

REPORT TO GOVERNOR DAVID A. PATERSON

From the
Commission on Metropolitan
Transportation Authority Financing

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INTRODUCTION

On June 10, 2008, Governor David A. Paterson appointed the members of the Metropolitan Transportation Authority (MTA) Financing Commission and charged us with recommending strategies to fund MTA essential capital projects and operating needs. At that time the Governor noted that “the Authority will be under unprecedented financial pressure as it expands its system and rebuilds its core infrastructure to provide the additional capacity needed to allow the region to grow.”

In the intervening period since the Commission began its deliberations, severely deteriorating economic and employment conditions in the nation and in the region served by the MTA have made the Authority’s financial situation calamitous and the Commission’s task even more urgent. The effect of the weakening economy has significantly eroded dedicated tax sources required to balance the Authority’s budget while at the same time adversely impacting its cost of borrowing, pension contributions, and system generated revenues. In response to its statutory requirement to be self-sustaining and to submit a balanced budget, the MTA, in advance of this Commission’s recommendations, has proposed subway, bus and commuter rail service reductions that are unprecedented. Additionally, in an effort to fill the remainder of a budget shortfall in 2009 that has doubled from \$600 million to \$1.2 billion, the Authority has proposed to increase revenues generated by fares and tolls by 23 percent, beginning on June 1, 2009. The combination of these proposals will have a chilling effect on the 8 million riders that use the MTA system daily, as well as the Authority’s workforce.

Even more worrisome, these dramatic measures do not address the MTA’s future infrastructure needs. Funding to continue the revitalization effort launched in 1982 will be exhausted by the end of 2009. The Commission believes that the economic crisis confronting the State and the City underscores the immediate need to seamlessly build on the progress made to date and address the financing of a new capital program concurrently with the issues of fares and service. The benefits of the MTA’s capital program are not just limited to straphangers and commuters. The dollars invested in MTA facilities, equipment, and structures give an enormous boost to economic activity across the state. The last five-year program alone is estimated to have created

an average of up to 38,500 jobs annually for nine years. The program can continue to be an important economic engine for the State and the region. Continued investment in our infrastructure will not only have an immediate economic payback during these challenging times, but it will also ensure the future economic competitiveness of the region.

Disinvestment would also ignore the important lessons learned from the errors of the 1960's and 1970's that led to the near collapse of the MTA system, which was followed by a 17 percent drop in ridership and a loss of 5 percent of the region's population. Today's record transit ridership is directly related to the now publicly recognized improvements in the transit system. Over the last two and a half decades, six successive capital plans have invested more than \$70 billion, transforming the system and leading to soaring increases in reliability, safety and tremendous improvement to the quality of the transit experience.

While the Commission recognizes that the implementation of the recommendations contained in this Report will not be without pain, it believes that this pain is a demonstrably better alternative than the pain that would result from inaction. In summary, this Report includes a comprehensive set of recommendations to fund the MTA's operating and capital needs, defray a major part of the proposed 2009 fare increase and proposed service reductions, improve mass transit region-wide, and foster changes in the governance, transparency and accountability of the Authority. Our recommendations need to be considered as a whole, as they are interdependent and only in combination do they chart a course that will both stabilize the MTA and begin to set the region on steady footing during these uncertain times.

KEY FINDINGS

This Report is the product of an intensive effort by the Commission over the past six months to address the Governor's mandate. During this period the Commission held seven formal meetings and numerous smaller group discussions; conducted public hearings in New York, Nassau and Westchester Counties; consulted with elected officials from across the region as well as transportation policy and financial experts; and received numerous briefings from senior MTA management and State budget officials. The Commission considered a wide ranging menu of potential revenue options including various taxes and fees that might be imposed within the MTA region, and the Commission also considered congestion charging and tolling strategies,

including those studied as part of the Mayor's congestion charging initiative. The Commission also consulted with senior officials of the U.S. Department of Transportation as to the likely levels of federal support and opportunities for increased support.

