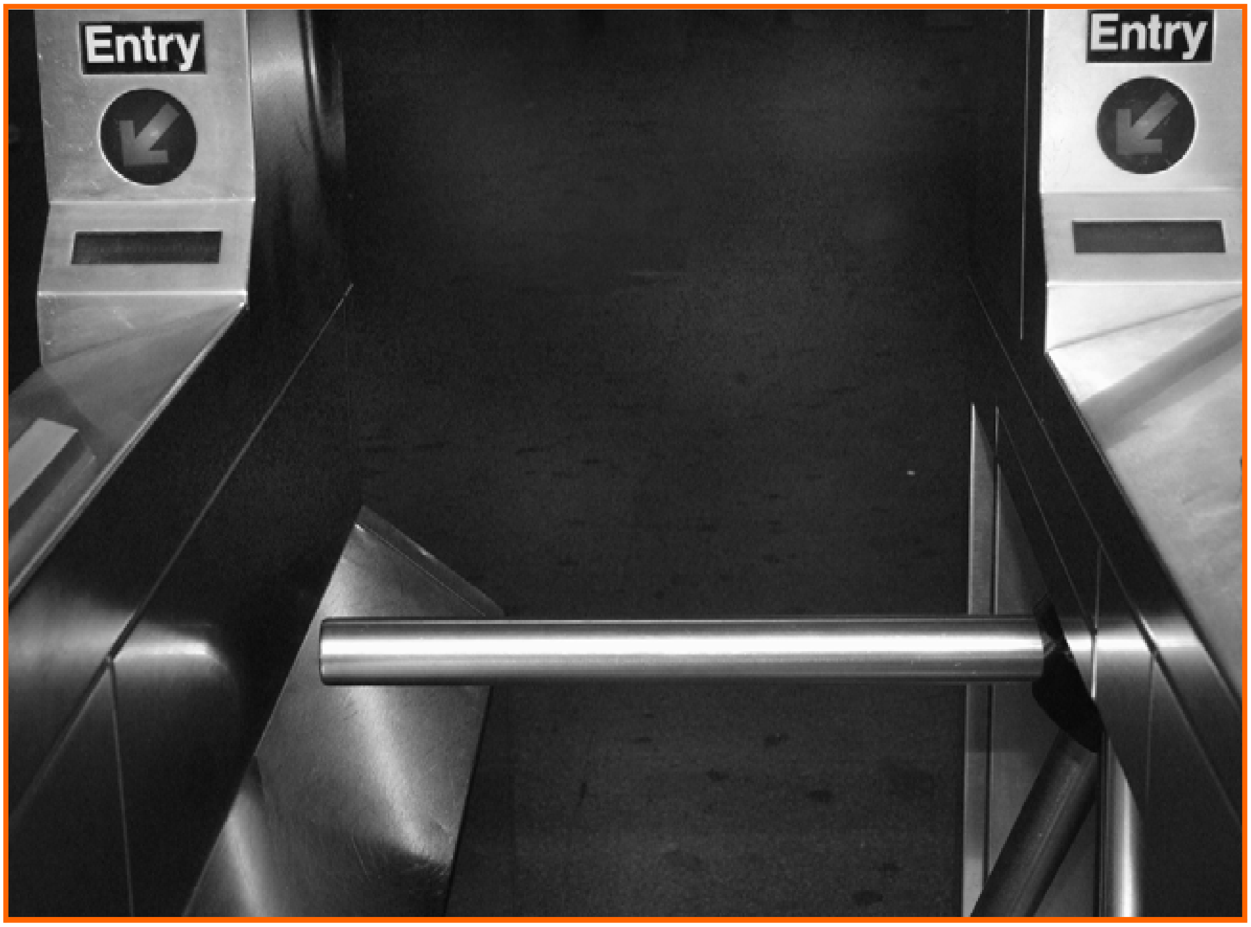
policy report

Office of the New York City Comptroller
Office of Policy Management

William C. Thompson, Jr., Comptroller

Putting the Brakes on the Bus and Subway Fare:

Options for Eliminating Fare Increases in 2008 and 2009



1 Centre Street
New York, NY 10007
(212) 669-3500

Executive Summary

The Metropolitan Transportation Authority's (MTA's) short-term financial picture improved markedly this year as a result of continued strong growth in economically sensitive tax revenues. Based on new MTA budget estimates released at the end of last month, the gap between total operating revenues and expenses predicted for 2008 has disappeared. The MTA is nevertheless proposing fare and toll increases for early next year, largely as a way to begin addressing large gaps forecast for 2009 and beyond.

