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Essential Service

Solving the operating funding crisis for the region's mass transit

At a time when the region faces a deep recession and the future viability of the transit system is at risk, there are no good options for cutting costs or replacing lost passenger revenues. Here's what we recommend.



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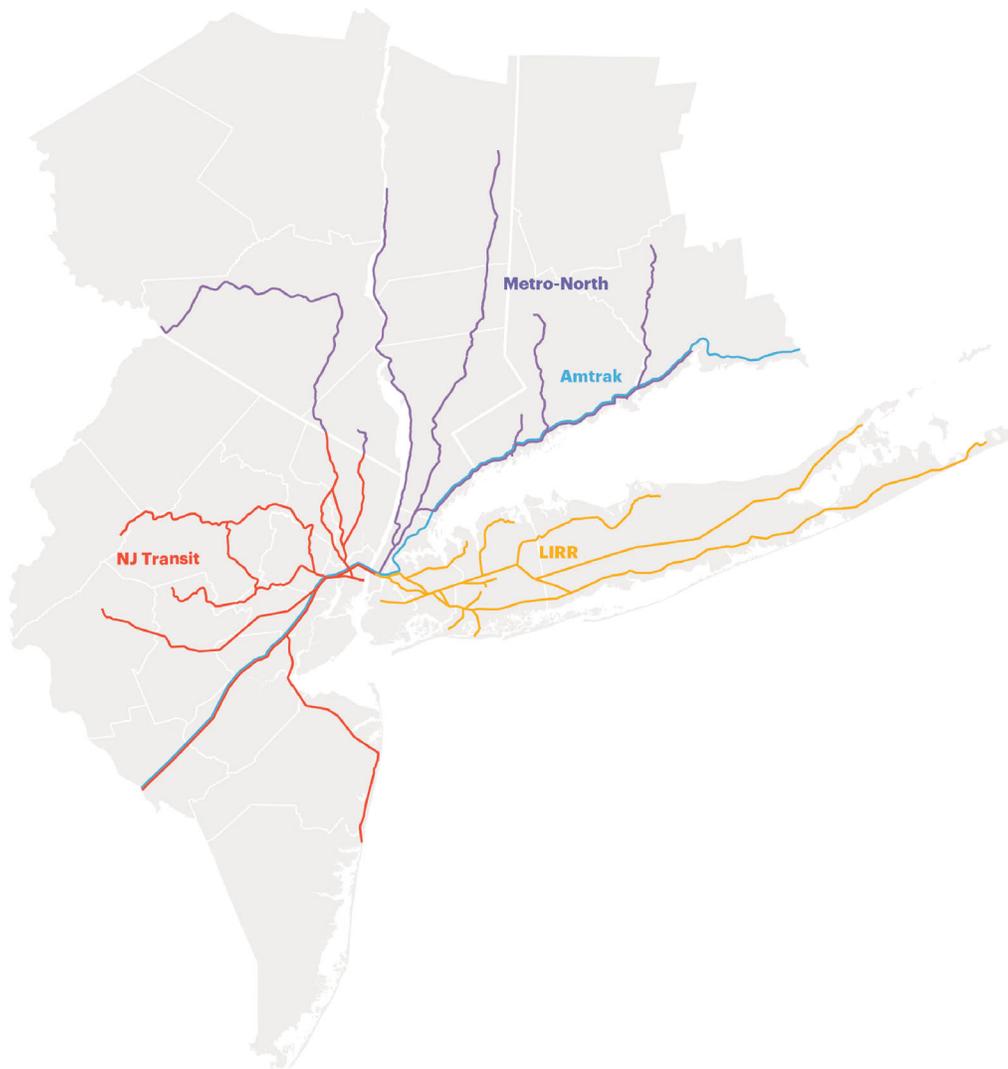


Mass transit is the critical infrastructure that allows the New York-New Jersey-Connecticut metropolitan region to function and prosper.

