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RPA



Financing Options for the MTA Capital Program

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Regional Plan Association (RPA) is an independent regional planning organization that improves the quality of life and the economic competitiveness of the 31-county New York-New Jersey-Connecticut region through research, planning, and advocacy. Since 1922, RPA has been shaping transportation systems, protecting open spaces, and promoting better community design for the region's continued growth. We anticipate the challenges the region will face in the years to come, and we mobilize the

region's civic, business, and government sectors to take action.

RPA's current work is aimed largely at implementing the ideas put forth in the Third Regional Plan, with efforts focused in five project areas: community design, open space, transportation, workforce and the economy, and housing. For more information about Regional Plan Association, please visit our website, www.rpa.org.

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In September 2004, the Board of the Metropolitan Transportation Authority (MTA) approved a \$28 billion capital program for 2005-2009: \$17.2 billion for the core program (state of good repair, normal replacement and system improvement items); \$9.9 billion for network expansion projects; and \$600 million for security and interagency programs. While there is broad agreement on the need for this expansive program, there has been little concrete discussion of how to pay for it. This report examines potential financing sources that could be considered as part of a comprehensive financing strategy.

The report is not an exhaustive list of all potential revenue sources. Rather, it focuses on new revenue options that may be particularly suitable as dedicated funding streams for long-term transportation projects. All of these sources have a strong nexus with the benefits that these projects would bring to the New York region, either by reducing congestion for auto users and improving road access for buses, taxis and emergency vehicles, or by promoting job opportunities and economic growth.

Attaining buy-in for any of these options would be challenging, but the alternative is an outdated, deteriorating transportation system that is unable to support a growing economy. We have reached a point where neither continued borrowing nor marginal increases in existing revenue sources will be sufficient to maintain the current system and provide capacity for growth. Some combination of new dedicated revenues, along with increased support from general state and city revenues, will be needed to carry out this agenda.

Capital Program Needs

In July 2004, Regional Plan Association issued "An Assessment of the 2005-2009 Capital Needs of the Metropolitan Transportation Authority." This report called for a robust capital plan that continues the transit system's progress toward a state of good repair by fully funding the maintenance needs of the system, improves and modernizes the transportation network by implementing high speed tolls and bus rapid transit, and begins a major expansion of the transit network with strong commitments to the Second Avenue Subway and East Side Access. It recognized that such a program would have a five-year cost in the range of \$25 to \$30 billion, and that much of this cost would not be covered through expected federal contributions and non-bond MTA resources.

In late July, the MTA proposed a five year capital program which includes most of the elements highlighted in the RPA report. This preliminary 2005-2009 plan was largely commended by civic groups, business leaders and transportation experts, and was ultimately

approved at a board meeting on September 29. However, despite widespread acceptance that the needs are real, there are serious concerns over how to pay for the program.

The MTA estimates that, aside from two major expansion projects (East Side Access and Second Avenue Subway), it will have \$7.9 billion from a combination of federal contributions, funding for the 7 Extension, asset sales and program income, leaving a shortfall of \$11.3 billion for the core program. It also estimates that the federal government will pay 50% of the costs of the two major expansion projects, leaving \$3.2 billion that would need to come from other resources. However, the federal share of the projects could be considerably less, possibly as low as 25%. Thus, the total five-year funding gap for both the core program and expansion projects could range from \$16-\$18 billion.

New Revenue is Needed

The annual amount needed to fill this gap depends on how much of the program is paid for by issuing new bonds. Debt service is projected to consume 15 percent of the 2005 operating budget, and continuing to fund the capital program with bonds will add to that burden. While new bonding would lower the annual revenues needed for the capital program over the next five years significantly, it would make it increasingly difficult to finance future capital needs. Over the last twenty years, the capital program's reliance on debt has soared while direct state and local subsidies for "pay-as-you-go" capital have declined dramatically. Increases in debt service are a major reason that operating revenues are falling increasingly behind expenses. Without additional revenue, new debt would add to the MTA's projected operating deficits and lead to more fare hikes and service cuts.

Funding strategies to fill the capital plan gap need to be sustainable since both the core program and expansion projects will require annual appropriations long after 2009. While debt financing cannot be avoided entirely for this plan, it needs to be limited and integrated with any resolution of the operating deficit. There is no way to fund a capital program that even approaches the level of need without substantially increased support from New York State, New York City and the suburban counties.