We gave serious consideration to "standing still" as a possible solution until such time as Federal and State financial plans solidified. This option was rejected for the following reasons:

- The magnitude of the proposed fare increase required to cover the MTA's 2009 operating deficit will pose a significant burden on many users of the system. When coupled with the proposed cuts in service, transit use and the utility of transit to the regional economy would be substantially reduced.
- Any delay in capital investment, much less actual disinvestment in the MTA, would turn its back on the City and region at the very time when the economic stimulus of infrastructure investment is so critically needed. The economic benefits of the MTA's Capital Program are deep and widespread. Since 1982, millions of dollars of MTA Capital Program funds have gone to companies across New York State – to contractors and subcontractors who build rolling stock, to parts suppliers, and to construction companies involved in rebuilding infrastructure or working on new facilities. The capital programs have been a critical component of job creation in New York City and New York State communities as far away as Buffalo, Albany and Plattsburg. It is estimated that the most recent program alone has generated as much as 346,000 total worker-years of employment, \$29 billion in regional economic activity, \$1 billion in income taxes and \$12 billion in wages statewide.
- Any action taken to slow down investment in mass transit is contrary to sound public policy objectives that can only be achieved as a result of continuously funded capital programs. These objectives include: a) fostering energy independence by lessening automobile use – the metropolitan region is among the most energy efficient locations in the country due in no small measure to its high level of transit use, b) providing a reliable and affordable mass transit system that is an alternative to the high costs of driving, c) positioning the region to accommodate and take advantage of anticipated population growth (New York City's blue print for transportation for transforming the City by 2030 states that "transportation is the

single greatest barrier to achieving our region's growth potential"), and d) promoting a clean environment. If even a small portion of daily transit trips shifted to auto, the highway system would be overwhelmed, creating new adverse air quality impacts.

DISCUSSION

As described below, the Commission's discussions focused on: 1) a review of the MTA's operating budget and capital needs, 2) fare policy, 3) new approaches and funding sources to meet the MTA's needs, 4) additional regional mass transit needs, 5) governance changes, and 6) transparency and accountability.

1. MTA Operating and Capital Needs

The Commission's review of the Authority's current and projected operating and capital needs relative to currently identified funding sources confirm that the Authority has already entered an extremely challenging period that threatens both short and long term fiscal stability.

Fundamentally the MTA's deficit is rooted in a structural budget imbalance driven by years of over-reliance on self-supported debt to fund its capital needs. This has led to large and growing debt service payments made through the operating budget that have placed extraordinary pressure on the farebox. This structural imbalance has been masked in recent years by an unprecedented collection of real estate transactional taxes that were generated during the boom in the market. The real estate bubble has since burst and these tax receipts, along with other economically sensitive state and regional tax sources that are integral components of the MTA's financial plan, have plummeted sharply.

As these revenue projections have continued to deteriorate as a consequence of regional economic conditions, and as normal cost growth has continued, all forecasts for 2009 and beyond point to the necessity of double digit fare increases and counterproductive service reductions in the absence of alternative means of financial support.

The Commission is mindful that the state of our regional economy makes it exceedingly difficult to ask the public – whether fare payers, taxpayers or motorists – to assume additional financial burdens before demanding that MTA management do everything within its power to control

expenses, maximize productivity and invest capital prudently. The Commission has explored with MTA management the steps that have already been instituted and additional initiatives that are underway to control both operating and capital costs. Especially noteworthy are new initiatives to reorganize management of the subway system, restructure bus operations, and to consolidate back office functions agency-wide. While the Commission believes that MTA management should and will continue to be aggressive on these fronts, and that the governance and transparency changes that we recommend will also promote the objective of budget discipline, we do not believe that the budget deficit can be eliminated solely through administrative and managerial actions. Nor can the budget be balanced through major reductions in service; however, the Commission recognizes that given these difficult economic times the implementation of service efficiencies may be necessary where the impact on the public is not unreasonable. MTA management should report annually to the Board on specific actions taken to reduce costs and create efficiencies.

