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Joint Legislative Budget Hearing on Transportation
January 30, 2014, 10 a.m.

Senator DeFrancisco, Assemblyman Farrell, and members of the Senate and Assembly: Good morning. Thank you for holding this hearing, and for inviting me to discuss the MTA's finances, fiscal challenges, and plans to meet them. I'm joined today by Robert Foran, our chief financial officer.

It's been seven months since you confirmed me as chair and CEO of the MTA, and 2013 was a year of significant accomplishments for the organization.

- We spent nearly $180 million and committed over $750 million toward resiliency and repair contracts in the aftermath of Superstorm Sandy. We expect almost all of it to be funded by the Federal Transit Administration. In fact just last week, we announced an $886 million grant from the FTA—to both reimburse us for Sandy-related work we've already done, and to fund additional repair and recovery work.

- Ridership levels are at all-time highs. About four months ago, in one day, we moved nearly six million customers on our subway system—more than any other day since we started keeping daily records in 1985. Metro-North's ridership—more than 83 million last year—has almost doubled since its founding in 1983. And the Long Island Rail Road's ridership of more than 83 million, as well, make them the two most heavily-used railroads in the nation.

- We were able to put $19 million back into service—to both add and improve it.

- New technology like MTA Bus Time—which uses GPS to let customers simply look at a cellphone to know when their bus is coming—spread throughout our system, in ways that make using it better every day.

- And—among many other completed Capital Program projects in 2013—we finished the 96th Street station structures for the first phase of our Second Avenue Subway project, accepted 124 new M-8 commuter rail cars for Metro-North Railroad, and replaced nearly 700 buses with new, state-of-the art, fuel-efficient buses.

But before I continue, I'd also like to say a few words about safety. As you know, last year was challenging for the MTA because of a number of derailments, mechanical failures, and other problems, culminating in the tragic derailment of a Metro-North train two months ago.

All of us at the MTA are heartbroken by what happened. Today and every day for a long, long time, our thoughts and prayers go out to those who were injured, and especially to the families of the four people who died on that day. And the best way we can put that concern into action is to analyze everything we do with a renewed focus on safety, take concrete steps to improve our operations and our safety culture, and ensure that everyone who works for the MTA knows that safety is the most important job we have—every single day.

We can talk more today about everything we're doing to ensure that all of the MTA's operations are safe and reliable going forward. But first, I'd like to address our finances. We're pleased that once again, we will see increased state-aid from Governor Cuomo's Executive Budget. Total funding support appropriated to the MTA in the 2014 to 2015 Executive Budget is $85 million higher than it was in the State's 2013 to 2014 Enacted Budget. And last year, we received $176 million more from the State than we did in 2012. That means in total, state-aid for the MTA this year is projected to be more than $260 million higher than it was two years ago.

In addition, the 2014 Budget and Financial Plan approved last month by our Board presents a fully transparent view of our current and four-year financial outlook. It strongly reaffirms our organization-wide commitment to cost-cutting. And it shows that we've already cut nearly one billion dollars out of our annual operating budget. But we're not finished. And I want to tell you just some of the things we're doing to make our organization more efficient and better managed than ever:

- We refinanced $6 billion of our long-term debt to capitalize on lower interest rates. We're using these savings—more than a billion dollars—as a "down payment" for our next Capital Program.

  In fact, we've increased annual "pay-as-you-go" funding by $40 million a year—on top of the $80 million dollar increase we originally anticipated in July—for a total of $370 million a year, to be used for our next Capital Program.

- We're using greater-than-expected real-estate revenue and unused general reserve funds—which is good news but hardly certain to recur—to pay down unfunded pension obligations. This will save us $15 million a year for the next 20 years.

- And after Superstorm Sandy, we're thinking creatively about how to protect our network and save money at the same time. About six months ago, we secured $200 million of insurance protection through the capital markets to help pay for repairs in the event of a storm similar to Sandy.

  The insurance was funded through "catastrophe bonds," and our premiums are well below quotes we received this spring for traditional property coverage.

Overall, our latest financial plan increases our savings targets by $50 million this year, growing by an additional $50 million annually to reach $200 million by 2017. New savings initiatives are being identified in the areas of prompt payment discounts, workers compensation, energy management, consolidations, purchasing, inventory, and employee benefits. These initiatives are increasing our total annual savings target to $1.5 billion a year by 2017.

Before I go on, I want to highlight two important points about all of these savings initiatives. First: In no way, shape, or form do these efforts undermine or degrade our commitment to safety, reliability, and state-of-good repair. Those will always be our top priorities. Always.

Next, I want to point out that all of this work is making a real difference for our customers, in a few important ways. Thanks to these savings, the Plan projects a fare and toll increase of only four percent in 2015 and 2017. That's about the rate of inflation, and about half of what had been projected. But not only that. These savings have helped us put the dollars where everyone wants them: more and better service. Earlier this year, we announced $19 million in service enhancements and improvements. That makes $48 million in services created or restored in the past two years.

