Case Number 1962.0

Derailed on Arrival?
Jay Walder & the NY MTA's Surprise Budget Crisis

Jay Walder MPP '83 had his eyes open when he agreed to take the job of Chief Executive Officer at the New York Metropolitan Transportation Authority (MTA) in October 2009—or at least, he thought so at the time. Coming off a successful stint at Transport for London and armed with a healthy foreknowledge of New York politics, he had no illusions about the complexity of his new role.

The MTA operated the largest transit system in North America,[1] crucial to the life and economy of metropolitan New York. Eighty percent of rush hour commuters to New York City's central business district traveled there by public transportation—most of it provided by the MTA. The authority operated the subways, buses, and two commuter rails that served 14.6 million people in a 5,000 square mile region centered in New York City and fanning out to Long Island, southeastern New York State, and Connecticut.[2] Vast and impressive, the MTA was also saddled with early 20th century infrastructure, vilified by the elected officials charged with funding it, distrusted for its episodic financial crises, locked in battle with an aggressive union, and frequently disparaged by the media and its own riders—the 8.5 million people transported in and around New York City every day.[3]

But Walder was a congenital optimist—and the timing seemed propitious. A few months earlier, the state legislature had approved a financial bailout for the MTA that was expected to keep it financially stable for at least two years, maybe longer. This, Walder thought, would give him the necessary running-room to make visible improvements in a system that—while functioning reliably, overall—lagged behind the world's finest transit systems, technologically. Armed with energy and ideas, Walder wanted to

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1 It carried seven times more passengers than the next largest US transit authority in Chicago. American Public Transportation Association, *2010 Public Transportation Handbook, 61st edition,* Washington DC, April 2010, p. 8, http://www.apta.com/resources/statistics/Documents/FactBook/APTA_2010_Fact_Book.pdf, retrieved March 8, 2011.

2 "The MTA Network," MTA website, http://www.mta.info/mta/network.htm, retrieved March 3, 2011. Public transit from New Jersey to New York City was not the responsibility of the MTA but was handled by New Jersey Transit and the Port Authority of New York and New Jersey. Unless otherwise noted, all data about the MTA was provided by the MTA website or Headquarters office.

3 The MTA also managed the nation's largest bridge and tunnel toll authority.

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introduce popular innovations, generate a buzz, shore up the MTA's wobbly credibility, and earn the political capital that would make for a long, successful tenure at the helm.

Six weeks after the new CEO's arrival, however, the MTA's ostensibly solid financial footing began to give way. In a sudden rush, the economic crisis of the past year caught up with New York State. The state's revenue projections were off, and the state was suddenly confronting a mid-year deficit of $3 billion (6 percent) in its own budget. The impact on the MTA came swift and fast. By the end of 2009, the MTA's budget for the 2010 calendar year, previously balanced at $11.94 billion, showed a revenue shortfall of $383 million. By the end of February, that hole had more than doubled in size to $790 million.[4] Walder would suddenly have to turn all his attention to filling that budget gap—and to try to do so without sacrificing his aspirations for the MTA.

The MTA in a Nutshell

The MTA was created in 1968 to rescue mass transit in metropolitan New York City. A financially fragile tangle of separate organizations was replaced by a regional transit system, under state oversight, with a built-in subsidy—the toll revenue from the Triborough Bridge and Tunnel Authority. Eventually, the MTA would oversee seven agencies. *New York City Transit*—in itself the largest public transportation operation in North America—absorbed two thirds of the MTA's operating budget. It operated all New York City's subways (6,300 cars on 27 lines) and buses (4,500 buses on 245 routes) as well as the Staten Island Railway. *Long Island Rail Road* and *Metro North Railroad* were, respectively, the first and second largest commuter railroads in the United States. *Triborough Bridge and Tunnel Authority* (dba *MTA Bridges and Tunnels*) was the largest US toll operator, with seven bridges and two tunnels. *MTA Bus* operated express and local buses in the Bronx, Queens, and Brooklyn. *Long Island Bus* operated bus service under a lease and operating agreement with Nassau County. In 2003, *Capital Construction* was created to oversee MTA's large expansion projects. [See Exhibit 1.]

As a public benefit corporation, the MTA had no taxing authority. Its capital and operating budgets were separately funded and managed. Just under a third of each five-year capital budget was federally funded. The rest was a fluctuating mix of state and local subsidies, coupled with money the MTA borrowed by selling bonds. The debt service on those bonds was paid out of the operating budget.

The operating budget was funded annually by income from fares, tolls, dedicated taxes, and state and local government subsidies. When Walder arrived, the MTA had proposed an $11.9 billion budget for 2010. Under this spending plan, half the operating revenue would come from fares (38 percent) and tolls (12 percent). The other major revenue sources were mostly controlled by the state legislature: taxes earmarked for the MTA (38 percent) and state and local subsidies (8 percent). [See Exhibits 1, 2.]

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4 By the end of the year, the revenue shortfall totaled $900 million.

The MTA Board had sole authority to raise fares and tolls, but increases were extremely unpopular with the public. Over time, the MTA had chosen to keep such increases in line with the local inflation rate. [See Exhibit 5.] But its costs (including debt service) rose faster than the inflation rate. Between 1983 and 2009, the MTA's ridership grew 50 percent while its operating budget rose from $2.9 billion to $11 billion ($5.6 billion to $11 billion in constant 2009 dollars). [See Exhibit 3.] In the same period, the portion of costs covered by fares dropped from 47 to 40 percent. [See Exhibit 4.] The portion covered by toll revenue remained steady. The portion covered by taxes and subsidies increased to make up the difference.

In consequence, state lawmakers came to view the MTA with a certain dread. Every few years, in an increasingly scripted ritual, the MTA leadership made a pilgrimage to Albany, warning the legislature that without a financial bailout, the agency would be forced to raise fares and cut service. Lawmakers, in turn, publicly ranted at the MTA for skyrocketing costs and alleged wasteful spending, but—in the face of fierce public opposition to fare hikes or service cuts—the legislators had traditionally come through.

In recent years, however, relations between the MTA and legislature had notably frayed. In 2003, the state comptroller publicly accused the MTA of keeping "two sets of books"—the "real" numbers and another set, designed to make the agency appear poorer when it was appealing for higher fares or increased public subsidy. Though a state appellate court cleared the MTA of wrongdoing, the report nourished an existing seed of distrust.

What's more, while more than half New York City's workers commuted via public transportation, the numbers dropped precipitously outside the city limits. In the Consolidated Metropolitan Statistical Area for New York City—which included portions of New York, New Jersey, Connecticut and Pennsylvania—only ten percent of workers outside New York City commuted via public transportation.[5]

In increasing numbers, legislators—especially fiscally conservative Republicans, lawmakers from districts outside the MTA service area, and those on the outer edges of the MTA's service area—felt justified in saying "no" to the MTA's periodic pleas for a bailout.

A Brief Financial History

The MTA's cost structure was complex and poorly understood. The MTA had inherited a transit network suffering from decades of inadequate capital investment. In the recessionary 1970s, investments halted almost entirely, and by decade's end, the system was near collapse. The subway system, in particular, became notorious for frequent breakdowns, power outages that left passengers riding in the dark, and fires that sent smoke seeping into passenger cars. Its trains shabby and covered in graffiti, the

[5] Author calculation, based on commuter information from two tables of the U.S. Census Bureau. P30 Means of Transportation to Work for Workers 16 Years and Older, New York-Northern New Jersey, Long Island, New Jersey, Connecticut, Pennsylvania CMSA. DP-3 Profile of Selected Economic Characteristics, 2000, New York City. http://factfinder.census.gov/home/saff/main.html?_lang=en&_ts=, retrieved March 8, 2011.

