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PATTERN'S ANALYSIS

A Special E-Update for Members of Pattern for Progress

MTA PAYROLL TAX TO AFFECT 5 COUNTIES IN THE HUDSON VALLEY

ISSUE:

The Metropolitan Transportation Authority (MTA) is facing large deficits in their operating budget for the current fiscal year. In order to close the gap, "draconian measures" have been deemed necessary in the words of former MTA Chairman Richard Ravitch. In June, Governor David Paterson tapped a 15-member body with Mr. Ravitch at its head to provide suggestions as to how best to balance the MTA budget. The creation of this panel, now known as the Ravitch Commission, follows the failure of alternative sources of funding to be provided by the State.

To avoid double digit fare increases, the Ravitch Commission has proposed tolls on East River bridges, a more modest fare increase and the creation of a new "mobility tax" to be applied in all 12 counties in the MTA region. Conceived as an excise tax to be imposed on all employers (and self-employed individuals), the tax will be equal to one third of 1% of all wages paid (measured by the current FICA tax base.) In effect, this is a payroll tax.

The Q&A below provides insights into the Ravitch Commission proposal, the need to provide regional equity in who pays the bill for the MTA, and to what degree Mid-Hudson businesses and residents already may be supporting more than their 'fare' share.

HOW WILL THE TAX MONEY BE USED?

In year one, the Ravitch Commission speculates that \$1.2 billion will be generated from the tax. This revenue will be used to close the MTA budget gap estimated at \$1.5 billion. Beginning in year two, however, the funds will be directed to the capital plan for the MTA (specifically, to pay debt service on bonds for the next 5-year capital program.) The Commission recommends the creation of a new Finance Authority within MTA to monitor the use of these funds and to create a "lockbox" so that the funds cannot be diverted to offset the cost of general operations.

WHO DOES THE TAX APPLY TO?

The tax is applicable to all businesses, for profit and not for profit as well as governments, whose employees pay into Medicare (FICA). At the rate of 0.333% of the organization's payroll, the tax bill for a company with a \$1 million payroll would be \$3,333. Five counties in the Hudson Valley are within the MTA jurisdiction. Westchester, Rockland, Putnam, Orange and Dutchess will be subject to the Mobility "Payroll" Tax.

DO HUDSON VALLEY RESIDENTS HAVE TO CONTRIBUTE TO THE GAP CLOSURE IN OTHER WAYS?

Yes. Hudson Valley residents will experience the same fare increases as any other user of rail or subway service. Absent the Mobility Tax, the current system-wide fare hike is estimated at 23%. This increase was passed by the MTA at its most recent board meeting. However, because fares are subject to public hearings, the exact increase for Metro North riders is not yet certain. New fares will go into effect in June 2009.

In addition, the Ravitch Commission calls for tolls on East River bridges. The tolls would

net \$600 million/year. This concept has been proposed several times and rejected each time. Currently, East River bridges into Manhattan remain without tolls while most other MTA bridges, e.g. RFK-Triborough Bridge, require the payment of a toll. (Even if both the Mobility Tax and the toll on East River bridges pass, fares are expected to climb by 8%.)

Of particular note: residents and businesses of the Hudson Valley already pay **five other taxes/fees** to the MTA. These include a portion of the sales tax, the petroleum business tax, mortgage recording tax, a phone bill surcharge and a charge to counties for the maintenance of parking lots at Metro North stations.

WHY SHOULD MID-HUDSON COUNTIES BE TREATED DIFFERENTLY UNDER THE TAX PLAN?

MTA already assigns an inferior role to Rockland, Orange, Putnam, and Dutchess. The City boroughs and larger suburban counties all have a full vote on the MTA board while the four Mid-Hudson Counties each have one-quarter of a vote. This is based upon relative size of population and service.

According to the US Census, 75% of workers in these four counties commute to their jobs by automobile. A mere 11% on average use some form of transit – much of which is bus and other services independent of the MTA. Unlike New York City, and even Westchester, Mid Hudson residents do not live and work within easy access of a train station, subway or bus stop. The fractional vote reflects the extent to which the 'Mid-Hudson Four' benefit from the MTA/Metro North. In fact, Metro North rail is essentially the only service provided and future expansion of use is limited by available parking (for which the counties pay parking lot maintenance.) Arguably, the Mid Hudson counties already pay a high price for the amount of service rendered. Putnam, the smallest of the four counties with only four full service railroad stations, paid in excess of \$6 million dollars in fees and taxes to MTA in 2008.

In computing yet another tax in support of MTA, it should be made clear that "one size does not fit all." Distribution of the tax burden should be allocated based on use and access to services. By its own formula, MTA applies a one-quarter value to the Mid-Hudson counties. To determine a fair and equitable allocation for Rockland, Orange, Putnam and Dutchess, the Mobility Tax should be no more than one quarter of what the full MTA members are charged (i.e., no more than one-twelfth of one percent.)

WHO DECIDES ON THE CREATION OF THIS NEW PAYROLL TAX?