Our diverse economy and global competitiveness depend on the largest and most talented workforce in the world, which makes the New York metropolitan region's economy function. That workforce depends on our extraordinary transit systems as the circulatory system for the economy, including New York's subways and buses; the Long Island Railroad (LIRR); Metro-North and NJ Transit; the Port Authority Trans-Hudson (PATH); and Amtrak's Northeast Corridor service.

On a typical day, more than three million commuters use mass transit to get to their jobs across the region.

Millions of others use buses, subways, ferries, and commuter trains to travel to and from schools, to shop, to see a sporting event or cultural institution – or just to visit their family and friends. It would be impossible to serve this volume of trips by any other means.



New York City's Commuter Rail Network

With a combined 390 stations and more than 2,000 miles of track, New York City's commuter rail network is the nation's largest and farthest-reaching. The NYCT Subway System adds more than 665 miles of track and an additional 472 stations to the system.

But we are not in typical times.

Over the last few weeks, transit ridership has plummeted because COVID-19 has thrown one in every six workers in the region out of work in less than two months and is forcing everyone in the region to sharply reduce travel while we practice physical distancing to stem the spread of the virus.

However, thousands of us still rely on our transit system to provide mobility throughout this crisis. Transit is the only option for many of the 250,000 healthcare

workers who are courageously fighting the virus on the frontlines in our hospitals, for the brave retail workers who are making sure we still have access to food and other needed items, and for the other essential workers who risk their lives every day to provide baseline services while the rest of the population shelters in place.

While schedules can be reduced in some areas, we still need to operate and maintain our fleet of buses, subways, ferries, and trains – both to provide mobility to essential workers and to ensure that the system will be there to help us recover when this crisis has passed. Not only do we need our system to keep running, but we need it to be less crowded, cleaner, and safer than ever before.

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The Current State of Our Public Transit's Finances



This system is experiencing stress unlike anything in modern history.

We are witnessing a collapse in ridership that – while temporary and necessary – is nonetheless devastating. As workers stay home, tourism has vanished, and non-essential trips have ceased, the money those riders pay into the system has also been reduced to a trickle.

Furthermore, the transit operators in our region rely more heavily on farebox revenues – the payments made by users – than other transit systems around the nation and world. This means the drastic reductions in ridership are having out-sized impacts on the operating budgets of our systems.

Recently, the Metropolitan Transportation Authority (MTA) issued a report that estimated their operating losses at \$200 million every week. Declines in PATH ridership mean revenue losses of between \$3 and \$4 million each week for the Port Authority. NJTransit reports that passenger revenue in April was approximately \$85 million less than budgeted. Other sources of revenue that are critical to these agencies, from dedicated taxes to cross-subsidies from highway and bridge tolls and airport operations, are also experiencing dramatic and unprecedented declines. For instance, toll revenue from Port Authority bridges and tunnels subsidizes both the PATH and operations at

the Port Authority Bus Terminal. Bridge and tunnel traffic has declined by more than 50% from a year ago. TSA screenings indicate that air travel in the US has declined by 95 percent from a year ago.¹

Ridership decreases on NYC regional mass transit systems post COVID-19:

- MTA subways: -92%
- PATH: -95%
- MTA buses: -81%
- NJ Transit buses: -93%
- Staten Island Ferry: -90%
- NYC Ferry: -90%
- Metro-North: -95%
- LIRR: -97%
- NJ Transit commuter rail: -98%
- Amtrak NEC: -95%

We cannot let these agencies slide into bankruptcy. Any recovery to the region's nearly \$2 trillion annual economy will be impossible without a functioning transit system.

Since the tri-state region comprises almost 10% of the U.S. economy, a regional depression would have cascading economic impacts across the country.

The CARES Act helped stop the bleeding for the transit agencies by providing \$3.9 billion to the MTA, \$1.4 billion for NJ Transit, \$1 billion for Amtrak, and \$450 million for the Port Authority.

Yet when the relief package was introduced in mid-March, policy-makers underestimated the depth and length of the crisis and its impact on transit systems, as well as the magnitude of economic damage to the public budgets that support transit operations. The CARES Act relief was originally expected to relieve budget pressure on NJ Transit for the next year, but greater ridership impacts, higher COVID-related operating costs, and revenue shortfalls in the New Jersey State budget now indicate a further \$1.2 billion in budget relief is necessary for the agency to continue safe operation over the 14 months between now and the end of FY 21.

