New York City Independent Budget Office **Fiscal Brief**

August 2011

Budget Buster:

For MTA, Tax & Fee Revenues Not Always on Track

Summary

The release last week of the Metropolitan Transportation Authority's preliminary budget for 2012 and financial plan through 2015 prompted renewed concerns over the agency's fiscal outlook. Transportation budget analysts have been particularly critical of the amount of borrowing in the plan and the assumption of no wage increases for the authority's workforce.

But a close look at the structure of the Metropolitan Transportation Authority's revenues—particularly the authority's growing reliance on dedicated taxes and fees—suggests other reasons for concern. While dedicated taxes and fees can hold down upward pressure on fares and tolls, the transportation authority's growing reliance on these revenue sources does not assure fiscal stability. Some of the authority's largest dedicated revenue sources are among the most sensitive to the ups and downs of the business cycle and the even more pronounced swings in the market for real estate.

A review by IBO finds that dedicated taxes and fees are expected to account for $4.7 billion, or 40.1 percent, of all transportation authority fare, toll, tax, and fee revenues this year, up from $2.1 billion, or 31.0 percent, in 2003. Among the other key findings in IBO's analysis of transportation authority revenues over the years 2003–2010:

- On a year-to-year basis, revenues from dedicated taxes and fees show greater variation than fare and toll revenues.
- Gyrations in the transportation authority's property transfer taxes have been far steeper than in the economy as a whole; from a peak of $1.6 billion in 2007, total transfer taxes plummeted 75.4 percent in just two years.
- Another large source of dedicated revenue, the corporate franchise tax surcharge, has also been very sensitive to the business cycle. Receipts surged from $500 million in 2003 to a peak of $975 million in 2007, and then dropped to $842 million in 2008. Surcharge revenue has since grown modestly to $875 million in 2010.

This report also explains the convoluted flow of dedicated funds through various state accounts to the Metropolitan Transportation Authority's budget. A portion of the funds that flow through some of these accounts is also distributed to upstate transit agencies. Some of the revenue flows are set in state statutes while others are subject to annual appropriation by the Legislature, adding to the complexity—and volatility—of the funding. Over the past three years, $260 million in revenues "dedicated" to the transportation authority have been redirected to cover the state's own needs.

Detailed Revenue Tables @ www.ibo.nyc.ny.us

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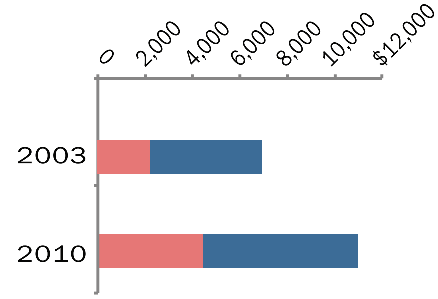
A Growing Reliance on Dedicated Taxes and Fees

With the Metropolitan Transportation Authority (MTA) facing a large budget shortfall in 2009, the state Legislature enacted a special payroll tax as well as several additional charges such as a 50-cent fee on taxi rides and dedicated these new revenues to the transportation authority. It was not the first time policymakers had taken this approach to bailing out the MTA. Over the past few decades, Albany officials have dedicated a growing list of taxes and fees to help the MTA pay for its capital needs and fill holes in its operating budget.

As the list of dedicated taxes and fees has grown, the transportation authority has become increasingly dependent upon these revenues. In 2010, dedicated revenues totaled $4.4 billion, or 40.4 percent, of the agency's total revenues from fares, tolls, taxes, and fees—the authority's major sources of funds (the MTA also gets revenues from rent, advertising, concessions, and other sources). That share represents growth of nearly 10 percentage points over the share from dedicated taxes and fees collected in 2003, when dedicated revenues accounted for $2.1 billion, or 31.0 percent, of total MTA revenue.