Another key element of our Plan is to address long-term costs like pensions, healthcare, paratransit, and debt service—areas that for many years had been viewed as beyond our control. Because those expenses continue to increase rapidly. Every year from 2013 to 2017, our employee and retiree healthcare costs are projected to rise more than eight percent. Debt service is projected to increase by about seven percent a year. And even after we cut our paratransit costs by $250 million a year through more aggressive management, they still rise some nine percent a year.

In total, we expect costs in these three areas alone—healthcare, debt service, and paratransit—to increase 7.5 percent a year until 2017, at which time they will be $1.5 billion a year higher than they are today. At the same time, the costs we can control are projected to increase just 1.5 percent a year from 2013 to 2017—lower than the consumer price index.

In short, our cost-cutting efforts have dramatically slowed increases to our discretionary costs. And we accomplished this at a time when binding arbitration required that our largest labor union receive wage increases of 11 percent from 2009 to 2011. Our Plan assumes that each new labor contract will include three years of "net zero" wage increases, which means wage increases only if they're offset by productivity improvements or contributions to benefit costs.

Senator DeFrancisco, Assemblyman Farrell, and other members of the committees: It would be difficult for me to overstate the adverse repercussions—for both our customers and our region—if we don't achieve these three net zeroes. To start, this year's expenses—including retroactive payments—would immediately rise by $538 million. After that, we'd have to pay an extra $300 million a year. This, in turn, would lead to a terrible choice—for our customers and our region. We would need either to raise fares in 2015 at twice the rate we plan, or slash the 2015 to 2019 Capital Program by $5.3 billion dollars' worth of critical maintenance work and new equipment.

A labor settlement along the lines of the recommendation by the Presidential Emergency Board would have even more dire consequences. 2014 expenses—also including retroactive payments—would immediately rise not $538 million but by about $750 million. On-going expenses would grow not by $300 million but by $400 million a year. And this would mean we would have to increase 2015 fares by almost 12 percent—or three times as much as we currently plan. As an alternative—even if we cut the proposed Capital Program by $6.5 billion, about one-quarter—we'd still need to raise fares in 2015 by 5.25 percent, which is more than we anticipate. That's how important it is that we achieve a fair and reasonable settlement.

To wrap up today, let's discuss our Capital Program. Before Superstorm Sandy, the MTA's five-year, 2010-2014 Capital Program was about $24 billion. Today, when you include Sandy repair and resiliency projects, the Program is about $35 billion. That's a heckuva lot of money. But remember: the MTA's network is a one trillion dollar asset. And parts of it are more than 100 years old. That means our current Capital Program—even with all the Sandy projects—represents a reinvestment, back into the system, of less than four percent of the system's total value over five years, or less than one percent per year of re-investment.

We have four overarching priorities for capital investments. In order of priority, they are: safety and security, reliability, service and system improvements, and customer experience. Informed by these priorities, we then invest capital funds in all of the indispensible components that keep New York moving—track, switches, pumps, line structures, and thousands of components most of our customers never even see.

These investments have sparked a truly remarkable revitalization—for our transit network and our region. In fact, they're one of the main reasons we're seeing record ridership levels today. And as important as the Capital Program is today, in the near future it will be even more important. Because in addition to allowing us to maintain the reliability we've worked so hard to achieve ... In addition to allowing us to make our network safer and more secure ... and beyond financing big projects like the Second Avenue Subway and Long Island Rail Road access to Grand Central ... The Capital Program will allow us to fix and fortify our network after Sandy—by far the worst disaster ever to hit our transit network. And I want to be clear: We still have years of work just to get where we were the day before Sandy struck—on top of another monumental job: adequately fortifying our network, to prepare for the next big storm.

In September, we'll present the 2015 to 2019 Capital Program to our Board. We expect it to be roughly the same size as our current Capital Program, before the Sandy projects were added. Obviously, we will need your support. The bottom line is, the MTA must continue to renew, for the sake of our region's economy and daily life. Our mass transit system—like all transit systems in America—will always require public financial support. Customers could never pay the fares and tolls needed to run the system on that revenue source alone.

The MTA system is the very backbone of our $1.4 trillion dollar economy, second in the world only to Tokyo. It allows New York City to have about four times the job and population density of the next largest U.S. city. And it allows us to bring millions of New Yorkers everywhere they need to go—to school, the doctor's office, the senior center. And for a rapidly growing number of customers, to jobs in the suburbs, through "reverse commutes".

Still, as a former president of both the Long Island Rail Road and New York City Transit ... And now more than ever as chairman and CEO ... I know we can never take our subsidies for granted. We need to earn every cent we get, by providing 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 today. Now, I'm happy to answer any questions you may have.