New York subway system became "a dystopia out of 'Blade Runner,'"[6] in the words of one observer, and a worldwide symbol of urban failure and decay. Ridership plunged to its lowest levels since the turn of the century.

Beginning in 1982, the MTA began a slow climb out of the abyss, with a steady campaign of capital investment. Between 1983 and 2009, the MTA allocated $79.5 billion into three branches—overdue repairs due to deferred maintenance, routine replacement of parts and vehicles, and major system improvements and expansions. About $30 billion, or 40 percent, was funded by selling 30-year bonds.

By 2009, transit reliability in greater New York had improved markedly. The average distance between subway train breakdowns (a standard industry performance measure) had risen from 7,000 miles to 170,000 miles.[7] System-wide, annual ridership had increased 50 percent from 1.7 billion to 2.6 billion, fueled by growing employment in Manhattan, improvements in the MTA, efforts to hold fares to the rate of inflation, and new fare policies that, for example, provided free transfers and unlimited-ride passes. But parts of the MTA infrastructure had still not achieved a "state of good repair" standard and, after 28 years of steady borrowing, the MTA had the dubious distinction of being the nation's sixth largest debtor behind the US government, the State of California, New York State, New York City, and the Commonwealth of Massachusetts.[8] Between 1989 and 2009, the amount the MTA paid annually for interest and principal increased from $300 million to $1.4 billion. With another $26 billion in capital projects slated for the five-year budget that began in 2010 and ended in 2014, debt service was edging toward 20 percent of the MTA's operating budget.

Rising debt service was one source of the MTA's escalating budget, but not the only source. Between 2005 and 2009, for example, the MTA's ridership grew 10 percent, while its budget grew 33 percent in current dollars, driven by a 36 percent increase in non-labor costs (including fuel, power, insurance, claims, and contracts for mandated paratransit service) and a 30 percent increase in labor costs (including wages, benefits, overtime, and pensions) as well as the 38 percent increase in debt service. The MTA also absorbed some private bus lines during this period, which contributed to the cost hike. The inflation rate for metropolitan New York grew 11.3 percent in the same period.[9]

Excluding debt service, labor accounted for two thirds of the operating budget. Increases in pay and benefits were a perennial source of controversy.[10] The MTA's 60-plus unions collectively represented

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6 Clyde Haberman, "Oy! Trouble Awaits Choice to Lead MTA," *New York Times*, July 17, 2009.

7 MTA website, http://www.mta.info/capital/servicereliability/trains.php, retrieved March 28, 2011.

8 "A fare deal; NY transport," *The Economist*, May 9, 2009.

9 US Department of Labor, Bureau of Labor Statistics, Consumer Price Index/All Urban Consumers/New York-Northern New Jersey, Long Island, New York, New Jersey, Connecticut, Pennsylvania, 2001-2011, http://data.bls.gov/cgi-bin/surveymost, retrieved March 28, 2011.

10 In June 2010, the *New York Times* reported that in 2009, more than 8,000 MTA employees earned more than $100,000, including overtime, and retirement payouts. Michael M. Grynbaum, "$239,000 Conductor among

more than four-fifths of the Authority's 70,000 workers. By far the largest and most powerful union, representing 36,000 MTA workers, was Local 100 of the Transportation Workers Union (TWU).

The 2009 Budget Crisis

In May 2009, a few months before Walder's arrival, the MTA weathered one of its episodic budget crises—this time, a projected $1.2 billion shortfall in the $11 billion budget for 2009. After a bruising battle, the legislature, acting on the recommendations of a commission chaired by former MTA Chair Richard Ravitch, narrowly agreed to create a new regional payroll tax (the Payroll Mobility Tax, or PMT), expected to generate $1.5 billion per year for the MTA. But the legislators rejected the commission's companion proposal to institute tolls on some of the remaining free bridges into Manhattan. The bailout was therefore not large enough to cover the MTA's debt service on the last three years of its five-year 2010-2014 capital plan. But it did appear to solve the MTA's immediate operating budget deficit and to cover debt service for the first two years of the capital plan.

In return for the bailout, the MTA agreed not to make a threatened $100 million in annual service cuts, nor to enact an immediate 23 percent fare increase. Periodic fare increases were to be an accepted part of the MTA's financial strategy under the agreement, however. The MTA raised fares 10 percent in June 2009, and laid out its intention to make further increases of 7.5 percent, respectively, in January 2011 and January 2013. The agreement also established the principle that at least a portion of the MTA's capital expenses should not be financed with debt.[11] Beginning in 2010, the MTA would set aside $50 million from its operating budget for a set of routine investments called "pay-as-you-go" capital expenses, and would increase this sum by $50 million per year to reach $250 million by 2014.

Alongside the bailout, the state lawmakers increased the authority and independence of the MTA leadership by combining the positions of CEO and Chairman of the Board[12] into one, and hiring the MTA leader to a fixed-term contract.[13] This move responded to criticism that, in recent years, MTA leaders had not always been sufficiently independent of the state governors who appointed them. On July 14, 2009,

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M.T.A.'s 8,000 Six-Figure Workers," *New York Times*, June 2, 2010. http://www.nytimes.com/2010/06/03/nyregion/03mta.html?adxnnl=1&adxnnlx=1297882812-OVNj/gYLr5PWwcyA7v/hCg, retrieved February 16, 2011.

11 For example, the useful life of a city bus was about 12 years. With a fleet of 4,500, New York City Transit purchased 400 buses per year, on average. Though a predictable annual expense, it was also costly—the average bus cost about $700,000—and thus the MTA had traditionally paid for them out of the capital budget.

12 The MTA Board was made up of 23 members. Of the 17 voting members, 4 were recommended by the Mayor of New York City; 7 represented each of the 7 counties, respectively, served by the MTA (though 4 of the 7 had only a ¼ vote apiece). The other six voting members, including the CEO/Chair, were chosen by the governor, on a staggered basis. The 6 nonvoting members represented employee unions and citizen groups.

13 These changes essentially returned MTA to the governance structure that existed in the 1980s and early 1990s.

Democratic Governor David Paterson nominated Jay Walder for the newly created post.[14] On September 10, 2009, the New York State Senate confirmed Walder's six-year term and he began work a few weeks later.

Jay Walder

Walder, who grew up in The Rockaways, a Long Island peninsula in Queens, came to the MTA amid hopeful fanfare, as a transportation expert credited with a key role in transforming London's aging transit system into a world model: "the Dumbledore of transportation wizardry," in the words of one reporter.[15]

Walder's career had begun at the MTA in 1983 where, as a freshly minted MPP from the Harvard University John F. Kennedy School of Government, he was hired as an analyst. Over the next 12 years, Walder rose through the ranks, playing a key role in the MTA's Capital Program and the development of the MetroCard. He served as Chief of Staff to then-Chairman Peter Stangl and, by 1993, had moved up to the position of Executive Director and Chief Financial Officer. Walder left the Authority for a faculty position at the Kennedy School two years later when a new governor brought his own leadership team to the MTA. In 2001, Walder was recruited to serve as managing director of finance and planning for the newly created super-agency, Transport for London (TfL). There he oversaw a $9 billion annual budget and successfully negotiated a multi-year funding arrangement with the British central government. But it was his role in game-changing transport innovations that made his reputation in London. Walder led the development and implementation of the "Oyster Card", the largest "smart card" system in Europe, and the technical lynchpin of a pricing strategy designed to nudge riders to use the system efficiently. He was also instrumental in creating a pioneering "congestion pricing" system that raised much-needed funds while easing the crush of traffic in central London.

In 2006, Walder was passed over for the top job at TfL and the following year, joined the prestigious consulting firm McKinsey and Co. as a partner, leading the firm's work on global infrastructure projects. Just two years later, unable to resist the once-in-a-lifetime challenge to head the Metropolitan Transportation Authority, Walder accepted the position of MTA Chairman and CEO.

