Revenue Options for a Fully Funded 2015-2019 MTA Five-Year Capital Program

Empire State Transportation Alliance

Statement of Need

The Empire State Transportation Alliance (ESTA), a broad-based coalition of business, civic and labor groups, support a fully funded Metropolitan Transportation Authority 2015-2019 Five-Year Capital Program at $32 billion as proposed by the MTA. Clearly a large number, it is still far short of what is generally acknowledged by the Comptroller and other transportation experts as what is needed to keep New York's most valuable economic asset – its unparalleled $1 trillion transit system – in a state of good repair and to continue modest expansion. It also must be considered in the context of its broader value to the economic health of its service region with over 14 million people, 7 million workers, and one that generates $1.4 trillion in GDP.

As in prior years, the 2015-2019 Capital Plan is anticipated to be funded through a combination of revenue backed debt and direct capital support from federal, state, and local partners. However, the MTA cannot rely exclusively on these revenue sources to address the $15 billion funding gap between those sources and the Plan's goals. With a full 17% of the MTA's operating budget – some $2 billion a year – already committed to pay debt service on bonds issued for *previous* Capital Programs, further borrowing would result in unsustainable pressure on fares and tolls. New, stable and dedicated revenue sources must be found.

ESTA had developed the following revenue options for a fully funded 2015-2019 MTA Five-Year Capital Program.

Revenue Principles

Any new revenue sources should meet the following conditions:

- New revenues must not replace nor reduce existing dedicated revenue sources, including the payroll mobility tax, fuel taxes and other dedicated revenues.
- New revenues must be adequate to underwrite the 2015-2019 Five-Year Capital Program, and should not, whenever possible, lose purchasing power over the course of the program.
- A mechanism should be created to ensure new revenues are used exclusively to finance MTA capital projects. Road and bridge projects should be included in revenue scenarios to ensure funding equity for other regions/modes in the State.

Revenue Options

The Governor and Legislature should consider the following revenue sources as options for creating an equitable, reliable funding stream for the MTA capital program. Most, if not all of these options could be further leveraged by issuing bonds - almost $1 billion in bonds can be issued for every $62 million in new annually recurring revenues raised.[1]

New Revenue Scenarios (in millions $)

	Low	Medium	High
Increase vehicle registration MTA surcharge	129	386	663
Increase Petroleum Business Tax	110	220	440
Increase MTA region sales tax surcharge	274	412	549
City of New York contribution	100	200	363
Remove gasoline sales tax cap	344	344	344
Fair tolling plan	1,125	1,125	1,125
Annual Total (recurring)	**2,082**	**2,687**	**3,484**
Bank settlement funds (2015)	850	850	850
Annual Total (2015)	**2,932**	**3,537**	**4,334**

Bank Settlement Funds

The State received $5.4 billion from several major bank lawsuits. The Governor has earmarked close to $4.55 billion for other purposes, about **$850 million funds remain unallocated**. The one-time nature of this revenue makes it most appropriate to pay for infrastructure, rather than a recurring operating cost and could eliminate a portion of the MTA's funding gap.

Broader-based, equitable vehicle tolling

A fair tolling scheme that reflects the Move NY proposal would generate $1.5 billion net annually, allocating $375 million for roads and bridges and **$1,125 billion for transit**.[2] This source has the benefit of reducing traffic, increasing mass transit ridership, spreading costs fairly, and yielding new revenue to invest in both mass transit and the City's road and bridge infrastructure. The fair tolling scheme could fund billions of dollars in transit capital investments if significant portion of its revenue stream were bonded.

City of New York Contribution

The City currently contributes around $100 million per year to the MTA to support the capital program. During the MTA's first five-year capital plan in 1982-1986, the City contributions

1 Assumes a 5 percent interest rate over a 25 year schedule.
2 Source: RPA and MoveNY

averaged $136 million per year. If the City kept its contributions constant over the years and indexed to inflation, it would be currently contributing **$363 million per year** to the MTA five-year capital plan – a more than threefold increase.