Funded without any borrowing, the program would require \$3.2 to \$3.6 billion per year in additional revenues but would not add to the operating deficit. If bonded entirely, it could require approximately \$1 billion per year for thirty years at today's interest rates.¹ For the core program, bonding would require \$735 million per year while direct payment would

Capital Plan (in millions)

Core Program: State of Good Repair, Normal Replacement, System Improvement	\$17,222
Network Expansion: East Side Access	\$4,596
Network Expansion: Second Avenue Subway	\$2,825
Network Expansion: 7 Extension	\$1,990
Network Expansion: Lower Manhattan JFK link	\$400
Network Expansion: Administration	\$120
Interagency Programs	\$144
Security	\$495
Total Capital Plan	\$27,792

Funding Sources

MTA non-bond contribution for core program: Asset Sales	\$1,000
MTA non-bond contribution for core program: Surplus Income	\$400
Federal funding for core program at \$900 million per year	\$4,500
Federal contribution to East Side Access at 50%	\$2,298
Federal contribution to Second Avenue Subway at 50%	\$1,413
100% of 7 Extension is funded	\$1,990
Total Sources	\$11,601

Need

Net MTA Need Over Five Years	\$16,192
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require \$2.3 billion annually. Paying for the expansion projects would require up to \$270 million annually if bonded and \$1.2 billion with pay-as-you-go capital.³ The next capital program should pay for a substantial portion of the gap through direct subsidy as part of a long term strategy for restoring the ongoing financial capacity to carry out both maintenance and expansion.

Potential Revenue Sources for the MTA

There are four potential types of revenues that can be considered for the capital program: fare increases, general support from the state and localities, an increase in existing revenues that are dedicated to mass transit, such as the mortgage recording tax or petroleum business tax, and new dedicated revenues. Because of the growing operating deficit, fares should not be looked to for support of any additional capital expenditures. Increases in general state and local support and/or existing dedicated revenues will be needed to resolve both the operating and capital deficits, but these will not be sufficient without new sources of revenue.

RPA has examined potential new revenue sources which might be used toward expansion projects or the general capital program, including various permutations of tolls, taxes and fees applicable throughout the region. The potential fiscal and economic impact of many of these sources has been discussed in reports from the Independent Budget Office⁴ and other research groups. The criteria listed below are intended to narrow down the list of potential funding sources to those best suited for the projects in MTA's capital program.

- The source of financing should ideally be closely tied to transportation purposes and to benefits from the funded projects.
- The funding source should provide sufficient yearly revenue with the least possible negative impact on regional competitiveness.
- There should be minimal ability to pass on the burden of the fee, toll or tax to parties that were not intended to be affected.
- The burden should be progressive and affect all persons fairly.
- The financing mechanism should provide a stable source of revenue that is not sensitive to cyclical changes in the economy.
- The funding source should ideally be inexpensive to administer.

Of course, no funding source will meet all of these criteria. In fact, there is an inevitable tension between some criteria. For example, goals of progressivity and fairness can conflict with those of efficiency. While the criteria are a useful guide for evaluating the relative merits

of different sources, weighting and prioritizing them requires value judgments that are best determined through public dialogue.

Identifying who benefits and who should pay is also complicated. The most direct beneficiaries are transit riders, but fares already cover a higher percentage of subway and bus costs than in any other major U.S. transit system. Fare increases have already been proposed to address the operating deficit, and cannot reasonably be tapped to fill the capital gap as well. The next group of users that most directly benefits from transit improvements includes auto, truck and taxi users. Increased transit use reduces congestion, speeding travel times for everyone using the road and highway network. Tolls, gas taxes and other auto-related fees are therefore commonly seen as a legitimate source of revenue for transit.

The public at large, regardless of their main mode of transportation, also receive a range of benefits, from improved air quality to a stronger economy. The region's economy could not survive without a safe, reliable transit network, and employers and workers have a strong stake in improvements that ease the commute to work and movement of goods.

