Permanent Citizens Advisory Committee to the MTA

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Testimony of the Permanent Citizens Advisory Committee to the Metropolitan Transportation Authority before the New York State Commission on MTA Financing

Monday, September 15, 2008

Good Afternoon. I am William Henderson, the Executive Director of the Permanent Citizens Advisory Committee to the MTA. The PCAC is the coordinating body for the three legislatively mandated riders' councils: the Long Island Rail Road Commuter's Council, the Metro-North Railroad Commuter Council and the New York City Transit Riders Council. Their volunteer members are appointed by the Governor upon the recommendation of local elected officials to represent the interests of the users of MTA services.

Thank you for inviting the PCAC to testify at this hearing. We are pleased that this public conversation about meeting the financial needs of the MTA is finally taking place. For too long we have moved from crisis to crisis, from deficit to deficit. The fiscal challenges that we face today have been on the horizon for years, but a booming real estate market allowed us to delay the day of reckoning. Unfortunately, instead of a program of steps needed to build a stable foundation for the long term, managing the MTA's finances has become a recurring exercise in saving service levels, saving the fare, and saving the MTA Capital Program. Just last week, I was discussing the next MTA Capital Program and it was noted that the prospect of bridging the gap between identified funding and needs appears grim, but my counterpart then remarked "but it's always that way."

My point today is that it shouldn't always be that way. There is far too much at stake to entrust the future of this State to a process that requires a periodic visit to the brink of disaster in order to provide necessary funding for the operation, maintenance, and improvement of this region's public transportation system. The health of the MTA is critical not only for the millions of New Yorkers who rely upon it for mobility, but also for the future of our region and State. Without a public transportation system that is efficient, stable, and reliable we simply cannot compete with other major world cities.

We recognize that setting the MTA on firm financial ground will require our public officials to address many difficult issues. With the limited time available today I would like to focus on the extensive use of debt to fund MTA capital improvements, which the PCAC believes poses a substantial threat to the stability and reliability of our public transportation system.

We all know that the MTA's debt is immense. Governor Paterson, among others, has noted that the MTA is the fifth largest debtor in the nation, behind only California, New York City, New York State, and Massachusetts. As of July 2008, the MTA owed its bondholders over $25.7 billion, and the debt service on MTA-issued securities is currently over $1.5 billion per year. This amounts to approximately 13 percent of the MTA's total expenses, but in just four years this figure will grow to over $2 billion dollars, accounting for 16.5 percent of expenses. After payroll, debt service is the MTA's largest expense, and it is by far the most rapidly growing component of the MTA budget.

We do not suggest that there is never a place for borrowing to finance MTA capital improvements. Issuing bonds was an important part of the rescue of the transit system in the 1980's, but actions that are necessary in an emergency may not be prudent to maintain for the long term. We also recognize that it may be appropriate to finance capital improvements with enduring future benefits over the improvements' useful life. The question is not whether debt should ever be used as a financing tool, but instead the level of debt that can responsibly be incurred without jeopardizing the system's fiscal health.

It is clear that we have exceeded this level. Simply stated, we can no longer afford to put large portions of the MTA Capital Program on a proverbial credit card. Much of the debt that currently imperils the MTA's financial well being dates from the 2000-2004 Capital Program, where the combination of a defeated Bond Act and sharp reductions in State and local aid resulted in unprecedented levels of borrowing. The failure of the State and City to adequately fund MTA capital needs since 2000 is the primary factor driving the current rapid increase in MTA debt service costs.

The only responsible alternative to the current situation is for State and local governments to return to historic patterns of support for MTA capital needs. Currently, the State makes no direct contribution to the capital program beyond $1.5 billion in funding for the current Capital Program mandated by the 2005 Bond Act, while New York City currently contributes just over $100 million annually to the MTA's capital needs, exclusive of funding for the 7 line extension, a project added to the MTA Capital Program only at the behest of the City. In the first two MTA Capital Programs, the State provided 19 percent of the necessary resources, while the City provided between 10 and 14 percent. According to the New York City Independent Budget Office, overall New York City and State subsidies to the MTA have remained stagnant in real dollar terms since 1990 while fare and operating revenues have increased substantially.

Some may ask why the users of the system cannot be called upon to do more. The fact is that, through the farebox, riders already fund a greater percentage of system operating costs than users of any major public transportation system in the nation. New York City Transit users pay 58 percent of the operating cost of their system, while riders of the Long Island Rail Road and Metro-North Railroad pay 44 and 54 percent, respectively, of operating costs. By way of comparison, riders in Chicago pay 43 percent of operating costs, Philadelphia riders pay 37 percent, and Boston riders pay 29 percent. Moreover, it makes no sense to rely upon fare revenues, which even in the MTA system do not cover operating costs, to finance capital needs.

Beyond the reform of future capital financing, however, any plan for adequately funding the MTA must address the Authority's existing debt. If it is to provide the level of service that this region requires, the MTA desperately needs funding to meet the obligations of bonds issued to finance past Capital Programs. The additional funding provided to bear the staggering burden of $25.7 billion of MTA indebtedness must be reliable and stable over the life of the debt. We cannot rely upon sources that provide widely fluctuating levels of resources to service bonds with fixed repayment schedules. We acknowledge that this solution requires the current Governor and State Legislature to remedy the mistakes of the past, and we do not recommend this course of action lightly, but we strongly believe that it is the responsible course of action.

The PCAC believes that the funding structure developed to meet current and future capital needs and relieve the burden of existing MTA debt could feasibly take a number of forms. This is properly a decision for this commission and our elected officials. We are convinced, however, that any revenue stream that would meet these needs must be stable, reliable, and capable of growth to account for inflation and increasing demands upon the system. We also insist that if this structure includes dedicating tax or other revenue streams to capital funding, these revenue streams must be reserved only for the purposes originally intended. This State has enough of a history of diversion of transit funding from its original purpose to justify the creation of a lock box for these resources.

We understand that reform of MTA capital funding is not a comprehensive solution to the MTA's fiscal crisis, but unless these critical issues are addressed, it will be difficult to stabilize the MTA's finances. For the long-term future of our transit system, we need to reverse the chronic underfunding of the MTA's capital needs by State and local governments and move forward with the investments that are necessary for the health of our State.