

January 27, 2009

411 State Street
Albany, NY 12203

T 518.443.5843



Hon. David A. Paterson
Governor
Office of the Governor
Executive Chamber
State Capitol
Albany, NY 12224

Dear Governor Paterson:

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The Citizens Budget Commission (CBC) has received the report of the Commission on Metropolitan Transportation Authority (MTA) Financing, and the CBC staff and Trustees serving on our Transportation Committee have reviewed it. I am writing to share our assessment. We support the Commission's core recommendations, but we have suggestions for improving them and hope that you take our views into account in preparing the follow-up legislation now being drafted.

The CBC reviewed the report in the framework of our previous analyses of MTA finances, which found that existing financing arrangements for the MTA are neither adequate nor sensible, and leave the authority with repeated operating deficits and capital investments insufficient to keep its facilities in state of good repair.¹ Our solution was to recommend that the MTA's public transportation services be financed half from fares and one-quarter each from a tax subsidy and a cross-subsidy from auto users.

In this context, we commend your creation of the Commission; it put a spotlight on the MTA's long-run financial problem and its need for new sources of revenue. The problem has been exacerbated by the current economic downturn, primarily due to the erosion of dedicated tax revenues used to balance the MTA's budget. Creating a Commission to recommend strategies to fund the MTA's essential capital projects and operating needs was an important and timely step in helping to solve the MTA's financial woes. Richard Ravitch, a former CBC Chair, was a good choice to head it. We applaud him and the members of the Commission for their efforts in addressing this formidable problem.

While the CBC believes some revisions to the Commission's proposals would make them more effective and viable (as discussed below), CBC supports legislation to implement the Commission's core recommendations. Specifically:

1. The recommended improvements in transparency and accountability are necessary to enable the MTA to use its funds more efficiently and to restore its public credibility. The recommendations for improving the MTA's reporting practices with respect to its capital projects originated in a memo from CBC shared with the MTA senior staff and members of the Ravitch Commission. The Commission's recommendation that the MTA's governance be improved by revising the roles of the Chair and Executive Director are essential to better management; the chair should be given executive authority, as was the case before 2002.

2. Significant short-run fare increases and a process for regular and predictable fare increases over the longer term are a critical element in improving the MTA's finances. As the Commission recommends, decisions on reasonable fare increases should be depoliticized.
3. Tolls on the East River bridges can be an effective and significant source of new revenue for the MTA. The tolls will help move some trips from the auto to mass transit and will create new revenue to support mass transit. This new policy should be accompanied by improvements in bus service to help absorb the shift in modes.
4. Subject to our comments below, a regional payroll tax represents a more predictable and fairer way to channel direct taxpayer support to the MTA than the current mix of taxes made available to the MTA. While such a tax will impose burdens on employers in our region, the current mix of taxes is not only burdensome but also less stable. As explained below, the amount raised through the payroll tax might be reduced if fares and tolls are increased in amounts greater than that recommended by the Commission.

We understand that you and Chairman Ravitch have invited suggestions for ways to improve on the recommendations of the Commission. Our suggested improvements range from additions and significant modifications to "tweaking:"

1. The Commission did not address the need for productivity improvements and other measures to curb the rate of growth in MTA operating expenditures. Savings from the efficiency measures in the current MTA budget are not sufficient and, for the most part, are not expected to be fully realized in the first year of the plan. In exchange for additional revenues, the MTA board should be required not only to implement the transparency measures noted above – it should also accept responsibility for substantially lowering the growth in operating expenses. Targets should be set for lower growth in the MTA's multi-year financial plans. The strategy should include adjustments to labor costs such as the wage freeze and fringe benefit modifications you included in your Executive Budget for State employees.
2. With respect to fare policy:
 - a. The short-run fare hikes should be more substantial than the initial 8 percent recommended by the Commission. A two or three year schedule of fare increases to bring the share of expenses covered by the fare to approximately 50 percent should be implemented.² Based on financial projections in the MTA 2009 Final Proposed Budget, three annual fare increases of about 7 percent would be required to reach that goal by 2011. We recognize that such fare increases could be particularly burdensome for lower wage workers, especially in an economic downturn, but the long-run objective of setting an equitable share of costs to be borne by riders and depoliticizing the process of maintaining that share should be pursued. The adverse impact can be softened by raising fares disproportionately on the commuter railroads with a current tax subsidy deeper than that for the subways and buses. It also should be noted that current mass transit fares, adjusted for inflation, are below those of a decade earlier, due largely to the discounts initiated with the introduction of the Metrocard and benefiting most those riders who regularly use the system to get to work.
 - b. The proposed longer-run policy for fare increases linked to the CPI should be modified to take into account both the CPI and increases in MTA operating costs. To the extent