SUMMARY OF POTENTIAL FUNDING SOURCES

These criteria were used to evaluate a broad list of potential revenue sources, including income and sales taxes, stock transfer taxes and a range of user fees. Four main categories of potential revenue sources emerged as providing the best fit with the criteria: traffic pricing, commuter/payroll taxes, the gas tax, and drivers' license/car registration surcharges. Others were considered to have either too tenuous a link to transportation benefits, produce too little revenue or are already heavily utilized for other purposes, including support for MTA operating expenses. Still, the descriptions below represent a range of options rather than an exhaustive list.

Each of these potential revenue sources could yield significantly more or less than indicated, depending on rates. It is not necessary that any one new tax or toll fund the local share of expansion projects or the unfunded portion of the core capital program. In fact, even the highest-yielding funding mechanism listed below would fall short of closing the capital program gap. However this list provides a starting place for the MTA, State and City to develop a thoughtful combination of financing sources to create a sustainable,

recurring revenue stream on which MTA can rely into the future.

county MTA region. Estimates are based on 2000 income data by place of work.

Traffic Pricing

\$250 million

MTA Bridge and Tunnel Toll Increases

Raising the toll on the Queens Midtown and Brooklyn Battery tunnels and the seven MTA bridges to \$10 round trip (from \$7 on most crossings) would raise approximately \$250 million. Estimates are based on some tunnel data; it is assumed that \$40 million would be raised from each of the 4 major crossings, \$20 million from each of the 5 minor crossings. Using variable time-of-day pricing would lower the revenue estimates and relieve some congestion.

\$710 million

Flat East River Bridge Tolls

Tolls applied to the Brooklyn, Manhattan, Williamsburg and Queensboro Bridges at the same rates as current MTA tunnel tolls (\$7 round trip) would raise approximately \$710 million: \$550 million from East River Bridges and \$160 million from increased revenue caused by diverted traffic to the Brooklyn Battery and Queens Midtown tunnels.

\$730 million

Variable Time-of-Day Pricing on East River Bridges and MTA Tunnels

Varying tolls on all the East River crossings – both the currently free bridges and the MTA tunnels – would raise \$730 million and significantly eliminate congestion: \$480 million from East River Bridges and \$250 million from MTA tunnels. Tolls are assumed to be \$4, \$7 and \$10 depending on time of day.

Commuter/Payroll Taxes

\$820 million

Mobility Fee

The commuter tax, which raised \$325 million in 1998, the last full year it was collected, could be refashioned as a mobility fee that would draw from a larger base of earners and employers and be dedicated to transportation improvements with clear benefits to commuters from both within and outside of New York City. As one example, \$820 million could be raised from a 1.00% tax on wages excluding the first \$50,000 per year earned in the 12-

Gas Tax

\$300 million

Ten-Cent Regional Gas Tax

\$301 million could be raised from a 10-cent increase in the MTA region. Three billion gallons of gas are sold in the MTA region each year. Simple estimates show that an additional cent on the gas tax raises \$30 million, \$11 of which comes from New York City. Estimates are based on 2002 gasoline consumption by county.

Drivers License/Car Registration Surcharges

\$235 million

Auto Use Tax

There is currently a local vehicle registration fee paid every other year in New York City and in some MTA region counties. It is effectively now \$5 to \$15 per year, depending on the location. The MTA region would raise \$235 million if the tax were increased to \$50 per year in all 12 counties. Estimates are based on 2002 vehicle registrations.

\$260 million

State Motor Vehicle Registration Fee

New York State now has weight-based passenger vehicle registration fees ranging from \$10 to \$56 per year, effectively. Adding \$50 to that range would raise \$260 million for the MTA region. Estimates are based on 2002 vehicle registrations.

\$290 million

Drivers' License Fee

It currently costs \$5.38 per year, effectively, to renew a regular driver's license in New York State. Raising the fee to \$50 per year would yield \$294 million for the New York counties in the MTA region. Estimates are based on 2002 drivers' licenses.

Background on Potential Funding Sources

This section provides additional detail on the funding options, as well as a **Pros and Cons** section for each which describes the main strengths and weaknesses when measured against the criteria described above.

