CITIZENS BUDGET COMMISSION

Two Penn Plaza ▪ Fifth Floor ▪ New York, NY 10121

Testimony to the Metropolitan Transportation Authority

Delivered by Carol Kellermann, President

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I am Carol Kellermann, President of the Citizens Budget Commission (CBC). The CBC is a nonpartisan, nonprofit organization devoted to influencing constructive change in the finances of New York City and New York State government, including state authorities like the Metropolitan Transportation Authority (MTA). Thank you for the opportunity to testify.

The CBC is concerned with the MTA's finances because of the critical role it plays in the New York City and State economies. The impact of Hurricane Sandy over the past two weeks has dramatically illustrated the importance of the MTA in keeping the metropolitan area and its economy running smoothly. The stress imposed by the storm on MTA's facilities also underlines the importance of protecting, maintaining and enhancing the transit system's infrastructure so that it can provide reliable and efficient service.

It is the goals of reliability and efficiency that compel the MTA Board to pursue new revenue, including new fare revenue. It is also with those goals in mind that the CBC recently released a report titled "A Better Way to Pay for the MTA." The report recommends guidelines for how the MTA can raise revenues in a way that is fair to all beneficiaries of the system's services – transit riders who benefit directly, motor vehicle drivers who benefit from the reduced congestion on highways made possible by transit services, and the region's employers and workers who benefit from the broad labor market and efficient regional economy that mass transit makes possible.

Specifically, the CBC proposes a "25-50-25" formula for funding the MTA's transit services. That is, 20-25 percent of transit expenses should be paid for by auto-user cross subsidies, 45-50 percent paid by riders, and 25-30 percent paid through state and local tax subsidies. This formula contrasts with current policy in two important ways.

- First, current revenues do not fully meet expenses, creating deficits that are covered by unsustainable borrowing practices.
- Second, the current mix of revenues relies less than suggested on fares (now at 42 percent) and less than suggested on cross subsidies from motor vehicle use (at about 13 percent including the surplus toll revenues as well as some appropriated state vehicle license and registration fees and gas tax revenue).

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Aligning more closely to the recommended revenue strategy should be done over a multi-year period, but important steps can be taken with the fare and toll decisions you make in the coming months. Three clear implications are:

1. ***Fare and toll decisions should be made on a multi-year basis.*** This is not the last fare hike. The MTA's financial plan calls for these increases to yield 7.5 percent more revenue in 2013, for a similar sized increase in 2015, and others will inevitably follow. The decisions the Board makes now should also specify planned fares in 2015. Predictability is needed for the system's revenues, and for its passengers' wallets.
2. ***The toll increases should be larger than currently proposed.*** A 50 cent increase for EZ Pass users for the major bridges and tunnels falls short of yielding a fair share from motor vehicle users. Absent new initiatives such as tolling the City-owned East River bridges, the price for MTA bridges and tunnels should be higher. The commuters who had been without the Midtown Tunnel for many days after Hurricane Sandy know it is worth the increased cost.
3. ***Transit fares should yield a revenue increase greater than 7.5 percent annually in 2013 and greater than 15 percent in 2015.*** Operating costs are going up due to fringe benefit costs for workers as well as rising energy costs; the currently proposed fares will still leave deficits and still cover less than half the cost of a ride. The increased fares should be designed with these considerations in mind:
   a. The added burden should not be spread evenly. Tourists who take a single ride should pay more than regular commuters, and those on the LIRR, who are being subsidized for much more than half the cost of their rides, should face higher hikes than straphangers.
   b. Regular customers should have simplicity and consistency in the discounts they are offered. Riders should not have to recalculate their purchasing practices every time fares are raised. Setting longer-term policies for stable break even points for the weekly (now 14 rides) and monthly (now 50 rides) Metrocards would provide customers with desired consistency.

In addition to these three key recommendations derived from the CBC guidelines, we make the following fare-related suggestions as ways to improve the MTA's finances and services.

- *"Cap" the number of allowed rides for weekly and monthly passes to protect against fraudulent abuse.* The MTA has recently taken steps to reduce the impact of abuse of the unlimited cards by increasing "lockout" time for card swiping and upping MTA police presence at certain stations. Setting a high cap on unlimited passes can allow legitimate high-volume users to continue using their passes at their current levels while further reducing fraudulent use.

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- *Explore peak pricing on subways and buses with a goal of reduced rush hour crowding rather than as a revenue raiser.* As subway ridership has increased, crowding has worsened on trains and platforms. Commuter rail lines already use peak pricing as a mechanism for reducing crowding on trains. The MTA should explore the potential for peak pricing to change subway utilization during rush hours.
- *Extend the fare calculation policy used for Senior Citizen EasyPay Metrocards to all EasyPay customers.* Seniors benefit from an automatic calculation, based on their number of rides, of whether the monthly rate or a per ride discount gives them a better price each month. In contrast, other EasyPay Metrocard purchasers must elect in advance each month whether to have a monthly rate or a per ride discount. The MTA should assure all customers that they will be given the best deal available.
- *Begin a more limited senior citizen discount policy and explore its eventual elimination.* Discounts available to residents age 65 or older are half of the current base fare. This is a generous discount available regardless of income; people like Mayor Bloomberg receive the discount, even though they do not need it. The policy should be revised in one or more ways: (a) Increase the age threshold. Life expectancy continues to increase, but the age of eligibility has been 65 for decades. It could be set in line with social security retirement benefit eligibility (67) and then phased-out with an annual increase in the age of eligibility. (b) Reduce the discount percentage. Fifty-percent is a steep discount; it could be 25 percent or less. (c) Add an income test. The primary target for the discount is low-income seniors. The MTA should not be put in the position of verifying riders' incomes, but it could link the issuance of discount passes to one-time documentation (as happens with age verification) of eligibility for other income-linked programs such as Supplementary Security Income or the Supplemental Nutrition Assistance Program. We recognize that changes to the senior discount may violate certain current federal aid requirements, but suggest that amendments to or waivers from these requirements can be pursued.

In concluding, I acknowledge that none of the recommendations and suggestions made here are likely to increase your personal popularity. You will probably hear testimony from no one other than CBC that supports higher tolls and fares. But as MTA Board members, your job is to make hard decisions that promote the region's economic vitality over the long term. Our suggestions are intended to promote that goal, one which I know we all share.