Walder announced on arrival that he would spend his first 100 days traveling around, "kicking the tires," and reacquainting himself with the MTA, its staff, its political overseers, its riders. In January he would produce a paper describing his vision for the agency.

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14 In February 2010, after a year of falling popularity, Paterson announced his withdrawal from the 2010 election for governor. Democrat Andrew Cuomo, State Attorney General and son of former New York Governor Mario Cuomo, became the leading contender in that race.

15 Albus Dumbledore was headmaster of the wizard school Hogwarts in the popular *Harry Potter* children's book series, by J.K. Rowling. Clyde Haberman, "A Wizard of Transit Put to the Test," *New York Times*, October 30, 2009.

Walder's Game Plan

Walder's incoming assessment of the MTA was, in many respects, positive. There was room for improvement in day-to-day transit operations and in the authority's long-term capital plan, but no need for immediate, radical reform. There was considerable room for increased administrative and management efficiency, he believed, and this could go a long way toward improving the MTA's credibility with elected officials.

But the MTA was behind the curve in making use of new technologies to improve transit service. It was also badly in need of winning back the good will of riders. "I walked in with the idea that we need to be able to demonstrate something quickly to people—to begin to build a sense of something *happening,* to build a constituency," Walder said.[16] In a sense, he added, he was looking for something with the symbolic wallop of the MTA's 1984 decision to remove all the graffiti from New York's subways. The removal of the graffiti increased public confidence in the system, Walder said, conveyed a sense that the MTA was back in charge, and amplified the impact of the capital investments that were finally underway.

In 2010, Walder believed, the MTA could get a lot of bang for its buck by providing New Yorkers with a set of service improvements that were already in place in many of the world's leading transit systems. One example was the installation of "countdown clocks" on subway platforms that allowed riders to see at a glance when the next train was due. Studies in London, where such clocks had been installed, showed that the quality of "waiting time" in a subway improved threefold if riders simply knew how long they had to wait, Walder said. Instead of restlessly pacing along the track, peering into the tunnel, willing a train to appear, they could relax in the knowledge that a train would arrive in a few minutes.

Similarly, Walder argued, a website with real-time service updates, new and faster electronic fare cards, underground cell phone reception, smart phone applications, and nonstop all-electronic bridge tolls would allow commuters to navigate the transportation system faster, with fewer frustrations, and with the kind of user-friendly communication technology readily available in other parts of their lives. The MTA had long prioritized projects that improved the reliability of transit service, regarding such modern technological conveniences as non-essential, Walder said: "I sometimes describe the MTA's use of technology as a Star Wars strategy. By that I mean, people understood that technology could improve the way people used the transit system, but they believed it could only happen in a galaxy far far away."

Walder also saw great potential for improvements in New York's beleaguered bus system. City buses were time-consuming to board and trundled slowly through congested areas, their riders hostage to clogged traffic as bus lanes were routinely blocked by double-parked cars and delivery trucks.[17] With a new

16 All quotations attributed to Jay Walder were drawn from interviews with the author conducted January 11 and 13, 2011, unless otherwise noted.

17 In New York City, the average bus speed was 7.5 miles per hour—slowest in the nation. From Robert Sullivan, "Subway on the Street," *New York Magazine,* July 4, 2010.

quick-boarding scheme and a campaign to enforce dedicated bus lanes, buses could become much faster, Walder believed. In London, Bogotá, and other major cities, where such innovations were already in place, buses—with their flexibility and relative low cost—had become dominant modes of public transport.

But as Walder was rolling out a game plan that combined contemporary management reforms with delivery of visible technology improvements and speedier buses, the MTA's financial foundation was collapsing beneath his feet.

The Budget Rescue Falls Apart

The first crack in the budgetary wall actually opened two months before Walder's arrival. On August 11, an arbitration panel, enlisted to resolve a contract dispute between the MTA and TWU, announced a wage and benefit settlement for the three-year contract covering the 2009, 2010, and 2011 calendar years. Over the course of the contract, worker wages would increase some 11 percent, and the employee share of health insurance costs would shrink. The additional cost to the MTA of the settlement would be $90 million in 2010, $173 million in 2011, and $200 million per year thereafter.

A cascade of further bad news arrived in late November. The state government, facing its own $3 billion deficit, announced that it would be giving the MTA $143 million less in 2009 than originally budgeted. This included withdrawing the state's contribution to a subsidy program for New York City school children. The subsidy—shared by the state, New York City, and the MTA—allowed free or discounted rides to and from school.

At about the same time, the state reported that revenues from two taxes dedicated to the MTA—a real estate tax and the new Payroll Mobility Tax—were running lower than budgeted for 2009. By year's end, the best information indicated a $372 million shortfall in 2009 that would, of necessity, be rolled into the 2010 budget, which took effect January 1. But January and February brought more bad news from the state. Revenues were going to be far lower than previously estimated. The MTA was suddenly staring at a $790 million deficit in the 2010 budget year. Nor were these revenues expected to rebound by year's end. An even deeper deficit of $1 billion was forecast in 2011 and state analysts believed that low revenues might well continue in 2012 and beyond.

How to Approach the Budget Crisis

As the bad news mounted, members of the MTA's board and senior staff advised, and fully expected, the MTA to respond with what insiders called "the usual playbook"—announcing the imminent imposition of fare increases and service cuts in order to pressure the state to come to the rescue with additional funds.

Walder would have to decide whether to follow some, or all, of this playbook. More broadly, the new CEO would have to decide what guiding principles to use in approaching the MTA's deficit. Some considerations were purely pragmatic. Because the budget gap was expanding within the current budget year it was imperative to come up with ideas that could be executed quickly and reliably. (For example, the MTA's financial managers could count on an administrative furlough to deliver a clear, measurable cost-saving. The cost-saving gained through a campaign to scale back overtime, by contrast, would be more speculative, as such an effort would require the cooperation of hundreds of managers.)

Because analysts predicted the shortfall of tax revenues to continue through 2011 and beyond, it would also be better to come up with recurring new revenues and/or budget cuts. "One-shot" solutions would help in 2010, but leave the MTA to face the same budget gap a year later. By this measure, a furlough was not so good, as it was a one-shot measure, whereas the savings from lasting reform in overtime practices would recur.

Walder would also have to decide which options would best advance the long-term capacity and efficiency of the organization, which would best serve the interests of riders, which would be most effective politically, which would do most to help the Authority's public image, which would do least damage to staff morale, which would do most to meet his own objectives for the organization, and how to weigh those goals against one another, when they conflicted.

Over the next few months, Walder would be inundated with advice from staff, from elected officials, from board members, from advocates, and from colleagues. He and his team would have to sort through the options—and to reckon with the fact that none of the options were ideal. The team would be forced to make uncomfortable choices.

Option 1: Avoid Cuts/Find Revenue

Many within the MTA and among its stakeholders thought that the MTA should view budget-driven service cuts and staff layoffs as an absolute last resort. Too many people counted on MTA service, which—if anything—should be increased, not decreased, they argued. And to lay off public workers mid-recession was both inhumane and bad for the economy. The MTA leadership should spend its energy finding the needed revenue, not fruitlessly looking for feasible cuts, this group argued. But within this camp, there was a range of opinion about where the MTA should go for that revenue.

Go back to the state legislature. Some thought the MTA should simply ask Albany to put things right. After all, it was not the MTA's fault that the state had cut its subsidy to the MTA or that tax revenues were coming in below the level predicted by the state's own financial analysts. The state held ultimate responsibility for funding the MTA, they argued.

