New York State Senate Transportation Committee
Remarks for MTA Chairman and CEO Tom Prendergast
October 10, 2013
250 Broadway, New York City

Chairman Fuschillo and members of the New York State Senate Transportation Committee, good morning. Thank you for inviting the executive leadership at the MTA to speak with you today.

I'm joined by: Carmen Bianco, president of MTA New York City Transit; Helena Williams, president of MTA Long Island Rail Road; Howard Permut, president of MTA Metro-North Railroad; Darryl Irick, president of MTA Bus; Jim Ferrara, president of MTA Bridges and Tunnels; Michael Horodniceanu, president of MTA Capital Construction; and Bob Foran, our CFO.

Today is a perfect time to talk about the MTA and our finances, for a couple of reasons. First, we meet a few months after the presentation of the July Financial Plan to the MTA Board—a plan that strongly reaffirms our company's commitment to cost-cutting, as well as a fully transparent view of our current and four-year financial outlook.

Also, just a few weeks ago, the New York State Comptroller issued a report on our finances. That report found our financial outlook to be—quote-unquote—"much improved." And overall, we're pleased that it recognized we're on track to cut $1.3 billion dollars out of our annual operating budget.

I'll talk more in a moment about both our financial plan and our unprecedented cost-cutting. First though, I'd like to set the stage a little with some basic facts about the MTA and how we're funded.

Every day, the MTA moves more than eight and a half million people on our subways and buses, Metro-North, and the Long Island Rail Road. We're one of the few transit systems in the world that operate 24 hours a day, seven days a week, 365 days a year. And our seven bridges and two tunnels carry nearly 300 million vehicles a year.

When you put it all together, we're the lifeblood of our region's $1.4 trillion dollar economy—an economy that makes up 11 percent of our entire nation's GDP. But providing this service is not cheap. Our operating budget this year is $13.2 billion dollars, and like every transit network in the country, fares cover only a portion of the costs needed to run our system.

In our case, just over half our costs are covered by fares and tolls across the system, and total fare revenue this year is projected to be about $5.5 billion dollars. When you subtract that from our operating expenses, you're left with a difference of $7.7 billion dollars. And here's the question I grapple with every single day: How do we make up that difference?

One source is MTA Bridges and Tunnels, where operating income this year is projected to be about one billion dollars. About half of that goes to transit operations. That still leaves a budget difference totaling about 50 percent of our costs, leading to the other half of our funding equation: State and local subsidies, dedicated taxes, and other fluctuating revenue sources.

Today, the problems with this model are clear. Revenues based on tax receipts vary with the economy and can leave us with significant operating deficits. Other revenues—specifically real-estate—are extremely volatile. Between 2007 and 2009, our real-estate revenue fell more than $1.2 billion dollars. This year to-date, real-estate-related revenues are $80 million dollars more than projected. But, most of that increase was attributable to just nine transactions that took place very early in the year. Budgeting against such volatility requires a conservative approach.

The PMT, which generates about $1.4 billion dollars annually, is a more predictable revenue source that is not as sensitive to downturns in the economy. But I don't need to tell this audience that the tax is very unpopular in much of the MTA region. Since it was enacted, the Governor and the Legislature have agreed on new exemptions to mitigate its impact on certain small businesses and schools. Although I was gratified that both the Governor and the Legislature agreed to make the MTA whole for the lost revenue, any subsequent erosion of this important revenue stream would put tremendous pressure on the MTA's operating budget.

The cost of running our operation is also increasing rapidly, leaving us continually trying to catch up. But the reason for these rising costs has nothing to do with providing good service, nothing to do with discretionary costs, nothing to do with inflation, and nothing to do with effective management. It has everything to do with non-discretionary costs—costs that are largely beyond our control—like healthcare, paratransit, energy, and debt service. These costs comprise almost half of the MTA's budget.

Just listen to this. Every year from 2013 to 2017, our employee and retiree healthcare costs are projected to rise more than nine percent. Debt service is projected to increase more than seven percent. And even <u>after</u> we cut our paratransit costs by $250 million a year through more aggressive management, they still rise by some nine percent a year. In total, costs in these three areas <u>alone</u> are projected to be $1.5 billion dollars a year higher by 2017. That's $1.5 <u>billion</u>.