The Commission also reviewed the MTA's projected capital needs, though the Authority has not yet finalized its proposal for a new capital program and is not required to do so by law until next October. The size of the next capital plan will be subject to the costs of borrowing, construction escalation or deflation and the other uncertainties of the current economic climate. However, without a doubt the next capital plan must include adequate funding to continue the program of restoring the entire MTA system to a state of good repair, providing for normal system replacement, and completing the existing portfolio of long-awaited expansion projects, as well as planning for the development of future growth-driven projects. The capital plan that MTA recently developed as part of the congestion charging debate, which proposed annual expenditure levels of \$5-6 billion, is indicative of the size of the program that MTA is likely to advance for the period beginning in 2010. A program of this size could be supported by the Commission's revenue proposal. Clearly, given financial circumstances, the MTA must also make sure that the projects it undertakes in its next five-year plan are only those that have an articulated rationale and compelling priority, both defined in a planning process that is open and transparent to the public. The Commission is recommending measures that will require the MTA to provide more justification for planned capital investment and to better manage those investments with the objective of achieving cost efficiencies.

The Commission is of the view that identification and commitment of resources necessary to fully fund a new five-year capital plan are essential. The MTA region and its economy simply cannot afford to allow essential transportation infrastructure to spiral into another period of decline and disrepair. When this occurred in the 1960's and 1970's the cost and time for recovery imposed unacceptable and severe burdens on our citizens and on our regional economic competitiveness that still reverberate today.

The Commission is also of the view that the MTA's capital requirements for the period 2010-2014 should be addressed now, within the same urgent timeframe that is available to address operating requirements before extraordinary fare increases are required. The Commission takes this view not only because the new funding methods recommended in this Report can be available to address both short term operating needs and longer term capital requirements, but also because it would represent very poor public policy to cause any break in the MTA's ongoing critical efforts to revitalize and expand the essential public infrastructure for which it is responsible. If MTA has no certainty as to the availability of capital support beginning in January 2010, it would have a significant adverse effect on the agency's ability to plan for and efficiently execute its next capital program. It would also impact on its ability to maintain a state of good repair and normal system replacement.

Finally, while the Commission's mandate did not extend to review of specific capital project priorities, the Commission believes that additional investment in an expanded regional bus system is both warranted and necessary and should serve as a companion to the longer term investment being made to expand the passenger capacity of the subway and commuter rail system to meet current and future demand. An extensive discussion regarding bus improvements is provided below.

2. Fare Policy

The Commission considers the MTA's current fare increase and service cut proposals unacceptable. It believes that the necessary revenues to bridge the current and out year deficits that were reforecast last month cannot, and should not, be borne exclusively by MTA customers. While the Commission is unified in its belief that straphangers and commuters must bear an equitable burden of the costs of operation of the transit system, there is no ready answer to an

appropriate extrinsic or ‘formulaic’ approach to fare-setting. The Commission has reviewed the research as well as the MTA’s history in this area and does not believe that establishment of a firm ‘fare ratio’ of operating expenses is consistent with customers’ expectations nor would it provide for appropriate management of the transit network particularly in light of the different cost structures inherent in operating subway, bus and commuter rail systems.

Instead, the Commission has focused on identifying responsible methods of eliminating the burden that certain expense categories have on the operating budget, and in doing so finding ways to relieve the pressure these expenses have on the farebox. This discussion, which is more fully described below, establishes the basis for developing a new approach to addressing the MTA’s finances and opens up the door to a more equitable sharing of costs between riders and subsidies than is current practice, while also imposing fiscal discipline on management to restrain spending.

In addition to considering the appropriate role that fare increases should play in financing the MTA, and consistent with its views on governance changes, the Commission believes that the MTA Board should be granted the authority to increase fares and tolls sufficient to meet its statutory obligation to maintain a “self supporting, balanced budget” outside of the atmospheric and political influences so often part of the current fare-setting process. Specifically, the Commission’s view is that the MTA Board, as part of its normal, public budget making process should be empowered to increase fares and tolls no greater than the change in the Regional Consumer Price Index and no more frequently than bi-annually. Such authority should not be unlimited, however, and the Commission recommends a balanced approach to these competing demands. Increases of a greater amount or of shorter frequency would require full public involvement and the existing public notice and hearing process.

While shortening the current public notice and hearing process under the narrowly defined circumstance of inflationary driven fare and toll adjustments, the Commission believes there would still be ample opportunity for unrestricted comment by those interested in participating in the process. The MTA kicks off its budget-making in July with the submission of its Preliminary Budget, and the process extends through December when the Board considers its final adoption. During this six month period, the budget proposal is included monthly on the agenda for the

Committee meetings of the individual operating agencies, the Finance Committee and/or the full Board. At each of these meetings the public is invited to listen to the budget discussion and numerous presentations, and is entitled to comment during the public speaking portion of each meeting. Additionally, while not providing the public with ability to comment, access to each of these meetings is provided to the public through the MTA's website. The Commission believes that this process affords the public the opportunity to both hear and be heard and is appropriate when increases are both limited in their frequency and amount.