Others thought this was a losing strategy, both pragmatically and politically. With the recession in full force, tax revenues were unlikely to rise and might, in fact, decline further. New York State's 2010 deficit would undoubtedly be deeper than its 2009 deficit had been; thus its subsidy of the MTA was more likely to drop than to rise. After the bruising bailout debate of 2009, state legislators—facing voter anger over the recently enacted Payroll Mobility Tax—were in no mood to raise fees or create new taxes at all, and certainly not for the MTA. In fact, some legislators were calling for a repeal of the PMT. In sum, argued the naysayers, an appeal to the state for additional funding was destined for failure.

Raise fares. The advantage of a fare hike,[18] by contrast to an appeal to the state, was that it was wholly within the MTA Board's power. Moreover, most commuters in New York City were "captive" to the MTA. Fares could rise a long way before commuters would abandon public transport for their cars, given New York's heavy congestion and high parking costs. On the positive side, this meant that the MTA was unlikely to lose much ridership if it raised fares. But it also meant that fare hikes were guaranteed to generate public anger. Of course, some reasoned, public distress over the price increase might galvanize the state to come through with financial help.

No fare hike could be implemented without holding public hearings, however, so the earliest possible start-date of a new fare would be about July 1, 2010. The idea with least impact on riders (or the budget) was to shift the schedule of the already-planned 7.5 percent fare increase so it would take effect in July 2010 instead of January 2011. This would net the MTA some $206 million in 2010, but was a one-shot budget infusion. Both accelerating and increasing the fare boost, to a 10 percent increase in July 2010, would generate about $274 million in 2010 and about $150 million in recurring annual revenue (above the amount already expected from the January 2011 increase). A 25 percent increase in July 2010 would generate over $675 million in 2010 and close to $1 billion in recurring annual revenue (above the amount already expected from the January 2011 increase).

But some MTA officials adamantly opposed any fare hike beyond those already scheduled. An added new price increase would create a public backlash against the MTA, they said, especially since the MTA had raised fares and tolls by 10 percent the previous June, and had essentially promised not to raise them again until January 2011. What's more, they argued, to raise fares during a time of economic hardship would be seen as an especially low blow—a statement that, while others were struggling, the MTA was unwilling to make sacrifices.

Eliminate the fare subsidy for New York City school children. In 1995, New York City, New York State, and the MTA had agreed to split the cost of a program to let hundreds of thousands of public school students ride public transit for free or at half price. Over time, the city and state had each continued to contribute $45 million per year, while the MTA's share had inched up to $125 million, as costs and fares had increased. MTA leaders had chosen not to make an issue of this in the past, but in 2009, the state changed the equation. Initially, it announced it would reduce the state contribution to $25 million; by year's end, it had eliminated the state contribution altogether (except for $6 million already paid-out). A number of MTA insiders believed the MTA should phase out the program. The state, they argued, was reneging on a 15-year deal and the MTA was in no position to pick up the slack.

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[18] The base subway/bus fare at the time was $2.25; due to time-based passes and bulk purchase discounts, however, many passengers paid less per trip.

If the MTA charged New York City students half price fares beginning in September 2010 and full fares beginning in September 2011, the agency would receive additional fare revenues of $31 million in 2010, $62 million in 2011, and $170 million per year thereafter. But to proponents of this idea, the real hope was that, by drawing attention to the state's withdrawal from the program, the MTA could persuade the state legislature to restore the funding.

It was a risky strategy, however, because if the state refused to budge, the MTA would be forced to decide whether to go through with the program cut, which would place a significant strain on many New York City families and was likely to generate a firestorm of protest. (The annual cost per child would range from $343 to $890, according to The Straphangers Campaign, New York's foremost rider advocacy group.)[19] In addition, the move would undermine the city's school choice system, which encouraged families to choose the school best matched to their children, no matter where in the city it was located.

Use 'Stimulus' & 'pay-as-you-go' dollars for operations. The Straphangers Campaign and some elected officials urged the MTA to avoid both fare hikes and service cuts by taking advantage of a provision in the Federal government's emergency stimulus program that allowed the MTA to shift to current operations up to 10 percent of its 2010 allocation of $1.2 billion, intended to support the capital budget. Doing so would provide a cash infusion of $120 million to the operating budget in 2010. Transit systems in several large US cities, including Atlanta, Chicago, Seattle, and St. Louis, had decided to take this option. In a similar vein, the Straphangers urged the MTA to defer for a year its agreement to spend $50 million of operating dollars on "pay-as-you-go" capital expenses. Even if such measures only succeeded in holding off service cuts for one year, proponents argued that the MTA would gain public good will by making service cuts an absolute last resort.

Within the MTA, a number of people spoke out against these ideas. It would be a one-shot infusion of funds, they noted, not a recurring one. Unless the economy rebounded more quickly than anticipated, the MTA would simply be putting off its hard decisions for a year—and in the process, giving up capital funds at a time when its five-year capital budget was under-funded by $9.9 billion. And, they observed, whether the $170 million was spent on the capital budget or on the operating budget, it would support jobs either way.

Option 2. Introduce Organizational Reforms & Efficiencies

Within the MTA, there was a strong constituency in favor of reducing costs through administrative efficiencies and organizational reforms—for example, curbing the amount spent on overtime ($560 million, or 13 percent of total payroll), modernizing purchasing and inventory practices, and re-negotiating vendor contracts. Proponents of this strategy calculated that, all told, such efficiencies could generate a savings of $200 million per year.

[19] Christine Quinn, James Vacca, and Gene Russianoff, "MTA is Running Off the Rails," *New York Daily News*, January 31, 2010.

The approach had several appeals. The reforms would have no direct impact on MTA riders. For the most part, they would produce recurring, not just one-shot, savings for the MTA. They would be responsive to the perennial call from elected officials to "cut waste." They would help bolster the MTA's public credibility. But they had a significant downside, recognized by all: they were inherently complex to implement and likely to spark internal resistance. Consequently, some insiders argued that it was a bad idea to count on them to balance the 2010 budget.

Consider the overtime example: Some overtime spending was essential—allowing the MTA to scale up quickly to address emergencies. Some was prudent—for example, if a bus driver's shift ended mid-route, it made more sense to pay her overtime to finish the route than to send another driver out to replace her. Some types of overtime resulted from union contracts that limited how workers could be scheduled and assigned, and thus could not be changed unilaterally. Some overtime was a product of understaffing, and could only be resolved by hiring more people. At the same time, internal analysis showed that some of the MTA's overtime costs were the result of management inattention or an informal complicity in worker efforts to maximize their overtime hours. In some units, for example, generally low productivity led to a chronic reliance on overtime to complete the necessary work. In others, absenteeism was high and covered by overtime shifts. Because a worker's pension was based on his last three years of wages (overtime included), many senior employees pushed hard to maximize their overtime hours during their last three years. With an obliging supervisor, an employee could virtually double his pension this way.

Given this complex blend of legitimate and abusive overtime, and given that hundreds of managers throughout the MTA network were in a position to authorize overtime, some MTA insiders questioned whether it was realistic to count on a specific dollar-reduction in overtime costs to balance the budget. Others thought it could be done, but that the expected savings should be "discounted" somewhat, in light of the uncertainties.

Option 3. Cut Administrative Payroll

By conventional management measures, the MTA administration was too big. The administrative payroll in MTA Headquarters and in each of the six operating agencies was therefore an obvious target for cuts. In 2009, the MTA had instituted a wage freeze for this (mostly non-unionized) group, and some argued for a continued wage freeze in 2010, which would save between $14 and $15 million in annual costs. In addition, some argued that—by the numbers—administrative payroll could be reduced by 20 percent at Headquarters and 15 percent in the agencies without seriously imperiling administrative functions. Others countered that the "numbers" were an abstraction, and that the MTA could not possibly make such deep reductions without inflicting serious damage on its administrative functions. These reductions would result in the elimination of over 950 positions, at a savings of about $100 million per year.[20]

[20] The savings in the first year would be smaller—an estimated $74 million.

