Yorkers even the increased fares remain a bargain—the average revenue per ride remains $1.86 or two-thirds the base fare—the burden for low wage workers now is substantial, and the otherwise sensible policy of regular increases will worsen their situation.

A discount targeted to the neediest New Yorkers would be a sensible way to help make transportation costs more affordable. Funding such a discount should be a City, not an MTA, responsibility. However, as the MTA installs its expected new system beginning in 2018, it should ensure the contractor and the agency have the capacity to implement an income-conditioned fare structure so that if such a policy is adopted by the Mayor and City Council, it can be implemented quickly.

I hope you and your colleagues on the MTA Board find these suggestions helpful. We look forward to continuing to work constructively with you in promoting the fiscal health of the MTA and ensuring better services for all New Yorkers.

Sincerely,

Carol Kellermann
President

CBC