Before the MTA plans for higher fares and tolls and the next phase of its capital program, the State and the City must provide previously denied funding to MTA New York City Transit. The extra cost to New York City and New York State would be a recognition of the critical importance of mass transit as an economic engine and would support a need to shift travel from private vehicles to mass transit.

In furthering these goals we have identified several sources of additional New York State and New York City revenue totaling $728 million that could be tapped to avoid a fare increase in 2008 as well as minimizing the MTA's budget shortfalls in 2009 and 2010. Several of our recommendations would provide funds to New York City Transit (NYCT), rather than to the MTA as a whole. This approach is appropriate because NYCT accounts for 62.5 percent of the MTA's operating costs excluding any debt service allocation, and about 74 percent of total operating deficits before subsidies in 2008. NYCT carries about 90 percent of the MTA's total ridership and 85 percent of all transit trips in the state.

All of the following additional revenue sources derive from existing dedicated tax funds or subsidy programs, primarily from restoring revenue transferred from NYCT in previous years or from formula payment programs which the State has capped at levels below what NYCT is eligible to receive. These are recurring revenues, subject to legislative appropriation, that address the NYCT and MTA structural deficits.

1. *Restore full State funding of the 18-b operating assistance program—$142.4 million annually from the State to NYCT.*

2. *Lift the cap on the 18-b operating assistance formula—$195.4 million from the State and $195.4 million from the City to NYCT.*

3. *Adjust the MTA Bridges and Tunnels surplus distribution formula to reflect 39 years of inflation—$57.5 million annually to NYCT; also adjust the formula to reflect the distribution of users of the toll facilities (55 percent City residents)—an additional $26 million annually to NYCT. Combined, a reallocation of $83.5 million in MTA Bridge and Tunnel surplus.*

4. *Stop using dedicated downstate transit tax revenue to fund upstate transit system needs—$13.3 million annually from the State to NYCT.*

5. *Adjust the school fare subsidy from the City and State to more accurately reflect actual use of student MetroCards—$38.6 million a year in additional school fare reimbursement from the State and $32.9 million from the City to NYCT.*

6. *Reinstate City funding of the Staten Island Rapid Transit system deficit—$26.4 million to NYCT.*

Together, the six recommendations would provide an additional $727.9 million in annual operating budget revenues to NYCT, along with more modest increases for other MTA subsidiaries, more than sufficient to completely eliminate the projected MTA budget gap for 2009. The first four recommendations require approval by the State Legislature. Recommendation No. 5 requires both State Legislature and City Council approval and recommendation No. 6 requires City Council action.

While recommendation No. 3 is a transfer of revenue from the commuter railroads to NYCT, the commuter railroads along with NYCT are the beneficiaries of significant additional revenue from recommendations No. 1 and 2. The commuter railroads net out with slightly more revenue, at least $20 million more, from our proposals.

The Budget Gap Picture for 2008 and 2009

In 2008, NYCT will confront a large structural imbalance between its operating revenue and its anticipated expenses.[1] This imbalance has been offset by the continued extraordinary growth in transactional real estate taxes and other dedicated taxes that subsidize the agency. Costs are rising rapidly for the debt service necessary to fund the many capital improvements that have been completed or are underway. The cost of health care benefits continues to increase at a rate exceeding the rate of inflation. Revenue growth from higher ridership is tempered by a steady increase in the percentage of transit riders using discounted fare options.