3. New Funding Sources and Approaches to Funding

The Commission is recommending State legislation be adopted to authorize the imposition of a new regional Mobility Tax in the twelve counties comprising the MTA Commuter District, and the necessary authorization to allow establishment of cashless tolling on the currently free East and Harlem River Bridges. Both of these funding sources are necessary to support the ongoing operating and capital needs of the MTA.

Among the many revenue options considered, the Commission views a regional Mobility Tax as the fairest feasible way to spread the burden of financing the capital needs of our regional transit services to those businesses and organizations that most directly benefit from it. An excise tax equal to one-third of one percent of wages paid (as measured by the current FICA tax base) would be imposed on all employers within the region and would represent a deductible expense for federal tax purposes. The Mobility Tax would also be imposed on self-employed individuals. The imposition of this tax is expected to raise \$1.5 billion annually.

This tax is recommended to pay for all new borrowing and direct (pay-as-you-go) expenses associated with funding MTA capital improvements, in addition to providing for the full costs of debt service associated with the Authority's current portfolio of system expansion projects. The Commission also recommends that the budgetary impact of expenditures paid for, and the revenues generated by the Mobility Tax be removed entirely from the MTA's operating budget and responsibility shifted to a newly created subsidiary of the Authority – the MTA Capital Finance Authority (CFA). The CFA will not require any additional resources or staff.

The Commission concluded that normal depreciation of the MTA's capital assets is appropriately accounted for in the operating budget while debt service associated with expansion of the system and the recent history of the MTA's over-reliance on self-supported borrowing is not. This action will leave the operating budget with an amount of ongoing debt service that is roughly equivalent to a depreciation allowance while shifting the ever growing burden of new debt service to the CFA. In doing so, the root cause of MTA's structural budget imbalance that has plagued the Authority for years, and put undue pressure on the farebox, will be addressed.

Moving responsibility to the CFA will ensure transparency and accountability with respect to the disposition of these substantial new revenues. It will also impose fiscal discipline on the Authority to live within inflationary growth in fares, tolls and subsidies by precluding the MTA from using the new tax to offset normal growth in operating expenses. To further ensure an adequate firewall is established to maintain this spending discipline, the Commission recommends the creation of a "lockbox" within the CFA. A lockbox will block the temptation to artificially depress fares by diverting funds intended to be used for capital related expenditures.

The Commission also considered feasible means for motorists to share in the burden of financing the MTA. The Commission believes that it is fair and appropriate for motorists to share in this burden as the very existence of the region's extensive transit network limits demand on overcrowded highways and thus provides capacity to motorists who have elected not to use transit. While MTA Bridges and Tunnels' toll increases will no doubt be part of any system-wide fare increase, the Commission also recommends that necessary legal steps be taken to authorize the tolling of the Harlem and East River Bridges and dedicating the proceeds for both essential bridge maintenance and mass transit expenditures. This authorization should vest the MTA with responsibility for owning, operating, maintaining and repairing these facilities to ensure an efficient and coordinated approach to tolling.

The Commission recommends that tolls on the East River Bridges be initially set at the same rate as those imposed on the major MTA bridge and tunnel facilities to eliminate bridge shopping, and that the toll rates imposed on the Harlem River Bridges be set at a level to match the cost of a single ride subway fare. Tolling is expected to generate a net of \$600 million annually in new revenues. Ultimately the Commission believes that there should be a fully coordinated tolling

strategy, including the implementation of variable pricing and one-way tolling, on the region's crossings both to improve traffic management and the efficiency of the transportation system.

While this recommendation differs from the congestion charging proposals advocated by many who testified before the Commission, the Commission believes this approach offers many of the same benefits of congestion charging without many of its complications and costs. The Commission is also mindful of past opposition to charging for the use of the Harlem and East River Bridges and recommends that tolling authority be limited to tolling approaches and technologies that do not require toll plazas or that would in any way impede the free flow of traffic.

