

CITIZENS UNION | ISSUE BRIEF AND POSITION STATEMENT

New Funding Sources for MTA Operations

I. ISSUE OVERVIEW

Citizens Union of the City of New York is an independent, non-partisan civic organization of members dedicated to promoting good government and political reform in the city and state of New York. For more than a century, Citizens Union has served as a watchdog for the public interest and an advocate for the common good. Founded in 1897 to fight the corruption of Tammany Hall, Citizens Union currently works to ensure fair elections, clean campaigns, and open, effective government that is accountable to the citizens of New York. We do so by informing the policy debate and influencing the policy outcomes that affect the lives of all New Yorkers.

Believing that an informed citizenry is the cornerstone of a thriving local democracy, Citizens Union Foundation— the non-profit research, education, and advocacy organization affiliated with CU— publishes GothamGazette.com, a front row seat to New York City policies and issues.

Citizens Union's Issue Briefs and Position Statements present CU's analysis of, and positions on, important issues. They seek to inform our members and shape the public discussion on policy issues by also providing background information and making specific policy recommendations.

Citizens Union is a civic leader for good and effective government that takes nonpartisan positions on issues of political and government reform and those of significant citywide importance. We believe the Metropolitan Transportation Authority Financing Commission's (Commission) proposal to address the dire need for increased funds for public transportation, similar to the congestion pricing proposal in 2008, is an issue of major citywide importance that warrants our review and involvement. An efficient, reliable, and safe public transportation system is crucial to the functioning of New York City's economy and the vitality of life in the city, which is why Citizens Union announces its support for many of the recommendations put forward by the Commission as the State Legislature begins its deliberation of the Commission's proposal.

The Metropolitan Transportation Association (MTA) provides public transportation services via bus, train, and subway to over seven million daily passengers within the five boroughs, and a total of eight million in the region. The annual cost borne by the MTA to provide such transportation services within the city in 2008 was \$7.9 billion, with a total cost of \$10.8 billion for the region.

The MTA now faces a rapidly expanding expense budget that has increased by thirty-six percent since 2005, with the projected 2009 expenses totaling \$11.4 billion. This increase is due in large part to huge debt payments which account for about fourteen percent of total expenses over the past four years, as well as rising labor costs. At the same time, as the MTA's projected expenses have grown, the amount of state and city subsidies for public transportation, not including dedicated taxes, remained flat from 1990 to 2007, amounting to about \$1 billion annually in constant 2007 dollars, according to the Independent Budget Office. Dedicated taxes, such as the Mortgage Recording Tax (MRT) and Real Property Transfer Tax (RPTT) have traditionally contributed significant sums to the MTA's budget. MRT and RPTT revenues have, however, proved an unstable revenue source as the combined income from these taxes has declined substantially in the past two years to approximately half of its 2007 amount – the MTA's 2009 final proposed budget estimates these taxes will generate only \$483.1 million – which has further contributed to the MTA's current budget deficits.

The MTA is projecting record shortfalls in its 2009 operating budget of \$1.2 billion, rising to \$3.0 billion in 2012 if no action is taken to close these gaps. The MTA's forecast that it lacks the means to provide existing levels of service at current fares will have a significant impact on the lives of all New Yorkers. Its declining revenue, significant debt service obligations, and substantial labor costs will require the State and the MTA to find new revenue sources to fund its existing and future budget projections. If the State does not assist the MTA in creating new revenue sources by the time it adopts its 2009 final budget in March, the MTA has proposed to address these shortfalls by reducing service significantly and increasing tolls and fares by approximately twenty-three percent beginning in June.