At the same time, our discretionary costs—the costs we can control—are projected to increase just 1.6 percent a year from 2013 to 2017, exactly on pace with the consumer price index. As a result—although our Financial Plan is balanced through 2013—we're looking at serious, structural deficits beginning in 2014 and beyond. So what are our options?

Well, the subsidy part of the equation is up to Albany. That means my best option—my only option—is looking at our operation. And in that sense, I'm looking at three things: Our costs, the services we provide, and fares.

Let's start inside the MTA, because a lot of people don't know how successful we've been at holding our discretionary costs in check. And the truth is, despite what you may have heard, we are fundamentally overhauling the way we do business.

We've cut more than $800 million dollars out of our annual operating budget—the most aggressive cost-cutting in the history of the MTA. And I want to assure you: this work is far from over. In fact, as the State Comptroller noted, we're on track to achieve annual savings of more than $1.3 billion dollars by 2017. And you'll see increased cost reduction targets in our next financial plan, coming out in November. Just this year:

- We refinanced $6 billion of our long-term debt to capitalize on lower interest rates, and we're using the savings—more than a billion dollars—to reinvest in our next Capital Program. To put that in context, that's the equivalent of adding another billion dollars to our Capital Program, without an increase in costs.

- We're using that $80 million dollars in surplus real-estate revenue—a one-time windfall—to pay down unfunded pension obligations, a move that will save us $6 million dollars a year for the next 20 years.

- Building on earlier administrative consolidations, we announced the consolidation of our Information Technology staff, which is expected to make delivery of these crucial services more efficient and cost-effective.

- We're even hedging against volatile energy prices, and we're constantly on the lookout for other cost-saving opportunities.

But we're not just cutting costs. Ridership is at an all-time high and our customers—throughout all 5,000 square miles of our network—depend on us more than ever. That's why in July, our Board voted to put $18 million dollars back into service, and to improving our customers' daily experience on the system. That's $47 million dollars we've been able to put into improved and expanded service in the past two years.

To achieve further gains, we must develop a new relationship with labor that focuses on inefficiencies and controls the underlying drivers of the MTA's cost increases. Toward this end, our Financial Plan assumes that each new labor contract will include "net zero" wage increases, which means wage increases only if they're offset by productivity improvements or contributions to benefit costs. Not incidentally, non-represented MTA employees are currently in their fifth straight year without a wage increase. So as I hope you can see, we're doing everything we can to hold the line on discretionary expenses.

And that, finally, brings me back to fares. Since 2009 and the passage of our current subsidies, our annual financial plans have acknowledged the necessity for regular, biennial fare and toll increases to reduce our revenue shortfalls, and also avoid a huge jump in fares when increases happen sporadically and unpredictably.

So yes, we're looking at our financial needs in 2015 and 2017, and what sort of fare and toll increase we'll need. But those increases will be dependent on our overall financial situation at the time. And my goal will always be to keep future fare and toll increases as low as possible. That's the objective of our efforts to keep driving down our costs.

Still, transit fares today are clearly one of the best deals in New York. I'd like to read a brief passage from a report by New York City's Independent Budget Office that came out after this year's increase, and speaks to the value we provide. The report says, and I quote:

> "MetroCards, free transfers, and discount passes have reduced the average fare so much that after accounting for inflation, the typical amount paid per trip is 18 percent lower now than it was in 1996."

I don't know about all of you, but I can't think of a single item in New York beside a subway ride selling nearly 20 percent below its 1996 price. Meanwhile, according to Taxi and Limousine Commission data, the average inflation-adjusted fare for a taxi ride is up 36 to 43 percent since January 1996, depending on the distance.

But even as discounts have continued to keep subways and bus fares one of the best bargains in the city, I can't ignore the fact that many of our suburban customers—both those who ride our commuter rails and those who cross our bridges—feel the pinch with every successive fare increase and are increasingly frustrated if service does not meet their expectations. I understand their concerns. It's the reason why I welcome a continuing dialogue with all of you about identifying a sustainable source of funding for the MTA network, and why my greatest challenge is to see that the MTA's operating costs are being aggressively and appropriately managed and that MTA continues to provide safe and reliable service that meets the constantly evolving needs of the public. When the MTA does that, it at least gives our customers and elected officials confidence that the MTA revenue from measures they approve is being well spent.

