

# Danger Ahead!

## How to Balance the MTA's Budget

Citizens  
Budget  
Commission

June 2006



## Introduction

New York's central business district, the 8.5 square miles below 60th Street in Manhattan, is one of the largest and densest clusters of economic activity in the world. This area is critically dependent on an extensive and efficient transportation system. The Metropolitan Transportation Authority (MTA) is by far the largest provider of transportation services in the region. Despite its essential role in sustaining the New York economy, the MTA is not financed in a consistent or sensible manner.

Specifically, the financing arrangements for the MTA result in:

- ▶ **Problem 1: Repeated operating deficits**
- ▶ **Problem 2: Capital investments insufficient to bring its facilities to a state of good repair**

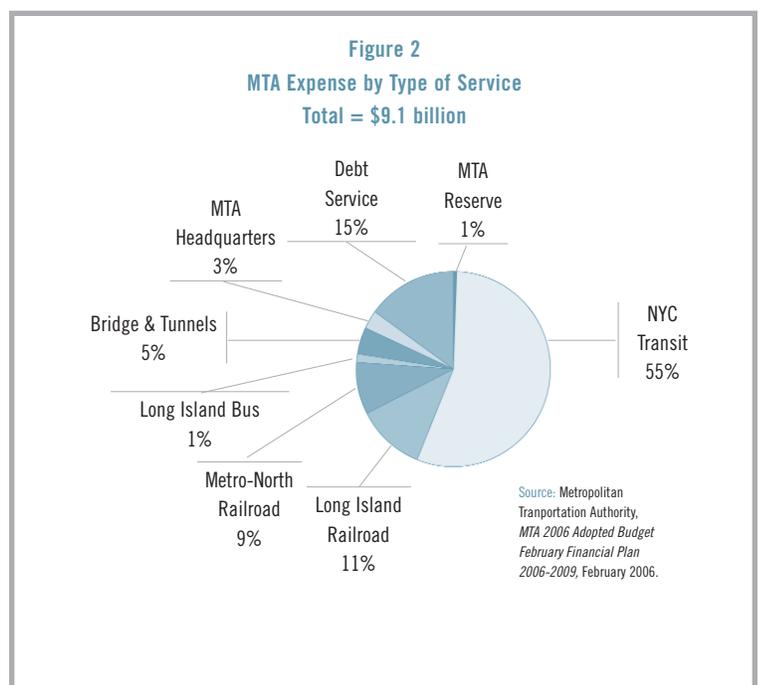
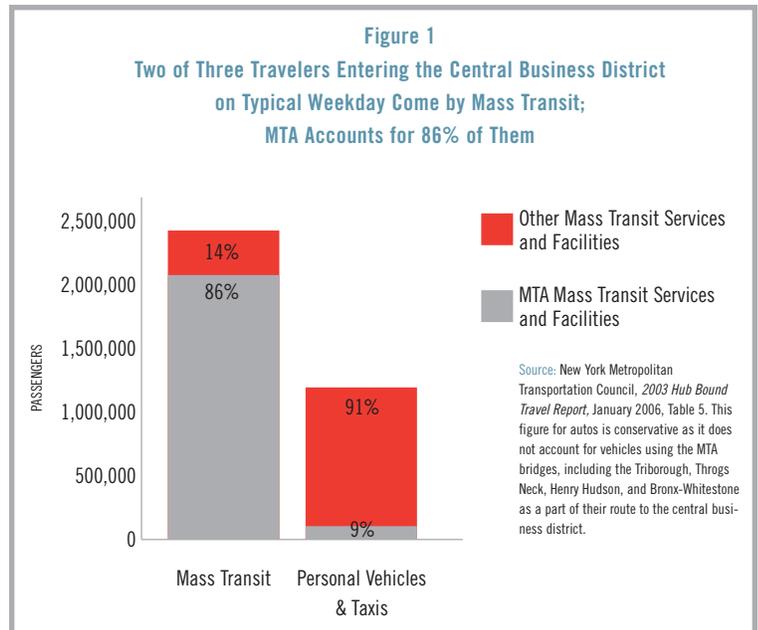
In order for New York to maintain a strong and vibrant economy, its transportation system has to be kept up to par and expanded to meet future needs. This report examines the two problems and suggests alternative financing policies for the MTA that would balance its operating budget and provide sufficient capital to accelerate the pace at which its facilities are brought to a state of good repair.

The next section describes the vital role of the MTA in transporting people to their jobs in New York's central business district. The following sections explain the MTA's problems identified above, present the CBC's guidelines for funding the MTA services in the future, and estimate the agency's expenditure and revenue requirements under those guidelines. The final section deals with options for meeting revenue requirements by increasing cross subsidies from auto users.

# The Vital Role of the MTA

The MTA transports the majority of those working in the central business district in Manhattan to their jobs. Of the **3.6 million people entering the central business district** on a typical weekday (for work and other reasons) about **two-thirds come by mass transit** and one-third by auto; 86 percent of those traveling by commuter rail, subway or bus use MTA facilities, while the remainder rely primarily on services operated by New Jersey Transit or the Port Authority. The MTA's bridges and tunnels account directly for about 9 percent of the vehicles entering the hub on a weekday morning, with the others coming from New Jersey via Port Authority facilities or using the non-tolled bridges over the East River operated by the City of New York. (See Figure 1.)