4. Regional Mass Transit Improvements

MTA stakeholders have made a strong case for new and expanded bus service that will address demand in underserved areas, add capacity on existing routes, and reduce travel time. Demand for bus travel, whether local or regional, has mushroomed in recent years. Ridership – particularly in the City's outer boroughs – has experienced growth not seen for decades. The case to improve bus service becomes even more compelling with the Commission's recommendation to establish tolling on the East River and Harlem River Bridges. One of the benefits of tolling the free bridges is the expected reduction in traffic that will be brought about as motorists divert to mass transit to avoid paying higher costs. Service improvements must be put in place to address this demand prior to implementation of new tolls. Bus service is especially important in this equation given that in many cases, the subway cannot accommodate additional riders during peak hours due to existing capacity constraints or the subway does not reach outer borough areas where demand from the diversions will grow. Additionally, while the MTA's major expansion projects remain critical for the region's future; the Commission recognizes that the time necessary to construct these types of improvements and their high cost make them impractical solutions to addressing immediate transit needs. Expanding the bus network is the only realistic approach. The MTA's capital program and operating budget must provide fully for these needs including the costs for new buses and for the necessary depots to house and maintain these vehicles.

In addition to recommending an expansion of bus service, the Commission believes that the MTA should increase its investment in Bus Rapid Transit (BRT), a strategy that has the potential to make significant breakthroughs in improving bus performance. The core tenet of BRT is that buses must be the first among equals in city vehicular traffic flow, receiving priority when necessary to assure uninterrupted movement. For those things that the bus operator can control directly, like communications and fare collection, BRT focuses on innovations that are essential to the bus being “just in time,” every time. Overall, BRT consists of a system of smart route planning, rider information systems, dedicated rights-of-way, innovative, time sensitive fare collection, and state of the art vehicles that promise faster, more reliable service to neighborhoods beyond the subway’s reach and in areas where subways are already crowded. BRT is being piloted in the Bronx by the MTA in partnership with New York City; and the early returns are very positive in terms of travel time improvements and its reception by riders. An important part of its success is enforcement to keep lanes clear that would otherwise be impeded by other vehicles. The Commission recommends that this pilot be expeditiously expanded.

The Commission has also heard from the executive management of counties within the MTA Commuter District about their difficulties in meeting bus service demand within available resource limitations. The Commission believes that the construct for delivery of these services is currently managed and paid for in a fragmented and inefficient way, and that it is time to rethink the way that bus service is delivered and paid for in the metropolitan region. As a consequence the Commission recommends that State legislation be enacted to create a new MTA subsidiary – the Regional Bus Authority, as the single entity responsible for bus service in the metropolitan region. The Commission’s recommendations on funding take account of this view that bus services, in both the City and in the counties, should be enhanced and financial resources be targeted more equitably to accomplish this objective.

5. Governance

The Commission has also evaluated whether the current governance structure of MTA is best suited to promote the public policy objectives of maintaining and enhancing a sound regional public transportation system. Public authorities like MTA are intended to strike a balance between political accountability and political independence. Their governing boards, under the

guidance of a Chairman, are expected to be sufficiently independent to make difficult and sometimes unpopular business decisions outside of the arena of elected politics, but to be held accountable to both elected officials and the public through objective measures of service and financial performances.

The Commission is of the view that MTA's current governance structure does not effectively balance these interests. Most fundamentally, the Commission believes that a 2005 statutory change, which altered the division of responsibility between the MTA Chairman and Executive Director, was ill advised. Prior to 2005, the Chairman acted as Chief Executive Officer of the Authority with the power to delegate such powers as he or she deemed warranted to an Executive Director. After 2005 the Chairman ceased to have an executive role, and all executive responsibility was vested in an Executive Director who by statute is appointed by and serves at the pleasure of the Board. Practically speaking, however, each of the recent Executive Directors has been recommended by the Governor and ratified by the Board. This has created the incongruous situation of a fixed term Chairman with quite limited authority, and an at-will Executive Director who nominally reports to a Board but is more akin to the head of a State agency.

This new governance and management model, as it has evolved in practice, does not serve the interests of the MTA or its stakeholders. The Commission's perspective does not reflect on the individuals who have or are serving in the positions potentially affected by our recommendations; these recommendations are based entirely on the Commission's view as to the structure best designed to achieve public policy objectives concerning MTA, including political and managerial accountability, without regard to who might be serving in these important roles at any given time.

