Citizens
Budget
Commission

Financing Transportation Services In The New York Region

- If the transportation system in the New York – New Jersey metropolitan area is not well maintained and does not expand to meet future needs, the New York economy will not thrive.

- In New York, 39 percent of urban roads are in unacceptable condition; in New Jersey, it's 29 percent. In both states, 37 percent of bridges are structurally deficient or obsolete. It will take 15 to 20 years for the mass transit lines in the area to be in a state of good repair under current capital plans.

- New transportation projects are sought by business leaders and commuters on crowded lines, but the projects carry large price tags – as much as $60 billion – with sources of funding not identified.

- To ensure a transportation system that is adequately maintained, has access to capital for new investments, and collects user fees that are appropriate and fair, six guidelines described herein should be followed.

- The guidelines envision a new collaboration between the two states and an approach that expects the transportation system to be financed more heavily through user fees, with those fees dedicated to transportation purposes.

The latest report by the Citizens Budget Commission analyzes the problems associated with current policies for financing transportation in the New York–New Jersey metropolitan area. It then offers and explains the guidelines that would provide the basis for an improved transportation system that is adequately financed.

This document is a summary of the CBC's latest report.

To obtain the full report, please visit the CBC's website at www.cbcny.org. A printed copy can be obtained by calling or writing the CBC.

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Introduction

New York is unique among world-class cities, because it offers the combination of an extensive American-style highway system and a European-style mass transit system.

The New York–New Jersey metropolitan area has 37,066 miles of highway – more than any other metropolitan area including Los Angeles, which has 26,320.

With the largest metropolitan labor force in the nation, New York requires both an extensive mass transit system and a large network of highways to manage the daily commute. If its transportation system is not well maintained and does not expand to meet future needs, then the New York economy will not thrive.

This report examines the financing policies for passenger transportation services in the New York-New Jersey metropolitan area. Included are 25 entities consisting of the two states, the Port Authority of New York and New Jersey, the Metropolitan Transportation Authority, NJ TRANSIT, four additional authorities operating or financing toll roads, the City of New York, and 15 counties. This report offers the first comprehensive, fiscal analysis of these agencies, whose combined annual operating expenditures for transportation services are approximately $13 billion.

The Problems

Current policies for financing transportation fail to meet the region's needs in three ways.

Inadequate maintenance and repair. The federal Highway Administration found recently that in New York 39 percent of urban roads are in unacceptable condition; in New Jersey the figure is 29 percent. In both states, 37 percent of the bridges are structurally deficient or obsolete.

The region's mass transit facilities also are not in a state of good repair. Despite an expanded capital program over the last 20 years, the MTA does not expect to reach a state of good repair until 2019. Mass transit lines in New Jersey will require until 2025 for completion of all rehabilitation and improvement projects underway.

Politicized and Inconsistent Pricing Policies. There is insufficient money for maintenance and expansion of transportation facilities because the users of the services are not paying a large enough share of the cost. Prices, or user fees, for these services take the form of fares, tolls, license and registration fees, and motor fuel taxes. However, region-wide, dedicated user fees pay for only about two-thirds of all highway and bridge expenses and less than half of all mass transit expenses.

The low prices have shortcomings beyond depriving transportation agencies of revenues. They shift financing to tax subsidies, which encourage inefficient practices by management and consumers. The political pressure to keep prices low also leads to sporadic price increases often precipitated by fiscal crises and preceded by insufficient investment in maintenance.

Lack of Financing and Comprehensive Planning for Expansion. The region's transportation system would benefit from major expansions. The 25 entities with transportation responsibilities each have a favorite project, but there is no effective body for setting priorities among these proposals, and no clear policy for how to finance new facilities.

Guidelines for a Better System

These six guidelines would provide a transportation system that is adequately maintained, has access to capital for new investments, and collects appropriate and fair user fees.

- To ensure sound transportation financing in the region, the governors of New York and New Jersey should create a new entity with authority to set and enforce policies and priorities.

The new Regional Transportation Policy Board would not directly provide services, but would enforce regional policies by reviewing the annual operating and capital budgets of the transportation agencies and suggesting (imposing, if necessary) alternatives to financial plans that do not meet its criteria. The Board would also be responsible for setting productivity goals for the transportation agencies and establishing unit cost measures for monitoring and reporting purposes. It would require the agencies to submit publicly disclosed, multi-year financial plans that would include estimates of the costs of capital that are clearly and consistently defined.

The MTA's mass transit operations alone include more than 700 miles of subway lines and 5,000 buses.