Providing these services is expensive. The annual operating expenditures of the MTA's agencies are budgeted to exceed \$9 billion in 2006. More than half the money is required for New York City subways and buses. About one-fifth supports commuter railroads, and about 5 percent the bridges and tunnels for autos. (See Figure 2.)

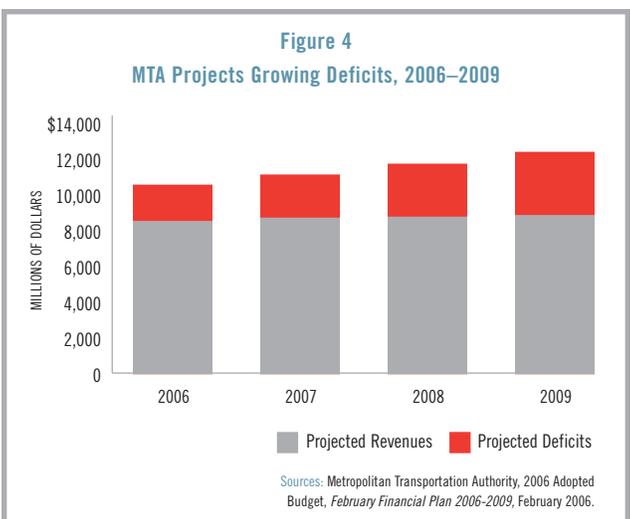
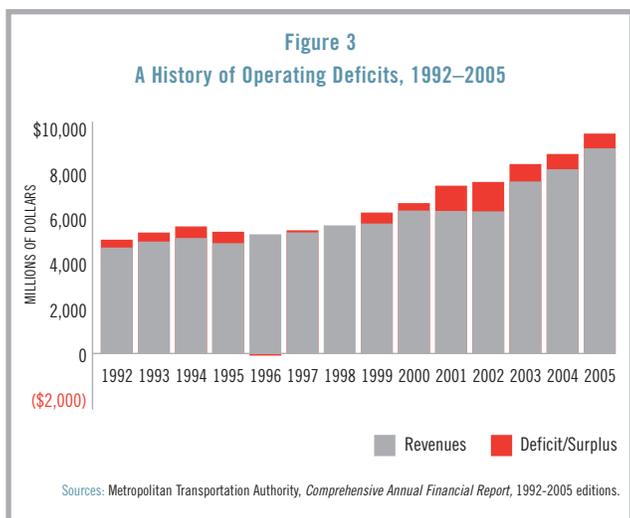


# The Problems

## PROBLEM 1: RECURRING DEFICITS

The MTA had an operating deficit in 13 of the past 14 years. (See Figure 3.) The only surplus was in 1996, the year following a large fare increase, and that surplus was less than 1 percent of operating expenses. In contrast, the deficits have typically been in the hundreds of millions of dollars, and have become exceptionally large in the most recent years. The deficits exceeded \$1.1 billion in two of the five most recent years, sums that are the equivalent of more than 15 percent of operating expenses.

In the MTA's February 2006 plan the deficits grow from \$2.0 billion in 2006 to \$3.5 billion in 2009, or from 19 percent to 28 percent of operating expenses. (See Figure 4.) Compared to 2005, the deficit in 2009 jumps from 7 percent to 28 percent of operating expenses.



### How can an organization repeatedly run large deficits, but not go bankrupt?

The answer is linked closely to the concept of *depreciation*, the loss in value of a capital asset related to its use during the year. Under generally accepted accounting principles, the most reliable and meaningful way to determine if a budget is balanced, depreciation is recognized as an operating expense. The logic behind it is to promote intergenerational equity (ensure that the current users of a given capital asset pay for its use) and to provide sufficient funds for future asset replacement. However, since depreciation is a non-cash expense, it is possible to have operating deficits yet still meet cash flow needs (“meet the payroll”). This is typically what the MTA does. In its financial plans it uses a modified version of generally accepted accounting principles, whereby it deducts depreciation from the total operating expenses. Thus, recent discussions of the “surplus” at the MTA refer to an amount of cash available at the end of the year that exceeds the budgeted revenues rather than a surplus as defined by generally accepted accounting principles.

### The consequence of recurring deficits: heavy debt

The practice of not recognizing depreciation as an operating expense in budgets and financial plans has important implications for the MTA's financial condition. In effect, the MTA is using its capital budget to pay for operating

expenses. That is, a part of the capital budget devoted to replacement needs such as buying buses and subway cars is actually offsetting the depreciation expenses for this equipment. Because much of the capital budget is financed with borrowing, the net effect is to pay for an operating expense with borrowed funds. Borrowing for operations unfairly imposes costs on future taxpayers who did not receive the current services.