Additionally, the funding formula used to disburse funds under-invests in large urban transit systems. The MTA, for example, received 15 percent of the federal funding by the CARES Act despite carrying almost 40 percent of U.S. transit riders. Any further relief funding, which is sorely needed, must go to agencies in proportion to demonstrated impact and need, and not penalize urban systems that are most dependent on transit and serve the majority of the nation's transit riders.

A second relief package, called The HEROES Act, was recently introduced by U.S. House leadership and allocates \$15.8 billion in relief funding for public transit, but its passage is far from guaranteed. Senate leadership has indicated unwillingness to support the proposal. Even if it did pass, it would only provide about half of the \$32 billion the nation's largest transit agencies requested to offset their revenue shortfalls.²

Options for Solving the Financial Crisis



There are no good options for cutting costs or replacing lost passenger revenues.

To address shortfalls, transit agencies can either reduce service and lay off workers; increase fares; take on additional debt; default on bond payments; or delay or cancel capital projects. All of these are bad choices at a time when the region faces a deep recession and the future viability of the transit system, a system critical to the region's functioning, is at risk.

CUTTING SERVICE AND LAYING OFF TRANSIT WORKERS

Many of the region's transit providers have already reduced service because of reduced demand. Yet service cannot be further cut because essential workers need a reliable option to get to their places of employment and less frequent service would result in more crowding, which is counter to social distancing directives for public health.

Demand for service on the region's commuter rail has cratered even more than other systems, yet operators continue running far more service than ridership numbers alone would justify so that essential workers have a reliable option and are able to practice physical distancing on their trips. For example, both the MTA and NJ Transit will not allow any buses to run over 50 percent of capacity. As more people eventually return to work, transit providers may need to provide even more service to maintain proper spacing guidelines on trains and buses.

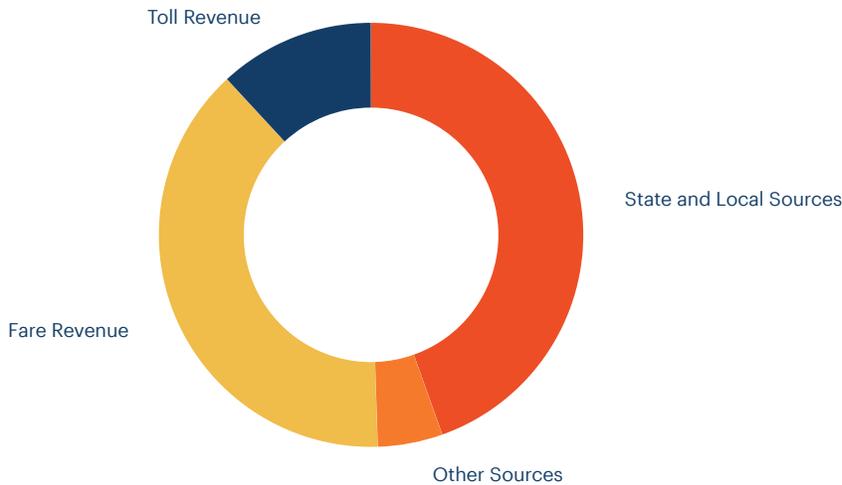
Transit agencies' service reductions, May 2020

NYC Transit	Essential Service Plan in place, subway service shut down between 1:00 am and 5:00 am and replaced by subsidized for hire vehicle trips, certain subways lines discontinued, bus service reduced
NJ Transit	Sunday schedule running daily on trains, bus service reduced
Metro-North	Hourly trains instead of more frequent service
LIRR	One to three trains per hour instead of more frequent service

..... INCREASING THE COST OF RIDING TRANSIT

Usually, one option for closing deficits and increasing funding to the system is to increase fares. It is, after all, the single largest source of funding for our system, and it makes sense for riders who benefit to contribute to the system’s operations and pay for the services they are receiving. However, these are not normal times. Because of the drastic reductions in ridership, any strategy that relies on charging riders more is untenable. There are two parts to this: raising fares now would be cruel and won’t have an impact since ridership is negligible, and raising fares while the economy is trying to recover is counter-productive.

