MTA Finance: Testimony to the Ravitch Commission
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Commissioner Ravitch and Commissioners.

Thank you for inviting me to present my thoughts concerning structural financial reform for the MTA, and, in particular, its public transit operating units. I come with substantial experience in and with the transit industry, ranging from research and studies – many of them seminal, to my operating experience as the Executive Director of the Chicago Transit Authority. My talk could be very brief – just be sure that the State and City live up to their responsibilities and fully fund the operating and capital needs of the MTA. But this would avoid the complexity of the current problem. When the MTA was put into place in the 20th C, it was believed that the combination of revenues from tolls, and the basket of tax related subsidies would suffice to meet NYCT, LIRR and MNR operating needs, while debt financing would assist capital programs. Now as we approach the 2nd decade of the 21st C we see that the ground rules have changed. Local and federal support has followed the path of devolution stared in 1980, local demographics have changed, operating costs have rapidly increased (and will do so as fuel and related items increase more rapidly than inflation) and capital project costs are also escalating rapidly because of external pressures.

As we begin to look for funding solutions for both the operating and capital programs, we must examine the following questions:

1. Why can London, Tokyo, Paris and Shanghai have extensive expansion and modernization programs, while the MTA cannot?
2. How is transit provided in European capitals – do they follow the MTA model? Does it follow that MTA organizational reform must accompany financial reform?
3. What role must the public play – in terms of fares?
4. What role must other beneficiaries play – employers, developers, the City and the State – in terms of support?
5. Who is responsible for equity?

Each of these questions could be answered by a major thesis – and definitive answers are beyond the scope of this testimony. I have provided the Commission with papers on fares and peer agency support through Mr. Gilchrist's office. I would like to take the very brief time I have stressing some points I think essential to the Commission.

1. First – what are some benchmark numbers we can work with? From data provided to USDOT/FTA for the 2006 National Transit Data Base, we find the following: (1). Annual unlinked trips – 2.8B; (2) Total operating expenses - $4.8 billion; (3) Total fare revenue $2.7B. The general point that I want to make here is that it costs a fixed amount to provide each and every trip, here $1.72/trip. Fares cover – for NYCT 55% of the operating costs (or $.97 for each trip). The trips represent the level of service that the Board sets for the MTA. In NYC service is provided 24hrs/day throughout the entire city – with short headways along the densest routes. This LOS is the MTA (and its Board) commitment to the passenger. For our neighbor SEPTA (Philadelphia) it costs $2.53 trip and fares return 37% of the operating costs. NYCT (and the MTA) are about the most efficient properties in the US and have the highest farebox recovery among large rail/bus properties in the US.
2. In one sense, we might say that a type of equilibrium has been achieved between operating expenses and fares over the last decade. But – and this is the big but – it must be made very clear that the operating budget does not mean that all operating needs are accounted for. Modernization can occur at a more rapid pace, communications, signals and other electronics can be installed more rapidly, stations can be improved more rapidly, escalators – well, what do I need to say about escalators. Simply there is a gap between this equilibrium operating budget and operating needs for a world class system. And, of course, MTA must get to the next generation (actually 2 generations) of electronic fare media.
3. The important fiscal concept is that the MTA must have <u>continuing and predictable</u> sources of operating and capital support. The levels of support needed should emerge from a comprehensive strategic planning process in which the most critical elements are identified and (at minimum) 5 year programs – with identified support – established. While, in the transit industry it is always stated that safety comes first (as it should), system modernization and customer needs must be elevated to the highest priorities.
4. These budgets can be balanced by a combination of fares, grants and subsidies:
    a. Fares must be seen as a reasonable price the rider pays for the level and quality of service provided. For too long fares have been set to balance budgets - with no concern to product rendered. When at CTA, I brought to our Board a 10 point checklist that would accompany discussions of fare changes. It is my belief that the fares –as currently set – reflect only a political and conservative response to perceived rider pressure. As part of reform, innovations in fares, including full operating cost and deep discounting, time of day, distance, and the use of next generation fare media must be studied. London has set extremely high – by US standards, base fares for the underground, with deep discounts available by using advanced fare media (the oyster card). Ridership continues to

increase. Bus fares – kept low through State subsidies and transfers from congestion pricing are set to rise to full price. But – the customer gets value – and is willing to pay for value.

b. The State, Counties and City are beneficiaries of a transport system unlike any other in the US. But there is a mis connect between these units of government and the MTA. The MTA is not a company that happens to be in NYC and suburbs. It is an integral part of the operations of the region – hence a regional board. Each of these units of government have a major responsibility to provide operating support to help the NYCT, MNR and LIRR achieve the levels and quality of service appropriate to a world capital. Examples include dedicated sales tax revenue,special tax transfers as currently designed and, based upon the strategic planning concept, funds from general revenue, when there are shortfalls in dedicated taxes. In addition, the State and City should assume all bond interest - debt service - payments that are now a substantial part of the operating budget. Attaching such costs to operating budgets is an example of bad practice in the transit industry. A good metaphor for such practice is this summer's subways running with one car out of ten not air conditioned. The more than 10% of operating budget going to non operating functions – debt service – has a direct impact on what the customer sees. Finally, access to Core vital jobs and activities can be supported through a more vigorous and carefully structured approach to congestion charging – and the revenues from congestion charging used to support public transit, as in the London example.

c. Developers and employers are direct beneficiaries of this superb transit investment. In Paris, employers pay taxes to support the transit system – and, they also subsidize their employees transportation. I haven't seen an exodus of employers out of Paris because of these taxes. Similarly, in many European Cities, developers are invited to co develop stations or pay fees to develop near station areas. The public has invested in accessibility and should gain some of the benefits of the development linked to accessibility. While RE transfer taxes are part of the subsidy equation, assessments to new units in condos, co-ops and rentals should also be part of transit support. Thousands of new units have been built on the upper west side – my neighborhood – because of the formerly - not that crowded - subway system. How should station improvements and increases in service be provided – and who has the responsibility of under writing the costs? For new expansion projects, e.g., SAS, each station should have a co-developer underwriting the costs – and perhaps design. Some can be direct investments; some can come through special taxing districts. MTA must begin to see itself as a developer, and bring back to the public benefits that the public has been investing in.

d. The issue of equity is a difficult one. How do we address issues of travel for the low income? Is it, in fact, the responsibility of the transit system to address this, or is this a compact that the City and State have with its citizens. The MTA sets a budget based on real operating costs. But revenue to support that budget is in the control of the City and State through their appointed Board members. If the City and State create a low fare mandate, then they have the responsibility for subsidizing the operating differences between the low fare and true costs. This allocation of equity needs real discussion – and the impacts of artificial fare levels must be fully presented and analyzed.
e. In conclusion:
    i. The City and State have obligations to the MTA to sustain the collective systems at a world class level – supporting the world class economics of the region.
    ii. The public can share in the costs through a more realistic and modern approach to fare setting and collection,
    iii. The private sector – beneficiaries of the public investment have a fiscal responsibility and as new approaches to funding are examined, they must be seen as a part of the solution, and, finally
    iv. The allocation of equity, as a social contract by the State and City must also be absorbed by them if they wish to have a role in fare setting.