Borrowing to pay for operating expenses is a major cause of the MTA's growing indebtedness:

- ▶ **Debt outstanding grew from \$7.8 billion at the end of 1992 to \$14 billion at the end of 2000, and to nearly \$22 billion at the end of 2005. It is projected to reach \$32 billion in 2010.**
- ▶ **Debt service is projected to grow from \$1 billion in 2005 to \$1.8 billion by 2009, a 78 percent increase.**

The rising debt service, in turn, has implications for the operating budget as the cost of debt service consumes an increasing chunk of operating revenues; debt service is expected to grow as a share of total revenues from an average of about 12 percent between 1996 and 2005 to 20 percent in 2009.

## PROBLEM 2: INADEQUATE CAPITAL INVESTMENT

When the MTA was chartered in 1965 as an amalgam of six previously established agencies operating in the region, the system's facilities had already suffered from decades of neglect. For the first 15 years of the MTA's existence, its facilities continued to deteriorate and were on the brink of collapse by the late 1970s. In the early 1980s, a new system of capital planning, spanning five-year periods, was established to promote adequate capital investment for New York's subways and commuter railroads.

The MTA is currently in its sixth five-year capital plan cycle. The first two five-year plans spanning the periods **1982-1986 and 1987-1991 provided \$7.6 billion and \$8.2 billion**, respectively. The revised plan for **1992-1996 provided \$9.4 billion**, and the plan for **1995-1999 provided \$12.6 billion**. In 2000 a plan for the period **2000-2004 was approved providing \$17.1 billion**. In April 2005 the MTA Board approved a revised plan for the period **2005-2009 totaling \$21.3 billion**.

As shown in Figure 5, during the first ten years of the MTA's capital plans, state of good repair (SOGR) projects absorbed fully 70 percent of the capital funds. In contrast, normal replacement was a relatively small item, because few of the

**The MTA has three major categories for describing the uses of its capital investments:**

**State of good repair: (SOGR)** refers to projects that are necessary to correct for past deferred maintenance or to replace equipment that is beyond its useful life.

**Normal replacement:** refers to projects intended to keep the system in a state of good repair by replacing components at the end of their useful life.

**System improvements:** refers to projects that go beyond normal replacement by providing improved service quality and/or greater efficiency; this category can also include projects that expand system capacity such as new lines.

## How Long Until State of Good Repair?

### NYC Transit

Line Structures: 2014

Yard Facilities: 2018

Subway Stations: 2026

Signals: 2027

### Long Island Railroad

Line Structures:  
2010-14

### Metro-North Railroad

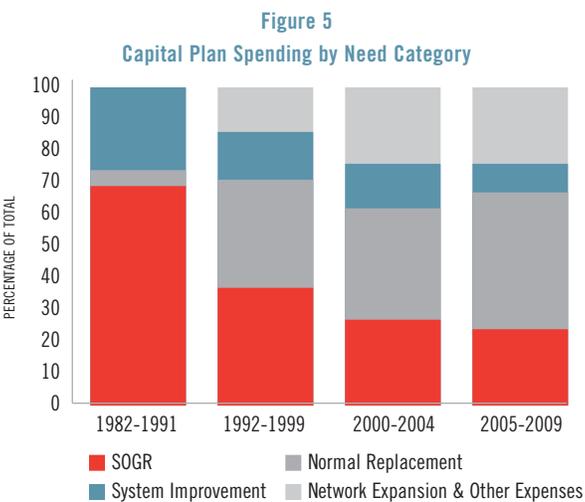
Line Structures: 2026

Stations: 2020

systems had yet been brought to a state of good repair. State of good repair projects continued to be a major, albeit diminishing, item in each of the subsequent capital plans. **Between 1982 and 2004, about \$23 billion was spent on state of good repair projects.**

Despite these large investments, **major components of the system are still short of a state of good repair.** The Long Island Railroad is in the best shape with all of its components except line structures brought to a state of good repair by 1994; however, its line structures will not be restored until 2014. Metro-North also has many components in a state of good repair, but its line structures also will not be fully restored until 2026, and all its stations will not be restored until 2020. The mass transit facilities still require major investments in order to be brought to a state of good repair. The bus fleet was restored by 1986, and subway cars and main-line track by 1991. But other needs remain substantial – for example, the ancient signaling system will not be modernized until 2027.

### Why is it taking so long to achieve a system-wide state of good repair?



Note: The 1992-1996 plan was extended to 1999 with a five-year plan for 1995-1999. Data on need categories are more readily available for the whole 1992-1999 period covered by the two plans, rather than for the two periods covered by each plan individually.

Sources: Percent distribution of need categories data for 1982-1991, 1992-1999 and 2000-2004 from Seaman, Mark, Allison L.C. de Carreno, and Seth English-Young, *From Rescue to Renaissance: The Achievements of the MTA Capital Program 1982 - 2004*, Rudin Center for Transportation Policy & Management, NYU Robert F. Wagner Graduate School of Public Service, December 2004, <<http://wagner.nyu.edu/news/rescue.pdf>> (May 24, 2006); Data for the total capital plan spending in the three periods is from the MTA's capital budget publications: *Capital Program 1982-1991, As Proposed to the Capital Program Review Board*, October 1991; *Capital Program 1992-1996, As Proposed to the Capital Program Review Board*, February 1995; *Capital Program 1995-1999, Approved by the Capital Program Review Board*, March 1999; *The MTA Plan for 2000-2004 Capital Plan, Strategic Business Plan and Financial Plan*, September 29, 1999; Data for 2005-2009 from MTA, *Proposed MTA Capital Program 2005-2009*, September 29, 2004.