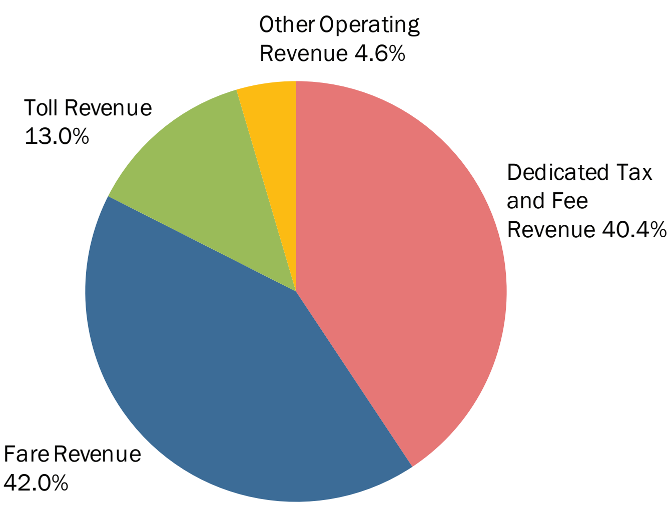
For 2011, the MTA's current fiscal year (which corresponds to calendar years), the authority anticipates revenues of $4.7 billion from the dedicated taxes and fees that it draws on to support its operations and debt service expenses—6.0 percent more than last year. Dedicated taxes and fees are expected to account for 40.1 percent of the MTA's total revenue from fares, tolls, taxes and fees.

The Share of MTA Revenues From Dedicated Taxes and Fees Has Grown
Dollars in millions



SOURCES: IBO; Metropolitan Transportation Authority Financial Plans 2003, 2011

Dedicated Tax and Fee Revenue Will Nearly Match Fare Revenue in 2010
2010 Final Estimate of Toll, Fare, and Dedicated Tax and Fee Revenue: $10.880 billion



SOURCES: IBO; Metropolitan Transportation Authority February 2011 Financial Plan
NOTE: "Other Operating Revenue" includes concession, rental, and advertising revenue.

Despite this growing reliance, dedicated revenues do not assure stable funding. Some of the largest dedicated revenues—the property transfer taxes being a prime example—have proven quite volatile, rising and falling to unexpected highs and lows with the business cycle. The new payroll mobility tax, which legislators anticipated would be the largest single source of dedicated funds, fell far short of expectations in 2009, the first year it was collected. In addition, the dedication of some of the taxes and fees is subject to annual appropriation by the Legislature, meaning just how much is actually dedicated is not a sure thing. Over the past three years, $260 million in revenues "dedicated" to the MTA have been redirected to cover the state's own needs.

To gauge the Metropolitan Transportation Authority's reliance on dedicated revenues and compare the volatility of these revenues with fares and tolls, IBO examined MTA financial plans from 2003 through 2010—the years for which the MTA has made its financial plans publicly available and began providing details on each of the taxes. IBO's review of the MTA's funding is limited to state-levied dedicated tax and fee revenues, fares, and tolls. Our analysis does not include certain other state and local subsidies not derived from dedicated taxes or fees, such as funds for maintaining commuter rail stations.

A Complex Flow of Funds

More than a dozen taxes and fees serve as the source of dedicated revenues to the MTA. Six taxes account for the majority of dedicated revenues: the payroll mobility tax, corporate franchise tax surcharge, MTA district sales tax, petroleum business taxes, and property transfer taxes (mortgage recording tax and the so-called urban taxes comprised of separate mortgage recording and transfer taxes in New York City). In 2010, these taxes together accounted for an estimated $3.8 billion—86 percent of dedicated tax and fee revenue, or 35 percent of combined fare, toll, and dedicated revenues. Several smaller taxes and fees also contribute to the MTA's coffers: MTA Aid Trust Account taxes and fees (such as the charge on taxi rides and a surcharge on car rentals), motor vehicle fees, motor fuel taxes, and corporate franchise taxes on transportation and telephone transmission. In 2010, these taxes totaled an estimated $620 million—14 percent of the dedicated taxes and fees and 5.7 percent of combined fare, toll, and dedicated revenue. (For more details on the individual taxes and fees, see sidebar on pages 8–9.)