MTA surcharge on vehicle registration fees

Increase the MTA surcharge on vehicle registration fees and dedicate the additional revenue to transit. Currently, all passenger vehicle original registrations and renewals in the MTA region must pay a supplemental MCTD[3] (Metropolitan Commuter Transportation District) fee, or MTA surcharge, of $25 per year. An increase in this to:

- $50 would generate **$129 million in additional annual revenues**.
- $100 would generate **$386 million in additional annual revenues**.[4]

If New York increased the MTA region's annual registration fee even further to meet the 2011 national average of $184.04,[5] it would generate $663 million in additional annual revenues.[6] Also, if not administratively burdensome, fees should vary based on vehicle weight and age, or fuel efficiency.

Petroleum Business Tax (PBT)

Increase the PBT on motor fuel and index it to inflation with all new revenues dedicated to transportation. As of January 2015, the PBT was decreased from 18.6 cents per gallon (cpg) to 17.8 cpg, which will lower revenues for the MTA by $19 million. Three different rate increases are outlined in the table below:

Cents per gallon	PBT Revenues, annual (billions)	Additional MTA Revenues, annual (millions)
18.6 (2013 actual)	$1.17	N/A
23.25 (125 percent increase)	$1.46	$110
27.9 (150 percent increase)	$1.76	$220
37.2 (200 percent increase)	$2.34	$440

Sales Tax

Increase the sales tax. A sales tax dedicated to transportation has had support elsewhere in the United States when new revenues are tied to specific improvements. The MTA already underwrites some capital investment with a small, dedicated sales tax surcharge 0.375 percent in the MTA region, which generated $823.3 million in revenue for the MTA in 2012.[7] Three rate scenarios include:

New MTA Surcharge (percent)	Sales Tax Revenue, annual (billions)	Additional MTA Revenues, annual (millions)
0.5	$1.10	$274
0.5625	$1.24	$412
0.625	$1.37	$549

Other states and municipalities have enacted aggressive sales taxes. For example, Los Angeles has enacted Measure R is a 0.5 cent sales tax on most consumables for LA County to finance new transportation projects and programs (in addition to the prior 2.5 cent transportation county sales tax), and accelerate those already in the pipeline (took effect in July 2009). The tax is expected to generate $40 billion in new local sales tax revenues over 30 years. Estimates suggest the tax increase costs each resident an average of $25 annually.

Ceiling on the State Gasoline Sales Tax

Remove the ceiling on the gasoline sales tax and dedicate the additional revenue to transit. The current New York State sales tax is 4 percent, yet when applied to gasoline is capped at 8 cents per gallon, or the same rate paid when gas costs $2 per gallon. If the cap was lifted, the tax could have generated **$344 million in additional revenues** in 2013.[8] The below table outlines the potential additional revenues that could be generated when gas prices fluctuate.

Cost per gallon	Additional MTA Revenues without cap, annual (millions)
$2.50	$107
$3.25	$268
$4.00	$429

Value Recapture Strategies

Value capture refers to strategies government can use to capture any sort of location-based value to help finance public transport systems.

A local example of this is the Hudson Rail Yards Development Project on the far west side of Manhattan. The transit component of this project, the Flushing Line extension, is being funded with incremental public revenues generated by the new development. A mechanism similar to tax increment financing (TIF) raised $2.1 billion, or 88 percent of the project costs. The revenues generated by the value capture mechanism back the bonds issued to finance the infrastructure investment.

Another successful example of value capture is London's Business Rate Supplement (BRS) that is currently being collected to help fund the 21 kilometer-long Crossrail project. This tax supplements an existing property tax on commercial buildings and is levied primarily on existing buildings that are expected to benefit economically from the new transit access. So far, the BRS has captured about 30 percent of the funds needed for the Crossrail.

New York's Second Avenue Subway Phases III and IV will likely raise the value of commercial buildings in close proximity to the new line. The MTA could look to London's Crossrail tariffs to assess reasonable value-based fees to underwrite a portion of this construction.

3 The 12-county MCTD includes the following counties: Bronx, Dutchess, Kings, Nassau,New York, Orange, Putnam, Queens, Richmond, Rockland, Suffolk and Westchester

4 Calculations based on 2013 vehicle registrations on file.

5 *State-by-State Comparison of Annual Motoer Vehicle Registration Fees and Fuel Taxes.* Idaho Transportation Department. 2011.

6 Assumption: all fee increases would go towards the MTA

7 Source: MTA 2014 Adopted Budget

8 Calculations based on total gasoline gallons consumed in 2013 and the New York State 2013 average gas price of $3.60 per gallon.