

HOW TO KEEP MASS TRANSIT ON TRACK
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An effectively functioning mass transit system is essential to the effective functioning of the economy of the New York City metropolitan area. This issue brief outlines (1) the importance of mass transportation to the local economy; (2) the immediate and root causes of MTA budgetary problems that may in the very near future result in both fare increases and service cutbacks; and, (3) the need to recreate something akin to the business/labor/government coalition that turned the region's public transportation system around in the early 1980s.

Mass transit: the circulatory system of a high-productivity urban economy

The downstate mass transit system is by far the largest in the US (carrying on the order of 1/4th of the nation's transit riders every day), and one of the largest in the world. This unique system facilitates the concentration of dense, high value-added economic activity in New York City. A recent study found that Manhattan has the densest concentration of economic activity not only in the U.S., but among 4 "world cities" (the others include London, Paris, and Tokyo). Of the 2 million people that work in Midtown and Lower Manhattan, 84% of those workers use mass transit (64% subway, 11% rail, 9% bus) during the morning rush hour.

Concentration of economic activity facilitated by the mass transit system results in more advanced and specialized worker skills and helps explain NYC's productivity advantage (higher output/worker) and competitive labor costs. The average output per worker in NYC (not just Manhattan) is 62% higher than the national average. This higher output makes possible higher wages on average, yet unit labor costs are very competitive with other U.S. cities. One recent study ranked NYC 32nd from the top among the 100 top cities in unit labor costs. Another study indicated that for every \$1 of investment in transit, worker output increases by \$5.20. The density made possible by transit also fosters cultural and entertainment dynamism that has enabled NYC to remain on leading edge of several industries: e.g., media (video, print and internet), movie production, and tourism.

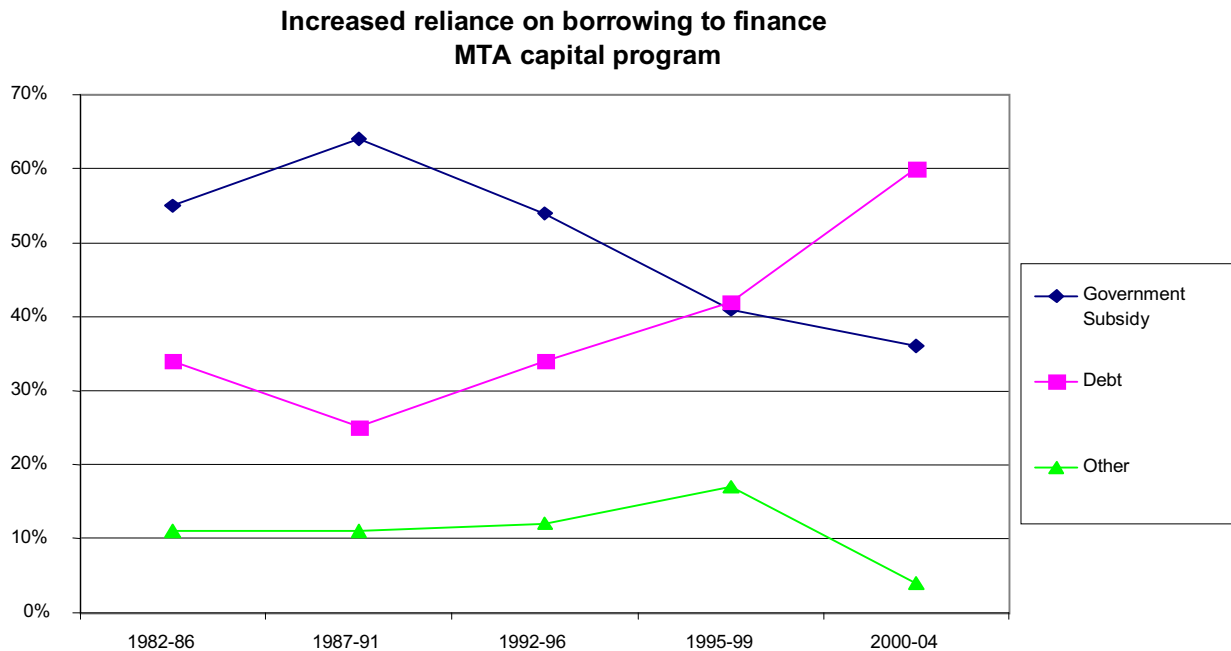
Other benefits that go beyond the purely economic include a reduction in energy usage (NYS ranks 50th in energy consumption per capita), reduction in congestion (which is very costly in lost time and threatens to strangle NYC as it is), cleaner air (although NYC still has 3rd worst air quality in nation), and greater safety (death rates per million passenger miles for mass transit modes are only a fraction -- less than 5% -- of what they are for autos).

