



CITIZENS BUDGET COMMISSION

One Penn Plaza ▪ Suite 640 ▪ New York, NY 10119

Testimony to the New York City Traffic Mitigation Commission

November 1, 2007 – 6:00 p.m.

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Thank you for the opportunity to testify today. I am Selma Mustovic, Senior Research Associate at the Citizens Budget Commission (CBC). Founded in 1932, the CBC is a nonpartisan, nonprofit civic organization devoted to influencing constructive change in the finances and services of New York City and New York State government.

The CBC supports congestion pricing as a mechanism for achieving a sensible and consistent approach to financing public transportation in the New York region. Mass transit is essential to the functioning of the region's economy, and reliable financing is essential to reliable mass transit.

New York's central business district 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's financing arrangements lead to repeated operating deficits and insufficient capital investments to bring the system 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. In our recent work on transportation, the CBC recommends 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 CBC's funding recommendations for mass transit can be summarized as "50-25-25." We start from the fact that mass transit provides a combination of "private goods" to individual riders and "externalities" or benefits to third parties including the broader public. Therefore, its operating costs should be divided between user fees paid by riders and subsidies derived from broader sources. Our specific guidelines are that riders pay half the cost of mass transit, and the other half be evenly split between user fees paid by motorists and state and local government subsidies. The cost of bridge and tunnel facilities should be paid for entirely through user fees paid by motorists, but these auto user fees should also generate a surplus large enough to cover one quarter of the cost of providing mass transit.

In a report issued in June 2006, *How to Balance the MTA's Budget*, the CBC estimated that the MTA's annual operating expenditure requirements in 2009 would be nearly \$13.1 billion, an increase of \$3.3 billion or 34 percent over the actual expenditures in 2005. The estimate was based on the MTA's latest expenditure projections available at the time, with some modifications to the projections of the future costs of capital.



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The projected available revenues in 2009 were short of expenditure requirements by \$3.2 billion or nearly a quarter of total projected expenditures. Closing this gap following the CBC's "50-25-25" guidelines would require an increase in the cross subsidy from auto users of nearly \$1.5 billion annually.

Raising an additional \$1.5 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 \$1.5 billion or more in additional revenue, but some combination could be a realistic answer. However, a new congestion pricing policy is an alternative and preferable option for raising the needed funds.

In the context of New York City, congestion pricing schemes have two basic variations

– East River bridge (ERB) tolls and a London-like arrangement, which has been proposed as part of PlaNYC 2030. Estimating the fiscal impact of these options is difficult, but both have the potential to yield significant new revenue. Using an analysis by the Regional Plan Association, we estimated that ERB tolls could yield \$645 million and the London-like congestion pricing up to \$1.4 billion annually, after accounting for estimated additional costs associated with each option.

Of all the options for raising additional revenues from motorists, the London-like congestion pricing scheme has the greatest appeal, because (1) it would have the largest impact in shifting use from motor vehicles to mass transit, and (2) it has the greatest potential for raising new revenue. The congestion pricing pilot program proposed by Mayor Bloomberg is different from the option we analyzed in our report, and the estimated annual revenues from it are more modest (\$400 million in the first year). We are not wedded to the Mayor's plan with respect to the use of potential congestion pricing revenues (which might go to functions other than mass transit) or to the specifics of his pricing scheme. The details of the program can be and should be fine-tuned during the three-year pilot period, but the plan is likely to be the most attractive form of cross subsidy from motorists.

New York City's population is expected to grow by a million people by 2030, and the challenges New Yorkers already experience due to our aging infrastructure will only grow more severe as the city grows. Congestion pricing is an important part of the plan for how we address these challenges. We urge the Commission to support a congestion pricing plan that helps sustain and expand our mass transit system, and also reduces traffic and cleans our air. Thank you.