Statement of the Permanent Citizens Advisory Committee to the MTA (PCAC) to the MTA Finance Committee on the Proposed Funding of Labor Cost Increases April 28, 2014

Good morning. I am here today to discuss the anticipated funding of increased costs from MTA labor contract settlements, as outlined in the April 22 Supplement to the April 11, 2014 Official Statement relating to MTA's Series 2014B Transportation Revenue Bonds.

The PCAC's policy is to not involve itself in ongoing labor negotiations, and we will not address the specifics of any settlements. The PCAC is, however, extremely concerned about the anticipated funding of these settlements by shifting resources from:

- planned contributions to reduce underfunding of the LIRR Plan for Additional Pensions
- planned contributions to the MTA's Other Post Employment Benefits Trust
- planned PAYGO[i] capital spending at a rate of $70 million per year.

The PCAC has long supported the MTA's efforts to reduce unfunded pension and post employment benefit liabilities. A one-time reduction in unfunded liabilities yields an ongoing stream of cost savings that substantially benefits the MTA and its riders. The underfunding of the LIRR Plan for Additional Pensions is particularly egregious, with a funding level of only 26.8 percent as of 2012. Funding other post employment benefits as workers earn them is not legally required, but these obligations are a significant liability to the MTA. Failing to provide for both types of obligations in the present shifts costs to future MTA riders, who pay higher fares or receive less service because the Governor and MTA Board sought to avoid fare and service impacts in the short term.

The anticipated reduction in PAYGO capital spending is equally distressing. Funding the current Capital Program has been a struggle, and finalizing the 2015-2019 program will be tremendously challenging. The needs for normal replacement, modernization, and expansion of the MTA's capital stock are immense, and many commentators note that resources devoted to maintaining and improving MTA capital assets have not been adequate. This is certainly not the time to take $70 million per year, amounting to $350 million over a Capital Program or funding to service $1.3 billion in bonds, off the table.

These anticipated shifts once again call into question whether the MTA's present funding structure in fact meets its short and long term needs. PCAC continues to call for a frank public discussion of the level of resources needed to operate services that are so critical to this region and the ways that these resources should be provided.

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[i] PAYGO capital funding provides resources from the MTA operating budget for projects contained in the Capital Program. It may be expended on a current year basis or may be used to fund ongoing debt service on bonds for capital expenditures.