An added complication was the fact that the people analyzing and recommending cuts were, in many cases, the same people, or close colleagues of the people, who would lose their jobs. If the MTA executed such a major layoff of administrative staff, would it cripple the morale of the survivors? Some argued for a go-slow approach. Instead of making the staff cuts abruptly in 2010, they argued, the MTA could save $49 million by way of an administrative furlough (a *de facto* pay cut) and, after a thorough analysis, reduce the administrative staff in 2011. Others, however, argued that, coupled with two years of flat wages, a furlough would be dispiriting to all, and might be the final straw that prompted some of the MTA's most experienced and valuable managers to retire. If the MTA was going to reduce its administrative staff anyway, better to do it in 2010, and skip the furlough, they argued.

The MTA was, in general, inexperienced in layoffs, as positions had traditionally been reduced through attrition. Thus, the organization did not have a clear set of policies in place to handle layoffs. For example, if the MTA was to implement administrative layoffs, did it first want to offer a severance package—perhaps a year of health insurance and up to $20,000 in wages—to administrative staff who left voluntarily? Of course, to do so would offset a portion of the first year savings from the layoffs. If the agency did encourage voluntary departures, how many would step forward? Would the "right" people volunteer, or would the MTA lose some of its best staff? If the MTA did offer an incentive for administrative staff to leave, should it also offer a lesser package to those who were laid off? MTA labor contracts did not include provisions for severance in event of a layoff. Would the MTA be criticized if it provided severance to laid off administrative workers but none to laid off union workers?

Option 4. Cut Bus & Subway Services, Maintenance, Cleaning, & Customer Service

Some MTA officials argued that selective cutbacks—in subway and bus routes, and in some aspects of maintenance, cleaning and customer service were unavoidable and, if carefully done, probably not the end of the world. Others disagreed, arguing that it was a serious mistake to dismantle transit routes—the MTA's raison d'etre—or to risk a drop in cleanliness or customer service standards. They also questioned the decision to eliminate public sector jobs in the midst of a recession.

Cutting subway and bus service. The service cuts that had been proposed in the so-called 2009 "Doomsday Budget" had set off fervent citizen protests. But MTA insiders knew that some of the cuts proposed at that time had been deliberately provocative to whip up popular support for a state bailout.

If NYCT and MTA staff analyzed ridership patterns and cut back only the lowest-ridership service, if they consolidated rather than eliminated certain routes—then perhaps the MTA could eliminate about 900 positions and save $100 million per year without too much impact on riders, they reasoned. And, in point of fact, MTA administrators knew that some routes were ridiculously expensive to run. For example, an express bus from Grand Central Station to Wall Street was so little-used, it cost about $45 per rider per trip. It would be cheaper to put each passenger in a cab.

But the Grand Central express bus was an extreme example and, in a city like New York, where public transit was so heavily used, even the low-use routes affected hundreds and even thousands of people. In fact, Walder noted, New York's lowest-use routes still carried more people than most city buses in the United States. This reality, coupled with the fact that New Yorkers were far more dependent on public transit than their counterparts in other cities,[21] meant that even a modest service reduction in New York City, relatively speaking, might cause considerable hardship. A late night bus might be little-used, but what if it was the only way for workers to get to a hospital? A Sunday bus might have few passengers, but what if it was the only way for parishioners to reach their hilltop church? On the subways, how long a wait was acceptable for passengers dependent on the service day-in and day-out? What threshold of distress was tolerable, and what was too much?

Restructuring Paratransit service. In recent years, the MTA's costs for Paratransit service—door-to-door service for people with disabilities—had risen dramatically, from $135 million in 2004 to $470 million in 2010. In part, this reflected a jump in demand, as more residents learned of the program; in the same period, the number of yearly Paratransit trips rose from 4 million to 9 million. The average cost per ride was $66 and the fare charged to riders, $2.25. That required a very high subsidy—and the MTA absorbed 80 percent of it. Within the MTA, some argued that the Authority was providing a level of service well above that required under the federal Americans with Disabilities Act.

New York City Transit President Tom Prendergast approached the American Public Transit Association to assemble a panel of Paratransit experts from across the country to offer advice to New York. The panel noted that, as a start, the MTA could, under law, double the fares it charged for Paratransit service from $2.25 to $4.50. This would generate $17.1 million in 2010, $18.5 million in 2011, $21.5 million in 2012, 25.1 million in 2013, and 29.1 million in 2014. The MTA could also shift to lower cost vendors, for $30 million in annual savings.[22]

When a client's condition allowed it, the MTA could substitute "feeder service"—taking a client to a bus, train or subway stop—for its more costly point-to-point service. This could eventually save about $30 million per year. The MTA could also apply its eligibility standards more consistently. For example, a number of clients were eligible for Paratransit service only in extreme heat and cold. Traditionally, the MTA had given such clients Paratransit service throughout the summer and winter seasons, but it could instead make a trip-by-trip determination of whether the forecast weather met the necessary threshold for service. This could save about $20 million per year.

Critics of these ideas questioned whether such reforms would truly prove viable, however. For example, what if the MTA transported someone who could not navigate stairs to a subway station with a

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21 In the five boroughs of New York City, collectively, more than half of all households did not own a car, and in Manhattan, 77 percent did not. (StreetsWiki website, http://streetswiki.wikispaces.com/New+York+City+Vehicle+Ownership, retrieved March 3, 2011.)

22 The savings in 2010 would be about half that amount.

broken elevator? What if a weak person were taken to a bus stop without a place to sit down? Wouldn't cross-checking the weather forecasts with individual eligibility add to the complexity of managing the system? What's more, they questioned whether the amount derived from doubling the fares or modifying service protocols was worth the public backlash that might result from altering or limiting service for a vulnerable population.

Cuts in maintenance, cleaning, and customer service. If the MTA wanted to look for ways to fill the budget gap without fare increases or excessive transit service cutbacks, some argued, perhaps the place to look was maintenance, cleaning, and customer service. Could subway parts be replaced a little less frequently without an increase in breakdowns? Could subway trains be cleaned at the end of every round trip, instead of every one-way trip? Could the MTA place a lower priority on the immediate removal of graffiti from trains and stations? On the commuter rails, could the number of conductors and ticket booth operators be reduced? Altogether, cuts of this nature could save an estimated $100 million per year, primarily through the elimination of about 800 staff positions. Of course, the downside risk was that these changes could not be managed without resulting in dirtier facilities, more frequently broken equipment, and longer lines to buy tickets.

Layered atop all these reductions was the uncomfortable issue of layoffs. Cuts to transportation and support services, if implemented, would require the elimination of some 1,700 staff positions. Another 450 station agents—already slated for elimination through attrition in the MTA's 2009 budget—were another obvious target for layoff.[23]

Option 5. Reduce Labor Costs

Labor costs comprised 60 percent of the MTA's operating budget, and were an obvious, though complicated, target of cost-containment. More than 80 percent of the MTA workforce was represented by a union. Thus, with the exception of pensions, which were established by state law, almost every element of labor costs—wages, health insurance, work rules—was governed by a negotiated contract. These contracts barred the MTA management from employing some of the options available with non-unionized workers—for example, the unilateral decision to impose a year-long wage freeze, furlough, or reassignment of work responsibilities.