► *The available capital resources are not being devoted exclusively to this objective.* In the proposed 2005-2009 plan, fully **\$9.2 billion or 43 percent** of the total resources are allocated to **normal replacement**, a sum required to keep the components already at a state of good repair at that level. In effect, this is the replacement cost value of current depreciation, as discussed earlier. Another **\$7.1 billion or 33 percent** of the total is being reserved for **system improvements and network expansion** projects, despite the still unachieved system-wide state of good repair. These include \$2.0 billion for the City-funded extension of the Flushing line and \$2.5 billion for progress on other expansions including the Second Avenue subway and the linking of the Long Island Railroad to Grand Central Terminal. About **\$5.0 billion** or 24 percent is allocated to making progress on **SOGR** projects. This is a smaller share of the total resources than in any previous plan.

► *MTA leadership does not believe it is practical to move toward a state of good repair at a more rapid pace.* They argue that service disruptions and other obstacles would become intolerable to customers if SOGR work was done more extensively in coming years. Others question this judgment, particularly with respect to the pace of subway station renovations and signal and communication system replacement or upgrading.

# Guidelines for a Better System

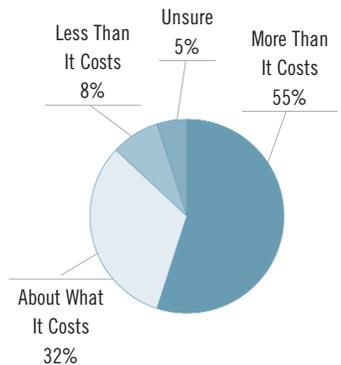
The CBC recommends that all operating expenses including depreciation be covered with operating revenues, and that operating revenues be raised by following these four guidelines:

1. *The cost of bridge and tunnel facilities should be paid for entirely through user fees paid by motorists.* These private goods should be covered in their price, usually in the form of tolls.
2. *User fees paid by motorists should also generate a surplus large enough to cover one-quarter of the cost of providing mass transit services.* The price for using highways, bridges and tunnels should exceed their cost in order to help compensate for the negative externalities of auto use. This additional price can be paid directly through tolls that more than cover costs and through indirect user charges such as fuel taxes and motor vehicle fees collected by the state and dedicated to the MTA.
3. *Mass transit users should pay fares sufficient to cover one-half the operating cost of those services.* Since mass transit provides a combination of private goods and public goods, its cost should be divided between user fees (fares) and government subsidies. Setting fares at one-half the cost has an inherent appeal of fairness in setting the shares borne by each beneficiary.

Compared to the other major mass transit systems in the United States, the MTA's "farebox recovery ratio," or share of costs covered by fares, is relatively

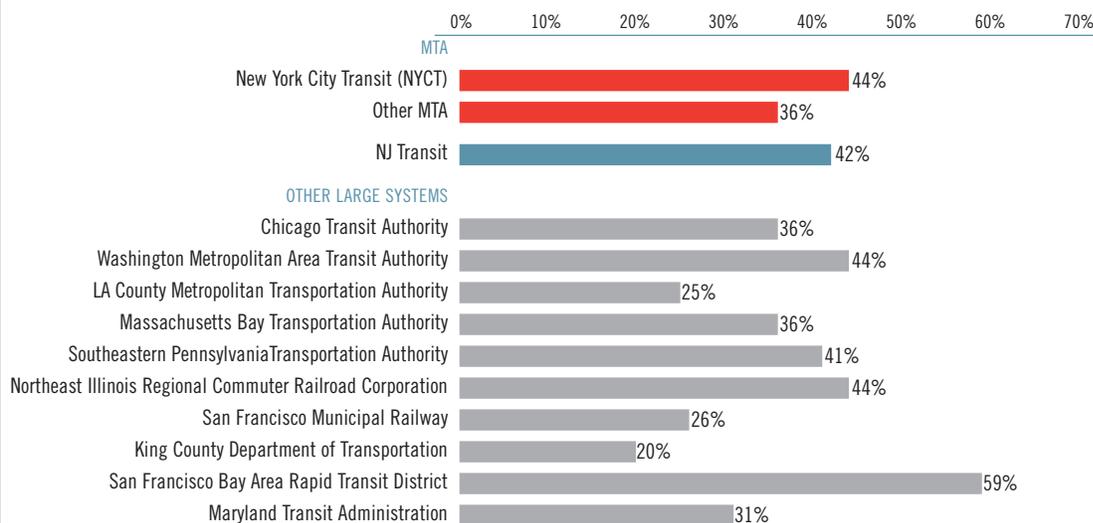
The fairness of a fare equal to one-half the cost is highlighted by the public's misperception that they currently pay the full costs with fares. A Marist Poll conducted for the Citizens Budget Commission in June 2005 revealed that 87 percent of New Yorkers believe that a single ride costs \$2.00 or less and that the MTA makes money on each passenger. In reality, in 2004 each ride cost an estimated \$2.66; fares covered only 46 percent of the costs.

