Testimony of Thomas F. Prendergast
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Joint Legislative Budget Hearing on Transportation
January 29, 2015, 9:30 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.

Last week, as you know, Governor Cuomo released the State's 2015 to 2016 Executive Budget, and we're pleased that we will once again see increased state aid. Total funding to the MTA increased by almost $141 million over the State's 2014 to 2015 Enacted Budget. This increase includes an almost $37 million boost to our operating budget, and more than $104 million being transferred to the MTA Capital Program. It also provides more than one billion dollars in new funding for the 2015-19 Capital Program.

In addition, the MTA's 2015 Budget and Financial Plan—approved by our Board last month—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 more than a billion dollars out of our annual operating budget. But we're not finished. And I want to tell you just some of the ways the MTA became more efficient and better-managed than ever before in 2014.

- By incorporating modern strategies for office space, we were able to move our entire headquarters to 2 Broadway in Lower Manhattan. Through this move, we will monetize our former headquarters at 341, 345, and 347 Madison Avenue, generating hundreds of millions of dollars for our Capital Program.
- We issued $479 million of refunding bonds and completed associated restructurings of existing escrows for total savings of approximately $110 million.
- And we successfully concluded labor settlements with most of our represented workforce. Thanks to our cost-cutting efforts, we were able to fund these settlements without additional fare and toll increases or service reductions.

New savings initiatives are being identified in the areas of prompt payment discounts, worker's compensation, energy management, consolidations, purchasing, inventory, and employee benefits. These initiatives are increasing our total annual savings target to $1.6 billion a year by 2018. It's the most aggressive cost-cutting in the MTA's history, and the savings we've realized have improved our operations in three critically important ways.

- First: Without these savings, we could not have reduced projected fare and toll increases from about 7.5 percent every other year to about 4 percent every other year, or roughly 2 percent a year.
- Second: These savings have allowed us to add $157 million back into service and service quality enhancements since 2012.
- And third: They've helped us put $290 million a year into a "pay-as-you-go" account—beginning this year—that could generate up to $5.4 billion for the 2015 to 2019 Capital Program.

That's a lot of money, but still well short of our extensive capital needs. Before I discuss that, however, I want to tell you about a few important cost-saving and efficiency initiatives.

One I'm particularly proud of is work we're undertaking with our partners in the construction industry to not only reduce costs, but to make it easier to do business with the MTA—because we know that lower costs will be passed on to us, and to the public at large.

Asset management is another area we're tackling head-on. Through a system we call Enterprise Asset Management, we will better understand the useful life of all our assets, so we get as much out of them as possible. And because the combined value of our assets is nearly $1 trillion, better asset management has the potential to quietly revolutionize the way we do business, saving us hundreds of millions of dollars through better processes, technologies, and training. These savings can then be put right back into our system through strategic initiatives and the MTA's indispensable Capital Program.

The Program, as you all know, is a series of five-year investments through which we regularly maintain and improve our entire network. It started in 1982, and today—more than 30 years and $100 billion later—the Capital Program has given our nearly 9 million daily customers a system they can depend on, while delivering real value to millions more.

The Program revitalized our transit system and our region, enabling improvements that have brought customers back to our system in droves. Today's ridership is at all-time high levels. Before October 2013, we'd never recorded 6 million daily subway riders. Last year, we exceeded that number five times in September, seven times in October, and nine times in December. In October 2014, total monthly subway ridership was the highest it's been in the history of the system. Metro-North's ridership of more than 83 million 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 entire nation.

We're looking closely at where our ridership growth is coming from. Until recently, most of it was from reverse commutes, travel between suburban destinations, and during off-peak hours—evenings and weekends. Today, we're seeing ridership growth in all of these areas <u>and</u> during peak hours. We're seeing more and more customers who need to wait two, three, even four trains before they can board during rush hour.

This means our network is stretched almost to its capacity. Trains are more crowded than ever and commutes are more difficult. A minor delay on one train at rush hour can have a massive ripple effect—leading to overcrowding on the platform, doors being held open at every station, and ever-increasing delays for every train that follows. If that happens on a regular basis, the impact would be severe—for millions of riders, their employers, and our region's economy.

These ridership trends show no signs of abating in the foreseeable future. And, with the future in mind, Governor Cuomo asked that I convene a panel of experts to inform the development of our next capital program--especially with respect to 2 important areas: global climate change and changing demographics. This Transportation Reinvention Commission stated in their some very simple truths in their report:

- More than two million additional people are expected to live in the MTA region by 2040, putting increasing pressure on a system that is already largely at capacity
- The MTA needs to adapt to fundamental demographic shifts that lead to new and evolving expectations, service needs, and accessibility requirements
- The current system is simply not fully equipped to meet any of these changing needs.

Additionally, the Urban Land Institute and the Permanent Citizens Advisory Committee to the MTA are working on another report that examines the intrinsic connection between a healthy transit system and a healthy, vibrant economy. Early drafts have noted the following:

- Since 1982, the MTA Capital Program has transformed the region's public transportation system into a crucial economic asset...helping New York achieve a global economic preeminence that few could have imagined in the economic crises of the 1970s.
- Investments in the MTA have generated economic benefits for communities across New York State, with major vendors opening plants to both fulfill the transportation needs locally and across North America.

Indeed, Capital Program investments create hundreds of thousands of jobs throughout New York State. According to the New York Building Congress, the MTA alone accounts for about 25 percent of New York City's construction industry in some years. But the Program's impact reaches far beyond downstate. It has a profound effect on economic development in every corner of the Empire State.

Capital Program investments are powerful job-creators, but they can't create jobs, can't power our economy, can't keep New York globally competitive, can't keep our transit system safe and reliable, if we don't make them.

This past fall, the MTA submitted a Capital Program to address our extensive needs. That plan was vetoed without prejudice by the Capital Plan Review Board. One concern shared by all parties is funding. We have identified half of the money needed to fund this plan. Discussions on this topic are critical and we need to bring all parties to the table – the federal, state, local governments as well as partners in the private sector. All have a stake in ensuring that New York's economic engine continues at full strength.

The State of New York has one economy, and the MTA's twelve county regional transportation system is one we must never take for granted. We move nearly 9 million people a day, enabling a $1.4 trillion dollar economy, second in the world only to Tokyo.

Our network's expansiveness gives people options, and makes a huge pool of employees available to New York businesses. It allows our region to comfortably accommodate millions more people. It makes it possible for people to live wherever they want within our region—regardless of where they work. It allows employees to bring home paychecks that support local schools and other services, creating jobs wherever they live. It enables and supports job development across our entire region, giving employers a system their employees can count on.

Every major world city—London, Paris, Hong Kong, and others—is making significant investments in transit to improve the quality of life for their residents and to maintain their status as a global financial and business center. New York must do the same, because the past is not prologue. We must continue to invest.

Chairmen DeFrancisco and Farrell, we appreciate the support you've given the MTA in the past and your continuing support, and look forward to working with you regarding funding our Capital Program. It's that important to us, and that important to you as representatives of the great State of New York. Thank you for your time today. Now, we're happy to answer any questions you may have.