Operating expenses are significant largely because NYCT's transit service is so extensive—a 24/7 operation providing over 7.3 million weekday trips; ridership levels are at 35-year highs. As shown in Table 1, New York City accounts for almost all of the mass transit ridership in New York State. Over 95 percent of the bus, subway and commuter rail trips taken in New York State in 2006 were on MTA-operated systems (excluding Long Island Bus). NYCT buses and subways generated over 85 percent of the total statewide ridership. The MTA commuter rail lines (Metro-North and the Long Island Railroad) carried 6 percent of the 2.6 billion statewide trips. The four upstate transit authorities, in Albany, Syracuse, Rochester and Buffalo, and the two large suburban bus systems in Nassau and Westchester counties combined carried merely 5 percent of the State's public transit trips.

Table 1. 2006 New York State transit ridership by agency (calendar or State fiscal year)

Transit Provider	Ridership	% of MTA Total	% of State Total
NYCT	2,234,900,000	89.7%	85.4%
MTA Bus Company	97,100,000	3.9%	3.7%
Staten Island Railway	3,700,000	0.1%	0.1%
Long Island Railroad	81,400,000	3.3%	3.1%
Metro-North Railroad	75,000,000	3.0%	2.9%
MTA Total (exclud. LI Bus)	**2,492,100,000**	**100.0%**	**95.3%**
Westchester Bee Line*	27,864,000		1.1%
Long Island Bus	31,500,000		1.2%
Albany—CDTA	12,831,000		0.5%
Syracuse—CNYRTA**	12,677,000		0.5%
Rochester—RGRTA	14,821,000		0.6%
Buffalo—NFTA	23,900,000		0.9%
Statewide Total	**2,615,693,000**		**100.0%**

* State fiscal year 2003 **excludes Oneida Co. ridership

NYCT's financial outlook is further weakened as a result of the State using money from a downstate dedicated transit tax fund, the Metropolitan Mass Transportation Operating Assistance Fund (MMTOA), to fund other transit needs.

[1] NYCT and the MTA operate on a calendar year basis. NYCT is a subsidiary of the Metropolitan Transportation Authority, which also operates a number of toll-charging facilities through its Bridges and Tunnels subsidiary. These tolls, last increased in 2003, are proposed to be raised as part of the MTA's 2008 revenue-raising proposal.

Although the MTA does not rely solely on the farebox to strengthen its 2008 financial position, every 1 percent increase in NYCT fare revenue would bring in just over 28 million new dollars in 2008, assuming that ridership remains at current levels. Every 1 percent increase in total MTA revenue, including tolls and other non-farebox sources, raises about $57 million. Even with 2008 fare and toll increases, the MTA still requires additional unidentified non-fare actions to close the $149 million budget gap projected for 2009 in the MTA's July Financial Plan.

While the single ride fare is currently $2, as a result of the various discount options available and well-utilized by New Yorkers, the average cost per ride is around $1.30. Currently only 14 percent of NYCT customers pay a $2 fare; the remainder use one of the many MetroCard fare discounts.

With higher fares and tolls looming in the downstate area, the Office of the Comptroller offers six recommendations for increasing NYCT subsidies to minimize additional costs to daily commuters in New York City. Our plan also results in no reduction in capital construction activities or maintenance programs and supports NYCT's service enhancement plans.

Recommendation No. 1

The State of New York should resume its pre-fiscal year 2002 practice of funding the State share of the State Transit Assistance Program ("the 18-b program") from the State General Fund rather than from the Metropolitan Mass Transportation Operating Assistance Fund. This recommendation would generate ***$142.4 million for NYCT from New York State annually.***

In State Fiscal Year 1975, New York State established its first statewide transit operating assistance program, embodied in Section 18-b of the State Transportation Law. The program requires a 100 percent local match from cities or counties and supports both upstate and downstate transit providers. From the program's inception until SFY 2001, the State appropriated its share of the 18-b aid from its General Fund, 78 percent of which is supported by taxes and fees.[2]

The Mass Transportation Operating Assistance Fund (MMTOA), created in SFY 1981-82, is a subsidy program for downstate transit providers. In SFY 2006-07, the Fund provided $1.688 billion in operating assistance to downstate service providers. The Fund is financed by four taxes collected in the 12-county MTA service region. These are a sales tax of 0.375 percent; a "long lines" corporate franchise tax on certain transportation and transmission companies; a portion of the State petroleum business tax; and a surcharge on the corporate franchise tax. The Corporate Tax Surcharge and the Regional Sales Tax, both of which are collected only in the 12-county MTA service region, generated 85 percent of the revenue in the Fund.