MTA Funding



Comparison of farebox recovery ratios of major transit agencies

The New York City region’s transit agencies are far more reliant on fare revenue from passengers to cover their operating expenses than their peer agencies across the country, meaning the COVID-19 crisis has a disproportionate impact on their bottom lines.

To make up the anticipated \$4 billion budget shortfall the MTA has projected due to COVID-19 for 2020 from passengers alone, fares and tolls would need to more

than triple over the last six months of the year. This could mean a base fare subway fare of \$9 or more.³

For NJ Transit, which relies on riders to fund more than 45 percent of the operating budget, fares would need to rise by a comparable level if riders were forced to cover the agency's operating expenses if ridership declines remain similar to those of MTA services. The Port Authority has estimated their revenue loss at approximately \$3 billion for the next twenty-four-months, due to the decreases in PATH train, airport, bridge, tunnel, and ports activity.

Raising subway and bus fares would put an overwhelming burden on lower-income residents, many of whom have continued to work in essential jobs despite the pandemic. Steep fare increases would also drive down ridership causing additional revenue loss. A move toward more car usage would only exacerbate this inequity. New York City Economic Development Corporation (NYC EDC) has estimated that only 45 percent of households in the city currently own cars, and to expect financially stressed residents to make a major additional purchase is not a feasible plan. More cars would also mean more pollution, disproportionately impacting health in lower-income areas.

GOING DEEPER INTO DEBT

The debt load and bond ratings of the region's transit agencies is also cause for serious concern. MTA CFO Bob Foran recently referred to the current situation as a "perfect storm"⁴ similar to other public agency debt crises in the region's past. In the 1970s, New York State Urban Development Corporation's default on their bonds contributed greatly to the financial crisis for New York City.

Even before the COVID-19 crisis, the debt load of the MTA was concerning. In 2019, it eclipsed \$35 billion.

Debt service alone accounted for approximately 16 percent of the MTA's annual budget over the past decade, making it a considerable burden on the agency.⁵ In 2019, it was projected to rise to 20 percent by 2023.

Like the MTA, the Port Authority carries debt, in 2018 amounting to \$25.1 billion in bond and other asset financing obligations on which \$859 million in net annual interest expense is due.⁶

Rating agencies have already modified their ratings to give both the MTA and the Port Authority negative outlooks or while the MTA's rating has already been downgraded by multiple agencies.⁷

..... DELAYING CAPITAL REPAIRS AND PROJECTS

Another bad choice for agencies would be to slash capital programs and divert capital funds to operations. This course of action would create worse problems down the road. Any significant delay of essential work like track repairs or signal upgrades risks creating a vicious cycle of decay and disinvestment similar to what the transit system experienced in the 1970s, and would contribute to further job losses in the short-term as maintenance and construction workers were furloughed or laid off. This would add economic pain and stress to an already suffering region.

It would also run counter to the compelling argument for increasing investment to put people back to work as we head into the deepest economic depression since the Great Depression. Under the Franklin Delano Roosevelt administration, the Works Progress Administration (WPA) program alone equaled approximately seven percent of U.S. GDP in its initial year. Many economists argue that a similar package to promote infrastructure is desperately needed now.⁸ An independent analysis of the MTA Capital plan⁹ from March of 2019 found that the plan would support over \$60 billion in economic activity, which equated to over 57,000 jobs, including over 12,000 outside New York City. The capital programs for Amtrak, NJ Transit, and the Port Authority would considerably add to this.

Rather than face the threat of reduction or cancellation, the capital plans for the MTA and the Port Authority, the Gateway project, and the yet-to-be-released capital plan for NJ Transit could all be major pieces of a national infrastructure stimulus package.

They all are either planned or already advancing into the engineering phase of development and could put people to work in the near-term and make the region more resilient and competitive in the long-term.