The New York City Department of Transportation alone maintains 5,806 miles of streets and 755 bridges.

- The region's transportation agencies should have sufficient resources to meet all necessary operating expenses.

The region's mass transit agencies incur large operating deficits under standard accounting rules that depreciate capital assets. Region-wide, the mass transit deficit totaled about $1.2 billion in 2001, the latest year for which comprehensive data were collected.

Among entities with road and bridge responsibilities, there is a divergence between the authorities and units of general government. The authorities set sufficient toll rates to cover capital costs and generate an operating surplus; units of general government are dependent on general fund appropriations that typically are insufficient to meet maintenance needs.

- Motor vehicle user fees should be dedicated to transportation agencies for two purposes: to cover the operating costs of roads and bridges, and to cover one-quarter of the operating costs of mass transit.

Auto user fees should exceed the cost of the highway system in order to compensate for the costs that auto use imposes on society in the form of pollution and congestion. The motorists' premium should be dedicated to alternative transportation services, thereby, in effect, making their ride less congested.

Current user fees imposed on motorists in the form of tolls, motor fuel taxes, and fees already generate approximately enough money to meet these objectives. But all of this money is not used for transportation purposes; all these funds should be earmarked for transportation agencies.

- Mass transit riders should pay a fare sufficient to cover one-half the transit agencies' operating costs.

There is a strong case for subsidizing mass transit. It makes the regional economy more efficient, providing benefits to employers, retailers and others who may never use the system themselves. And it provides these benefits without generating the pollution and congestion that characterize alternative modes of transportation.

The goal that user fees cover 50 percent of costs is close to current practice. At the MTA fares cover about 45 percent of expenses and at NJ TRANSIT about 37 percent. The 50 percent target would require a modest increase, but it would put the system on a sounder footing by providing more predictable funding.

- The same financing principles should be used to generate new capital for improvements and expansion.

New road and bridge projects should be self-financed; the money should be raised from auto user fees. Mass transit projects should be financed one-half from fares, one-quarter from auto user fees, and one-quarter from general fund subsidies. In addition, contributions to capital – primarily in the form of federal grants – should be reserved for creation of new capital assets.

A reasonable assumption is that for each $1 billion of new investment about one-third can be paid with federal grants, leaving $667 million to be borrowed. Assuming a repayment period of 30 years and an interest rate of 5.1 percent, the annual debt service would be $42 million. For a highway project, this money would be raised from added auto user charges. For a mass transit project, the $42 million would require an increase in the states' subsidy of $10.5 million, an increase in the cross subsidy from motorists of $10.5 million and an increase in fare revenues of $21 million.

The illustrative calculations for a $1 billion investment can be extrapolated to a larger capital program, but these calculations are only the beginning of the needed analysis. The region's transportation agencies should develop the capacity to plan new projects and should inform the public about the fiscal implications, including necessary fare and auto user fee increases.

- The existing backlog in maintenance and repairs caused by a history of under-funding and neglect should be eliminated at an accelerated pace and be financed by general fund appropriations.

Enthusiasm for new projects should not displace a concern for maintaining existing facilities, many of which are not now in a state of good repair. The pace of agencies' plans ought to be accelerated, in order to achieve a state of good repair for transportation facilities in ten years.

The cost of overcoming past mistakes and achieving a state of good repair should not be a responsibility of current users of the system. They pay a price in the form of neglected facilities; they should not also pay a price in the form of higher user charges.

Founded in 1932, the Citizens Budget Commission is a nonpartisan, nonprofit civic organization devoted to influencing constructive change in the finances and services of New York City and New York State governments. The Commission conducts research and regularly issues reports and recommendations based on that research. The research is conducted by staff members and consultants, and guided by committees composed of Trustees of the CBC.

This report was prepared under the auspices of the CBC's Debt and Capital Investment Committee, co-chaired by Karen Daly and David Greenbaum. The other members of the Committee are Lawrence D. Ackman, Paul R. Alter, Kenneth W. Bond, Lawrence B. Buttenwieser, Herman Charbonneau, Anne E. Cohen, Evan A. Davis, Bud H. Gibbs, Kenneth D. Gibbs, Marianne Kozlowski, Robert Kurtter, Jeffrey Lynford, William F. McCarthy, Norman N. Mintz, Hector Prud'homme, Jon W. Rotenstreich, Heather Ruth, Bart Schwartz, Richard Sigal, Richard J. Sirota, Arthur Siskind, Adam Soloman, Merryl H. Tisch, W. James Tozer, and H. Dale Hemmerdinger, ex-officio

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