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OP-ED CONTRIBUTOR

Down Bound Train

By CHARLES BRECHER

NEW YORK's mass transit system, the lifeblood of the metropolitan economy, is once again a target of short-sighted political pressures, similar to those that brought the system to the brink of disaster in the early 1980's. Without a change in policy, New York's buses, subways and trains will soon be headed in reverse — toward the unreliable service of the past.

Last month, Peter Kalikow, chairman of the Metropolitan Transportation Authority, ordered changes in the agency's financial plan that are sure to make him popular during a gubernatorial election, when candidates are eager to avoid discussion of fare increases, but which undercut the authority's financial health.

Mr. Kalikow eliminated a five percent fare increase for subways, buses and trains that had been scheduled for next September on the ground that revenues are running ahead of schedule. That sounds great, particularly to riders, but it ignores long-term fiscal realities.

By the M.T.A.'s own calculations, it will face a $1 billion gap in 2008, expanding to a $2.1 billion shortfall — equal to nearly one quarter of the authority's projected revenue — in 2010. Of course, to reach those numbers, you have to use the authority's accounting standards, which ignore the fact that the M.T.A. finances continuing capital expenses, including replacement of subway cars and buses, with borrowed money.

According to more stringent Generally Accepted Accounting Principles, which are less permissive toward the use of borrowing for regular capital expenses, the M.T.A.'s financial condition is actually much worse. There is a deficit of $1.7 billion in the current year, growing to $4.5 billion in 2010. By the end of 2010, the M.T.A.'s outstanding debt will grow to $32 billion, from $22 billion in 2005.

The most serious consequence of this heavy borrowing is the authority's ballooning debt service, which diverts revenue from operations and service improvements. Debt service is already $1.3 billion this year. By 2010 it is projected to reach $1.9 billion, which means half of every fare will be diverted to pay off the M.T.A.'s debt.

To keep the buses and trains running, the transit system must be properly financed. Two new strategies are needed:

First, the M.T.A. should make a greater commitment to productivity enhancements in order to reduce the rate of cost increases. The authority's current financial plan projects a 25 percent increase in expenditures over the next four years; it includes no savings from productivity.

A recent study by my organization, the Citizens Budget Commission, concluded that, by enacting productivity initiatives equal to the 2.5 percent average annual productivity gains achieved in the private sector, the authority could save about $900 million per year.

Second, the M.T.A. needs more revenue. Operating revenue should be sufficient not only to meet the authority's payroll and other expenses, but to permit replacement of subway cars and buses and to finance other needs without excessive borrowing.

More than ten percent of the M.T.A.'s budget is covered by borrowing. Of the remainder, fares finance about 45 percent of expenditures; taxes about 28 percent; and tolls and fees another 16 percent.

A more equitable balance of revenue might look something like this: fares should account for half, taxes for one quarter and tolls and fees for another quarter.

Fares are rightly the largest source of revenue because riders get direct benefits from transit services; slightly higher taxes are appropriate because everyone in the region benefits indirectly from the economic efficiency of mass transit; and significantly higher tolls and fees are appropriate both because drivers benefit from the traffic reduction made possible by mass transit and because drivers should pay more to offset their cars' contributions to congestion and pollution. Higher tolls and increased license and registration fees would also encourage more commuters to move from cars to mass transit.

Other revenue options include higher gasoline taxes and congestion-pricing plans, similar to those recently adopted by London and Stockholm. In those cities, vehicles entering the central business district pay surcharges, monitored by technologies employing E-ZPass-like scanners and cameras.

To achieve the twin goals of increased, and rebalanced, revenue, we need a new political consensus. The biggest challenge will likely be resistance to higher tolls and fees.

So progress on this agenda depends on more than an increased commitment from the M.T.A. to deal with its budget shortfalls and the region's mass transit needs. It also requires strong political leadership. If we are to avoid a fiscal disaster at the M.T.A., we need leaders who value long-term stability more than the short-term benefits of simply ducking the political heat that accompanies an increase in fares and fees.

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