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MTA Wants More Public Subsidies, But How Much Does It Get Now?

PRESS COVERAGE OF THE METROPOLITAN TRANSPORTATION AUTHORITY'S (MTA) plan for addressing its budget shortfalls has focused on public reaction to the proposal to raise bus and subway fares. Less attention has been paid to the responses of the Mayor and Governor to the MTA's request for more city and state aid. Both Mayor Michael Bloomberg and Governor David Paterson have said that the city and state already provide the MTA with ample subsidies and that City Hall and Albany face their own fiscal difficulties.

Despite the initial response of the Mayor and Governor, discussion of increased governmental subsidies is likely to continue for at least two reasons: 1) a rise in city and state subsidies can help limit the need for higher fares and 2) the overall level of state and local payments to the MTA has remained essentially flat in inflation-adjusted dollars for more than a decade. Even as consideration of whether city and state aid for transit should rise, and if so, by how much, the fundamental question remains "what level of aid is now provided?"

In response to the MTA's call for increased subsidies, the Mayor said the city already gives the transportation authority a substantial operating subsidy—\$1.2 billion in fiscal year 2008. But that figure is considerably more than the nearly \$858 million in 2008 subsidies projected in the MTA's July budget plan from *all* local and state sources, including Connecticut, which is expected to provide nearly \$87 million for the MTA's New Haven line, as well as Nassau and six other counties.

The discrepancy between the Mayor's estimate of city aid and the MTA's subsidy projections arises in part from differences over what constitutes a subsidy. Funds flow from city and state coffers to the MTA for a number of purposes and in a variety of forms, sometimes under the rubric of "operating assistance" and others times as "reimbursement." The Mayor's higher estimate includes other sources as well, such as counting funds the city spends to repay the MTA for money it advanced to the city in the mid-1990s when New York City was struggling to close budget shortfalls.

To help New Yorkers come to their own conclusions about the level of aid the MTA now receives, IBO delineates the different funding streams and provides some background on how their current levels are determined.

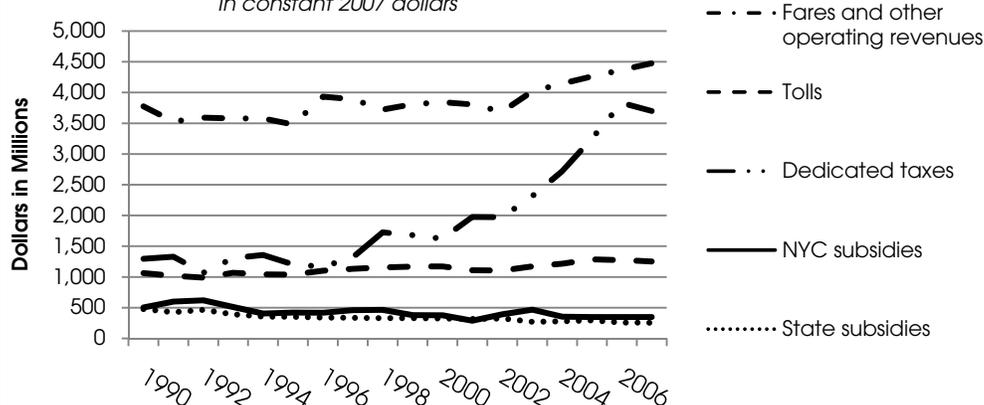
City Dollars. A large portion of the payments the city makes to the MTA is explicitly for New York City Transit, the transportation authority subsidiary that operates the city's subways and provides most of the bus service. These include:

Operating Assistance. The city provides an annual grant to New York City Transit under section 18(b) of the state's transportation law. The city's annual grant matches a state appropriation, and has remained at about \$159 million since the mid-1990s.

School Transportation. New York City Transit provides reduced fare or free rides for children going

City and State Subsidies Have Remained Flat, 1990-2007

In constant 2007 dollars



SOURCES: IBO; Metropolitan Transportation Authority; New York City Comptroller's Comprehensive Annual Financial Reports.

NOTES: New York City subsidies in the chart include the matching 18 (b) payments, senior fare reimbursement, school fare reimbursement, commuter rail station maintenance payments, and the paratransit subsidy. Not included is debt service on the city's contributions to the MTA capital program, the cost of policing the transit system, or payments to the MTA Bus Company.

to or from school. In turn, the city and state reimburse the transit agency for a portion of the lost revenue. The city and state now each pay \$45 million a year and New York City Transit absorbs the additional costs.

The current payment levels were set in 1995 and have remained unchanged since then. These levels were established following the Giuliani Administration's decision in 1994 to make no reimbursement to New York City Transit for student fares. Until 1994, the city had been paying the agency \$128 million per year to subsidize school transportation, although the state reimbursed the city \$65 million, making the net annual cost to the city \$63 million.

Access-A-Ride. The Access-A-Ride paratransit program serves riders whose disabilities are too severe to use regular subway and bus service. The city has agreed to make a direct contribution for paratransit, which came to \$43 million in 2007. This contribution is equal to one-third of the cost of operating the program, after deducting fare revenue, administrative expenses, and the share of property transfer and mortgage recording tax revenues dedicated to paratransit. Year-to-year increases in the city's payment, however, cannot exceed 20 percent—if not for this cap the city's contribution would have been nearly twice as much in 2007.