The Commission is of the view that executive powers for running the MTA should be restored to an independent full-time MTA Chairman, serving for a fixed term. It is only a Chairman who can be perceived as sufficiently independent of all elected officials that can have the necessary credibility with all MTA constituencies, and particularly the Legislature, to successfully promote and execute the public programs necessary to enhance our regional public transportation system. Neither an Executive Director, recommended by the Governor and serving at the pleasure of the

Board, nor a Chairman lacking the power to direct management of the agency so as to deliver on the commitments made to obtain funding, can fulfill these essential objectives.

In addition, the Commission considers that the practice in which Board members are maintained for long periods of time in hold-over status after their fixed terms expire is inconsistent with the independence that is necessary for Board effectiveness. It is therefore recommending that Board members not be permitted to hold over for a period of longer than six months after their term expires. If no replacement can be appointed and confirmed in this period the seat would become vacant.

Finally, the Commission recommends that all new members of the MTA Board possess relevant experience in one or more of the areas of expertise that are necessary to serve effectively, including transportation, business management, finance, management of large capital projects and labor relations. The activities of the agency are simply too important to the economic health and competitiveness of the region to entrust its oversight to individuals who are not experienced in the activities under their review.

6. Transparency & Accountability

The Commission is of the view that despite MTA's considerable efforts in recent years to promote transparency and accountability more effective approaches are required to foster public confidence in the agency. The Commission recommends new management approaches and additional oversight with respect to the MTA's budget and capital program.

The Commission has considered the views of agency management as well as the industry that is actually responsible for the execution of capital work and believes that significant savings (primarily driven by schedule efficiencies) are available if the MTA agencies change certain of their management approaches and practices. These changes do not require legislation but rather relate to agency processes, organization and culture.

In considering this subject the Commission is mindful of the inherent constraints of building in and around operating railroads where passenger service must be maintained, often on a twenty-four hour basis. Notwithstanding this constraint, the MTA agencies still can and must do a far better job managing contracts and procurement timeframes, including speeding the processing of

necessary change orders, possibly by eliminating Board involvement in change orders that are within project contingencies. The role of operating departments in capital program and contract management decisions also needs to be closely reviewed. Many capital projects are now more expensive than necessary because agency priority is overwhelmingly focused on operational factors. While this is understandable, we believe that a better balance should be struck between capital costs and operating objectives, as opposed to the current approach in which operating performance almost always is favored. Moreover, the role of operating departments should be constrained once sign-off on initial scopes is achieved. To ensure organizational change, performance evaluations of operational managers, including line managers, should include measures relating to ownership of capital project performance, so there is better accountability for unnecessary project delays attributable to competing operational demands.

For major projects the MTA should give greater consideration to alternative procurement and delivery mechanisms, including design-build. The Authority should evaluate the approaches that led to the prompt rebuilding and restoration of the #1 Line after the events of 9/11 and seek to adopt those approaches on a more widespread basis to the extent practicable.

The Commission has also reviewed the capital program documentation made available by MTA to the public on a routine basis and believes that improvements in the specificity and detail of this reporting should be required so as to facilitate better understanding of the agencies' actual performance in the execution of current and future capital programs. The MTA now makes available a considerable amount of information through the capital plan itself, amendments to the plan, monthly reports to the MTA Boards Capital Program Oversight Committee (CPOC), and the Capital section of the MTA's Financial Plan that is released periodically over the course of the year. While there is no dearth of information, it is not altogether useful in its present form. Fundamentally, none of these documents permit a comprehensive review of the status of the MTA capital plan. For many projects, relevant information is unavailable or incomplete. And information presented in CPOC reports does not follow the project listings in the capital plan, does not cover many projects in the plan and is not made available on the MTA website.

The Commission's recommendations include specific measures to improve and promote transparency in the MTA's execution of its capital plan. To permit flexibility and to promote the

possibility that these measures will both dovetail with internal reporting databases and mature in content and utility over a period of time the Commission is not recommending that any legislation require specific reporting content or methodology. Instead we urge that MTA state publicly its commitment to implement our recommended reporting measures in coordination with the development and approval of the 2010-2014 Capital Program.