the MTA increases its labor costs through collective bargaining in excess of CPI increases, the fiscal consequences of these decisions should be reported to the public and a part of these increases should be borne by riders. Fare policy should create pressure on management to engage in collective bargaining in a way that protects the interest of the riders and taxpayers.

3. The proposed tolls on East River Bridges and Harlem River Bridges should be higher than the Commission recommends. This would both provide a greater incentive to shift to mass transit and likely generate more revenue. In addition to the higher tolls, more revenue should be raised from auto users by increasing and dedicating to the MTA other fees such as those for drivers' licenses and vehicle registration.
4. With respect to the proposed dedicated payroll tax, it is not clear how much new revenue would be needed from this source if the CBC's suggestions for more expenditure discipline and greater reliance on fares, tolls and other auto user fees are adopted. The size of any new payroll tax should be based on a revised assessment of need that extends and enhances the work of the Commission. The Commission did not fully respond to your request for a ten-year projection of operating and capital needs. These projections should be developed, and a judgment about additional tax revenue needs should be based on these facts. Future capital plans may require even more revenue than the Commission's recommendations would yield; alternatively, greater reliance on fares and auto user fees might significantly reduce the need for additional tax revenue.

A dedicated payroll tax is a preferable source of tax revenue to many of the current dedicated sources for the MTA. The mortgage recording and other real estate-related taxes now dedicated to the MTA are highly volatile; the payroll tax could be a more reliable and stable future source. It should be considered as a substitute for these dedicated taxes (which could be reallocated to the State's General Fund) and not necessarily entirely a source of additional tax revenues.

5. We strongly believe that the transparency recommendations should apply to projects in the current capital plan as well as future ones. The MTA's capital commitments typically outlast the life of the plan. In the previous MTA capital plan, covering years 2000-2004, nearly a quarter of the total commitments, divided among over 300 projects, were still uncommitted at the end of 2004. Similarly, it is likely that a significant number of projects in the current plan will not have been completed by the end the current capital plan. There is simply no reason why these projects should be exempted from the transparency standards recommended by the Commission. The public deserves accountability on dollars whether authorized in 2009 or in previous capital plans. Applying the transparency recommendations to current as well as new projects should be a precondition for receipt by the MTA of any new money.

In summary, while we generally agree with the Ravitch Commission Report, we think that the mix of revenue sources that it recommends should be modified to rely more heavily on fares and auto use fees and less on new tax revenues. Additionally, more spending restraint is needed and more transparency is essential to ensuring that funds, old and new, are used efficiently. We also agree with the Commission that mechanisms should be established so that revenue sources authorized for capital purposes should be sufficiently segregated so that they can not be diverted for operating support and that MTA be required to provide a more



detailed rationale for proposed capital spending. We would be pleased to work with your Counsel in developing legislation informed by our recommendations.

Thank you for considering our views.

Sincerely,



Carol Kellermann

cc: Timothy Gilchrist
H.D. Hemmerdinger
Peter J. Kiernen
Richard Ravitch
Elliot G. Sander
Marc V. Shaw

¹ See Citizens Budget Commission, *How to Balance the MTA's Budget*, June 27, 2006, <http://cbcny.org/CBC_HowToBalanceMTA.pdf>.

² The CBC's position is that mass transit should be funded on a 50/25/25 formula among, respectively, fares from riders, a general tax subsidy, and a cross-subsidy from auto users. The formula was presented to the members of the Ravitch Commission in the course of the public hearing proceedings. The CBC's testimony is available at, <<http://cbcny.org/TestimonyRavitchCommission9-15-08.pdf>>.