BLOG | TRANSPORTATION

Stabilized, for Now

The MTA's Operating Budget's Long-Run Outlook

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This week, the Metropolitan Transportation Authority (MTA) will release its 2024 Preliminary Budget, which will include the impacts of both collective bargaining agreements and the New York State (NYS) budget's stabilization plan. It will show that the MTA's operating budget is nearly balanced in the short- and medium-term due to billions of dollars of new support, primarily from a tax increase.

However, the State plan reduced but did not eliminate the MTA's structural budget imbalance. Beyond the five-year financial plan window, the MTA will once again face significant annual budget gaps estimated to be $900 million. With a runway to plan and negotiate needed changes with labor, the MTA should start now to bring its spending in line with its recurring revenues, lest it return to taxpayers and riders for a new infusion of extraordinary resources in just a few years.

The MTA's structural operating budget gap is not new but was widened during the pandemic by lower ridership, a skipped fare increase, increased fare evasion, and collective bargaining agreements that will cost more than was budgeted. To stabilize the MTA's finances, the NYS Fiscal Year 2024 Enacted Budget provided new one-time and recurring revenue, including $1.1 billion annually from an increase of the Payroll Mobility Tax (PMT) on New York City employers, a $300 million one-time State appropriation, a two-year increase in New York City's paratransit subsidy of $165 million annually, and an allocation of future downstate casino revenues, expected to begin in 2026.

The Citizens Budget Commission (CBC) analysis of the MTA's operating budget, based on available information to date, finds the State's stabilization plan appears sufficient to nearly balance the MTA budget over the next few years. (See Table 1.) While the MTA's soon to be released updated estimates of revenues and expenses will show how much the State rescue plan improved the MTA's fiscal position during the financial plan five-year window, CBC's analysis clearly identifies the existence and approximate magnitude of the long-run structural gap that will reemerge after the financial plan's window. That $900 million structural gap, while greatly reduced, is still a threat to the system's long-run stability.

Specifically, CBC's analysis found that:

- **The MTA's budget gap for 2023 had widened to $2.6 billion largely due to declining ridership, the decision to skip the 2021 fare increase, and a substantial increase in fare evasion.**[1]
  - Ridership in 2022 was 39 percent lower than in 2019. In 2022, the MTA collected less than $4.0 billion in farebox revenue, 37 percent lower than the $6.3 billion collected in 2019.[2]
  - The foregone revenue from skipping the 2021 fare increase was just over $200 million per year.[3]
  - Fare and toll evasion cost the MTA $690 million in 2022, up from approximately $250 million annually prior to the pandemic.[4]
- **In 2029, CBC projects the MTA will face a budget gap exceeding $900 million, once the benefit of federal COVID-related is exhausted.** The MTA has wisely spread out the benefit of federal pandemic aid through 2028.[5] Furthermore, after a short-term infusion of revenues from casino license fees, the recurring tax revenue is likely to be $300 million lower after the three licenses are issued. Still, the MTA has a runway to implement critical operational reforms to reduce costs, improve service quality, and stabilize finances prior to 2029.
- **Projected revenues, including those from the State's stabilization plan, appear largely sufficient to keep the MTA close to balanced through 2028, with manageable annual gaps of approximately $100 million to $400 million.** These estimates are based on currently available information and will likely need revision following the release of the MTA's 2024 Preliminary Budget. For example, modestly higher revenues or lower than projected expenditures would narrow these gaps.
- **The cost of the Transport Workers Union (TWU) Local 100 collective bargaining agreement, extended across the MTA, exceeds budgeted raises by $330 million annually.**[6] CBC estimates that the cost of the TWU deal would exceed the budget by approximately $765 million in the first three years of the contract. Baseline costs will increase by $330 million annually thereafter.
- Operating costs are currently projected to grow 3.3 percent per year from 2023 to 2026, outstripping planned fare and toll increases of approximately 2 percent a year.
  - Implementation of biennial fare increases starting in 2009 was wise fiscal policy. They provide predictable increases for riders and drivers, and revenues for the MTA. However, 4 percent every two years (or about 2 percent per year) does not match the projected growth rate of operating costs.
  - Depending on growth of the MTA's revenues from dedicated taxes and whether the MTA can reduce its spending growth rate, this mismatch may widen the MTA's budget gap over time, in which case, consideration of higher fare increases may be warranted.

While CBC's analysis projects manageable gaps, the MTA budget is subject to risks and may benefit from positive economic and ridership changes. Tax revenues may be higher or lower than projections, especially as the City's economy continues to undergo post-COVID restructuring and uncertainty regarding a recession. Ridership is assumed to return to 80 percent of pre-pandemic levels by 2026; higher or lower ridership would affect farebox revenue. Similarly, if fare evasion continues at current rates, farebox revenues may be below projections. Finally, the MTA budget only includes funds for 2 percent annual raises after the recently agreed to tentative labor contract expires in mid-2026.