**What Does the MTA Charge For a Single Ride?**  
(percent of respondents)



Source: Marist College Institute for Public Opinion, Citizens Budget Commission New York City Survey: Subway Ridership in New York City, June 2005.

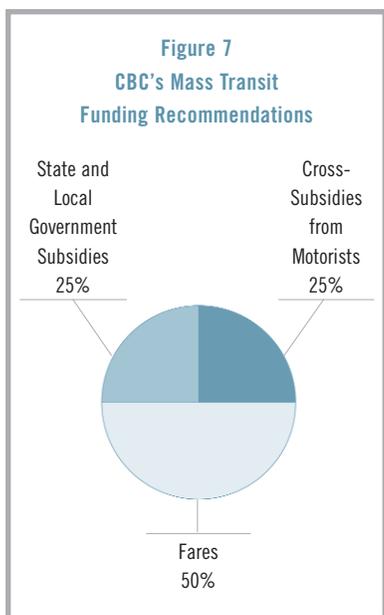
**Figure 6**  
Share of Operating Costs Covered by Fares in Large U.S. Mass Transit Systems, 2004



\* Ratios for the MTA agencies are 2005 estimates.

Sources: Federal Transit Administration, 2004 National Transit Database, Data Tables for the 2004 National Transit Database Report Year, <<http://www.ntdprogram.com/NTD/NTDData.nsf/DataTableInformation?OpenForm&2004>> (May 18, 2006); Metropolitan Transportation Authority, 2006 Adopted Budget, February Financial Plan 2006-2009, "Farebox Recovery and Farebox Operating Ratios," and "MTA Consolidated Accrued Statement of Operations By Agency," Part 3, MTA Consolidated 2006-2009 Financial Plan.

high. As shown in Figure 6, in 2005 it was estimated at 42 percent system-wide, with the figure for the subway and bus lines at 44 percent and the commuter lines and Staten Island service considerably lower. The NJ Transit ratio is also 42 percent. The major systems in the United States with a higher ratio are the BART in San Francisco (59 percent), Washington D.C. Transit Authority (44 percent), and Metra in Chicago (44 percent). However, all other systems combined have an average ratio of 35 percent. Rather than use this statistic to argue against fare increases in New York, it is best to view New York and other systems with high recovery ratios as heading in the right direction. The 50 percent target would require a modest increase in New York and would put the system on a sounder financial and managerial footing.



4. *State and local subsidies to mass transit should cover one-quarter of the operating cost of those services and fund “catch-up” capital investments needed to bring the system to a state of good repair due to a history of prior neglect. If riders pay half the cost of mass transit and motorists cover one-quarter through a cross-subsidy, then the remainder should be paid with public subsidies. This reflects the public goods derived from mass transit. In addition, state government should bear the cost associated with restoring the system to a state of good repair due to negligent behavior in earlier periods. It is unfair to put this burden on current riders or motorists.*

### FUTURE EXPENDITURE REQUIREMENTS

The CBC's funding recommendations, summarized for mass transit as “50-25-25,” can be used to decide how to balance the MTA's budget in the future. The starting point for this task is to estimate future expenditure requirements. Using the MTA's operating expenditure projections provided in its latest four-year financial plan, and after some modifications to the MTA's projections of the future costs of capital, the CBC estimated annual operating expenditure requirements in 2009 for **three alternative scenarios.**

**Table 1**  
**MTA Expenditures Under Alternative Scenarios, 2009**  
 (dollars in millions)

SCENARIOS	BASELINE	COST-SAVING	COST-SAVING +CATCH-UP
Cost of Capital	\$4,145.5	\$4,048.2	\$4,136.0
Other Operating Costs	\$8,939.1	\$8,005.2	\$8,005.2
<b>Total</b>	<b>\$13,084.6</b>	<b>\$12,053.4</b>	<b>\$12,141.3</b>

Sources: See Figure 8.

