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December 3, 2008

Gene Russianoff
New York Public Interest Research Group
9 Murray Street
New York, N.Y. 10007

Dear Mr. Russianoff:

At the request of the Straphangers Campaign, the Independent Budget Office has reviewed the MTA's November 2008 Financial Plan for 2009-2012, and has estimated the impact on the budget of several different fare and toll options. This letter summarizes our findings.

The MTA's Operating Budget Gap. The MTA expects to end 2008 with a positive cash balance of $268 million, which will be applied to the 2009 budget. If the MTA took no action to improve its fiscal condition, it would face projected budget gaps of $1.2 billion in 2009, rising to $3.0 billion by 2012. If the gap-closing program announced last month—which includes service reductions and fare and toll increases—were implemented, the MTA expects to end 2009 with a small cash balance of $65 million. Despite continued gap-closing measures, including an additional fare increase proposed for 2011, the current MTA financial plan still contains operating budget deficits in 2010 ($266 million), 2011 ($454 million), and 2012 ($608 million); it is assumed that these deficits will be dealt with in future financial plans. The revenue options that we present replicate the MTA's gap-closing efforts, and do not eliminate the 2010-2012 deficits that still remain in the financial plan. IBO has not attempted to assess the accuracy of the MTA's revenue, expense, and deficit projections.

Proposed Fare and Toll Increases. The MTA's financial plan assumes an increase in fare and toll revenues of 23 percent on an annual basis. Because the increases would not take effect until June 1, 2009, the revenue increase in 2009 would only be around 13 percent. An additional fare and toll increase would be implemented on January 1, 2011, and is expected to increase revenues by another 5 percent.

IBO has applied the proposed percentage increases in fare and toll revenues to the MTA's baseline revenues, and has obtained very similar results to those reported in the financial plan. We have consulted with the MTA on the small differences and determined that in the interest of consistency and simplicity we will use the MTA's numbers in the following calculations.

The MTA financial plan proposes increases in fare and toll "yields" or revenue, without specifying how much fares and tolls would have to rise to meet this target. Fare and toll increases of the magnitude contemplated by the MTA would reduce transit ridership and bridge traffic. Since many individuals in the New York region (and particularly in New York City) are highly transit-dependent, however, fare increases are likely to depress ridership less than they would in other metropolitan areas. Using studies reported by the American Public Transportation Association, IBO has assumed that for each one percent increase in the fare, ridership will decline by 0.18 percent. Based on this assumption, a 23 percent increase in fare and toll revenues would require an increase of around 28 percent in the average fare and toll paid.

Service Cuts. The MTA proposes to close a relatively small portion of its budget gap with the service cuts announced in its November 2008 plan: around $89 million in 2009 and $177 million annually in 2010-2012. These are direct savings, and do not include reductions in administrative expenses. One factor that limits the savings from the proposed cuts is that they generally occur outside peak hours, and do not affect the amount of labor and equipment needed to provide peak-period service.

The annual savings from the service cuts are roughly equivalent to 3 percent of the MTA's baseline (i.e., pre-increase) fare and toll revenues. In other words, the MTA could substitute an additional fare and toll revenue increase of 3 percent for the service cuts. Fare and toll revenues would thus need to rise 26 percent if the service cuts were rescinded but all other gap-closing measures were retained. IBO estimates that a 26 percent increase in fare and toll revenue would require a 32 percent increase in the average fare and toll paid.

Impact on Fares. IBO has estimated the impact of the two fare and toll alternatives discussed above on the average fare and toll paid, as well as the price of different types of MetroCards. The two alternatives are: 1) the MTA's proposal to raise fare and toll revenues by 23 percent, which IBO estimates would require a 28 percent increase in the average fare and toll; and 2) a modified proposal under which fare and toll revenues would rise by 26 percent, and the average fare and toll by 32 percent, in order to avoid service cuts.

Impact of Fare and Toll Proposals on Average Fares and Tolls

MTA Subsidiary	Average Fare or Toll Paid 2008	Average Fare or Toll with 28% increase (service cuts implemented)	Average Fare or Toll with 32% increase (service cuts not implemented
NYC Transit/ SI Railway	$1.34	$1.72	$1.77
MTA Bus	$1.28	$1.64	$1.69
MTA Bridges and Tunnels	$4.32	$5.52	$5.70
Long Island Rail Road	$5.71	$7.31	$7.53
Metro-North Railway	$6.18	$7.91	$8.16
Long Island Bus	$1.24	$1.59	$1.64

SOURCES: IBO; Metropolitan Transportation Authority.

