NYC Transit: Can It Stay on Fiscal Track?

Over the past five years, New York City Transit (NYC Transit) has been riding the fortunes of unprecedented growth. Ridership has risen steadily since the mid-1990s, and fare revenue—despite free transfers and discounted MetroCards—reached an all-time annual high in 2000. But the good times may soon be coming to an end. The Metropolitan Transportation Authority, NYC Transit’s parent agency, projects a gap of more than $300 million in 2003 and $400 million in 2004 in the operating budget for the city’s subways and buses—shortfalls that will have to be addressed. And MTA’s capital budget plan for initiatives such as building the Second Avenue subway has a $600 million shortfall because voters rejected the Transportation Infrastructure Bond Act last November.

Ridership and fare box revenues have grown as the city experienced strong population growth and a booming economy that created some 500,000 jobs since 1992. Large capital investments in station renovations, track improvements, and new subway cars begun in the 1980s, along with the 1994 introduction of the MetroCard and discount fares made the city’s mass transit system more attractive and more dependable. Together these factors set the stage for NYC Transit’s unprecedented recent growth—a stark turnaround from the steady decline through the post-World War II years.

Standing Room Only: 1995-2000

The turnaround is evident in the growth in ridership over the past three years. Passenger trips increased 8.8 percent in 1998, 7.5 percent in 1999, and 6.7 percent in 2000.

Passenger revenues have taken a different track. At first revenues declined because discounts lowered the average fare per transit trip. In 1996, when there were just a few discounts, the average fare paid by non-student riders was $1.38. By 2000, with the availability of multiple discount options, the average fare fell to $1.07. But with the average fare leveling off, an increase in ridership translates into a rise in revenues. After falling 4.0 percent in 1998, revenues rose 1.9 percent in 1999. In 2000, passenger revenues rose to a new high of $2.1 billion.

In addition to fare revenues, NYC Transit receives money for its operating budget from direct governmental subsidies, dedicated portions of a variety of taxes, and the operating surplus of MTA’s Triborough Bridge and Tunnel Authority (TBTA). Since 1998, NYC Transit has received no operating subsidies from the federal government, and direct subsidies from the city and state have each remained at around $158 million per year. Tax-supported subsidies, fueled mostly by strong revenue growth, increased from $711 million in 1995 to $940 million in 2000. The TBTA surplus allocated to NYC Transit increased from $88 million in 1995 to $165 million in 2000.
in 1998, due to a combination of cost savings and increased toll revenues. Since 1998 the TBTA surplus has remained roughly constant.

NYC Transit has made a concerted effort to hold down expenses in recent years. The agency has increased subway and bus service, but as evidenced by the high levels of crowding on some lines, the service additions have been less than proportional to the increases in ridership. Total spending on wages, salaries, and benefits increased modestly between 1996 and 1999, from $2.35 billion to $2.54 billion. In 2000, labor costs rose to $2.90 billion as a result of a new wage settlement with the Transit Workers Union (TWU) plus the hiring of new personnel to increase subway and bus service.

Debt service is rising at an even faster pace. The agency’s own debt service payments of $247.7 million in 2000 were more than twice as much as in 1995. The rise in spending on debt service was propelled by the state’s decision to make NYC Transit’s capital program more dependent upon financing through revenue-backed bonds and less on direct state appropriations. The principal and interest on these bonds are paid off with funds from the operating budget. Debt service over the next few years is expected to continue its steep upward climb, pushed even higher by voter’s rejection of the state bond act.

Warning Flags Ahead?

Revenues are projected to rise modestly, with passenger revenues reaching $2.26 billion in 2004. Transfers of the TBTA surplus to NYC Transit’s operating budget are expected to decline sharply, as the TBTA devotes more revenues to its own operating budget and to debt service paid on behalf of NYC Transit and the commuter railroads. Conversely, revenues from the Metropolitan Mass Transit Operating Assistance...
(MMTOA) Account are projected to increase from an actual level of $521 million in 2000 to $646 million in 2004. The MMTOA Account is part of the Mass Transit Operating Assistance (MTOA) Fund, and consists of dedicated portions of several taxes collected principally in the MTA region.

State legislation enacted in 2000 increases the allocations of the Petroleum Business Tax (PBT), motor fuel tax, and motor vehicle non-registration fees to mass transit. The MTA projects that the combined receipts available to NYC Transit from these sources will increase from $254 million in 2000 to $425 million in 2004.

Overall, expenses are forecast to rise at more than twice the annual average rate of revenues. Labor costs and debt service will continue to drive NYC Transit’s rising operating costs through 2004. Labor costs are projected to grow by $440 million over the same period. These projections do not take into account the need to negotiate a new contract with TWU after 2002, which could increase labor costs further. Total annual debt service will increase by nearly $300 million, from $321 million in 2001 to $611 million in 2004, as the agency relies heavily on bond issues to fund its ambitious capital projects (for more details see IBO’s The Transportation Infrastructure Bond Act, 2000, October 2000).

Getting on Budget Track

NYC Transit has stated that it will not seek to raise fares in 2001, nor is a fare hike included in its financial plan through 2004. In recent years, the agency has been able to eliminate its anticipated shortfalls without fare increases. This may become more difficult if an economic downturn depresses ridership and dedicated tax revenue.

If NYC Transit attempted to eliminate its projected operating budget gap entirely through passenger fares, fare revenues would have to increase over projections by 4.0 percent in 2002, 14.4 percent in 2003, and 18.0 percent in 2004. A fare increase could be instituted uniformly across the board, or could be designed to have a differential impact on users of different types of MetroCards (regular, volume discount, and unlimited ride).

Closing the projected budget gaps without a fare hike—and addressing public demands for increased service—will take more than a token effort over the next few years.

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Taxation With an Explanation

To get a “receipt” in dollars and cents that indicates the portion of your state and city income taxes that went to education, public safety, health and human services, sanitation, transportation and other programs and services, log on to IBO’s Web site at www.ibo.nyc.ny.us and click on 2000 Tax Receipt.