The MTA negotiated contracts with more than 60 unions in all, but more than half the workforce was represented by one single union, Local 100 of the Transportation Workers Union. Created in the early 20th century, the TWU had started off battling grim labor conditions in a hostile environment, and had eventually established itself as a powerful local force. The union's legendary 12-day strike in 1966 paralyzed the city and angered many, while securing the union a handsome pay increase and added benefits. The

[23] The positions had already been deemed non-essential and, by laying off these workers, the MTA could save an estimated $10 million in 2010 and $20 million in 2011 in addition to the amount already budgeted for the reduction of these positions through attrition.

following year, the state passed the Taylor Law, which made it illegal for public sector unions to strike, punishable by fines and jail time for union leadership. At the same time, however, the law gave public sector unions the right to demand binding arbitration in event of a contract standoff.

The TWU had, in fact, invoked this right to settle the three-year contract for 2009-2011. The MTA leadership had been distressed at the arbitration settlement—which phased in wage increases of 4 percent in 2009 and 2010, respectively, and 3 percent in 2011. It also lowered the employee contribution to health insurance. The MTA had budgeted wage increases of 1.5% per year and no decrease in employee contribution to health care. Thus, the MTA estimated its additional cost, as a result of the settlement, at $12 million in 2009, $91 million in 2010, and $173 million in 2011.

As Walder and his team considered their options, some recommended that the MTA publicly announce an intention to bargain hard in all upcoming contract negotiations—for example, taking a position that, in these straitened circumstances, union employees should accept a two-year wage freeze (or other concessions of equal value), as the non-union employees had already done. The unions' right to arbitration limited the MTA's ability to hold the line in contract negotiations. On the other hand, public opinion could turn against public employee unions in tough economic times.

Whatever the pros and cons of this strategy, it would have little effect on the 2010 budget, as the TWU contract was not due to expire until the beginning of 2012. The options for 2010 and 2011 were more limited:

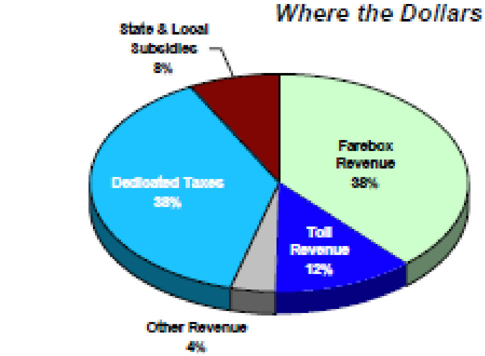
- The Authority could go to court to challenge the TWU's arbitration settlement, on grounds that it did not adequately take account of the MTA's ability to pay. In the past, however, the courts had been reluctant to overturn arbitration settlements.
- The MTA could lay off the station agents and staff associated with cuts in transit service, maintenance, cleaning, and customer service. This was within the MTA's power, and would reliably cut costs. But in an organization that had traditionally reduced positions through attrition, the idea of making these kinds of layoffs—especially in the midst of a recession—was anathema to many.
- Some MTA insiders suggested that the MTA approach the TWU with a proposition. The MTA would agree to cut worker positions through a combination of voluntary early retirement and attrition, rather than layoffs, if the TWU would agree to make certain cost-saving concessions: convert its 2011 wage hike to a one-year bonus, and agree that future MTA hires receive health care and pension benefits in line with those available to state employees rather than the more generous package available to current TWU workers. In the world of organized labor, it was rare to re-open a contract, once it had been settled. But with more than a thousand jobs on the line, could the TWU be persuaded to talk?

As Walder and his team debated these various options, he recalled, "It's safe to say there was no consensus about what to do." In fact, in the early meetings, Walder said, his staff tended to rotate through the options, articulating all the reasons not to adopt any of them. “There were no good answers,” Walder conceded. But inaction was not an option, in Walder’s view, and he pressed his team to make choices. “This was unbelievably painful around the table.”

Exhibit 1

MTA 2010 Preliminary Budget
Baseline Before Policy and Gap Closing Actions

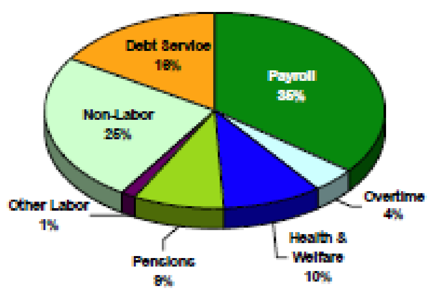
Where the Dollars Come From ...



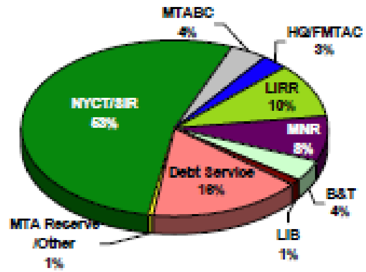
By Revenue Source ($ in millions)	
Farebox Revenue	$4,515
Toll Revenue	1,384
Other Revenue	488
Dedicated Taxes	4,457
State & Local Subsidies	918
Total	$11,762

Where the Dollars Go ...

By Expense Category



By MTA Agency



By Expense Category ($ in millions)	
Payroll	$4,257
Overtime	469
Health & Welfare	1,156
Pensions	1,015
Other Labor	161
Non-Labor	2,959
Debt Service	1,920
Total	$11,936

By MTA Agency ($ in millions)	
NYCT/SIR	$6,377
MTABC	462
HQ/FMTAC	337
LIRR	1,192
MNR	992
B&T	448
LIB	133
Debt Service	1,920
MTA Reserve/Other	75
Total	$11,936

Expenses exclude Depreciation, OPEB obligation and Environmental Remediation.

The difference between revenues and expenses is ($174) million. This is offset by cash flow timing adjustments, use of prior year cash balances and below-the-line Policy, Gap Closing and Cash Management actions, resulting in a closing cash balance of $39 million.

Source: MTA, MTA 2010 Preliminary Budget July Financial Plan 2010-2013 Volume 2, http://www.mta.info/mta/budget/july2009/july09_vol2part1.pdf, p. 6.

Exhibit 2

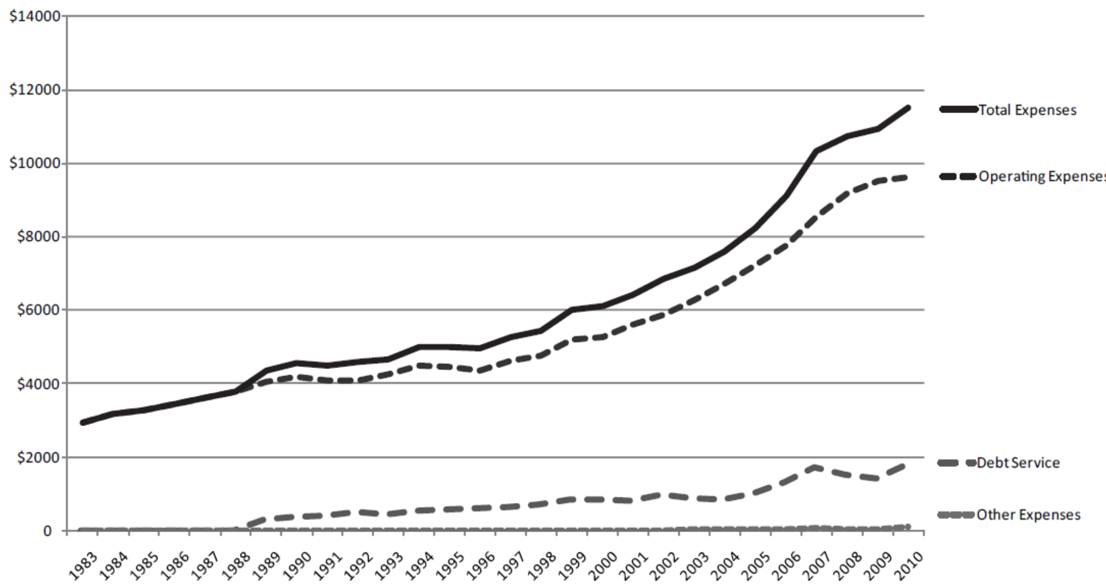
METROPOLITAN TRANSPORTATION AUTHORITY
July Financial Plan 2010 - 2013
MTA Consolidated Statement Of Operations By Category
($ in millions)

