PCAC
PERMANENT CITIZENS
ADVISORY COMMITTEE TO THE MTA

2 Broadway, 16th Floor, New York, NY 10004
(212) 878-7087 mail@pcac.org



**Statement of the Permanent Citizens Advisory Committee to the Metropolitan Transportation Authority to the Senate Standing Committee on Infrastructure and Capital Investment and the State Standing Committee on Transportation**

**Monday March 2, 2015**

The Permanent Citizens Advisory Committee to the MTA (PCAC) was established by the New York State Legislature as the umbrella organization for three legislatively-mandated Councils that represent the interests of riders of the Metro-North Railroad, Long Island Rail Road and New York City Transit systems. A representative from each Council also participates as a non-voting member on the MTA Board. The Councils were created by the New York State Legislature in 1981 to monitor the operation of the MTA's operating agencies and make recommendations to improve their performance.

We appreciate the opportunity to testify on the financial challenges facing the Metropolitan Transportation Authority (MTA) and the actions necessary to prevent annual operating deficits and protect riders from excessive fare increases or service reductions.

The past eight years have been a difficult financial period for the MTA. It is difficult to conceive that, riding high on revenues from dedicated real estate-related taxes, the MTA was in 2005 and 2006 able to offer its riders a "holiday bonus" that included half-fare on NYC Transit on weekends and the last week of the year, bonus days on time-based MetroCards, and free off-peak tickets on commuter railroads with the purchase of commutation tickets. Difficulties in the larger economy soon after ended the good times, and since 2008 the MTA has struggled mightily to provide service within funding constraints.

The MTA's efforts to balance the budget have included the $1.1 billion in annual cost saving measures alluded to in the public notice for this hearing. Unfortunately, they also included a package of service cuts approved in 2010 that produced hardship for a great many riders. Improvements in the general economy and consequently the MTA's financial position allowed the authority to approve annual packages of service restorations and enhancements beginning in 2012, but fare increases agreed upon in conjunction with 2009 State rescue legislation that made additional funding available to the MTA have taken their toll on riders.

The series of fare increases put in place since 2009 has severely impacted household budgets at the same time that many riders are coping with stagnant or falling incomes. As a result of the upcoming fare increase, a family with two commuters from Wassaic on Metro-North's Harlem Line, using NYC Transit to complete their journeys, would pay over $1,250 per month in monthly commuting costs, before taking into account the additional cost of transportation to their home station. This is an extreme example, but not an isolated one. For many MTA riders, the affordability of transportation is clearly becoming more of an issue.

The PCAC and its Councils do not believe that riders should be held harmless from the increasing cost of providing service on the MTA system. To the contrary, it is long been our position that riders, like all who benefit from the MTA system, must pay their fair share of the cost of operating the system. Of concern to us, however is the fact that MTA riders already pay the highest percentage of operating expenditures of any public transit users in the nation. In 2012, the last year for which national data were available, this figure was 53.2 percent, compared with 33.2 percent for systems nationally. Subway and bus riders pay 52.6 percent of operating expenditures, while subway riders alone pay a stunning 73.2 percent. The fare hikes in 2013 and 2015 have the effect of increasing the proportion of the cost that is borne by riders.

A primary factor exerting pressure on the MTA's finances, and consequently on the fare, is the Authority's immense bond obligation, incurred as a means of financing needed capital expenditures. We continue to be concerned about the MTA's debt load, which as of the end of 2014 topped $34 billion. As a result of heavy borrowing to fund past Capital Programs, the MTA expects its annual debt service expenses to rise from $2.3 billion in 2014 to $2.9 billion in 2018. To provide some perspective, in 2018 the debt service that the MTA must pay will amount to over 49 percent of the fares that it collects. Increasing this burden without new revenues to meet debt service needs is clearly not a viable option.

The challenges facing the MTA system demand a balanced approach. An important element of the MTA's financial picture that remains out of balance is spending on capital investments. The MTA's spending on capital investments is programmed through a series of five-year Capital Programs, which are developed by the MTA and subject to the approval of the MTA Capital Program Review Board, consisting of representatives of the Executive Branch, Assembly, Senate, and for projects involving MTA New York City Transit, the City of New York. This system, in place since 1982, has served the MTA system well, directing about $150 billion in 2014 dollars to maintenance, improvement, and expansion and fueling dramatic increases in service quality and quantity. Unfortunately, there is currently no approved Capital Program in place for the period 2015-2019.

It's important to note that the need for capital investment is ongoing and that we believe the State has a responsibility to adequately provide for the MTA's capital needs so that the vital work needed to maintain and improve bus, commuter rail, and subway service will not be delayed. There is much work to do. Although its infrastructure has been stabilized and reliability improved greatly from the 1970's and early 1980's, the MTA system requires a constant infrastructure renewal and maintenance effort to support this improved service. Rails and stations must be renewed, new buses, rail cars, and locomotives must be purchased, and signal systems must be replaced.

The capital needs of the MTA go beyond maintaining the system in a state of good repair. This region faces great challenges in adapting to new weather patterns, and the MTA's assets must be hardened against more frequent and severe storms. Further, ridership of the system is changing and expanding. We are seeing increasing demands on the MTA system, with ridership, particularly in the subways, reaching levels not seen since the 1940's and 1950's. There must be more capacity to handle these increasing demands. For this reason, the MTA needs modernized signal systems that allow more trains to travel over the same tracks and new fare systems that will allow it to efficiently collect fares and speed bus boarding. It must continue the development of better information systems, such as the subway "countdown clocks," the BusTime information system, and help point intercoms, which make travel more secure and efficient.