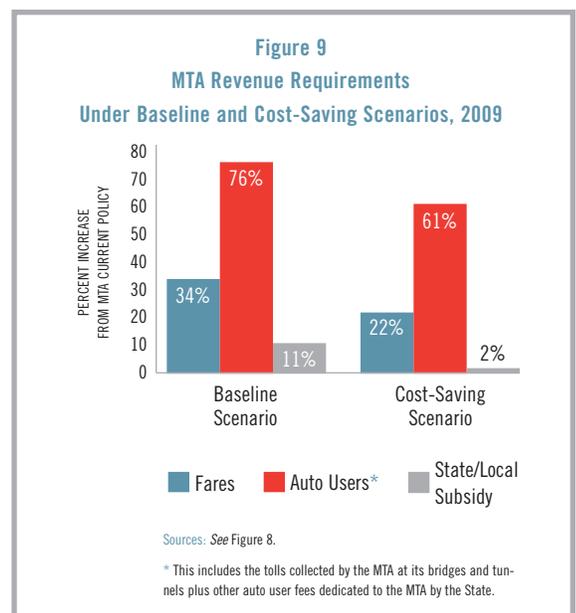
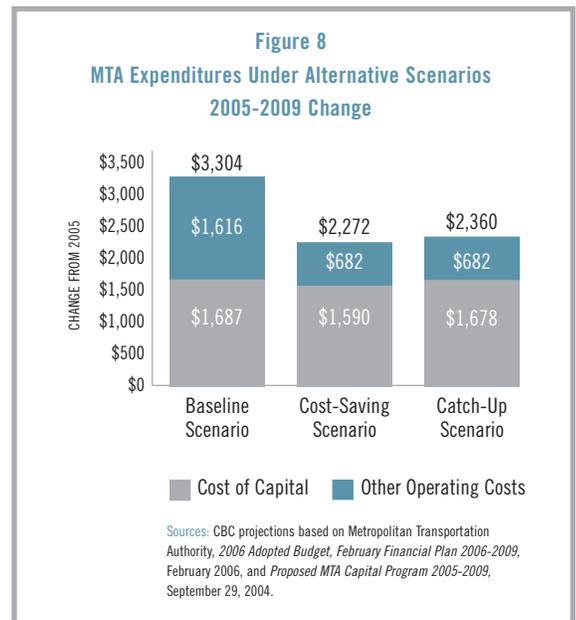
- ▶ The “**baseline**” scenario includes the **same assumptions as the MTA plan:**
  - ▶ Labor costs are projected to increase approximately with inflation.
  - ▶ The capital plan includes commitments for new expansion projects as incorporated in the MTA's proposed five-year capital plan.

- ▶ The “**cost-saving**” scenario modifies the baseline scenario in two ways:
  - ▷ Operating costs are reduced to reflect a program of **productivity initiatives** by 2 percent in 2006 and by 2.5 percent annually in each year from 2007 through 2009.
  - ▷ The **major expansion projects are dropped** from the capital plan, reducing needed borrowing and associated debt service costs.
- ▶ The “**cost-saving plus catch-up**” scenario includes **all the assumptions for the “cost-saving”** scenario, but adds capital spending for **doubling the pace of catch-up work in achieving a state of good repair**. It is assumed to be financed by a State subsidy equal to the debt service cost for this borrowing.

The projected **2009 total expenditures** vary from **\$12.1 billion** under the cost saving scenario to almost **\$13.1 billion** under the baseline scenario. (See Table 1.)

- ▶ *The savings from the productivity initiatives in the cost-saving scenario are substantial.* The anticipated savings relative to the baseline is over \$900 million in 2009.
- ▶ *The cost-saving scenario reduces capital costs by about \$100 million in 2009.* The relatively modest savings from dropping the expansion projects is explained by the fact that the savings are in debt service costs rather than the total planned capital commitments for those projects. The larger planned commitments carry a more modest debt service cost because the commitments translate into cash needs (which the borrowing supports) over a seven year period.
- ▶ *Doubling the pace of the SOGR under the “cost-savings plus catch-up” scenario adds about \$100 million to annual debt service costs.* Again, the larger amount of capital investments translates into a more modest annual debt service cost, because the capital commitments translate into cash needs (and borrowing requirements) over an extended period.

Under each scenario the future expenditure requirements are well above actual expenditures in 2005. The **increase over the five-year period ranges from \$3.3 billion or 34 percent for the**



**baseline scenario to \$2.3 billion or 23 percent for the cost-saving scenario.** (See Figure 8.) These growing expenditure requirements should be considered relative to likely growth in revenues.

These three scenarios are not recommended policies; rather they are intended to illustrate the fiscal consequences of alternative decisions about operations and capital investments. Moreover, the time frame is also primarily illustrative and not necessarily the period in which new financing policies need be implemented. The guidelines could be phased-in over a longer period in order to ease the transition for the multiple stakeholders.

### **FUTURE REVENUE REQUIREMENTS**

Following the CBC's guidelines would require fare increases of at least 22 percent by 2009, and a small increase in the tax subsidies to the MTA. However, a far larger increase, both in absolute amounts and proportionally, would be required in the cross subsidy from auto users.

**In the baseline scenario, available revenues fall short of expenditure requirements by \$3.2 billion or nearly a quarter of total projected expenditures.** To close this gap following the CBC's guidelines, three basic changes would be required:

- ▶ Fares would have to be increased by about 34 percent. (See Figure 9.) This is an average annual increase over the five-year period of about 7.6 percent. If applied to the monthly Metrocard price, the increase would be from the current \$76 to over \$102.
- ▶ Government tax subsidies would have to increase by \$287 million or 11 percent.
- ▶ The cross subsidy from auto users would have to more than double; the required increase is nearly \$1.5 billion.

**Implementing the steps in the cost-saving scenario would reduce the 2009 gap by about \$1.0 billion, bringing the shortfall to about \$2.2 billion.** Closing that gap with the CBC's recommendations would require:

- ▶ Fare increases of about 22 percent, or a monthly Metrocard price of \$93.
- ▶ Increasing state and local tax subsidies by about 1.5 percent or about \$19 million annually.
- ▶ Increasing the cross-subsidy from auto users by 95 percent or \$1.3 billion.

