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Testimony of Sarah Stefanski
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To the New York State Senate's Standing Committees on Corporations, Authorities and Commissions & Transportation
Regarding the MTA Budget and Penn Station Revitalization Plan
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Good morning, Chair Comrie, Chair Kennedy, and committee members. My name is Sarah Stefanski, and I am the assistant director for housing, environment, and infrastructure at the New York City Independent Budget Office (IBO). I appreciate the opportunity to testify today. IBO is a New York City agency created to provide nonpartisan information on the city's budget and economic outlook to elected officials and the public.

Last month, IBO reported key findings from our latest economic forecast and review of the city's 2024 Preliminary Budget. Among those findings was that the Metropolitan Transportation Authority (MTA)'s large annual operating deficits represent a direct risk to the city's budget. This was made clear in Governor Hochul's 2024 Executive Budget, which would increase the city's contribution to the MTA by approximately $500 million per year to help close MTA deficits. I am happy to provide you with more detail on this finding today.

MTA Deficit Relief in the 2024 State Executive Budget. With public transit ridership still at 70 percent of pre-pandemic levels, the MTA is facing annual budget deficits of $600 million this year, $1.2 billion in 2024 and 2025, and $1.6 billion in 2026. Notably, these deficits are present even after the use of $4.4 billion in federal Covid-19 aid, fare and toll increases of nearly 6 percent, and a planned $400 million per year in MTA operational savings. To cover these shortfalls, the MTA is counting on new government support, from the state and from the city. These gaps could in fact be larger, however, if the MTA fails to produce the $400 million in annual operating savings promised in its latest plan, or if the authority's assumptions about inflation and wage settlements prove too low—both are still pegged at 2 percent over the next three years.

The governor's 2024 Executive Budget proposes the allocation of $300 million in one-time state aid to the MTA and a rate increase in the MTA-dedicated payroll mobility tax, which applies across the MTA's service area, including New York City, Long Island, and parts of the Hudson Valley. This rate increase is expected to yield revenues of $800 million annually. Also included are anticipated casino licensing and tax revenues—but notably, these would not materialize in time to make up for the MTA's current deficits.

New York City is being asked to pay a large portion of the MTA's shortfall; the governor has proposed the city pay approximately $500 million per year in new contributions to the MTA. This figure comprises three new proposals for city funding. First, the city would pay 100 percent of paratransit costs after fares and tax subsidies, up from the current 50 percent cost sharing. Second, the city would increase its contributions to the cost of providing MetroCards to eligible city students, to all costs net of state subsidies. Finally, the city would increase its share of the state's offset for payroll tax exemptions. These proposed contributions from the city to the MTA would be substantial, and risk growing over time.

Paratransit. Covering 100 percent of paratransit costs is the largest expense of the three state proposals, estimated by the Mayor's Office of Management and Budget (OMB) at $266M in new payments in 2024, and increasing to $280 million in 2025 and beyond. It's worth noting utilization of paratransit has recovered faster than other MTA services, and is now back to over 90 percent of pre-pandemic levels and growing. As the city's population ages, we expect the need for this service will continue to increase.

Student MetroCards. Under the state proposal, student MetroCard costs are estimated by OMB at $105 million in 2024, an increase from the flat $45 million per year that the city currently pays. Because the city would no longer be paying a flat rate, the cost to the city would fluctuate with program enrollment but would stay well-above the city's current contribution. Last school year, the student MetroCard program served approximately 380,000 students.

Payroll tax offset payments. Finally, OMB estimates the proposed city payroll tax offset payments at $115 million in 2024. These are contributions from the city to the state to help offset foregone tax revenues from employers who are exempt from the payroll mobility tax, which includes K-12 schools and public library systems. The city is being asked to pay 47 percent of state appropriations to this offset. On top of that, the city estimates it would pay an additional $50 million in payroll mobility taxes for its own workers and contracted staff next fiscal year due to the rate increase.

Labor contract settlements likely to reduce city surplus projections. In IBO's evaluation of the city's Preliminary Budget, IBO projected that the city would end fiscal year 2023 with a $4.9 billion surplus, $2.8 billion more than the surplus projected by the OMB in the Preliminary Budget. Since then, however, a tentative labor settlement for the city's largest public service union, DC 37 was announced. If other unions follow a similar contract in keeping with the pattern set by DC 37, IBO estimates that increased personnel costs would absorb much of the surplus we had previously anticipated. As a result, any other large costs to hit the city's budget will be felt more acutely.

Penn Station General Project Plan. I would like to turn our attention now to another subject involving the MTA, state, and city—the Penn Station Area Civic and Land Use Improvement Project, a subject IBO has previously testified about here. As real estate developers wait for more clarity on the long-term viability for commercial real estate, the timing of when the proposed developments that generate payments-in-lieu of property taxes (PILOTs) would be constructed and operational appears to be pushed further into the future, relative to past timelines. Any assessment of potential PILOT revenues, and additional funding that may be required to cover debt service costs until PILOT revenue can sustain the payments, requires a firmer sense of construction timing and if developers are looking to shift to other uses, such as residential.

There is near-universal agreement that the existing Penn Station needs renovations and improvements, so the question is how to pay for that. I will now briefly discuss some alternative revenue sources to the value capture financing structure in the state's GPP that could be used (alone or in some combination) to help finance the improvements. All of which are described in more detail in our reporting on the GPP from last year.

One alternative to value capture financing would be for New York State to directly issue the debt via a ballot referendum. For example, last year the state had such a referendum on a $4.2 billion environmental bond, which passed in November. The state generally chooses to bypass this step, however, by doing its bond financing via public authorities, such as Empire State Development and the MTA.

New York City could rezone the entire neighborhood with no involvement by Empire State Development, and the city itself could enter into agreements with buildings in the rezoned area to divert revenue towards the transit projects, similar to what the city did for the Number 7 subway extension to Hudson Yards. If the city were to use PILOTs, however, any shortfalls in PILOT revenue would likely then be borne by the city. To date, no mayor or City Council member has publicly expressed an interest in New York City rezoning the neighborhood around Penn Station or taking on for itself the financing of the Penn Station renovations or expansion.

Madison Square Garden, which sits directly atop the existing Penn Station train complex, operates under a special zoning permit that allows for an arena on that lot. The permit is set to expire this summer and will be up for renewal by City Council. Since 1982, Madison Square Garden has been granted an annual property tax exemption in perpetuity, presently valued at $43 million annually. This exemption is granted through state law and remains in effect unless the state amends the section of the law or the arena is no longer the home to professional major league basketball and hockey teams. If the state were to repeal this exemption, the city could then collect Madison Square Garden's property taxes or the arena could enter into a PILOT agreement as an additional source of revenue for the Penn Station Area Project.

Thank you for your time and I am happy to answer any questions.