The MTA must follow through on the commitment that it and the City made to providing rapid bus service and to expanding and improving the rapid bus network. It needs to provide new commuter rail facilities and equipment to respond to changing population and development patterns on Long Island and in the five MTA counties north of New York City and to ensure that LIRR and Metro-North service meets federal mandates and is as safe as possible. This is not possible without a robust MTA Capital Program and the funding to carry it out.

For all the good that the Capital Program has done and all the promise that it holds for the future, there remain serious issues in addition to the current lack of an approved Program. The first is that the MTA investment in its capital assets is stunningly low. A recent KPMG study estimates the replacement value of the MTA's asset base at $1 trillion by 2017, while a very conservative figure that considers depreciation and other factors in a manner consistent with the financial statements of major corporations sets the value at $485 billion. Even at this lower figure, the MTA invests in its capital assets at a rate of only 1.1 percent per year, dramatically lower than private freight railroads that invest at rates annual rates between 6 and 7 percent. The MTA's relative investment rate is even lower when compared to regional utility companies and other firms in the transportation industry such as UPS and FedEx.

Planning for adequate investment in the MTA's asset base will mean nothing if the resources necessary to achieve these plans are ultimately unavailable, and the PCAC remains apprehensive that necessary resources may not be at hand to make necessary transportation investments. Even at the relatively low reinvestment rate that the MTA has proposed for 2015-2019, only about one half of the funding to make these investments has been identified.

The MTA's proposed Capital Program includes a funding gap of $15.2 billion, and that is assuming current federal support for transit will be maintained. Recent history does little to quell those fears. The 2009-2014 MTA Capital Program was not fully funded when initially adopted, was reduced to meet available funding, and was largely financed through increased debt backed by funding originally intended to provide capital funds on a pay as you go basis. The outlook for this MTA Capital Program is, if anything, worse than in 2009.

This year's Executive Budget proposal is not encouraging. While gaining approval of an appropriately sized and adequately funded Capital Program is the MTA's most critical need for the future, the Executive Budget essentially does not address the MTA's looming capital resource needs. This leaves the MTA unable to make substantial long-term commitments to capital spending, threatening the State's construction and industrial sectors and the thousands of jobs that depend upon them.

In addition, we continue to be concerned by the ongoing diversion of revenues from dedicated transit funds to uses other than those for which they were originally intended. In this Executive Budget, $121.5 million of transit revenues from the Metropolitan Mass Transportation Operating Assistance program (MMTOA), which are dedicated to downstate operating needs, are used to fund a new capital account, while the State simultaneously increases operating funds for the MTA with $37 million from general funds. A further diversion of dedicated funds is found in the continuation of the use of dedicated MMTOA transit funds to pay off State debt, in this case directing $20 million to pay the debt service on State "Service Contract" bonds. This diversion is planned to be repeated through 2019.

An improving economy has strengthened the MTA's financial position, but these positive developments could be short lived without adequate financial support from the State. The system is simply not in a position where it can afford to lose revenue sources. The MTA's adopted budget projects a closing cash balance of only $64 million for 2015, which is a razor thin margin for an organization with an annual budget of over $13 billion. We are thankful that the MTA's finances allow for essential service to be maintained, but the fact remains that this cushion is less than one half of one percent of the MTA's total expenditures.

Because this budget remains so precariously balanced, the stability of the MTA's funding is critical. The PCAC has for many years called upon our elected officials to provide the MTA with a balanced package of funding sources that, taken as a whole, are stable, reliable, and able to grow in line with the increased cost of providing the level of transportation services that are provided. We continue to believe that safeguards, such as a meaningful lockbox for dedicated funds, should be in place to prevent raids on MTA funding. While there is reason to be cautiously optimistic about the current financial picture, changes can be rapid. Many of us remember all too well that the MTA's abundant resources of 2005 and 2006 evaporated quickly into the financial crisis of 2009 and funding and service cuts of 2010.

If new dedicated funding is not provided to the MTA, the only way to fund the Capital Program will be more bonding against existing revenues. But it is not reasonable to ask an entity that cannot meet its full operating costs through farebox revenues and can only with great difficulty produce a self-sustaining budget to fund capital expenditures through bonds backed by fare revenues. As we noted earlier, this strategy will only result in an increase of the MTA's current debt load of $34 billion and further increases in annual debt service projected to reach $2.9 billion in 2018 and amount to over 49 percent of fares collected.

We believe that the state must return to its legacy of support for the MTA and ensure that funding the 2015-2019 MTA Capital Program will not put pressure on the MTA's operating budget or on its fares and tolls. Along with riders, those who receive advantages from the MTA system also include motorists, business and real estate interests, and all who depend on the economic vitality made possible by the MTA system. These persons and entities have traditionally paid their share of the cost of operating the MTA through a series of dedicated taxes and State general fund appropriations, and the State must now take a fresh look at funding sources that are tied to benefits that the system generates.

Creating a strong and equitable funding structure for the MTA may require consideration of measures such as rationalization of bridge and tunnel crossing charges to generate additional toll revenue while reducing the negative impacts of "bridge shopping" on neighboring communities. Revenues could also be increased through adjustments to some of the existing revenue sources that benefit the MTA system. Another possibility for new revenue is the capture of a portion of the value created through the construction or improvement of transit facilities through special assessment districts or other means.

The State rose to the challenge of rescuing the MTA from its 2009 financial crisis and we ask for you to once again rise to the challenge of creating a more usable and efficient system. The Downstate region and our State would not exist in their present form without the public transportation service provided by the MTA and its operating agencies. It is only proper that all those who are benefitted by the MTA system provide for its support. We ask for our elected officials to initiate and guide a public discussion that leads to a funding structure that will assure the long term success of the MTA system.