In SFY 2002, the State changed funding sources for a large portion of its 18-b aid to NYCT and other MTA agencies. Where previously the State provided the MTA with 18-b aid *in addition* to the dedicated MMTOA funds, in SFY 2002, the State transferred $161 million from the MMTOA fund to the 18-b program in lieu of General Fund dollars, reducing the amount of MMTOA funds otherwise available for transit. The $161 million represented 77.5 percent of the State share of the downstate 18-b aid in SFY 2002. In succeeding years, the State has continued to transfer revenue out of the MMTOA fund to pay for an increasing share of its 18-b aid while localities continue to fund their share from their operating budgets.

---

[2] The personal income tax is the single largest source of General Fund revenue, accounting for about 43 percent of the total.

Table 2. NYS General Transit Operating Assistance Program downstate 18-b funding

State Fiscal Year	Amount from General Fund	Amount taken from MMTOA Fund	% of 18-b from MMTOA Fund	18-b Total
1998-1999	$91,799,000	$0	0.0%	$91,799,000
1999-2000	$91,799,000	$0	0.0%	$91,799,000
2000-2001	$144,575,000	$0	0.0%	$144,575,000
2001-2002	$46,799,000	$161,093,000	77.5%	$207,892,000
2002-2003	$46,799,000	$161,093,000	77.5%	$207,892,000
2003-2004	$46,799,000	$161,093,000	77.5%	$207,892,000
2004-2005	$33,247,000	$174,645,000	84.0%	$207,892,000
2005-2006	$25,352,000	$182,540,000	87.8%	$207,892,000
2006-2007	$25,352,000	$182,540,000	87.8%	$207,892,000
2007-2008	$21,352,000	$186,540,000	89.7%	$207,892,000

Table 2 shows this shift quite clearly. Because the MMTOA Fund receives revenue almost exclusively from dedicated taxes imposed and collected solely in the MTA region, the downstate area has lost over $1.0 billion since 2002 in transit subsidies based on this shift in State funding. This shift from General Fund to MMTOA revenues has reduced the amount of MMTOA money available to distribute to downstate transit providers. If the State restored the higher General Fund appropriation to make its 18-b payments downstate, another $186.5 million (2007–08 State transfer amount) in MMTOA fund revenue would be available for operating budget subsidies to downstate transit operators. If the 18-b allocation formula used in recent years to distribute program dollars to downstate operators were used to allocate the additional MMTOA funds, the distribution would be as shown in Table 3.

Table 3. Value of additional $186.5 million in subsidies to downstate transit operators

Transit Operator	Downstate 18-b Distribution Formula	Amount of Additional Dollars
MTA NYCT*	76.3%	142,375,000
MTA Commuter Railroads*	14.1%	26,248,000
Staten Island Ferry	1.5%	2,718,000
Westchester Co. Bee Line	1.5%	2,867,000
Nassau Co. / Long Island Bus*	1.4%	2,657,000
Suffolk County	0.5%	971,000
MTA Bus Company*	3.6%	6,678,000
Other downstate operators	1.1%	2,028,000

*MTA-affiliated agencies

Resuming the practice of funding the State share of the 18-b program from the General Fund would provide an additional $178 million to the MTA (identified by asterisks in Table 3), $142.4 million of which would flow to NYCT. Restoring General Fund payment of the 18-b operating assistance requires action by the State Legislature.