Although the MTA has not yet released any formal fare proposals, the second table shows the hypothetical prices of unlimited MetroCards, under the assumption of across-the-board increases of 28 and 32 percent. Assuming that the base fare on NYC Transit is increased along with the price of unlimited-ride MetroCards, it is likely that the cost of a single (undiscounted) ride on the city's subways and buses would rise to at least $2.50, a 25 percent increase over the current $2.00 base fare. Note that the MTA has indicated that due to the characteristics of MetroCard vending machines, NYC Transit fares can only be increased in increments of 25 cents.

Potential Impact on the Prices of Unlimited-Ride MetroCards			
Type of Card	Current Price	Price with 28% increase (service cuts)	Price with 32% increase (no service cuts)
1-day	$7.50	$9.50	$10.00
7-day	$25.00	$32.00	$33.00
14-day	$47.00	$60.00	$62.00
30-day	$81.00	$104.00	$107.00
NOTE: Prices rounded to the nearest half-dollar.			
SOURCES: IBO; Metropolitan Transportation Authority.			

Two Additional Budget Options. IBO examined two additional budget options. Under the first option, we estimated how much additional revenue the MTA would require from non-fare, non-toll sources in order to maintain the ratio of fare and toll revenues to operating expenses at their 2008 levels. The second option assumes implementation of the fare and toll increases originally proposed by the MTA in July 2008 (an 8 percent annual yield increase starting in mid-2009, and an additional 5 percent at the beginning of 2011), and estimates how much additional revenue the MTA would require from non-fare, non-revenue sources if it opted for these smaller increases rather than the 23 percent/5 percent revenue increases in the current plan.

In order to keep the share of fare and toll revenues in the operating budget constant at their 2008 levels, the MTA would need to find additional revenue of around $275 million in 2009, rising to $565 million in 2010. Instead of the proposed 23 percent increase in fare and toll revenue scheduled for mid-2009, the MTA would need to raise fares and tolls by roughly half as much. Alternatively, if the MTA chose to return to its July 2008 fare and toll increase proposal, there would be an additional shortfall of around $400 million in 2009 and $700 million in 2010. This shortfall would have to be made up through a combination of other revenue sources, and potentially service cuts as well.

To reiterate a point from earlier in this letter, all of our estimates are based on the MTA's November 2008 financial plan, which still contains operating budget gaps in 2010-2012. None of the options presented here deals with those remaining gaps.

Other Revenue Sources. The current MTA financial plan assumes no new state or city aid. However, with legislative approval, the MTA could potentially receive additional revenue from non-fare, non-toll sources. For example, the rate on existing taxes dedicated to transit could be increased, or a new tax or fee imposed. Among the revenue options that IBO has studied are tolls on the four East River bridges, increasing the state mortgage recording tax (MRT) that is dedicated to the MTA, and reinstating a commuter tax on non-residents who work in New York City. Each of these options could feasibly provide an annual $500 million or more for transit. On the other hand, increasing taxes and fees in an economic slowdown, could hurt the area's competitiveness and impede recovery. Moreover, if the state and city turn to tax increases to solve their own fiscal problems, transit will be competing with other budget priorities for limited public funds.

If you have any questions regarding our analysis, or if you require further information, please do not hesitate to contact me or Alan Treffeisen, Senior Budget and Policy Analyst for Transportation.

Sincerely,

Ronnie Lowenstein
Director

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December 5, 2008

Gene Russianoff
New York Public Interest Research Group
9 Murray Street
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Dear Mr. Russianoff:

As a follow-up to our letter of December 3, 2008, the Independent Budget Office has made additional estimates of the impact of alternative fare and toll proposals for the MTA.

IBO estimates that the 5 percent fare and toll revenue increase proposed by the MTA for 2011 would require an increase of around 6 percent in the average fare and toll paid. The impact on average fares and tolls, and the prices of unlimited-ride MetroCards in 2011 is shown below under the two scenarios reported in our initial letter. The first scenario assumes a 28 percent increase in the average fare and toll in order to yield a 23 percent increase in revenues implemented beginning in 2009. The second scenario assumes that the increase in average fares and tolls beginning in 2009 is 32 percent which—based on the MTA's revenue and expense projections—would be needed to also avoid the service cuts that were proposed in the November 2008 plan.