Taking steps now to start closing future gaps will ensure changes do not have negative impacts on services or the economy. The MTA has a runway to plan, negotiate any needed changes with labor, and allow for phased implementation of new operating models. The MTA should not delay and increase the chance it again looks to extraordinary subsidies, taxes, or fare increases to close future budget gaps. Substantial efforts are needed to contain costs; taxpayers and riders should not pay more than is necessary for reliable, high-quality service. To stabilize finances, the MTA should:

1. **Implement one-person train operation (OPTO) on subways and proof of payment on commuter rail, industry standard practices that would increase efficiency.**
   New York City Transit (NYCT) predominately uses two-person train operation, with an operator and a conductor on each train, while OPTO is standard operating practice in most other large systems, including Chicago, Boston, Philadelphia, and Washington, D.C.[7] NYCT only uses OPTO part-time on six lines. Expanding OPTO requires collective bargaining and has proven challenging in prior attempts.[8] Expansion systemwide would save $442 million annually and should be phased in over time to allow for attrition

   Similarly, the MTA should reduce the cost of commuter rail services by verifying fare payment at turnstiles or with proof of payment systems. Implementation should be phased in to allow for attrition, but ultimately would save nearly $300 million per year.

2. **Reduce maintenance and operating costs by targeting peer benchmark levels.**
   In *The Track to Fiscal Stability*, CBC benchmarked the MTA against peers in the United States and estimated that savings from meeting benchmark maintenance and operations levels could save up to $1.6 billion annually.[9] Ensuring that operations are efficient and cost-effective is a critical component of reducing costs. The MTA has set a target of $400 million in annual operational savings, which is an important start, but much more can and should be done.

3. **Negotiate work rule changes with labor unions to allow the MTA to adjust schedules and services to meet shifting rider needs.**
   The COVID pandemic era saw dramatic changes in commuting behavior, and some of those changes appear to have become the new normal, at least for now. The MTA should have the flexibility to adapt schedules now and, in the future, to evolving ridership demands.

   While ridership is down overall, changes vary across stations; an analysis by the State Comptroller found that some stations seeing higher levels than pre-pandemic, while others are significantly lower.[10] Despite these shifts, the MTA has not yet made major service adjustments to either reduce or redistribute service to increase efficiency and provide high-quality, reliable service. In fact, a modest effort to align service with current demand was challenged and halted by TWU.[11]

Contractual work rules and collectively bargained agreements should not stand in the way of adjusting transit service to align with ridership trends and evolving needs. The TWU and MTA should negotiate changes that provide the flexibility and adaptability needed to deliver cost-effective service levels aligned with transit rider needs.

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Table 1: CBC Projection of MTA Budget Gaps, 2023 to 2029
(dollars in millions)

	2023	2024	2025	2026	2027	2028	2029
November 2022 Underlying MTA Gaps	**($2,646)**	**($2,770)**	**($2,965)**	**($2,978)**	**($3,067)**	**($3,159)**	**($3,254)**
MTA Operational Savings	$100	$400	$408	$416	$424	$433	$441
Additional 1.5 % Fare and Toll Revenue in 2023	$50	$100	$100	$100	$100	$100	$100
Local Benefit of Federal COVID Aid	$1,785	$902	$1,028	$650	$650	$600	$0
Debt Service Savings for Municipal Liquidity Facility (MLF)	$111	$178	$190	$190	$190	$190	$190
Baseline 4% Fare and Toll Revenue Increase in 2027	$0	$0	$0	$0	$280	$280	$280
Baseline 4% Fare and Toll Revenue Increase in 2029	$0	$0	$0	$0	$0	$0	$292
TWU Pattern MTA-Wide	($105)	($217)	($278)	($331)	($331)	($331)	($331)
MTA Gaps Before NYS Stabilization Plan	**($705)**	**($1,407)**	**($1,517)**	**($1,953)**	**($1,755)**	**($1,888)**	**($2,282)**
NYS Stabilization Plan Non-Revenue Actions							
Lost Revenue from Cancelling 1.5% Fare Revenue Increase	*($33)*	*($65)*	*($65)*	*($65)*	*($65)*	*($65)*	*($65)*
Other State Budget Expense Impact	*($43)*	*($85)*	*($85)*	*($85)*	*($85)*	*($85)*	*($85)*
NYS Stabilization Plan Revenue Actions							
One-Time State Appropriation	*$300*						
Increase Payroll Mobility Tax (PMT)	*$460*	*$1,100*	*$1,135*	*$1,170*	*$1,207*	*$1,244*	*$1,283*
NYC Paratransit Subsidy	*$80*	*$165*	*$85*				
Casino License Revenue				*$500*	*$500*	*$500*	
Casino Taxes					*$77*	*$154*	*$231*
NYS Stabilization Plan Total	**$765**	**$1,115**	**$1,070**	**$1,520**	**$1,634**	**$1,749**	**$1,364**
MTA GAPS AFTER NYS STABILIZATION PLAN	**$60**	**($292)**	**($447)**	**($433)**	**($121)**	**($140)**	**($918)**

Notes: Local benefit of Federal COVID Aid is from freeing up local resources in 2022 and before with federal aid; the benefit of those freed up resources is spread across 2023 to 2028. Baseline fare and toll increases in 2027 and 2029, and TWU Pattern MTA-Wide are CBC estimates. Casino license revenue is based on minimum $500 million per license, for three licenses coming on line in 2026 to 2028. Casino tax revenue is assumed to baseline at $231 million annually, and is prorated over three years, from 2027 to 2029, lagging the licenses by one year. Given uncertainty regarding casinos, CBC used the State's low-end estimate; if revenues reach the high end of the State's forecast, they could be $182 million higher by 2029.