Recognizing the severity of the MTA's financial situation, New York Governor David A. Paterson in June 2008 appointed the Commission, headed by former MTA chief Richard Ravitch, to evaluate the MTA's financial predicament and recommend strategies to fund its essential capital projects and operating needs. During its six-month evaluation of this issue, the Commission held formal meetings, conducted public hearings and met with key stakeholders in order to formulate a comprehensive and diverse list of alternate funding options. The Commission's analysis focused on the following six categories:

- 1. a review of the MTA's operating budget and capital needs;**
- 2. fare policy;**
- 3. new approaches and funding sources to meet the MTA's needs;**
- 4. additional regional mass transit needs;**
- 5. governance changes; and**
- 6. transparency and accountability.**

The Commission issued its recommendations to Governor Paterson on December 2, 2008. In addition to proposals relating to the MTA's governance and operations, as well as increasing the MTA's transparency and accountability, the Commission proposed two new revenue sources to avoid or reduce MTA service cuts and excessive fare hikes:

- a. A regional Mobility Tax of one-third of one percent on all payrolls and income of self-employed persons within the twelve counties of the MTA district, which the Commission estimates would raise \$1.5 billion annually. This revenue would be used to pay for any new borrowing, as well as all direct expenses associated with the MTA's capital improvements. It will also service the MTA's current debt associated with expansion projects. The Commission proposes that this funding should not be calculated in the MTA's operating budget and instead be placed in a "lockbox" overseen by a newly created subsidiary of the MTA – the MTA Capital Finance Authority; and
- b. Institution of cashless tolls on all presently un-tolled East and Harlem River bridges, which the Commission estimates would raise an additional \$600 million annually. This new revenue would be dedicated to essential bridge maintenance and mass transit expenditures, such as expanded bus service. The Commission proposed that the tolls on the East River bridges should match those of the major MTA bridge and toll facilities to avoid "bridge shopping," and on the Harlem River bridges the toll should match that of a single ride subway fare. The Commission also recommended that there should be a coordinated tolling strategy prior to implementation, including employing variable pricing and one-way tolling, which would incentivize off-peak travel as a result of reduced rates.

The MTA's financial condition has become increasingly distressful because of the potentially significant service cuts and large fare increases, which would occur without prompt and significant legislative action to create new revenue for the MTA. The initial public reaction to the proposed service cuts and fare increases has focused on whether such increases would constitute an inequitable additional burden on transit users and would be deleterious to the economic and environmental well-being of the city and the region, a concern which Citizens Union shares. While the federal government has passed an economic stimulus package that includes infrastructure funding for the State and City, since these funds will not be used toward the MTA's current operating expenses, it will not drastically remedy the current fiscal situation.

II. CITIZENS UNION'S POSITION and RECOMMENDATIONS

The Governor and State Legislature have been considering the Commission's revenue proposals in the context of State budget negotiations. Given that the MTA will have to vote on proposed service cuts and fare increases by March 25, 2009, Citizens Union urges the Governor and the Legislature to act promptly to avoid reductions in service which could compromise New York City residents' quality of life and the city's appeal with businesses and tourists, and enact almost all of the Commission's recommendations. Citizens Union believes and supports the Commission's plan to share the burden by seeking to balance the distribution of the necessary funding burden to ensure that all stakeholders contribute to the MTA's existing budget shortfalls. In reaching its position, Citizens Union reviewed the Commission's plan and other relevant funding proposals, and provides the following analysis for its support and recommendations.

A. SUMMARY of POSITION

Citizens Union specifically:

1. **Supports most of the non-revenue changes proposed by the Commission in the areas of governance and transparency with the exception of modifying the roles of the MTA Board Chair and Executive Director;**
2. **Supports the proposed regional Mobility Tax;**
3. **Supports securing revenue contributions from motorists through the Commission's tolling proposal, in addition to exploring other options such as the proposed weight based vehicle registration fee; and**
4. **Supports the authorization of bi-annual regional Consumer Price Index fare and toll increases with measures to ensure increased transparency and accountability.**

B. EXPLANATION of POSITION and RECOMMENDATIONS

1. **Supports the Non-Revenue Changes with Exception**

The Commission's report made several recommendations with respect to the MTA's governance and operations structure that Citizens Union largely supports. In particular, we support:

- a. A more effective governance structure which provides for substantially increased accountability and transparency in MTA operations. Citizens Union strongly supports requiring board members to possess experience in relevant areas such as transportation, business management, and finance, which would provide for a more knowledgeable and competent board. We do not, however, support the Commission's recommendation to modify the present MTA leadership structure to combine the MTA Chairman's powers with those of the Executive Director. Having a chair both lead the Board and the agency is a model that is no longer workable. We believe that the current separation of duties and reporting relationship between the Executive Director and the Chair of the Board is conceptually right, but should be clarified and strengthened to ensure greater accountability and meaningful Board oversight. The Executive Director should be the agency's sole chief executive officer leading the agency, while the Chair of the Board should lead the Board and provide oversight to the Executive Director. This management structure has proven successful in other government and private contexts, particularly in the nonprofit sector, and should be improved rather than altered in form. Specifically, we recommend that the Executive Director should be the only person responsible for the Board's daily operations and for all executive decisions. The oversight role of the Chairman should be strengthened through mandatory reporting from the Executive Director. This clearer relationship will provide greater accountability, and ensure that the public knows who to hold accountable for the MTA's management.
- b. Separation of the MTA's capital spending function from the operating expense function through the creation of a "lock-box" within a newly created MTA Capital Finance Authority in order to avoid burdening current operations with substantially increasing debt service charges;

- c. Introducing greater transparency and accountability in MTA operations and increasing public awareness of the MTA's finances and operating arrangements, which would increase the public's understanding of, and influence on, the MTA's policies;
- d. Prompt implementation of a program of enhanced and improved bus service and, particularly, a Bus Rapid Transit (BRT) scheme which would provide riders with better and faster service based on priority rights-of-way and other technology improvements; and
- e. Active consideration of innovative longer-term transportation initiatives to reduce traffic congestion in the boroughs outside of Manhattan, such as parking strategies and other congestion-reducing incentives.

In light of public concern regarding the MTA's management of its operations and capital programs, Citizens Union also supports the Commission's recommendations to establish greater economies and efficiencies in operations. We agree with the Commission's finding, however, that these measures alone will not provide sufficient savings to prevent service cuts and fare increases, but these new measures to create a streamlined internal structure that is more accountable and transparent are important if the public is to be persuaded that fare increases are needed. This is a difficult time to raise taxes – but the importance of the fiscal health of the MTA in the city's and region's overall economy is too important not to seek additional sources of revenue.

2. Supports the Regional Mobility Tax

Citizens Union supports the notion of a substantial new tax source, such as the proposed regional Mobility Tax. We believe it is a desirable way of sharing the MTA's financial burden among all those who benefit from the city's public transit system because it will be broadly applied in the region. As proposed by the Commission, the Mobility Tax would be imposed on businesses, organizations and self-employed individuals in the twelve counties served by the MTA. The \$1.5 billion it is anticipated to raise annually would substantially assist the MTA in covering many of its capital costs and debt obligations.¹ Businesses would also benefit directly from this proposal as it would ensure that employees and customers have continued access to a functioning and maintained mass transit system. Citizens Union strongly supports placing this revenue in a "lockbox" mechanism to ensure accountability of these funds.

3. Supports Securing Revenue Contributions from Motorists through the Commission's Tolling Proposal

Given Citizens Union's support for tolling in the context of the debate around congestion pricing, Citizens Union continues to believe philosophically that tolling has several favorable aspects. Tolling would provide another reliable and substantial stream of funds to support the MTA's operations. It also would discourage cars from entering into Manhattan, thereby reducing congestion and improving air quality, much as was sought by Mayor Bloomberg's congestion pricing initiative in 2008.

With respect to tolling the East and Harlem River bridges, Citizens Union supports the Commission's tolling proposal and offers the following recommendations to the Governor and Legislature to strengthen the proposal:

- a. Implement the Commission's tolling recommendation for the East and Harlem River bridges using "a fully coordinated tolling strategy, including the implementation of variable pricing and one-way tolling," which would allow for reductions in tolls during off-peak travel and other mitigating factors to ensure fairness to motorists;
- b. Develop a more specific plan for cashless tolling that addresses the operational complexity of collecting cashless tolls from the many motorists who do not subscribe to EZ-Pass to ensure that tolling raises revenue for transit;

¹ Citizens Union recognizes that under the current economic conditions MRT and RPTT revenues may be much less than in the recent past. While Citizens Union does not propose discontinuance of the reliance on the MRT and RPTT revenue upon adoption of a payroll-based Mobility Tax, Citizens Union would recommend that the MTA continue to monitor forecasts on these taxes and when they rebound to their previous levels that consideration be given to how they exist alongside the newly created Mobility Tax and whether there ultimately is a need for all three.

