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Testimony
of Preston Niblack, Deputy Director,
before the City Council Committee on Transportation
on New York City Transit's Fiscal Condition

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Good morning, Chairman Liu and members of the Committee. I am Preston Niblack, deputy director of the Independent Budget Office. We appreciate the opportunity to testify at today's hearing regarding New York City Transit's finances and fare policy.

As a city agency charged with providing non-partisan analysis of budgetary issues facing New Yorkers, IBO believes that it is important for elected officials and the general public to have a clear understanding of New York City Transit's current fiscal condition. It is our view that NYC Transit may be unable to balance its operating budget during the 2003 calendar year without additional revenues from existing or new sources. Today I will briefly review NYC Transit's fiscal situation, and discuss options for addressing its budget gap. IBO does not advocate any particular solution to NYC Transit's funding shortfall.

The current fiscal outlook for NYC Transit has deteriorated sharply. The MTA has not released detailed budget information beyond 2002 for any of its subsidiary agencies. However, it has projected a systemwide budget gap of $663.3 million in 2003. Several factors have combined to put pressure on the agency's operating budget. Let me briefly review those factors.

NYC Transit's operating expenses rose from $3.2 billion in 1996 to $4.5 billion in 2001, an increase of 39 percent, or over 7 percent annually. Spending has risen at this rate due primarily to increased subway and bus service—which has contributed to the nearly 14 percent growth in NYC Transit headcount—as well as the cost of labor settlements. Operating expenses were projected to grow at twice the rate of revenues between 2001 and 2004. One factor is the rising burden of debt service, which is projected to nearly double by 2004, following the state's decision to make NYC Transit's capital program rely more on revenue-backed debt and less on direct state appropriations. The transit agency's contracts with its labor unions will also expire at the end of this year.

NYC Transit derives its operating revenue from several sources, including dedicated taxes, direct operating assistance from the city and state, surplus bridge and tunnel tolls, and farebox revenues. The transit agency has been able to balance its budget each year thanks mainly to strong revenues from dedicated taxes, as well as the surplus of MTA bridge and tunnel tolls. However, the amount of revenue available from tax-supported subsidies has declined with the downturn in the economy. Transfers of the so-called "urban taxes" (two real estate-related taxes collected in the city) fell from $163 million during the first eight months of 2001, to $101 million in the first eight months of 2002. Surplus bridge and tunnel toll transfers have declined as MTA Bridges and Tunnels has used toll revenues for its own projects. Direct government operating assistance has remained flat at $159 million per year each from the city and the state for several years now. Federal operating subsidies ceased altogether in 1998.

Farebox revenues have risen slowly, and their contribution to the overall budget has slipped slightly in the last few years. Although fare revenues jumped 20 percent after the last fare increase in 1995, they increased by only 5 percent since 1996, despite a 43 percent increase in the number of passenger trips. The reason is the widespread adoption of MetroCard since 1996 and the accompanying fare innovations, which have revolutionized the way riders' pay for their trips. MetroCard is now used to pay for over 80 percent of trips, and unlimited ride cards are used for almost half of all trips. These fare innovations have encouraged ridership while lowering the real cost of travel to passengers. Because of the fare discounts, the average passenger revenue collected per subway or bus trip fell from $1.44 to $1.06 during this period.

The current fiscal outlook for NYC Transit is decidedly less bright than in recent years. On the positive side, federal aid and insurance proceeds will pay for the physical damage from the terrorist attacks of September 11. Also, despite the recession, combined subway and bus ridership has largely returned to its pre-attack levels. Nonetheless, NYC Transit expects to balance its budget for 2002 only by receiving an advance of the state's payment of tax-supported subsidies (the so-called "spin-up").

The looming gap can be eliminated through increased revenues or decreased expenditures—or some combination of the two. The MTA has in recent years implemented an effective program of cost containment, and it may be difficult to cut expenditures much further without affecting service levels. Scaling down or postponing major capital projects would produce savings in debt service. However, in the short term these savings would be minimal. For calendar year 2003, NYC Transit will almost certainly require an increase in revenues. These revenues may come from an increase in government operating assistance or tax-supported subsidies, or higher fares. Given the current fiscal difficulties of the city and state, any increase in governmental assistance to transit will require either cutting other programs or raising taxes.

Thank you for your attention and I would be pleased to take any questions you may have.