240 West 35th Street ■ Suite 302 ■ New York, New York 10001

Testimony on the State Plan to Address the Metropolitan Transportation Authority's Financial Crisis

Submitted to the New York State Senate Standing Committee on Corporations, Authorities and Commissions and the Standing Committee on Transportation

March 3, 2023

Andrew S. Rein, President, Citizens Budget Commission

Thank you for inviting us to submit testimony on the Metropolitan Transportation Authority's (MTA's) budget. The Citizens Budget Commission (CBC) is a nonpartisan, nonprofit think tank and watchdog devoted to constructive change in the finances and services of New York State and City governments.

The fiscal stability of the MTA is of paramount importance to the region and the State. A well-functioning transit system is essential to New Yorkers' quality of life and the region's economy.

Governor Kathy Hochul's Fiscal Year 2024 Executive Budget proposes to stabilize the MTA's operating budget by: increasing the Payroll Mobility Tax's top rate from 0.34 percent to 0.50 percent to generate an additional $800 million annually; requiring New York City to pay an additional $500 million annually for certain MTA expenses; providing a one-time $300 million appropriation from the State budget; and allocating some portion of the State's and City's revenues from casinos to the MTA in 2026 and thereafter.

Stabilizing the MTA's budget requires a multi-pronged, long-term approach. While the proposal is welcome as such, it does not appropriately allocate the contributions of various components. No action is required from labor, there is no recurring State budget contribution, and the regional contribution is too heavily weighted on New York City. To improve the plan:

- Productivity improvements, including changes in MTA operations that require agreement from labor, should be at least half of the plan;

- A recurring State contribution should be included, understanding that City taxpayers are major contributors to State receipts; and
- The balance of the plan should be appropriately allocated among those in the MTA region.

The rest of our testimony elaborates on these points and emphasizes that the MTA is making the right, smart choice to resume regular biennial fare increases.

Productivity improvements, including those that require labor's agreement, should be at least half of the plan

The MTA took a positive step by increasing its plans for annual operational efficiencies from $100 million to roughly $400 million. However, in *The Track to Fiscal Stability*, CBC identified operational reforms that could save up to $2.9 billion annually, including adopting standard practices of other systems like one-person-train-operation for subways and proof of payment fare collection on commuter rail.

While the MTA's current plan is based on actions management can take without changing labor contracts, this is not sufficient. More can and should be done; New Yorkers should not pay more than is needed to run a high-quality, efficient system. Changes in labor agreements would unlock productivity savings, while maintaining the ability to provide quality service. Given the magnitude of possible savings CBC identified, it is extremely reasonable for productivity improvement to constitute at least half of the gap-closing plan. This achievable goal is not premised on painful service reductions or extraordinary measures, but rather can be realized by aligning outdated practices with industry benchmarks.

A recurring State contribution should be part of the plan

The MTA is a State authority and, by underpinning the majority of the State's economic activity and receipts, its benefits accrue to the region and the State. Therefore, it is appropriate for the State budget to be a contributor to the stabilization plan. This should be supported by redistributing, not increasing, resources among priorities in the budget. Furthermore, it should be clearly understood that City taxpayers are major contributors to State receipts and the MTA.

The balance of the plan should be appropriately allocated among those in the MTA region

The plan currently places a significant portion of the burden on New York City taxpayers, with $500 million annually from the City's operating budget and approximately $640 million of the $800 million PMT increase likely to come from City businesses. This is too heavily weighted to New York City, given the regional impacts of MTA's costs and benefits, and given that farebox recovery ratios from commuter rail that are lower than for the subway. The balance of any plan should better consider these costs and benefits and reallocate this portion of the plan.

Periodic and predictable fare increases are fair and appropriate

CBC wholeheartedly supports the MTA's proposed resumption of biennial fare increases, including both planned 5.5 percent fare and toll increases. Fares are a reasonable and essential way to support the system. Furthermore, the City's Fair Fares program is a beneficial component of the fare ecosystem that helps ensure lower-income New Yorkers are served. Resuming the policy of modest biennial fare increases will help maintain price sufficiency of the fare and the fiscal stability of the MTA, minimize political discourse about fare increases, and provide a stable and predictable price schedule that businesses and riders alike will appreciate.