Senior Fare Reimbursement. The city reimburses New York City Transit about \$14 million a year for the cost of providing half fare discounts to senior citizens. Federal regulations require that transit agencies provide discounts to seniors and the disabled as a condition for receiving federal grants.

Police Reimbursement. New York City Transit pays for a small portion of police costs. The city later reimburses the transit

agency about \$4.5 million annually.

In his response to the MTA's proposal for additional city aid, the Mayor argued that the cost of policing the subways should be considered part of the city's subsidy for the agency. The Mayor pegged this cost to the city as roughly \$360 million last fiscal year. The city merged the transit police into its police department in 1995. Prior to 1995, the city reimbursed New York City Transit for the cost of running its police division and the division was only responsible for policing the subways. Following the merger officers in the transit unit could be deployed however the police department determined.

While this may have improved flexibility in meeting day-to-day public safety needs above and below ground, it also means the cost of the transit bureau may not always correspond to the cost of policing the transit system.

Other City Payments. In addition to the payments made to New York City Transit for various functions, the city provides the MTA with funds for three other purposes.

MTA Bus Company. To help persuade the MTA to take over the routes formerly operated by seven private bus companies, the city agreed to reimburse the authority for its additional net operating expenses. The takeover began in 2005 and was completed in 2006. In 2007, the city provided more than \$260 million for MTA Bus Company operating expenses—a level that exceeded the subsidies that the city had been paying the private operators. Some of the \$260 million included lease payments and insurance costs not directly reimbursed to the MTA.

Capital Funding. The city's annual subsidy to the MTA's capital program is currently about \$106 million, including some capital funds for the MTA Bus Company. From 1987 through 1996 the city's annual contribution to the MTA's capital program averaged well more than \$200 million. In the late 1990s the subsidy amount fell to \$106 million and was then further reduced in 2003 to \$75 million, before being adjusted upward to its current level.

In his response to the MTA's plan for additional aid, the Mayor stated that the city provided \$344 million in 2008 for debt service related to the transportation authority. But the Mayor's

figure represents interest costs accumulated over many years since the city borrows money for its annual capital subsidy through bond sales each year and then repays bondholders over time. While the decision to borrow the funds for the capital subsidy may result in an additional cost for the city, the higher cost does not result in an additional benefit for the MTA.

The Mayor's figure also includes debt service payments resulting from two agreements between the Giuliani Administration and the MTA that provided the city with cash advances from the authority. These advances were then paid back with the proceeds from bonds sold by the city and on which it is still paying debt service. In one transaction undertaken in 1997, the MTA received \$500 million in bond proceeds in exchange for providing the city with \$250 million up front. In the other transaction, the MTA gave the city the \$345 million it received from the sale of the New York Coliseum site in 2001, money the city is now also paying back with bond proceeds. While the additional \$250 million paid to the MTA in the first transaction could be considered a one-time subsidy, categorizing the rest of that transaction and the Coliseum deal as MTA subsidies seems more questionable—especially since the deals were structured to help the city raise cash for its operating budget.

Commuter Rail Stations. State law requires the city to pay for the maintenance of Long Island Rail Road and Metro North commuter stations located within New York City. In 2007 the city paid \$78 million for this cost.

State Dollars. There are fewer categories of state aid than city aid for the MTA. Under the matching provisions of state transportation law, Albany provides the MTA with about \$191 million in direct operating assistance each year. As discussed in the section on [city payments](#), the state also reimburses the MTA \$45 million annually for student fares. In addition, under a special assistance program, the state granted the commuter railroads a special \$20 million subsidy in 2007, but the program

is not expected to be renewed under the MTA's most recent financial plan through 2012.

The state does not make any direct contributions to the MTA's current capital plan, although nearly half of the funds from the \$3 billion transportation bond act passed by voters in 2005 are earmarked for the MTA's current capital program.

Dedicated Taxes. In addition to the subsidies and reimbursements outlined above, there are a number of tax revenue streams dedicated to the MTA. Although the Mayor did not include these taxes as part of his subsidy calculation, some might argue they should be. The so-called "urban tax" collected in the city and dedicated to the MTA includes portions of the real property transfer and mortgage recording taxes imposed on certain commercial property sales. In 2007, urban tax revenue totaled just over \$883 million, with 90 percent going to New York City Transit, 6 percent to Access-A-Ride, and 4 percent to the MTA Bus Company.

The state also levies taxes earmarked for the MTA that are collected in the 12-county region in which the authority operates. The state taxes brought in about \$2.9 billion in 2007 and include revenues from sources such as the 0.375 percent portion of the sales tax, the petroleum business tax, and a state mortgage recording tax. A large portion of this tax revenue comes from New York City residents and businesses.

More Subsidies Ahead? As policymakers consider options for helping the MTA address its budget shortfalls, the existing set of subsidies and their current level of revenues must be taken into account. It remains to be decided whether new types of subsidies are necessary, or whether existing levels should be altered by adjusting terms that have held some subsidies flat for a decade. But in order to best decide how to aid the MTA in the future, a common understanding of how much assistance the city and state provide today is needed.

This report prepared by Alan Treffeisen and Doug Turetsky

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