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STATE OF NEW YORK
OFFICE OF THE STATE COMPTROLLER

June 2, 2003

Honorable Eric T. Schneiderman
New York State Senate
113 University Place, 7th Floor
New York, New York 10003

Dear Eric:

Pursuant to your request, I am forwarding to you an analysis of the cost of reducing the fare increase for subways, buses, and commuter railroads by 50 percent for the last six months of 2003 and rescinding the token booth closings. For example, subway fares would go to \$1.75 and other fares would be similarly adjusted. The analysis assumes that fares would revert to the full increase on January 1, 2004 and that the new discount structure remains in effect on a proportional basis during 2003. There are any number of ways the MTA could roll back the fare or provide additional discounts to MTA riders.

Based on fare revenue projections made by the MTA, we estimate that rolling back the fare increase by 50 percent during the second half of 2003 would reduce revenue collections by \$136 million in 2003. Keeping the token booths open would increase costs by \$4.5 million during 2003 and 2004. Our preliminary review of the MTA's March 2003 financial plan found that the MTA should have sufficient resources by the end of 2004 to fund these costs (see attached table).

The MTA's March Plan projected a year-end surplus of \$59.8 million by the end of 2004, including a contingency reserve of \$40 million. Our review of the March Plan, however, found hidden reserves of \$27.5 million and that the MTA reflected the cost but not the productivity savings from the new labor agreement with the Transport Workers Union. The MTA Chairman suggested that productivity savings could total \$60 million in 2004. Thus, in total, the MTA should generate a surplus of \$147 million by the end of 2004, about \$6 million more than the cost of your proposal.

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There are a number of other potential resources that could help the MTA deal with any short-term cash flow problems from implementing this proposal and the cost of changing the fare structure. These include a final settlement with the MTA's insurance carriers for losses related to the attack on the World Trade Center, eliminating wasteful practices, and the strong likelihood that any loss in riders due to the fare increase will be less than projected by the MTA. The March Plan assumes a sharp decline in ridership due solely to the fare increase, which my staff calculates reduced the MTA's projected revenues by \$227 million during 2003 and 2004. The MTA's assumptions are quite likely overly pessimistic and, even if a decline in ridership does result from increasing fares, cutting the size of the fare increase during 2003 will, no doubt, reduce the size of any such loss. Moreover, the MTA reported that its financial condition was better than expected during the first quarter of 2003, due largely to higher tax collections and lower expenses.

I hope this analysis is helpful. Please do not hesitate to contact me if you require any further information.

Sincerely,

A handwritten signature in black ink, appearing to read 'A. Hevesi', with a long horizontal flourish extending to the right.

Alan G. Hevesi

AGH:KB:av

**Budgetary Impact of Cutting the Fare Hike By 50 Percent
During the Second Half of 2003 and Rescinding
Token Booth Closings**
(\$ millions)

Costs of Proposals	
6 Month Loss of Fare Revenue in 2003	\$ (136.3)
Cost of Keeping 62 Token Booths Open	<u>(4.5)</u>
Subtotal	(140.8)

Resources	
MTA Projected 2004 Closing Cash Balance	19.8
MTA Contingency Reserve	40.0
Undisclosed Reserves	27.5
Potential Productivity Savings	<u>60.0</u>
Subtotal	147.3

Revised 2004 Closing Cash Balance	\$ 6.5
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