To promote transparency, MTA should develop a reporting methodology for its capital program that is consistent with the best practice, Guidelines of the Government Finance Officers Association. Such reporting should provide on MTA's website regular updated commitments and budgets for every capital project that costs over a certain minimum threshold, including explanations for major changes in cost and scope and regularly updated project milestones for all projects, including planned and actual starts, completions, and reasons for major changes in milestones. In addition MTA should regularly update its 20-year capital needs assessment report and publish all such reports and updates on its website. In finalizing its reporting methodology and format, the MTA should consult closely with the various public policy organizations that have expertise in this area.

With respect to its operating budget, the Commission notes that both the New York City Independent Budget Office (IBO) and the New York State Office of the State Deputy Comptroller (OSDC) routinely review and comment upon the MTA's budgets and financial plans. Nevertheless, the damage done to the MTA's credibility ensuing from an OSDC report in April 2003 continues to linger in the public's mind. That report accused the MTA of maintaining different accounting measures for its internal use than those presented publicly. This was the infamous "two sets of books" charges. Since then, OSDC has acknowledged that the MTA has adopted recommended changes to its budget process that ensure greater public involvement and transparency. But in order to mollify concerns that still fester related to the 2003 report, the Commission recommends that the OSDC revisit its 2003 report and examine the current MTA Budget and Financial Plan with the aim of reporting to the public both its new findings and any further suggestions for improvement. Additionally, the Commission recommends that the MTA post on its own website the routine reports issued by both IBO and OSDC.

SUMMARY OF RECOMMENDATIONS

In summary, the Commission has made the following specific recommendations designed to fund the MTA, significantly reduce the fare and toll increase proposed for 2009, change the governance and transparency of the Authority, and to add new responsibilities to the organization so that better public transit is provided to the region in partnership with the twelve counties in the MTA Commuter District.

- **The Time to Act is Now:** There is an urgent need to act now to address the financial health of the MTA. Barring action, the MTA Board will have no recourse but to impose double digit fare and toll increases and service cuts effective in early 2009 in order to balance its books. At the same time action should be taken to put into place a new, fully funded five-year capital program that can provide for badly needed economic stimulus for the State and the region.
- **Impose a New Regional Mobility Tax:** A new regional Mobility Tax is recommended to be imposed in the twelve county MTA Commuter District as an excise tax equal to one-third of one percent of wages paid, as well as on individual's net earnings from self-employment. This tax is expected to generate \$1.5 billion on an annual basis.
- **Create the MTA Capital Finance Authority:** With the exception of the first year of collections, the Mobility Tax is proposed to be set aside in a separate "lockbox" that will be under the purview of a new, legislatively created MTA subsidiary – the MTA Capital Finance Authority (CFA). These revenues will be mandated to be used exclusively to pay for new borrowing and direct expenses related to the MTA's capital program and the debt service associated with the Authority's current portfolio of expansion projects. This will eliminate the burden of the growth in capital expenditures from the MTA's operating budget and will relieve the pressure these expenses have created in the past on the farebox. By creating a lockbox within the CFA, fiscal discipline will be imposed on management inasmuch as they will be precluded from using this source to pay for normal expense growth. And of course, any related bonds will be subject to the authority of the MTA Capital

Program Review Board. The creation of the CFA will not require new personnel or financial resources.

- **Establish a Regular Cycle of Predictable Fare and Toll Increases:** The Commission believes that fares should be adjusted with some regularity and predictability as to the amount. A fixed schedule of increases will help both the public and the MTA to plan accordingly. To this end the Commission recommends that the State statute be amended to empower the MTA Board as part of its annual public budget-making process to increase fares without recourse to additional public hearings provided that the increases are no greater than the change in the Regional Consumer Price Index and no more frequent than bi-annually. Ample opportunities for public testimony on any such fare increase would still be available as part of the regular budget-making Board and Committee meeting process which extends over a period of six months. Increases of a greater amount or more frequently than bi-annually would require full public involvement and the existing public notice and hearing process.
- **Impose Cashless Tolling on the East River and Harlem River Bridges:** The MTA should be authorized to acquire the East River and Harlem River bridges from New York City and it should be empowered to impose an electronic, cashless system of tolls that do not require toll booths that would otherwise result in traffic bottlenecks. The Commission further recommends that tolls initially be set on the East River Bridges at the same rate as the MTA's major bridges and tunnels, and that Harlem River bridges be tolled at the equivalent of the cost of a single ride subway fare. It is anticipated that \$600 million will be generated in net toll revenue annually. In the longer term, a region-wide, coordinated tolling strategy should be implemented, including variable pricing and one-way tolling, to ensure collection efficiency and better traffic management. The revenues derived from bridge tolls would be used for the upkeep of the bridges, to pay for the costs of installing the electronic toll system, as well as support additional mass transit improvements.
- **Improve Bus Service in the Region:** A strong case has been made to improve bus service region-wide. This case is further strengthened by the need to expand service prior to the