Non-Reimbursable	2008 Actual	2009 Mid-Year Forecast	2010 Preliminary Budget	2011	2012	2013
Operating Revenue						
Farebox Revenue	$4,241	$4,339	$4,515	$4,594	$4,659	$4,707
Toll Revenue	1,274	1,313	1,384	1,392	1,397	1,397
Other Revenue	449	438	488	522	547	581
Total Operating Revenue	**$5,964**	**$6,089**	**$6,387**	**$6,508**	**$6,603**	**$6,685**
Operating Expense						
Labor Expenses:						
Payroll	$4,087	$4,175	$4,257	$4,344	$4,431	$4,550
Overtime	472	479	469	476	486	496
Health & Welfare	685	713	776	840	911	999
OPEB Current Payment	319	352	380	414	452	492
Pensions	897	995	1,015	1,026	1,054	1,066
Other-Fringe Benefits	503	467	480	491	499	521
Reimbursable Overhead	(311)	(329)	(319)	(318)	(321)	(325)
Sub-total Labor Expenses	**$6,652**	**$6,852**	**$7,057**	**$7,275**	**$7,513**	**$7,799**
Non-Labor Expenses:						
Traction and Propulsion Power	307	348	388	436	486	541
Fuel for Buses and Trains	287	193	221	248	285	312
Insurance	29	44	42	44	48	50
Claims	152	159	169	177	186	195
Paratransit Service Contracts	299	376	413	486	547	641
Maintenance and Other Operating Contracts	594	643	665	694	722	750
Professional Service Contracts	197	221	216	217	220	224
Materials & Supplies	533	577	592	602	612	639
Other Business Expenses	155	186	197	201	207	215
Sub-total Non-Labor Expenses	**$2,553**	**$2,748**	**$2,903**	**$3,085**	**$3,295**	**$3,568**
Other Expense Adjustments:						
Other	($14)	($13)	($19)	($18)	($21)	($27)
General Reserve	0	38	75	75	75	75
Sub-total Other Expense Adjustments	**($14)**	**$24**	**$56**	**$57**	**$54**	**$48**
Total Operating Expense before Non-Cash Liability Adjs.	**$9,191**	**$9,625**	**$10,016**	**$10,418**	**$10,861**	**$11,415**
Depreciation	$1,791	$1,973	$2,075	$2,161	$2,237	$2,318
OPEB Obligation	1,349	1,390	1,447	1,506	1,567	1,630
Environmental Remediation	42	10	10	10	11	11
Total Operating Expense	**$12,373**	**$12,998**	**$13,547**	**$14,094**	**$14,675**	**$15,374**
Net Operating Deficit Before Subsidies and Debt Service	**($6,410)**	**($6,908)**	**($7,160)**	**($7,587)**	**($8,072)**	**($8,689)**
Dedicated Taxes and State/Local Subsidies	$4,078	$4,621	$5,375	$5,577	$5,881	$6,155
Debt Service (excludes Service Contract Bonds)	(1,516)	(1,499)	(1,920)	(2,059)	(2,256)	(2,476)
Net Deficit After Subsidies and Debt Service	**($3,848)**	**($3,787)**	**($3,705)**	**($4,069)**	**($4,448)**	**($5,011)**
Conversion to Cash Basis: Non-Cash Liability Adjs.	$3,182	$3,373	$3,531	$3,677	$3,814	$3,959
Conversion to Cash Basis: GASB Account	(56)	(60)	(62)	(65)	(68)	(72)
Conversion to Cash Basis: All Other	490	219	184	(138)	(141)	(15)
CASH BALANCE BEFORE PRIOR-YEAR CARRY-OVER	**($232)**	**($255)**	**($52)**	**($595)**	**($842)**	**($1,138)**

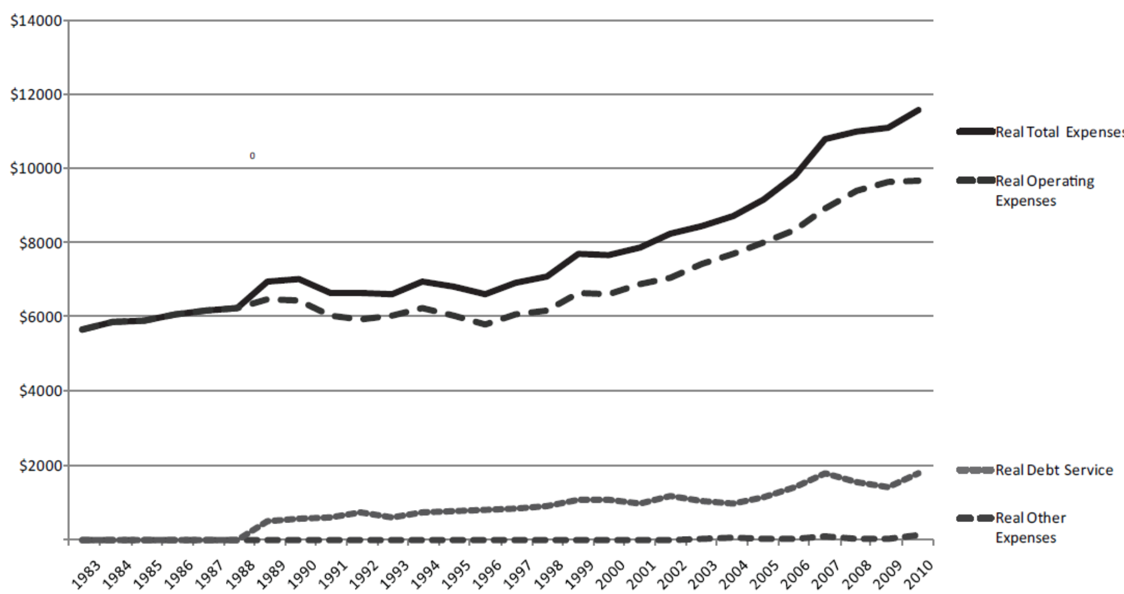
Source: MTA, MTA 2010 Preliminary Budget July Financial Plan 2010-2013 Volume 2, http://www.mta.info/mta/budget/july2009/july09_vol2part1.pdf, p. 7.

Exhibit 3

System Operating Expenses, in Current Millions of Dollars



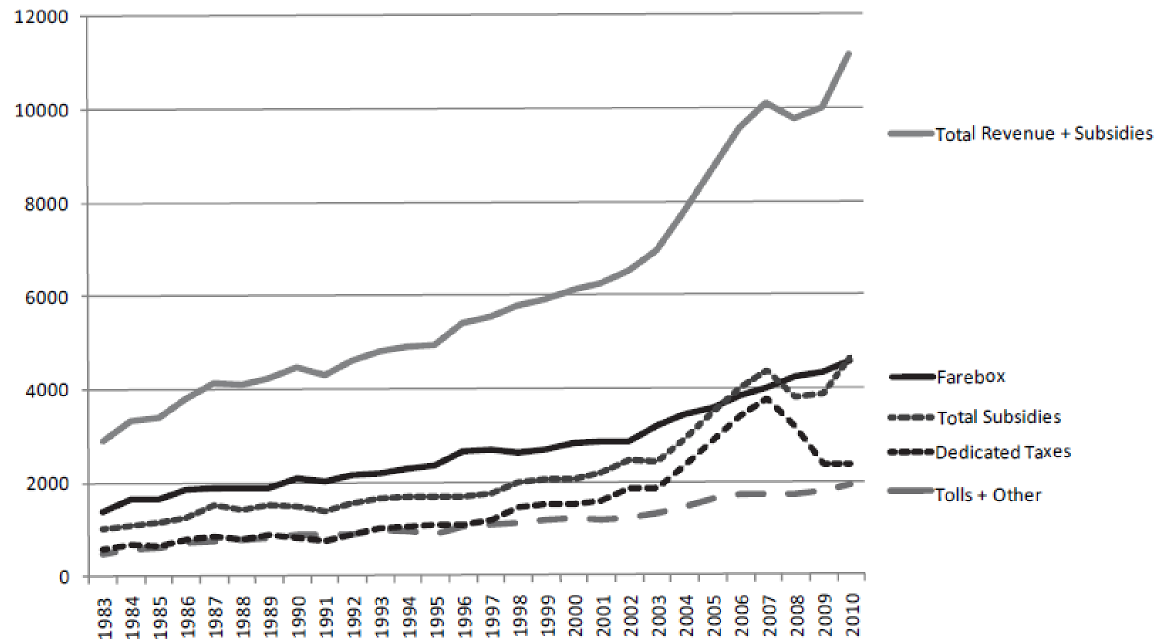
System Operating Expenses in Constant (2010) Millions of Dollars