Traffic Pricing⁵ A number of improvements could be made to the tolling situation on vehicle entries to Manhattan, such as tolling evenly across all bridges, creating incentives for congestion reduction through time-of-day pricing, tolling the East River bridges, and increasing tolls for trucks at some crossings. Each weekday, over 800,000 motor vehicles enter the central business district and only 22 percent pay to enter – at the tunnels under the Hudson and the East River. About 255,000 vehicles enter Manhattan via the four currently free East River Bridges, owned and operated by New York City, and 390,000 enter via the eleven southbound highways and avenues crossing 60th Street. Four reports have been released recently showing the potential traffic and revenue impacts of putting flat, non-variable tolls on East River Bridges.⁶ According to RPA's report, East River bridge tolls would raise about \$710 million each year, \$20 million more if all tolls across the East River varied by time of day (including the MTA tunnels).

Pros and Cons Traffic pricing is very closely tied to transportation, there is great potential for raising revenue, and pricing may have the added benefit of reversing negative traffic trends in many neighborhoods. There are questions of geographic and income equity that would need to be resolved. Although auto owners tend to be higher income, they are often concentrated in locations that have fewer transit options.

Mobility Fee Some version of a commuter tax, or a small portion of payroll from workers in the MTA region, could raise considerable revenue progressively. One option is a regional payroll tax or "mobility fee" which would be levied on employers directly. A 0.50% charge on all wages earned in the region would yield \$1.19 billion. A more progressive option would raise \$820 million per year from a 1.00% tax all wages earned in the 12-county MTA region, excluding the first \$50,000 earned. These revenue estimates are based on the very conservative assumption that the highest income level is \$400,000.⁷ Federal tax deductibility should be considered.

Pros and Cons The connection between business and transportation is clear (although not as clear as with tolls) as employers want to remain centrally located and help shorten their employees' commutes. The revenue potential is substantial, and the fee can be structured in a number of ways to insure that it is progressive. It also has similarities to the Commuter

Traffic Pricing Options

	Car Toll Round Trip	Revenue Gained, E. River Bridges (\$ millions)	Additional Revenue Gained, MTA Tunnels (\$ millions)	Total Additional Revenue Raised (\$ millions)
Variable E. River Bridge Tolls	\$4•\$7•\$10	\$550	\$130	\$680
Flat E. River Bridge Tolls	\$7	\$550	\$160	\$710
MTA Toll Increase	\$10	\$0	\$250	\$250
Variable E. River Bridge & MTA Tunnel Tolls	\$4•\$7•\$10	\$480	\$250	\$730

Mobility Fee Options		From All Wages Earned in MTA Region	From All Wages After the First...		
			\$50,000	\$75,000	\$100,000
	Yearly amount raised at				
	0.25%	\$637 million	\$205 million	\$138 million	\$104 million
	0.50%	\$1,274 million	\$410 million	\$275 million	\$208 million
	1.00%	\$2,548 million	\$820 million	\$550 million	\$416 million
	Amount paid by each employee earning	For the 1.00% Tax, the Yearly Amount Paid by Employees in MTA Region			
	\$50,000 or less	up to \$500	\$0	\$0	\$0
	\$75,000	\$750	\$250	\$0	\$0
	\$100,000	\$1,000	\$500	\$250	\$0
	\$150,000	\$1,500	\$1,000	\$750	\$250
	\$200,000	\$2,000	\$1,500	\$1,250	\$1,000

Gas Tax Options		Millions of gallons consumed per year, 2002	Amount raised by adding...			
			1¢ per gallon	10¢ per gallon	25¢ per gallon	50¢ per gallon
	New York City	1,103	\$11.0	\$110.3	\$275.8	\$551.6
	Rest of MTA Region	1,907	\$19.1	\$190.7	\$476.8	\$953.6
	MTA Region	3,010	\$30.1	\$301.0	\$752.6	\$1,505.2

Tax that was in existence for decades, but has the political advantage of being associated with tangible improvements for commuters. On the negative side, impacts on employment need to be considered and revenue may be unstable as these taxes can be sensitive to recession. In addition, the benefits for employers in less centrally-located areas would be more indirect than for employers clustered around the transit network.

Gas Tax 1.1 billion gallons of gas are sold in New York City each year. The estimates below are based on gas purchases in each county for New York State and do not account for any decreased gas consumption due to increased taxes. There is no City gas tax; the State gas tax is 8 cents per gallon; the Federal gas tax is 18.4 cents per gallon. Gas in New York is further subject to an 8.25% sales tax, of which 0.25% is dedicated to the MTA. The MTA also already receives a portion of the petroleum business tax paid by several large oil importers in the region. These taxes combine to make New York the fifth most expensive place in America to buy gas.