# Options for Increasing The Cross Subsidy from Auto Users

Raising an additional \$1.3 billion annually from auto users would not be easy. Currently such a cross-subsidy is provided in four ways:

- ▶ “Surplus” revenue from **tolls on the MTA’s bridges and tunnels**;
- ▶ The dedication of a portion of state **registration and license fees** for motor vehicles to mass transit;
- ▶ The dedication of a portion of the state’s **motor fuel tax** to mass transit;
- ▶ The dedication of **petroleum business taxes** to mass transit.

None of these items individually is likely to be a practical source for \$1.3 billion or more in additional revenue, but some combination of these sources could be a realistic answer. In addition, **new congestion pricing policies** are an alternative means for raising the needed funds. Table 2 summarizes the estimated annual yield from each of these options.

**Bridge and Tunnel Tolls.** The baseline scenario indicates that in 2009 tolls on the MTA’s bridges and tunnels will yield \$1.3 billion, and that operating costs of about \$664 million reduce the available “surplus” to about \$638 million. The MTA calculates that a \$1 toll increase on its bridges and tunnels yields about \$125 million annually in additional revenue. Since costs are already covered, all this increase permits a greater cross subsidy to mass transit.

Based on the MTA’s rule of thumb, it would require a toll increase of more than \$10 to raise an additional \$1.3 billion annually. This would increase the E-Z Pass toll on the major crossings from \$8 to \$18 (and the cash toll to \$19). In practice the rule of thumb would probably not hold up; the more than incremental toll increase would likely dramatically reduce utilization and revenues from the initial estimate. More practical and fiscally viable between now and 2009 are toll increases in the range of 25 percent to 50 percent, or increases of \$2 to \$4 per trip. This would **likely yield**

**Table 2**  
Estimated Annual Revenue From Auto Cross-Subsidy Options  
(dollars in millions)

	ANNUAL NET IMPACT
<b>Congestion Pricing Options</b>	
Toll East River Bridges	\$ 638
London-like Plan	\$1,382
<b>Other Options</b>	
<b>MTA Bridge and Tunnel Tolls</b>	
\$1 Increase	\$125
\$2 Increase	\$230
\$4 Increase	\$425
<b>Motor Fuel Taxes</b>	
5 Cents per Gallon Increase	\$150
10 Cents per Gallon Increase	\$300
25 Cents per Gallon Increase	\$750
<b>Motor Vehicle Fees</b>	
Low Increase Option*	\$120
High Increase Option**	\$775

\*Low Increase Option assumes a \$10 annual increase in motor vehicle registration fees, a \$10 annual increase in drivers license fees, and \$15 per year increase in the Auto Use Tax. Increases are applied only in the MTA region.

\*\*High Increase Option assumes a \$50 annual increase in motor vehicle registration fees, a \$50 annual increase in drivers license fees, and \$50 per year increase in the Auto Use Tax. Increases are applied only in the MTA region.

**increased annual revenues of about \$230 million to \$425 million**, allowing for some reduction in volume due to the higher prices.

**Motor Vehicle Fees.** Owners and drivers of motor vehicles currently pay three different types of fees. State drivers license fees average about \$5.40 annually for regular licenses. State vehicle registration fees are based on weight and range from \$10 to \$56 annually. New York City levies a \$15 annual auto use fee, and Nassau, Suffolk, and Westchester counties impose a similar fee of \$5.

The Regional Plan Association, based on data relating to licenses and registrations in 2002, estimated the revenue gains from substantially increasing each of these fees for owners or drivers in the MTA region. Specifically, they estimated that an auto use tax of \$50 annually applied in the region would add \$235 million; that an average increase of \$50 annually in registration fees would raise an additional \$260 million; and that hiking the average license fee from under \$6 annually to \$50 annually would raise an additional \$294 million. The combined yield of these measures, **\$789 million annually**, suggest a maximum revenue figure for higher auto use fees in the coming years. Increases in all three fees of this magnitude are politically unlikely and might fall short of the estimate due to resulting changes in ownership patterns.

**Motor Vehicle Fuel Taxes.** The State currently imposes an eight cent per gallon tax on motor vehicle fuels. The Regional Plan Association reports that about 3 billion gallons of fuel are sold in the MTA region annually, and they use simple arithmetic to estimate that each one cent increase in that tax region-wide would yield \$30 million annually. The Association suggests that an increase of as much as **10 cents per gallon** might be practical and would **yield an estimated \$300 million annually**.

The State's petroleum business tax is applied to a similar, but somewhat broader, base as the motor vehicle fuel tax. Proportionally lower increases in the petroleum business tax rate could, therefore, yield similar amounts. However, the taxing of the broader base (including certain household and commercial uses of fuel other than for motor vehicles) would deviate more from the principle of raising revenue from motor vehicle use. Thus, if fuel taxes are to be used to help pay for the cross subsidy, the motor vehicle tax is the preferable mechanism.