Recommendation No. 2

Remove the State funding cap on the 18-b program, generating ***$195.4 million in additional State funds and $195.4 million in additional City funds to NYCT.***

Table 2 reflects that since SFY 2002, there has been no increase in 18-b funding to downstate transit providers. While Section 18-b of the State Transportation law provides for a funding formula based on ridership and vehicles miles operated by the transit systems, the State's appropriations have not increased since 2002. The City's Independent Budget Office has estimated that fully funding the 18-b subsidy based on the statutory formula would provide the MTA with an additional $256 million in State aid and a corresponding $256 million in City assistance annually.[3] NYCT's share of that combined increase would be in the range of $390.7 million. The City would pay for half of this increase and the State would fund the remainder.[4] Lifting the cap on the 18-b operating assistance program requires action by the New York State Legislature. Unless the current law is modified, additional payments by the City along with higher payments by the suburban counties in the MTA region for the commuter railroads and their suburban bus systems would also be required.

Recommendation No. 3

Update the distribution formula for the MTA Bridges and Tunnels surplus to reflect 39 years of inflation as well as current bridge and tunnel use, generating ***up to $83.5 million for NYCT by reallocating MTA Bridge & Tunnel surpluses from the commuter railroads.***

In 1968, the State Legislature mandated that the first $24 million of surplus from the then-Triborough Bridge and Tunnel Authority be distributed to NYCT and the balance of the surplus be split evenly between NYCT and the commuter railroads. MTA Bridges and Tunnels (B & T), the successor agency to the TBTA, which issues bonds on behalf of both NYCT and the commuter railroads, deducts the annual debt service for these bonds from each share of the surplus. In 2007, NYCT will receive about $122 million in Bridges and Tunnels surplus transfer after accounting for the debt service. The $122 million consists of the upfront $24 million plus half of the remaining $196 million surplus.

If the State updated the fixed payment portion of the current formula to reflect inflation, NYCT would receive $139 million upfront, representing an additional $115 million annually over the current $24 million payment, plus half the remaining $81 million surplus, for a total of $179.5 million. Following the statutory formula described above, NYCT's net incremental income from this change would be $57.5 million annually.

The distribution formula should also be modified to reflect proportional City resident payment of Bridge & Tunnel tolls. Table 4 shows the residency of E-Z Pass users on Bridge & Tunnel facilities on an average weekday in January 2007, based on data provided by the MTA. The data confirms that City residents are the predominant users of these tolled facilities on an average weekday, far exceeding the use by residents from the New York State suburbs and elsewhere. Residency data on non-Pass users is not available.

Table 4. E-Z Pass use by mailing address of tag holder

Mailing Address	No. of Pass Transactions	% of Pass Transactions
New York City	308,682	55%
NYS (excluding NYC)	151,332	27%
New Jersey	34,404	6%
Connecticut	18,717	3%
Other States	8,494	2%
Other Agencies Passes[5]	40,239	7%

[3] New York City Independent Budget Office, A Review of the Metropolitan Transportation Authority's Financial Outlook and Options for Closing the Gaps, June 1, 2007.

[4] The difference between the City's share of an 18-b increase to the MTA ($256 mil.) and to NYCT ($195 mil.), approximately $61 million, would provide additional subsidies to the commuter railroads and the new MTA Bus Company. New York City currently pays all of the deficit of the MTA Bus Company so that portion of the $61 million has no financial impact on the City.

[5] The Other States category includes passes issued by the MTA, PANYNJ or NYS Thruway to mailing addresses outside of NJ, NY and CT. The Other Agencies' Passes category includes passes issued by other toll authorities including the NJ Turnpike and Pennsylvania Turnpike Authority among others.

If the formula were adjusted to reflect this use by providing NYCT 55 percent of the remaining surplus after the higher fixed payment, NYCT would realize another $26 million annually. Adding this $26 million based on utilization to the $57.5 million adjustment for inflation on the fixed payment portion of the surplus yields $83.5 million annually. If the formula were simply adjusted to 55/45 percent without changing the fixed payment amount, the benefit to NYCT would be $31.8 million. Increasing the upfront fixed payment to NYCT reduces the remaining surplus, which is currently allocated evenly. Changing the statutory distribution of the MTA Bridges & Tunnels surplus requires action by the State Legislature.