Pros and Cons A tax on gas closer to the pump would be tied to transportation and could produce substantial revenues. Given the higher incomes among many drivers in the region, a gas tax may be more progressive here than in other regions. However from a regional perspective it may be irrational to further increase the difference between New Jersey and New York gas prices.

Drivers License / Car Registration Surcharges Residents of the region, depending on where they live, may pay various amounts at different times to register vehicles

and renew drivers' licenses. The auto use tax (local vehicle registration) in New York City is \$30, paid every other year, and has remained at that level since it was first instituted in 1974. It applies to privately owned passenger vehicles. The state Department of Motor Vehicles collects the tax along with registration fees, and then remits payment to the city. The auto use tax is levied in the five boroughs of New York City and in 17 other counties of New York State. The other counties charge either \$10 or \$20 biannually. The city currently receives \$34 million per year from the auto use tax.⁸ Raising the fee to \$15 per year would impose a new tax on some counties, raise it on others, and present no change for New York City. There are also state registration fees based on weight. Per-year fees range from \$10 to \$56. Note that insufficient data makes the estimates below only helpful to provide an order of magnitude, not a specific figure.⁹ Finally, driver's license renewal currently costs \$43.00 in New York State for eight years, or approximately \$5.38 per year, more for drivers of other vehicle types. The fee for an original license or learner's permit ranges from \$38.50 to \$47.00, depending on the age of the driver. The following table indicates how much could be raised by increasing any of these three revenue sources.

Pros and Cons These sources have a strong transportation links and would be relatively easy to administer. However, very large increases to the fees already established would be necessary to raise enough funds to have a significant impact on the MTA.

Motor Vehicle Options	Change fee to	Raise for MTA region
Local Motor Vehicle Registration	\$15 per year	\$40 million
	\$50 per year	\$235 million
	Raise fee by	
State Motor Vehicle Registration	\$10	\$51 million
	\$50	\$259 million
Drivers License Renewal	\$10	\$30 million
	\$50	\$294 million

Endnotes

- 1 \$1.05 billion would be the approximate yearly payment on a 30 year, \$16.19 billion bond at 5 percent interest.
- 2 Presentation of MTA Preliminary Capital Program at MTA board meeting, July 29, 2004.
- 3 \$736 million would be the approximate yearly payment on a 30 year, \$11.32 billion bond at 5 percent interest.
- 4 IBO, February 2004 *Budget Options for New York City* Available online at << <http://www.ibo.nyc.ny.us/> >>.
- 5 RPA's report, *An Exploration of Motor Vehicle Congestion Charging in New York*, is available online at << http://www.rpa.org/pdf/enr_summary.pdf >>.
- 6 Charles Komanoff, Bridge Tolls Advocacy Project, *East River Bridge Tolls: Who Will Really Pay?*, March 2003; Bruce Schaller, Transportation Alternatives and NYPIRG Straphangers Campaign, *East River Bridge Tolls: Revenue, Traffic, Mobility and Equity Impacts*, Sept 2003; Alan Treffeisen, New York City Independent Budget Office, *Bridge Tolls: Who Would Pay? And How Much?*, Oct 2003; Alexis Perrotta and Jeffrey Zupan, Regional Plan Association, *An Exploration of Motor Vehicle Congestion Pricing in New York*, Nov 2003.
- 7 2000 Public Use Microdata Series, 5% rectangular sample, based on place of work, adjusted to 2003 dollars. RPA calculations.
- 8 IBO estimates that doubling the city tax would provide \$32 million in additional annual revenue to the city (assumes a 6 percent reduction in vehicle registrations in response to the tax increase. The actual decline may be less.)
- 9 The number of vehicle registrations is available but weight of registered vehicles is not. It was assumed that all "standard series" vehicles (i.e., cars) are now charged \$25 per year, which is the price a 3,700 pound vehicle would pay (slightly heavier than a Toyota Camry); motorcycles and mopeds now pay \$20 per year, or about 3,000 pounds. Rental cars, taxis, ambulances, farm vehicles, buses, trailers, and commercial vehicles were ignored.