**New Congestion Pricing Policies.** "Congestion pricing" arrangements impose charges for access to the central business district by motor vehicles. The primary intention is to encourage a shift from autos to mass transit for hub-bound trips, but they can also have the impact of raising new revenue from the auto users who do not shift.

In the context of New York City, congestion pricing schemes have two basic variations – East River bridge (ERB) tolls and a London-like arrangement under which a fee is collected electronically from autos using any of multiple access points (not limited to bridges and tunnels) to the central business district. Estimating the fiscal impacts of each plan is difficult, but each has the potential to yield significant new revenue.

- ▶ *East River Bridge Tolls.* On a typical weekday morning about 213,000 vehicles enter the central business district via one of four bridges connecting the area to Brooklyn or Queens. These bridges are owned by the City of New York, and no tolls are collected on them. One policy option is to begin collecting tolls on these bridges, presumably at a price equal to that charged for the MTA bridges and tunnels connecting central Manhattan to the other boroughs.

A study by the Regional Plan Association estimates that the new tolling policy would generate \$547 million annually from users of the East River bridges owned by the City and would increase tolls collected at the MTA's tunnels by \$159 million, for a combined increase of \$706 million annually. Given the toll increases of approximately 14 percent (from \$7 to \$8) in 2005, the future gross revenue impact is about \$805 million annually. After taking into account the maintenance expenses that the MTA would have to assume and the added mass transit expenses resulting from increased ridership, one is left with a more realistic net revenue gain to the MTA of about **\$645 million annually**.

- ▶ *London-like Congestion Fees.* In 2003 local government in London implemented a program of motor vehicle charges (initially of approximately \$9, raising it to about \$15 in 2005) for entering the central business district. It has proven to be successful at diverting motorists to mass transit (mostly buses) and reducing traffic and thereby speeding the route times for buses. It has yielded substantial gross revenues, but these have been offset by added expenses for the additional bus service and the new collection system.

The Regional Plan association has explored the impacts of establishing a London-like system for the New York central business district. The most expansive of the congestion pricing options simulated by the Association included tolls at each entry point that were equal to the 2003 MTA tolls (that is, \$7) during daytime hours but were reduced in the night to \$4 and raised during the rush hours to \$10. This plan was estimated to produce gross additional revenues of more than \$1.7 billion annually with about \$258 million additional collected at MTA tunnels, \$76 million additional at Port Authority tunnels, and nearly \$1.4 billion in new revenue generated at the new tolled entry points including the East River bridges.

The Association did not estimate the added expenses that would be needed for this option. The plan is estimated to shift about 60 million trips annually from autos to mass transit; this can be estimated to generate added costs for these services of about \$110 million annually. The plan also would require investments (which could be amortized) to establish the electronic enforcement system and ongoing administrative costs for collecting the fees; based on the London experience these costs can be estimated at about \$120 million annually. Finally, because the plan includes tolling the East River bridge entry points, it is reasonable to assume that the previously noted maintenance costs for these bridges (totaling \$120 million annually) would have to be covered by the new revenues. After these expenses are taken into account, the **net gain from the plan is an estimated \$1,382 million annually.**

**Summary of Options.** Of the options, a London-like pricing plan has the greatest appeal. It would have the largest impact in shifting use from motor vehicles to mass transit, and it has the greatest potential for raising new revenue. Such arrangements require further consideration, but they should be explored seriously and, if warranted, pursued promptly. If a congestion pricing plan proves impractical or requires an extensive period for implementation, other options for raising the recommended revenue are available. A package of measures involving some combination toll increases, fuel taxes and higher vehicle fees can be constructed to achieve the revenue targets.

Founded in 1932, the Citizens Budget Commission (CBC) is a nonpartisan, non-profit civic organization committed to influencing constructive change in the finances and services of New York State and New York City governments.

This document is a summary of a CBC report, *How to Balance the MTA's Budget*, released in June 2006. The report was prepared under the auspices of CBC's Competitiveness Committee, co-chaired by Fred Hochberg and David Tanner. The report was prepared under the direction of Charles Brecher, Executive Vice President and Director of Research at the CBC and a Professor at New York University's Wagner School. Selma Mustovic, Senior Research Associate at the CBC, provided critical research support and helped draft the report. Alexandra Simon, a graduate student at the Wagner School, served as a research assistant for the project. Eric Rothman and Jean Shia of Hamilton, Rabinovitz & Altschuler, Inc. provided consulting services in the early stages of the project and developed the model for projecting future revenue requirements. Eric also provided helpful comments on preliminary drafts of the report. Selma Mustovic prepared this summary. The full report is available on the Commission's website, [www.cbcny.org](http://www.cbcny.org).

H. Dale Hemmerdinger, Chairman  
Diana Fortuna, President  
Charles Brecher, Executive Vice President

Citizens Budget Commission  
One Penn Plaza, Suite 640  
New York NY 10119  
*tel* 212.279.2605 *fax* 212.868.4745  
*web* [www.cbcny.org](http://www.cbcny.org) *email* [info@cbcny.org](mailto:info@cbcny.org)