Transit capital plans

Agency	Timeframe	Budget	Funding Sources	Priorities
MTA	2020-2024	\$51.5 billion	NY State and City, bonds, NYC congestion pricing program (needs federal approval), toll revenue, tax on high-end real estate, internet sales tax, federal grants	Station accessibility, signal upgrades, new buses and trains, new service (2nd Ave Subway, East Side Access, etc.)

Agency	Timeframe	Budget	Funding Sources	Priorities
Port Authority	2017-2026	\$37 billion	bonded bridges and tunnel revenue, airport fees, federal grants, and public-private	PABT replacement, LaGuardia Redevelopment, JFK redevelopment, PATH Extension

*NJ Transit's capital plan proposal has not been publicly released and is subject to change

Without Federal support and stable transit agencies, the road to recovery from the pandemic will be much more arduous and painful, with far-reaching impacts well beyond the New York City region.

Next Steps and Recommendations

The COVID-19 pandemic has created an unprecedented situation, with steeper and deeper drops in ridership than ever before, leading to severe short-term budget crises for all the region's transit authorities. Federal intervention is absolutely essential to keeping transit agencies solvent over the near-term.

If enough federal intervention is secured to support operational expenses, however, the capital plans of the agencies and partner projects such as the Gateway Program can be a cornerstone for regional economic recovery.

Next steps that should be taken include:

- Congress should immediately pass a second relief package for transit similar in size and scope to the CARES Act – or the recently introduced HEROES Act – but with a modified formula to direct the funding more equitably towards systems in higher ridership areas most affected by COVID-19. It is crucial that funding goes directly to the agencies instead of being combined with state funding. The needs, funding and operations of these agencies are distinct from state budgets, and must be treated that way by Congress.
- USDOT and Congress should allow NYC's congestion pricing program, a vital source of MTA capital and operating funds, to move forward by expediting the environmental assessment process.
- Congress should expand the Federal Reserve's Municipal Liquidity Facility to cover large public authorities like the MTA to expand their access to operating funds and help stabilize their bond ratings.
- Congress should work with New York and New Jersey to protect the agencies' capital programs as a necessary tool for economic recovery, and encourage accelerated construction schedules to take advantage of decreased ridership, where appropriate.
- Congress should help agencies avoid draconian cuts to the agency workforces or other austerity measures that would cripple their ability to function, abandoning essential

workers who rely on those services and crippling the agencies' ability to maintain their systems.

- Congress should include other key providers of public transit, especially the Port Authority of New York and New Jersey, in future relief funding, without reducing aid to MTA and NJTransit.

A more highly functioning transit system should be the cornerstone of an infrastructure stimulus bill that can help get the nation's economy back on track following the pain and misery caused by the coronavirus. It will be essential to maintaining the energy-efficient urban economies needed to reduce our collective carbon footprints and to become a more resilient and sustainable society. But we first need to ensure that the system remains solvent and viable as we face the most threatening and unpredictable challenge of our time.

If the region and the agencies are able to weather the current crisis intact, everyone will be better positioned for recovery. Riders will return once the pandemic is under control, but only if the service is there to accommodate them. Until then, only federal intervention can save the agencies in the near-term.

ENDNOTES

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2. U.S. Transit Agencies Seek \$32 Billion of Federal Aid, Finacne/Yahoo
3. Using revenue and ridership numbers from Metropolitan Transportation Authority: Financial impact assessment on 2020 revenue of Covid-19, fare and toll revenues would decline to \$3.36 billion for all of 2020 based an average of the early containment and late containment scenarios modeled in the report. Making up the \$3.9 billion shortfall over a full year would require a 116% increase in fares and tolls. To raise that amount over six months between July and December of 2020 would require a 232% increase.
4. New York MTA Finances in 'Perfect Storm' as It Seeks Federal Aid, Bloomberg News
5. Financial Outlook for the Metropolitan Transportation Authority: Report 6 – 2020, Office of the New York State Comptroller, 2019
6. Port Authority 2018 Annual Report
7. New York MTA Debt 'Priced Attractively' in Upsized Deal, Yahoo News
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