How bad budget decisions pose a threat to the downstate mass transit system

Although the MTA has yet to release a detailed 2003 budget, the projected \$660 million MTA operating budget deficit appears to result largely from three immediate sources: (1) a reduction in the growth in ridership, tolls and dedicated taxes brought on by the ongoing recession and the economic impact of the World Trade Center attack; (2) increased debt service resulting from the State's decision to rely much more heavily on fare-backed bonds to pay for the system's capital needs; and (3) the unwillingness of the State government to commit to continuing on an annual basis the \$250 million one-time cash infusion that it provided to the transit system earlier this year.

But more fundamental factors are at play here as well. Several relate directly to the basic operating budget. Direct operating subsidies at both the State and City level have held steady at about \$159 million per year since 1994, which is to say that they have actually decreased in constant dollar terms. Federal operating subsidies disappeared entirely in 1998. And the State has failed to identify new revenue sources to complement the dedicated taxes instituted in the system turnaround years of the early 1980s. These dedicated taxes have been a quiet, unheralded lifesaver for the mass transit system and represent a key model for system financial turnaround in the present time.

But the most disturbing story – and perhaps the key factor affecting the MTA’s long-term budget problems – is on the capital budget side. Simply stated, State and City government have since 1995 dramatically pulled back from any kind of direct funding commitment to capital needs (new subway cars and buses, track improvements, station renovations). Instead, the State and the City have preferred to rely to an excessive degree on debt financing. This trend has reached critical proportions for the current 2000-2004 capital program, of which an astonishing 60% (more than \$9 billion) has been funded either by direct debt financing or through the proceeds from restructuring existing debt. The following chart shows this story graphically, presenting the proportion of government subsidy (combined Federal/State/City), debt, and other (mostly “pay-as-you-go”) financing for each of the MTA’s five capital programs.



Sources: Office of the State Deputy Comptroller; MTA

The chart actually masks the degree to which the City and especially Albany have pulled back from providing direct contributions to the capital program. Of the \$5.5 billion in government funding for the current capital program, some \$5 billion comes from the Federal government. The City is providing only \$530 million (the lowest amount in 25 years), and the State has provided absolutely no direct capital dollars. This contrast sharply with the 1982-86 capital

program. Of that program's \$4.2 billion in government funds, \$2.0 billion came from the Federal government, \$1.5 billion from Albany, and \$688 million came from the City. Thus, the difference between the early 1980s and the current period in terms of real commitment at the State and City level could not be more stark.

Back to the future

What we need now is a return to the sort of historic early 1980s commitment to finance the rebuilding of the transit system. This chapter in the State's history is worth recalling. Much of NYC's transit system was built before 1940. By 1980, years of deferred maintenance and disinvestment had taken its toll. As the system neared collapse in 1981, the legislature declared a transit emergency, and a rare partnership between Local, State and Federal governments was forged to rebuild the transit system even though both NYC and NYS were experiencing fiscal difficulties. Business and labor groups supported this coalition. The system was recognized as just too vital to the entire region's economic well-being to allow it to deteriorate further. Five-year capital plans were instituted to eventually bring the system up to a "state of good repair".

Since 1982, over \$40 billion has been pumped into the MTA to replace and restore equipment and facilities in what has become one of the largest rebuilding efforts ever in the U.S. Hundreds of new subway cars have been purchased and the entire fleet of 4,000 older cars has been overhauled. Thousands of new buses have been purchased over the past 20 years. The improvements in subway service have been substantial: the number of miles traveled by the average subway car between repairs has increased more than 10-fold compared to the early 1980s.

However, the most recent capital plans have, when one looks at their finances more closely, represented an actual movement away from the kind of progress just discussed. We need real leadership and commitment from elected officials and the business community to both maintain and improve the system and to expand it. The next three 5-year capital programs (through 2019) will need to raise a total of \$73 billion; \$43 billion to maintain the existing system in a "state of good repair" and \$30 billion to finance the long-overdue expansion of the system (full length Second Avenue subway, East Side Access, Lower Manhattan Transit Hub, LaGuardia Airport Access, and the extension of the No. 7 line to the Hudson River.)

How to pay for such a commitment? Many choices exist. What is likely to happen unless public officials are pressed to come up with a real financing plan is that the fare will go up and up. Already, the increased reliance on the farebox to pay the debt service on past years' borrowing for capital needs is becoming unsustainable. A fare hike is still a tax hike, and the most regressive form of a tax hike there is. A fare hike hits hardest at low-income families. A fare hike will also reduce ridership, hurt the economy, and worsen congestion and air pollution.

What is needed are new revenue sources to maintain and expand the mass transit system and make possible greater economic growth. There are many possible places to turn to for needed revenues. It is now time for business, labor, and government leaders to come together to discuss which ones are both fairest to the public, and best suited to finance the long-term needs of the region's critical mass transit system. Former MTA leaders Richard Ravitch, Robert Kiley and Steven Polan played key roles in building broad-based support for revenues to fund the system's historic 1980s turnaround.