Recommendation No. 4

Stop using downstate regional tax revenues from the MMTOA Fund to support upstate transit systems. Fund upstate transit systems from upstate regional taxes or other statewide taxes generating ***$13.3 million for NYCT from New York State.***

For the last two years, the State's Executive Budget had sought to permanently transfer certain tax revenue from the downstate Metropolitan Mass Transit Operating Assistance fund to an upstate transit assistance fund. Rather than make this permanent change, the Legislature has simply appropriated approximately $23 million from the MMTOA fund to provide assistance to the four upstate transit authorities. If these funds remained in the MMTOA fund and were distributed in the same percentages as the SFY 2008 distribution to downstate transit providers, approximately $21 million in additional subsidies would be available to the MTA, of which $13.3 million would flow to NYCT and just under $1.0 million to the MTA Bus Company. The upstate transit agencies could be held harmless through either a State General Fund appropriation or a regional tax. Eliminating this transfer requires action by the State Legislature.

Recommendation No. 5

Increase the school fare reimbursement to fully reflect the cost of all authorized student bus and subway trips, generating ***$38.6 million for NYCT from the State and $32.9 million from the City.***

The City should increase its reimbursement to NYCT for fares for schoolchildren. Such increases would make up for unilateral decreases in school fare reimbursements during the mid-1990s. Currently the City and the State each contribute $45 million per year to subsidize school fares.

NYCT recently provided the Office of the Comptroller with data regarding student MetroCard use during the 2005-2006 school year. During that school year, students took 133.4 million subway and bus rides at a cost to the transit system of $161.5 million, based on average non-student bus and subway fares. After subtracting the combined City and State fixed school fare reimbursement of $90 million, NYCT provided $71.5 million of unreimbursed service last year. If the City and State paid the full cost of providing student transportation, it would result in an additional $32.9 million in City subsidy and $38.6 million in State subsidy using the school fare cost allocation formula set aside in the mid-90s.[6] Lifting the cap on school fare reimbursement requires action by both the State Legislature and the New York City Council.

Recommendation No. 6

Reinstate funding of the Staten Island Rapid Transit system deficit, generating ***$26.4 million for NYCT.***

In the mid-1990s, the City and the MTA negotiated a deal whereby the MTA would support the full cost of the deficit of the Staten Island Rapid Transit line in return for the City making available Work Employment Program members (WEP workers) for transit cleaning programs. The WEP program operated briefly, with

[6] New York City Independent Budget Office, A Review of the Metropolitan Transportation Authority's Financial Outlook and Options for Closing the Gaps, June 1, 2007.

mixed results, and when the program came to an end, the City never resumed payment of the SIRT deficit. Eliminating the MTA subsidy for SIRT and crediting that savings to NYCT would provide an additional $26.4 million in NYCT revenues in 2008. Re-establishing City responsibility for the SIRT deficit requires an appropriation from the New York City Council and a commitment from the MTA to credit the SIRT deficit savings to NYCT.

How Our Recommendations Change the MTA Financial Plan

Table 5 shows the impact of implementing our recommendations to identify and begin to pay in 2008 additional City and State revenues rightly owed to NYCT. By advancing these amounts, $728 million in 2008 and similar amounts going forward adjusted slightly upward each year, and then rolling over the surpluses they generate, the MTA can avoid fare and toll increases until at least 2010. The MTA's July Plan, even with fare and toll increases and $600 million in forecasted new government aid in 2010, does not close budget gaps in 2009 and 2010 thereby understating the aggregate impact of the out-year gaps. Because the Comptroller's Plan assumes no fare or toll increases in the 4-Year Financial Plan, it projects a higher cumulative deficit than the MTA.