imposition of tolling on the East and Harlem River bridges as motorists will seek other means of travel to avoid paying higher costs. While this will have the positive impact of reducing congestion, in many places the subway either does not exist or cannot accommodate additional capacity in the peak period. Bus service is the only practical alternative.

Additionally, the Commission recommends that the MTA implement a new and promising bus strategy – Bus Rapid Transit to add a state of the art dimension that promises significant travel time, efficiency and comfort benefits. Finally, the Commission recommends the statutory creation of a second new subsidiary of the MTA –the MTA Regional Bus Authority, to be the single entity responsible for bus service in the metropolitan region and to bring together the fragmented service delivery system that exists today. This recommendation includes authorization to allow, but does not require, the counties within the MTA District to enter into agreements for MTA assumption of bus service.

- **Strengthen Governance of the MTA:** The Commission recommends that the MTA statute be amended to vest full executive authority in a full-time Chairman, with authority to delegate to a Board-appointed Executive Director as the Chairman deems appropriate. In addition the Commission recommends that the practice of hold-over appointees serving for long periods after their six year appointments should be eliminated. Hold-over appointees essentially serve at the pleasure of the Governor; this practice is inconsistent with the independence required of Board members. The MTA statute should also mandate that Board members have relevant experience in transportation, business management, finance, management of large capital projects, labor relations or other activities central to the mission of the MTA.
- **Increase Transparency and Accountability:** To promote accountability the MTA should change the way it manages capital projects to promote schedule efficiencies. The Commission recommends that the MTA be tasked with the development of a plan to accompany submittal of its next capital program that describes the management changes it will undertake to reduce procurement times, delegate authorities, limit operating department intervention in capital projects and otherwise streamline project execution. As part of this process the MTA should consult with informed industry groups and contractors who interact

with the agency. In addition the rationale for each capital project proposed over a defined dollar threshold and the consequence of not undertaking the project should be clearly articulated in supporting documentation accompanying the proposed plan. To promote transparency the MTA should develop a reporting methodology for its capital program that is consistent with the Guidelines of the Government Finance Officers Association. Such reporting should provide on MTA's website regular updated commitments and budgets for every capital project above a certain minimum threshold, including explanations for major changes in cost and scope and regularly updated project milestones for all projects, including planned and actual starts, completions, and reasons for changes in milestones. In addition MTA should regularly update its 20-year capital needs assessment report and publish all such reports and updates on its website. MTA should also routinely post on its own website the routine financial reports pertaining to the MTA's financial condition that are issued by independent entities such as the IBO and OSD.

As a general matter, the Commission believes that fares and current subsidies should pay for regular operating expenses, exclusive of new debt service. Growth in capital expenses should be funded separately and exclusively. However, in order to address the current state of the MTA's financial health that is so critically tied to the economic well-being of the region, and to protect the riding public and motorists from extraordinary fare and toll increases and service reductions, the Commission is making one final recommendation as follows:

- **Mitigate the MTA's Proposed 2009 Fare and Toll Increase and Anticipated Service Reductions:** A one time use of the first year of revenues from the Mobility Tax should be made available to support the operating needs of the Authority and its funding partners. Assuming immediate action to adopt the new tax, budget reductions which require cuts in service supplied to the public can be scrapped and the MTA's proposed 23 percent fare increase can be significantly mitigated. With available proceeds from the Mobility Tax the Commission recommends an across-the-board fare and toll increase of approximately 8 percent in July of 2009.

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