While the concept of the new Mobility Tax was advanced by the Ravitch Commission and supported by the MTA, the New York State Legislature must pass legislation approving the tax. In the State of the State address (January 7, 2009), Governor Paterson expressed his support for the Commission's report. And, the newly elected Senate Majority Leader has said that unless he hears from the business community, he is inclined to support the Mobility Tax.

ANALYSIS: Can the Hudson Valley counties withstand yet another tax?

The Hudson Valley as well as the rest of the state will be greatly affected by the proposals contained within the Governor's new budget. The downturn in the economy and its effect upon local property taxes has yet to be fully felt. Not-for-profit institutions such as hospitals who receive Medicaid assistance already expect substantial reductions in aid in 2009. On January 13th, Westchester Medical Center announced 400 layoffs. A new payroll tax will only add to their fiscal distress. The region's largest employer, IBM has confirmed that there will be significant layoffs there as well. Upon hearing of the Mobility Tax, two hospital CEOs calculated its impact to be \$600,000 per year. For their institutions, this would equate to a potential loss of 10 full time employees each. Moreover, their hospital administrators doubt that any of their employees use MTA services to commute to work and if given a choice as to where to allocate \$600,000 they can articulate other priorities.

Counties throughout the Hudson Valley are experiencing tougher competition over jobs attraction and retention with neighboring states of New Jersey and Connecticut. Foremost among the competitive disadvantages for New York and our region is the growing weight of the tax burden.

Many small businesses and self employed individuals are unaware of the fees that they currently pay in support of the MTA. Most Hudson Valley residents would be surprised to learn that a surcharge on

their phone bill goes to subsidize the MTA. And, generally speaking, the region's population has heard little about the new tax and toll proposals. Greater publicity is necessary before the majority of people in the Valley begin to realize that a "mobility" tax for trains equates to a new payroll tax for them.

As of this writing, the NYS Legislature has yet to react in any meaningful way to the Governor's executive budget or the Ravitch Commission proposals. This has left pundits to speculate whether other taxes are in store. One concern is that as New York State continues to borrow from the Federal Government to pay unemployment insurance benefits, at some point, businesses will be forced to raise their payroll tax in order to replenish these funds.

While new taxes are easy to criticize, most Hudson Valley residents should acknowledge that the MTA deserves our regional support. Metro North railroad as part of mass transit is a lifeline to moving an important segment of the Valley's workforce into and out of the state's economic engine, New York City. Furthermore, many residents use the train to access the city's cultural, entertainment and recreational assets.

New York's economic crisis has made it painfully clear that the State has historically depended on the financial services industry based in New York City for as much as 20% of overall revenue. The overwhelming majority of Wall Street and other workers in the financial markets commute to their jobs via Metro North and the other segments of the mass transit system run by the MTA. Even in a Bear Market, it behooves the State to provide larger subsidies to the MTA to support the movement of workers and tourists to its "cash cow."

Two other points need to be made: If one of the projected funding streams for the MTA is the imposition of tolls on the East River bridges and if that measure should be defeated again, it is imperative that no additional tax burden be placed on the Hudson Valley counties to compensate for the forgone toll dollars. Secondly, MTA's unwillingness to accept service reductions is a hard position to defend in these increasingly difficult economic times. When times are good, individuals and businesses can be expected to contribute – and even increase their contributions – to the MTA both in fares and taxes. But when times are universally bad, some modest amount of service reduction or workforce economy should be part of the mix.

AN EQUITABLE ALTERNATIVE:

If the State cannot be persuaded to increase its subsidy to the MTA and a new and sixth form of tax or fee is considered, then such a measure should be imposed upon Hudson Valley Counties on a sliding scale. The four counties that are significantly smaller in population and ridership than the other eight in the MTA region should contribute less based upon the amount of service. We strongly urge that these counties – Dutchess, Orange, Putnam and Rockland – be required to contribute a lesser percentage. Dutchess, Orange, Putnam and Rockland have limited rail access and schedules compared to other MTA counties, yet every business will be forced to contribute to this new tax.

ACTION: It is essential that every business, not-for-profit organization and government body be made aware of the newly proposed Mobility Tax. (Yes, local governments will be subject to this tax based on their payroll, too. So, a portion of local property taxes paid to schools and municipalities also will be subsidizing the MTA.) Every State Legislator representing these counties must be fully versed in the real impacts of the Mobility Tax and armed with alternative solutions. In the meantime, regional MTA representatives from the Hudson Valley are urged to reflect the prevailing sentiment of businesses in the region and place their objection to this additional tax on the record. While only the Legislature may vote to impose the tax, we need every affected business to express their strong opinion that this is "one tax too many" for our region. Dislocating our workforce is no way to finance transit.

While the MTA will be holding public hearings in eight counties, none will be held in Dutchess, Orange and Putnam. Please make every effort to appear at hearings scheduled for **Westchester County on Wednesday, January 28 at 6:00 PM** at Westchester County Center Rooms A-C, 198 Central Avenue in White Plains and in **Rockland County on Monday, February 2 at 6:00 PM** in the Palisades Center, Raso Community Room at 1000 Palisades Center Drive, West Nyack.