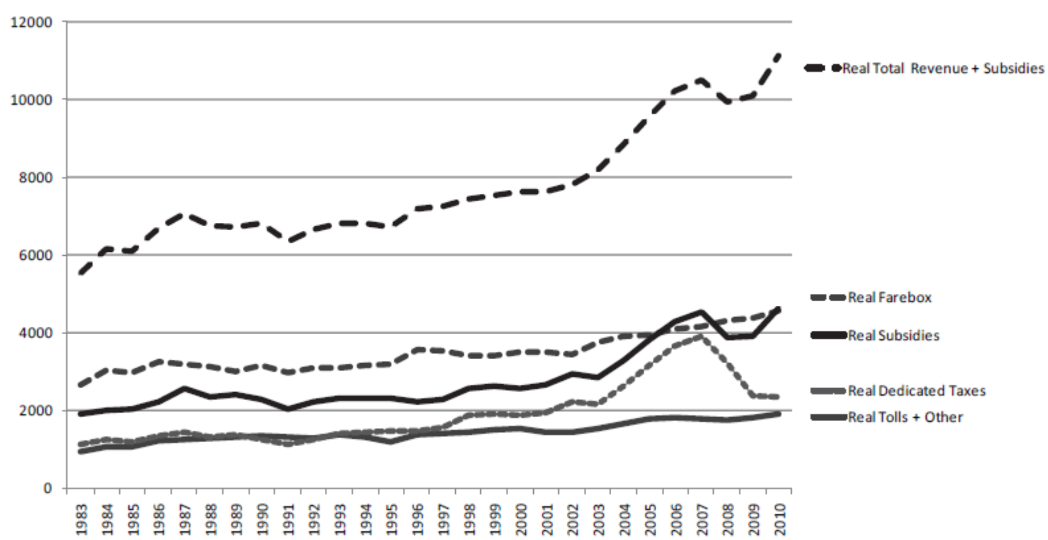
Source: Kevin J. Madden and Kathleen Onufer, based on data provided by the MTA.

Exhibit 4

MTA Revenues 1983-2010, in Current Dollars (millions)

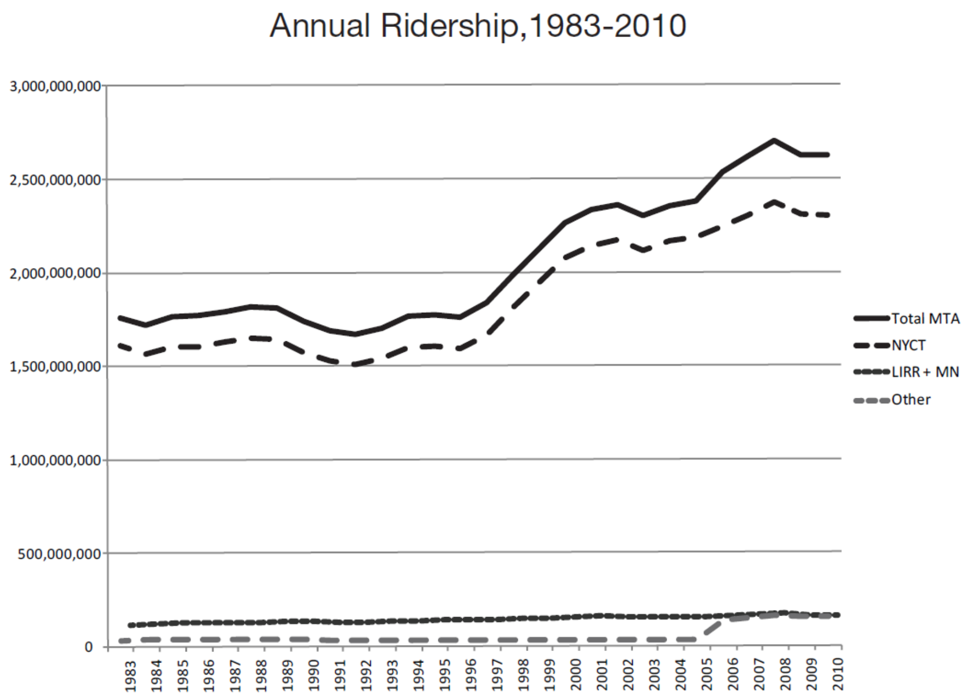


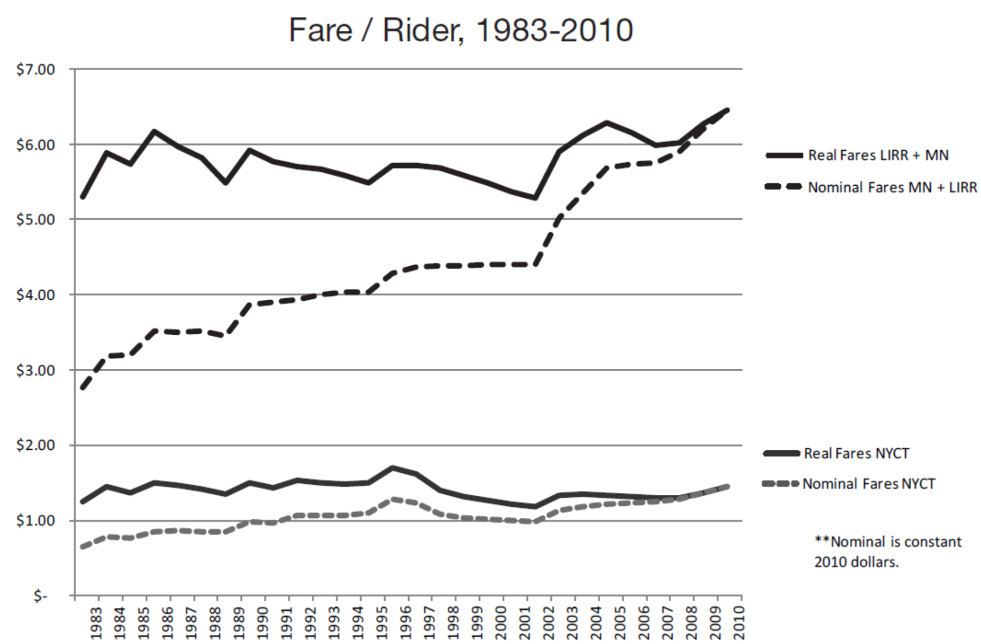
MTA Revenues, 1983-2010, in Constant 2010 Dollars (millions)



Source: Kevin J. Madden and Kathleen Onufer, based on data provided by the MTA.

Exhibit 5





Source: Kevin J. Madden and Kathleen Onufer, based on data provided by the MTA.