Table 5. Comptroller's plan: advance State/City revenues, delay fare and toll increases

($ in millions, rounded)	2007	2008	2009	2010	2011
MTA projected closing balance	$317	$323	-$149**	-$208	-$308
Eliminate '08 fare & toll increase	$0	-$262	-$318	-$321	-$324
Eliminate '10 fare & toll increase	$0	$0	$0	-$257	-$265
Eliminate additional gov't asst.	$0	$0	$0	-$600	-$612
Advance State & City subsidies*	$0	$728	$750	$772	$803
Carryover of additional surplus	$0	$0	$383***	$582	$0
Remove B&T surplus reallocation	$0	-84	-84	-84	-84
Revised projected closing balance	$317	$706	$582	-$116	-$790

* Assumes subsidies increase 3 percent annually.

** The MTA's closing balance of -$149 million is a net number that reflects the carry-forward of the MTA's projected 2008 surplus of $323 million.

*** The $383 million figure reflects our projected 2008 surplus of $706 million less the $323 million projected by the MTA, in order to avoid double-counting in 2009.

Our Plan, however, is conservative in that it subtracts the value of the transfers of Bridges & Tunnels surplus from the commuter railroads to NYCT while not including approximately $100 million in additional revenue provided to the commuter railroads through our proposed changes to the State 18-b program. As a result, the closing balances shown below are $84 to $100 million less than a more aggressive presentation might have shown.

Our approach gives the MTA approximately $1.8 billion in additional State and City revenues over the next four years compared to the MTA's Plan which includes $600 million in new government aid in 2010 and $612 million in 2011. Approximately 54 percent of the additional revenue would come from State funding and 34 percent from the City. The reallocation of MTA Bridge & Tunnel surplus revenues provides about 11 percent of the additional money to NYCT in 2008 and would likely grow more slowly than other sources in the out-years. (If the proposal to implement congestion pricing is implemented, however, MTA Bridges & Tunnels will see significant revenue increases as drivers face an equalized cost of crossing the East River and switch to the shortest and fastest routes.)

While we show no fare or toll increase in this Plan in 2010 and a small budget gap that year, the true picture of the MTA's financial health three years from now will be highly dependent on the region's economic performance over the next two years.

These recommendations focus on the operating budget deficit of NYCT, and are separate from and in addition to, the initial $220 million in City funds that Mayor Bloomberg has proposed to commit annually to transportation capital projects in PlaNYC 2030. Taken together, these two proposals would substantially increase City expenditure levels for public transportation. Both recognize the importance of a world-class transit network to New York City's future and place an appropriately high priority on supporting mass transit.

Conclusion

Our six revenue proposals eliminate the need for fare and toll increases in 2008 and provide options for closing the MTA budget gap projected in 2009. They provide an increase of $727.9 million in subsidies to NYCT beginning in 2008 and their value grows at 3 percent in the out years. The suggested changes end the State's recent practice of assigning dedicated taxes collected in the downstate MTA region to other uses, adjust for 39 years of inflation in the formula for distribution of MTA Bridges and Tunnels surplus, and provide for a full assignment of the cost of providing reduced fare transportation for school children. The changes better reflect the predominant role of the downstate economy in generating tax revenue for the State and provide New York City and the seven adjoining suburban counties of the MTA service region with a fairer share of State transit subsidies.

The use of broader-based City and State tax revenue is more appropriate than higher fares and tolls in the short term to strengthen the financial position of NYCT and other MTA agencies. Our approach ensures that important maintenance and repair programs are not short-changed, that proposed service enhancements are funded and that the real cost of riding buses and subways slowly declines, providing a further incentive for people to use mass transit rather than driving in New York City. Adopting our revenue proposals also begins to seriously address the direct and indirect reductions in State and City support for NYCT that have occurred over the last 15 years. It also lowers the unfairly large share of transit operating costs borne by bus and subway riders through the farebox.[7]

[7] The average fare recovery ratio for transit systems in urbanized areas of more than one million people was 38 percent in 2005. National Transit Database, Report Year 2005, Federal Transit Administration.

William C. Thompson, Jr.
Comptroller

Gayle M. Horwitz
First Deputy Comptroller

Danica Gallagher
Assistant Comptroller for
Policy & Communications

Glenn von Nostitz
Director, Office of
Policy Management

Steve Strauss
Transportation
Policy Analyst

Joan Westmeyer
Policy Liaison