Before I wrap up, I want to touch on another critically important aspect of the MTA's finances: the Capital Program, which could very well be a synonym for "investment in transit." Before Superstorm Sandy and all the devastation she wrought, the MTA's current, five-year Capital Program was about $24 billion dollars.

Our Board recently approved an amendment to the Program adding $5.8 billion dollars for what we call "resiliency" work—projects that will fortify our network to prepare for big storms in the future. We expect this work to be funded mostly through reimbursements from the federal government, and these funds come in addition to the $4.7 billion dollars for Sandy-related repairs, already approved by the State in a previous amendment.

We're close to the one-year anniversary of that terrible storm—the worst disaster ever to hit our system. We were able to restore service, piece by piece, and bring the region back to normal. But restoring service was just the beginning. We have years and years of work just to get where we were the day before Sandy struck—on top of another monumental job: fortifying our network to prepare for big storms in the future.

But we're not wasting any time. We started recovery projects almost as soon as the water receded and so far, we have more than $500 million dollars in repair contracts underway, and around $3 billion dollars more in construction projects in design. All of which we expect will be funded by the Federal Transportation Administration.

In total, when you include Sandy repair and mitigation projects, the current Capital Program is about $35 billion dollars. That sounds like a lot, but you simply can't run a 24/7 system—especially one that's 109-years-old and used by eight and a half million people every day—without the money to maintain its aging infrastructure.

Just look at where our network was in 1983, before capital investments kicked in. The average subway car went fewer than 8,000 miles before breaking down. The average commuter rail train went about 15,000 miles before breaking down. Today, those numbers are 170,000 and 140,000 miles, respectively—meaning subways are more than 20 times more reliable and commuter rail trains are about 10 times more reliable.

Because of capital renewal, we have in our system a whole new generation of customers who never knew a system in disrepair, when track fires and derailments were all-too-frequent. What's more: You may not realize how many jobs in New York State are created by the MTA's capital investments, but the numbers are staggering. The New York Building Congress estimates that last year, the MTA <u>alone</u> accounted for 25 percent of the downstate construction industry, or 18,000 jobs.

But the Capital Program's impact reaches far beyond downstate. It also has a profound effect on economic development in every corner of the Empire State, and here are just two examples:

- Last month, our Board approved a nearly $2 billion dollar contract with Kawasaki to build new trains for the Long Island Rail Road and Metro-North. This order alone is expected to create up to 1,500 jobs at the Kawasaki plant in Yonkers and its suppliers in the state.

- The MTA has also bought more than 2,000 of the 3,000 rail cars built at Bombardier's 100,000 square-foot facility in Plattsburgh, New York, including a new rail fleet for MTA commuter railroads in 2007.

Overall, according to one estimate, the current Capital Program will provide 350,000 New York jobs, while creating $44 billion dollars' worth of economic activity throughout our state.

Early next year, we'll be bringing our 2015 to 2019 Capital Program to our Board. We expect it to be roughly the same size as our current Capital Program before Sandy projects were added. And we are committed to working with all of you—however you'd like and in every way possible—to fund that program.

The bottom line is, we must continue to renew, for the sake of our region. Nothing less than New York's economy is at stake. Our mass transit system will always require public financial support. And in our region especially, it should, because it's the very backbone of an economy second in the world only to Tokyo. It should, because it allows New York City to have about four times the job and population density of the next largest U.S. city. It should, because it enables the most valuable real estate market in the country. It should, because it makes New York State—on a per capita basis—the most energy-efficient state in the nation.

Still, I know we can never take our subsidies for granted. We need to earn every cent we get by continuing to provide safe and reliable service throughout the region. We need to earn every cent we get by continually adjusting our service to fulfill regional customer needs. And we need to earn every cent we get by continuing, at every opportunity, to make our operation as efficient and low-cost as possible.

Once again, thank you for inviting me to speak to the Committee today. Now, I'd like to turn the floor over the Carmen Bianco, to make some opening remarks on behalf of MTA New York City Transit.