

TESTIMONY of
CAROL KELLERMANN, PRESIDENT
CITIZENS BUDGET COMMISSION
TO
NEW YORK STATE SENATE
FINANCE COMMITTEE
SEPTEMBER 3, 2009

Thank you to Chairman Kruger and the members of the Committee for inviting me to testify at this hearing on behalf of the Citizens Budget Commission (CBC).

Founded in 1932, the CBC is a nonprofit, nonpartisan civic organization devoted to improving the financing and delivery of public services in New York City and New York State. For the past five years the CBC has been particularly concerned with the financing and delivery of transportation services in the New York region. Our 2004 report, *Financing Transportation Services in the New York Region*, presented a set of principles for planning and financing these services, and our 2006 report, *Danger Ahead! How to Balance the MTA's Budget* predicted serious financial problems for the MTA and suggested how to better finance the organization. Since that report we have actively promoted our recommendations in the press, in testimony to the New York City Council and the State legislature as well as before the Ravitch Commission.

We believe the MTA faces three critical challenges in the coming years:

Balancing its operating budget. The MTA's July 2009 preliminary financial plan identified budget gaps of \$842 million in 2012 and \$1,138 million in 2013. Given the recent arbitration ruling awarding generous wage increases and other benefits to members of the Transit Workers Union, these gaps will increase by about \$350 million over three years and the 2010 and 2011 budgets may no longer be in balance. Moreover, the MTA's statements are presented on a cash basis; if generally accepted accounting principles were applied and the MTA's non-cash expenses such as depreciation and retiree health insurance benefits were taken into account, the gaps would be significantly larger (\$4,656 million in 2012 and \$5,097 million in 2013).

These gaps remain despite the enactment of a new regional payroll tax that will provide the MTA with approximately \$1 billion annually effective this year. It is unlikely and undesirable for additional taxes to be a major part of any new budget balancing initiatives for the MTA. New MTA leadership must devote more effort to constraining expenditure growth; cross-subsidies from auto users as well as the farebox will be the best source for new revenues.

The CBC has recommended a "50-25-25" approach to raising money for the MTA. We believe its mass transit services should be funded half from fares paid by riders, one-quarter from general tax subsidies, and one-quarter from cross-subsidies from auto users. If this strategy were applied to in the coming years, it would require modest fare increases and significant new tolls or fees for auto users; the taxpayers are already doing their share.

Financing New Capital Investments. The MTA is reaching the end of its current 2005-2009 capital plan. A preliminary plan released in August 2009 for 2010-2014 calls for investment totaling \$28.1 billion, yet funding sources are identified for only \$18.2 billion. The new leadership of the MTA, working with the Legislature, must find new ways to finance needed capital investments. This will be a formidable challenge.

In its recommendations, the CBC has divided needed capital investments into three categories and suggested how each should be financed. One category is work necessary to bring the system to a state of good repair, given its prior neglect. We recommend that state taxes underwrite the needs that arise from bad policy decisions made by the MTA and state officials in the past; this is not a burden that should be imposed on current riders. A second category is regular repair and replacement of facilities now in a state of good repair, such as the regular replacement of subway cars and buses. The 50-25-25 approach described above should also be the basis for these investments, with spending handled on a pay-as-you-go basis or the debt service for any associated borrowing being raised from that mix of sources. The third category is investment in system expansion such as the extension of subway lines. These projects may lend themselves to innovations such as the tax-increment financing used for the extension of the number 7 subway line, or they too can follow the 50-25-25 approach.

Better Planning and Implementation of Capital Projects. As the MTA's leaders continue to develop the next five-year capital plan, they should give greater attention to improved planning and implementation. The recent preliminary plan is accompanied by an updated 20-year needs assessment that does not fully disclose the system's state of good repair investment needs and does not indicate the nature of the non-financial limits of the agency's capacity to implement projects that meet those needs. Better and more open planning is needed.

The MTA also needs to demonstrate a greater ability to implement the capital projects that are approved and financed. Many projects run well behind schedule, and based on the experience from the 2000-2004 plan, as much as 25 percent of the work in the current 2005-2009 plan may not be started by the end of the period. CBC will soon complete a study of the difficulties the MTA faces in implementing its capital projects, and we will have recommendations about how to better address this problem.

I do not know Jay Walder personally, nor do I know whether or not he agrees with the views of CBC. But based upon his reputation, qualifications and accomplishments I believe he is well suited to lead the MTA in addressing the urgent and difficult challenges it faces. The CBC hopes his appointment will be approved by the Senate, and we look forward to working with him in developing policies and management practices that help provide New Yorkers with high quality transportation services at reasonable prices.

Again, thank you for inviting our participation in this hearing and giving our views your consideration.

Respectfully Submitted,

A handwritten signature in black ink, appearing to read "Carol Kellermann", with a long horizontal flourish extending to the right.

Carol Kellermann, President