Divvying Up the Dedicated Dollars. All of these dedicated revenues do not flow directly to the MTA. They reach the MTA or its subsidiaries such as MTA New York City Transit, MTA Bus, or MTA Long Island Rail Road, after flowing through a Byzantine system of accounts that are also used to direct a portion of the funds to upstate transit agencies. The share of funds distributed from these accounts to the MTA, its subsidiaries, and upstate transit agencies is determined in two ways. Some of the transfers are set in state statutes, while others are subject to annual appropriations by the Legislature.

The flow of dedicated taxes and fees starts with the state depositing the revenues in two main accounts—the Dedicated Funds Pool and the Metropolitan Mass Transportation Operating Assistance Account (MMTOA). From there the money flows into many accounts that provide support to the MTA and other state transportation systems.

The Dedicated Funds Pool is supported by shares of petroleum business tax collections along with motor vehicle fuel taxes and vehicle fees.[1] The shares of these taxes and fees are defined in state statutes. For example, according to statute 54.5 percent of vehicle registration fees, 50 percent of the gasoline motor fuel tax, and all of the diesel motor fuel tax flow to the Dedicated Funds Pool. Also by statute, 37 percent of the funds collected in the Dedicated Funds Pool are allocated to the Mass Transportation Trust Fund. The other 63 percent of Dedicated Funds Pool revenue flows to the state's Highway and Bridge Trust Fund. Most transportation trust fund revenue is allocated by legislative appropriation to another fund, the MTA Dedicated Tax Fund, which provides debt service payments for Dedicated Tax Fund Bonds. Additionally, state law requires that a portion of the dollars in the trust fund be directed to upstate transit entities. Any Metropolitan Transportation Trust Fund revenue left over after debt service is paid is allocated by statute to the transit and commuter systems: 85 percent flows to the subway and bus systems and 15 percent flows to MTA Long Island Rail Road and Metro-North Railroad.

The flow of dollars from the Metropolitan Mass Transportation Operating Assistance Account, which is funded by a statutory share of the basic petroleum business tax (the basic tax), the corporate franchise tax surcharge, MTA district sales tax, and corporate franchise tax on transportation and telephone transmission, is also multilayered. Money from the account is allocated to upstate transit entities by statute and to the Dedicated Tax Fund, Transportation District Account, and MTA Long Island Bus by separate appropriations. Of the $1.6 billion budgeted for distribution from MMTOA in 2010, $1.3 billion—81.8 percent—flowed to the Dedicated Tax Fund. The Transportation District Account, which helps pay operating expenses of the authority's subway, bus, and commuter railroads through the Section 18-b program (see sidebar on page 4) received $190 million, or 11.8 percent. Upstate transit entities received $57 million, or 3.6 percent, and $45 million flowed to MTA Long Island Bus, or 2.8 percent.

MTA Bus also receives an appropriation of MMTOA funds, but the money reaches the bus company through a different route compared with MMTOA appropriations to transit system accounts and MTA Long Island Bus. MTA Bus funds appropriated from MMTOA are paid directly to New York City in order to partially offset the city's cost of paying the operating deficit of MTA Bus: the difference between the operating expenses of MTA Bus and the bus company's revenues. The city has covered the operating deficit of MTA Bus since 2004, the year MTA Bus was established, as part of an agreement with the MTA. Funds from MMTOA are combined with the cash provided from the city's coffers and the total amount is reported by the MTA as "City Subsidy to MTA Bus Company" in the MTA's financial plans. In 2010, the MTA estimated that the total subsidy paid by the city to MTA Bus, including payments from MMTOA and the city, was $343 million.[2]

Even after budgeted distributions are made from MMTOA to the Dedicated Tax Fund, Transportation District Account, and upstate transit entities each year, the account's balance, according to the MTA's financial plans, is positive at year-end. The timing of the state's deposits in MMTOA explains why the account appears to have a surplus of cash. Each year MMTOA receives deposits of dedicated tax and fee receipts from the state in the second, third, and fourth quarters *as well as* a full advance of tax and fee receipts from the first quarter of the following year in the fourth quarter of the current year. For this reason MMTOA's balance is positive at year-end even after the MTA completes its budgeted allocations. The MTA receives little or no deposits into MMTOA for the first quarter of each year. (For more details on the dedicated pool, transportation operating, and other accounts, see sidebar on this page.)