Sources: Metropolitan Transportation Authority, *MTA 2023 Final Proposed Budget: November Financial Plan 2023-2026: Volume I* (November 2022), *November 2022 Financial Plan Presentation* (November 30, 2022), *MTA 2023 Adopted Budget: February Financial Plan 2023 – 2026* (February 2023), *February 2023 Financial Update* (2/23/2023); and email to CBC staff (6/22/2023); and State of New York, Division of the Budget, *Governor Hochul Announces Highlights of Historic FY 2024 State Budget* (press release, May 3, 2023), https://www.budget.ny.gov/pubs/press/2023/fy24-enacted-budget-highlights.html, and Chapter 58 of 2023 of the Laws of New York State.

Endnotes

[1] Metropolitan Transportation Authority, *Proposed Revisions to the MTA 2020 Adopted Budget and 2020-2023 Financial Plan* (February 26, 2020), new.mta.info/document/14806, and *February 2023 Financial Plan Update* (February 21, 2023), new.mta.info/document/106076.

[2] Metropolitan Transportation Authority, *MTA 2020 Adopted Budget: February Financial Plan 2020–2023*, (February 2020), and 2021 to 2023 editions, new.mta.info/transparency/financial-information/financial-and-budget-statements.

[3] The fare increase was originally slated for March 2021 was delayed multiple times, until it was ultimately cancelled in the February 2023 financial plan. Metropolitan Transportation Authority, *MTA 2022 Adopted Budget: February Financial Plan: 2022 – 2025* (February 2022), new.mta.info/document/76706.

[4] Metropolitan Transportation Authority, *Report of the Blue-Ribbon Panel on MTA Fare and Toll Evasion* (May 2023), new.mta.info/document/111531; and David Meyer, "Subway fare evasion has more than doubled since COVID-19: MTA" *New York Post* (November 16, 2020), https://nypost.com/2020/11/16/subway-fare-evasion-has-more-than-doubled-since-start-of-covid-19/.

[5] Federal pandemic aid spent in 2022 allowed the MTA to use local resources to prepay some expenses and reserve other local resources in the other postemployment benefits (OPEB) trust for future use.

[6] The agreement provides compounded raises of 9.8 percent over three years, 3.0 percent in the first year, 3.0 percent in the second year, and 3. 5 percent in the third year, plus lump sum payments of $3,000 in the first year and $1,000 in the second year. Some other contractual elements will have additional costs, while others will provide savings; CBC has not estimated the impact of these. See: Transport Workers Union Local 100, "Highlights of Your New Contract" (June 1, 2023), www.twulocal100.org/sites/twulocal100.org/files/contract_ratification_flyer_final.pdf.

[7] Alex Armlovich, *The Track to Fiscal Stability: Operations Reforms for the MTA* (Citizens Budget Commission, May 25, 2021), https://cbcny.org/research/track-fiscal-stability.

[8] For example, TWU International President John Samuelsen is quoted saying, "You know why [the MTA] can't get [one person train operation]? You can't get it because the TWU is not giving it to you." Caroline Spivack, "MTA union slams brakes on one-person train operation," *Crain's New York Business* (June 15, 2023), www.crainsnewyork.com/transportation/mta-twu-local-100-contract-leaves-out-one-person-train-operation.

[9] Alex Armlovich, *The Track to Fiscal Stability: Operations Reforms for the MTA* (Citizens Budget Commission, May 25, 2021), https://cbcny.org/research/track-fiscal-stability.

[10] Office of the New York State Comptroller, "Impact of the COVID-19 Pandemic on Subway Ridership in New York City," (accessed July 11, 2023), www.osc.state.ny.us/reports/osdc/impact-covid-19-pandemic-subway-ridership-new-york-city.

[11] The MTA proposed to realign service with: Targeted service adjustments to Monday and Friday service on 1, 6, 7, L, E, F and Q lines; and additional weekend service to reduce headways on the G, J, and M lines. The TWU challenged the proposal on the grounds that it infringed on workers' ability to pick their preferred schedules using an existing scheduling system and was disruptive to their personal lives. An arbitrator ruled in their favor, stating that the changes would have, "a major impact upon workers' lives" and that service alterations require the MTA to make changes, "in a way which respects the Union's… rights." See: Metropolitan Transportation Authority, *New York City Transit Outlines Subway Service Adjustments Coming in 2023*, (December 19, 2022), https://new.mta.info/press-release/new-york-city-transit-outlines-subway-service-adjustments-coming-2023; and Howard Edelman, Arbitrator, I*n the Matter of the Arbitration Between New York City Transit Authority and Local 100, Transport Workers Union*. (February 28, 2023), www.twulocal100.org/sites/twulocal100.org/files/twu-0058418_-_spring_2023_rto_pick_canella_gomez_et_al.pdf.