



September 30, 2010

Mr. Jay Walder, Chairman and CEO
Metropolitan Transportation Authority
347 Madison Avenue
New York, NY 10017

Dear Jay:

I am writing on behalf of the Trustees of the Citizens Budget Commission to present our views on the fare decision to be made by the MTA board at its October 7 meeting. The series of hearings conducted by the Board has elicited varying opinions, but the CBC seeks to stress two points not voiced well by other interested parties:

- The subway, bus and railroad fare increases to be approved for January 2011 and proposed for January 2013 should move toward establishing a long-term policy to cover 50 percent of mass transit operating expenses with fare revenue.
- The MTA should explore the feasibility of incorporating in its fare policy for subways and buses the practice of “peak pricing.”

Linking Fares to Operating Expenses

Since the CBC first addressed the issue of “How to Balance the MTA’s Budget” in our June 2006 report of that name, we have recommended that fares be adjusted on a regular basis to cover a predetermined share of operating expenses. Our suggested portion is 50 percent. Linking fares to expenses has the benefit of keeping pressure on management and labor to keep expenses down, and it makes clear to riders the implications for the fare of the outcomes of collective bargaining. The 50 percent portion is fair – riders should cover half their costs, while a tax subsidy should cover 25 percent and a cross-subsidy from motorists via tolls and other sources should cover the other 25 percent.

As shown in the accompanying table, in 2009 fares covered about 39 percent of the operating expenses of the MTA net of bridge and tunnel operations when those expenses are defined in the manner used by the MTA for its budgeting; the share is an even smaller one-third if the relevant expenses are defined using generally accepted accounting principles (GAAP). Given the growth in projected expenditures, the proposed 7.5 increases in fare revenue will make the budgeted proportion 40 percent in 2011, but in 2014 the fare revenue will be back at 39 percent despite the second set of fare increases in 2013. Using GAAP figures the share covered by fares in 2014 will be unchanged from 2009 – still one-third.

In order to move fare revenue closer to 50 percent of relevant expenses, the CBC encourages the adoption of two policies. First, growth in expenditures should be constrained through all available means including aggressive collective bargaining to limit wage and fringe benefit costs. Second fare increases greater than 7.5 percent biannually will be needed. Even if the rate of projected expenditure growth from

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2010 to 2014 were halved from the currently anticipated 18 percent to 9 percent, to reach the 50 percent target in 2014 fare revenues would have to be about 58 percent higher than in 2010. This is too sharp a pace of fare increases for the public to bear, but the next rounds of increases should be greater than 7.5 percent in order to make some progress.

Peak Pricing for Subways and Buses

Peak pricing refers to the practice of charging more for rides during rush hours than during other times. It is not necessarily a means to raise additional revenue; its likely greater benefit is in shifting a significant volume of rides from peak to off-peak hours. This shift, in turn, can reduce operating expenses by avoiding the need for some peak capacity measures (including long-term capital projects to expand peak capacity) as well as improve service for riders who continue to pay for peak hour service by reducing crowding.

The MTA currently uses peak pricing for the commuter railroads. As shown in the accompanying table, typical peak hour fares for a single ride on the LIRR are about 39 percent higher than at off-peak; the premium for peak hours on MNR is about one-third. Other systems also use peak pricing for single rides on subways and buses. As shown, in London the typical premium for a peak hour ride is about 28 percent, and in Washington DC it is about 22 percent.

The MTA should explore using peak pricing on its subways and buses. The approach need not be limited to single rides, which account for a reported 50 percent of total rides. (The share likely is less during rush hours, but this data is not publicly available.) If, as is currently being considered, time limited passes were capped at the number of rides, then the number of allowed rides could be weighted for peak and off-peak rides. For example, if peak hour rides were weighted as 1.3 rides and off peak as 1.0 rides, then a monthly pass could be capped at 117 off-peak rides or 90 peak hour rides (or equivalent combinations).

Further analysis is warranted, but it is possible this strategy could help achieve some combination of greater revenues, reduced costs and/or relieved crowding.

I hope you and your colleagues on the MTA Board find these suggestions helpful. We look forward to continuing to work constructively with you in promoting a sound fiscal future for the MTA and better services for New Yorkers.

Sincerely,



Carol Kellermann
President



Table 1
MTA Fare Revenues and Expenditures, 2009-2014

	Actuals	Forecast				
	FY2009	FY2010	FY2011	FY2012	FY2013	FY2014
Fare revenue with the projected increases (GAAP Basis)	\$4,350	\$4,587	\$5,004	\$5,122	\$5,565	\$5,641
Fare revenue with the projected increase (Budgeted Basis)	\$4,403	\$4,629	\$5,048	\$5,160	\$5,615	\$5,685
Expenditures on GAAP basis ¹	\$13,134	\$14,004	\$14,676	\$15,409	\$16,165	\$16,988
Expenses on Budgeted basis ²	\$11,233	\$12,385	\$12,635	\$13,249	\$13,910	\$14,649
Fares as a percent of Expenditures, GAAP Basis	33%	33%	34%	33%	34%	33%
Fares as a percent of Expenses, Budgeted Basis	39%	37%	40%	39%	40%	39%

¹Expenditures shown exclude estimated debt service principle payments and B&T expenditures; include depreciation, current year OPEB obligation and environmental remediation.

²Expenses shown include debt service costs, and exclude B&T expenditures, depreciation, non-cash OPEB obligation and environmental remediation.

Source: MTA 2011 Preliminary Budget, July Financial Plan 2011-2014 Volume II, July 2010, Pg. I-2 and I-4

Table 2
Peak Pricing in Selected Transit Systems

	Off Peak Base Fare	Peak Base Fare	Peak Surcharge	Surcharge Share of Base Fare	Peak Hours
Subway Peak Pricing					
Washington DC (Minimum Fare)	\$1.60	\$1.95	\$0.35	21.9%	5-9:30am and 3-7pm
London (Zone 1-Zone 2)	£1.80	£2.30	£0.50	27.8%	6:30-9:30am and 4-7pm
Commuter Rail Peak Pricing					
LIRR (Fare between Zone 1 and Zone 3) ¹	\$5.75	\$8.00	\$2.25	39.1%	6-10am arriving in NYC and 4-8pm leaving NYC
MNR (Fare between Zone 1 and Zone 7) ²	\$11.25	\$15.00	\$3.75	33.3%	5-10am arriving in NYC and 4-8pm leaving NYC

¹The LIRR peak surcharge varies depending on the length of trip. The average surcharge share of base fare among all zones is 39.7%

²The MNR peak surcharge varies depending on the line and length of trip. The average surcharge share of base fare across the system is 33.9%

Source: <http://www.tfl.gov.uk/tickets/14416.aspx>, <http://www.mta.info/>, <http://www.wmata.com/fares/metro rail.cfm>