Not all of the dedicated revenues are distributed in such a convoluted way. Property transfer tax revenues are allocated directly to the MTA's administrative headquarters

A Glossary of Dedicated Transportation Revenue Accounts

Dedicated Funds Pool. The Dedicated Funds Pool receives deposits of most of the petroleum business taxes and a large share of the motor fuel taxes and motor vehicle fees collected by the state. The Dedicated Funds Pool was established in 1991 as part of a broad effort by the state Legislature to continue capital investment in the state's transportation infrastructure. Previously, the MTA received direct capital grants from the state to finance infrastructure development. By statute, 37 percent of the funds collected in the Dedicated Funds Pool are allocated to the Mass Transportation Trust Fund. The other 63 percent of Dedicated Funds Pool revenue flows to the Highway and Bridge Trust Fund.

Metropolitan Mass Transportation Operating Assistance Account. This account pools revenue collected from the corporate franchise tax surcharge, MTA district sales tax, the basic petroleum business tax (the basic tax), and corporate franchise tax on transportation and telephone transmission. The account was established in 1980 by State Finance Law 88-a to fund the operating expenses of all the different MTA subsidiaries (from MTA New York City Transit to MTA Metro-North Railroad) and to service the MTA's tax revenue backed bonds if Mass Transportation Trust Fund deposits are insufficient. Funds flow from the account to upstate transit systems according to statute and to the Dedicated Tax Fund, MTA Long Island Bus, and MTA Bus by appropriation.

Mass Transportation Trust Fund. This fund receives 37 percent of the taxes and fees deposited in the Dedicated Funds Pool according to statute. The trust fund was established in 1991 along with the Dedicated Funds Pool. For 2010, the MTA estimates that 92 percent of trust fund revenue flowed to the Dedicated Tax Fund for the purpose of paying debt service on Dedicated Tax Fund Bonds with the balance going to upstate transit entities.