Impact of an Additional Fare Increase of 6 Percent (5 Percent Revenue Increase) in 2011 on Average Fares and Tolls

MTA Subsidiary	Average Fare or Toll Paid 2008	With 28% increase in 2009	With Additional 6% Increase in 2011	With 32% Increase in 2009	With Additional 6% Increase in 2011
NYC Transit/ SI Railway	$1.34	$1.72	$1.82	$1.77	$1.87
MTA Bus	$1.28	$1.64	$1.74	$1.69	$1.80
MTA Bridges and Tunnels	$4.32	$5.52	$5.85	$5.70	$6.04
Long Island Rail Road	$5.71	$7.31	$7.74	$7.53	$7.99
Metro-North Railway	$6.18	$7.91	$8.39	$8.16	$8.65
Long Island Bus	$1.24	$1.59	$1.69	$1.64	$1.74

NOTE: Prices rounded to the nearest half-dollar.

SOURCES: IBO; Metropolitan Transportation Authority

Impact of an Additional Fare Increase of 6 Percent (5 Percent Revenue Increase) in 2011 on the Prices of Unlimited-Ride MetroCards					
	Current	With 28% increase in 2009	With Additional 6% Increase in 2011	With 32% Increase in 2009	With Additional 6% Increase in 2011
1-day	$7.50	$9.50	$10.00	$10.00	$10.50
7-day	$25.00	$32.00	$34.00	$33.00	$35.00
14-day	$47.00	$60.00	$64.00	$62.00	$66.00
30-day	$81.00	$104.00	$110.00	$107.00	$113.00
NOTE: Prices rounded to the nearest half-dollar.					
SOURCES: IBO; Metropolitan Transportation Authority					

In our previous letter we provided an estimate of the budgetary impact of an 8 percent increase in fare and toll revenues beginning in 2009. IBO estimates that this revenue increase would require the average fare to go up by around 10 percent. Applying a 10 percent increase across the board to fares and tolls would give the following results:

Impact of a 10 Percent Fare and Toll Increase (8 Percent Revenue Increase) in 2009 on Average Fares and Tolls		
MTA Subsidiary	Average Fare or Toll Paid 2008	With 10% Increase in 2009
NYC Transit/ SI Railway	$1.34	$1.47
MTA Bus	$1.28	$1.41
MTA Bridges and Tunnels	$4.32	$4.75
Long Island Rail Road	$5.71	$6.28
Metro-North Railway	$6.18	$6.80
Long Island Bus	$1.24	$1.37
NOTE: Prices rounded to the nearest half-dollar.		
SOURCES: IBO; Metropolitan Transportation Authority		

Impact of a 10 Percent Fare and Toll Increase (8 Percent Revenue Increase) in 2009 on the Prices of Unlimited-Ride MetroCards

	Current	With 10% Increase in 2009
1-day	$7.50	$8.50
7-day	$25.00	$27.50
14-day	$47.00	$51.50
30-day	$81.00	$89.00
NOTE: Prices rounded to the nearest half-dollar.		
SOURCES: IBO; Metropolitan Transportation Authority		

Any fare hike implemented in 2009 is likely to include an increase in the subway and bus base fare, currently $2.00. As noted in our previous letter, the 23 percent increase in fare revenue proposed by the MTA in its November financial plan would require an increase of around 28 percent in the average fare. Rescinding the proposed service cuts and raising fares and tolls to compensate for the higher expenses would require an increase of around 32 percent in the average fare. Applying these rates of increase to the $2.00 base fare gives a new base fare of $2.56 or $2.64, respectively. However, the MTA has indicated that fares can only be increased in increments of 25 cents, due to the characteristics of MetroCard vending machines. For this reason, IBO expects that if average fares are increased sufficiently to yield a 23 percent increase in revenues, the base fare would most likely be raised to $2.50.

If you have further questions, or if you require further information, please feel free to contact me or Alan Treffeisen, Senior Budget and Policy Analyst for Transportation.

Sincerely,

Ronnie Lowenstein
Director