- c. Exempt charitable organizations and persons with disabilities from paying the tolls, as was provided in Citizens Union's congestion pricing recommendations. Many charities depend on the flow of goods and meals into the city, such as food banks. The city depends on these vital services to provide assistance to vulnerable populations. Citizens Union therefore believes that certain charities that make deliveries in Manhattan should be exempt from tolling. Citizens Union recognizes, however, that adequate enforcement of tolling will be essential to ensure that there are not abuses of such exemptions;
- d. Enact a city income tax break for those who qualify based on the earned-income credit level, which would help ease the financial burden on those for whom traveling to work by car is the only option; and
- e. Implement a residential parking permit system in communities surrounding the affected bridges to avoid "park and ride" problems.

Citizens Union recommends that the Governor and the Legislature also consider other revenue generating proposals that are focused on motorists if tolling does not occur, such as New York City Comptroller William Thompson's weight-based registration fee. Comptroller Thompson's proposal would increase vehicle registration fees on private and commercial vehicles based on the weight of such vehicles, which is estimated to generate at least \$1 billion annually for the MTA.

4. Supports the Authorization of Bi-Annual Regional Consumer Price Index Fare and Toll Increases with Measures to Ensure Increased Transparency and Accountability

The Commission recommends "that the MTA Board, as part of its normal, public budget making process should be empowered to increase fare and tolls no greater than the change in the Regional Consumer Price Index (CPI) and no more frequently than bi-annually." The Commission also recommends that proposed increases greater than the CPI or more frequently than bi-annually be subject to the existing public notice and hearing process, which Citizens Union strongly supports. Citizens Union supports the rationale for authorization of bi-annual CPI fare and toll increases because it would depoliticize the process and ensure that fares and tolls remain consistent with the cost of living in the region. Citizens Union acknowledges, however, that this change would eliminate the existing requirement that hearings be held solely on proposed fare and toll increases, limiting the number of public hearings to those provided through the normal budget process. Citizens Union continues to firmly believe that public hearings play an important role in the course of the MTA budget process, but supports this change because past hearings have not necessarily been dispositive in determining the amount of final fare and toll increases. We are confident that despite this change the public will still have the necessary opportunity to express its concerns over proposed CPI-based fare and toll increases during the MTA's normal budget process.

Citizens Union strongly believes that the fare and toll policy changes must be accompanied by measures to ensure greater accountability of and transparency in the MTA's budget in order to increase the public's trust in the MTA's management and operations, as well as compensate for the elimination of dedicated fare and toll increase hearings. We recommend that the Governor and the Legislature require the MTA to report bi-annually on important performance and management milestones, similar to the City's preliminary and final Mayor's Management Report, to ensure efficient use of MTA funds, especially those generated through the proposed CPI fare and toll increases. This reporting will allow the public greater access to pertinent information to evaluate the MTA's management of funds outside of the normal budget process, and aid the public in holding the MTA accountable for complying with performance goals.

CITIZENS UNION OFFICERS:

Peter J.W. Sherwin, Chair; Gena Lovett, Treasurer; Richard Briffault, Lucy Cabrera, Ph.D., and Gail Erickson, Vice Chairs

CITIZENS UNION MUNICIPAL AFFAIRS COMMITTEE:

Luis Garden Acosta and John Avlon, Co-Chairs; Written with assistance from members of the Infrastructure and Development Subcommittee: Sally Goodgold and Ken Seplow, Co-Chairs, Mark Foggin, Anthony Ng, and Marc Norman. Additional assistance from Alan Lubliner, CU member and Alan Rothstein, CU Board Member and Chair of the State Affairs Committee.

Dick Dadey, Executive Director; DeNora Getachew, Director of Public Policy and Legislative Counsel; Rachael Fauss, Policy and Research Associate