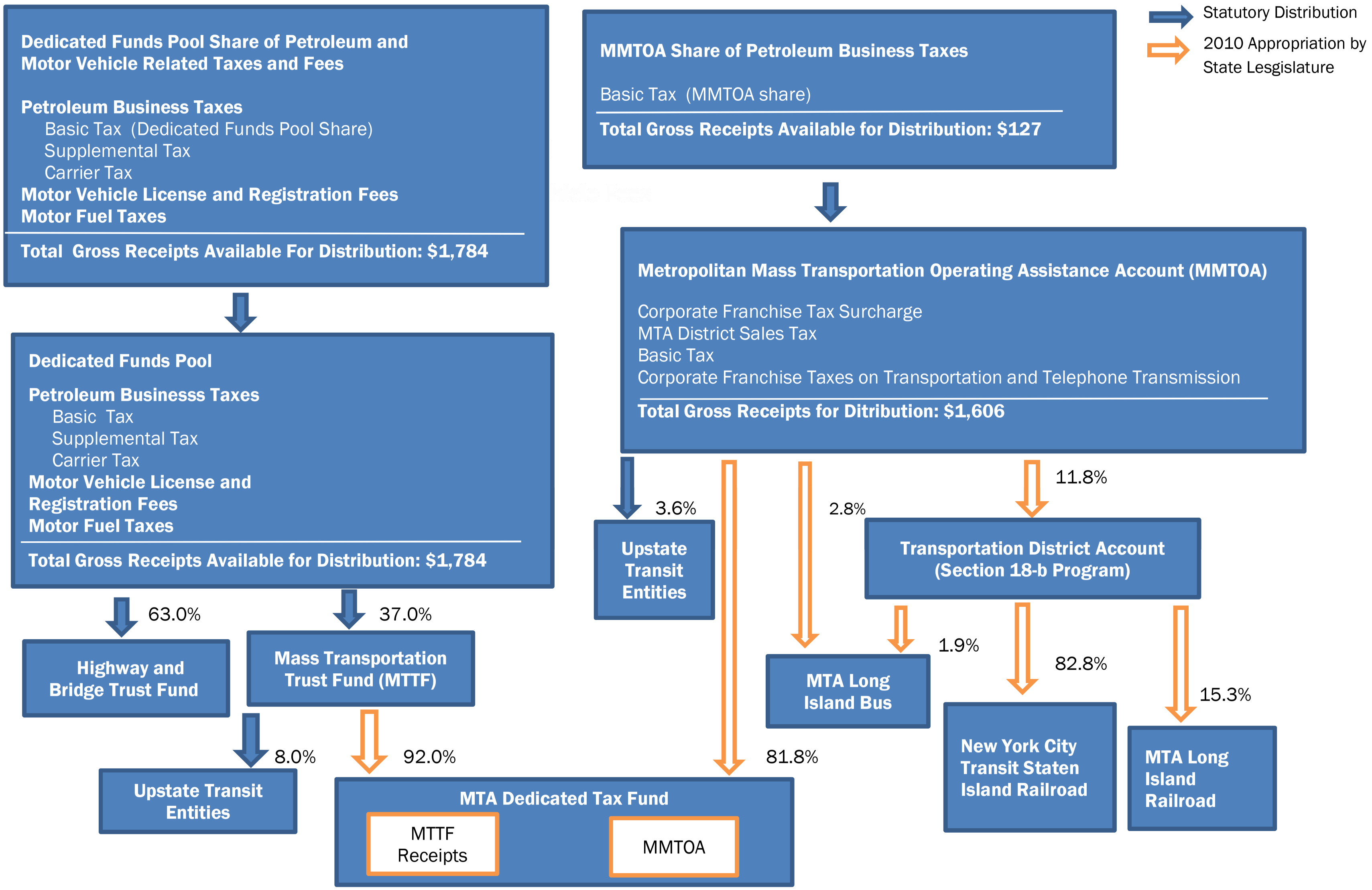
MTA Finance Fund. The MTA Finance Fund, which was introduced in 2009, is funded by the payroll mobility tax—a 34 cent per $100 payroll tax applicable to nearly all private- and public-sector employers operating within the area served by the MTA in New York. This revenue may be used to service MTA debt and pay operating expenses of the MTA and its related entities.

MTA Aid Trust Account. The MTA Aid Trust Account, also introduced in 2009, is funded by supplemental motor vehicle license and registration fees, a supplemental car rental fee, and a 50 cent charge on taxi rides within the MTA district. These taxes and fees may be used to pay debt service on MTA Bridges and Tunnels' debt or to help pay the MTA's operating expenses, depending on the authority's needs.

Transportation District Account (Section 18-b Program). The Transportation District Account receives legislative appropriations for the Section 18-b program, which helps pay for the operating expenses of the MTA's subway, bus, and commuter railroad systems. The Transportation District Account was created in 1975 in anticipation of continuing operating deficits of the state's mass transportation systems. The program is administered by the New York State Commissioner of Transportation. The vast majority of the state's Section 18-b deposits into the Transportation District Account come from specific annual legislative appropriations from MMTOA and a small amount comes from the state's General Fund. Payments from the Transportation District Account to the authority and its related entities occur on a quarterly basis. In 2010, the MTA estimates that New York City Transit and Staten Island Railroad received $157 million, or 82.8 percent of appropriations from MMTOA deposited in the Transportation District Account, the commuter railroads received $29 million, or 15.3 percent, and Long Island Bus received $4 million, or 1.9 percent.

2010 Budgeted Allocation of Dedicated Tax and Fee Revenues to Transit System Accounts

Dollars in millions



SOURCES: IBO; Metropolitan Transportation Authority 2011 February Financial Plan; Metropolitan Transportation Authority 2010 Combined Continuing Disclosure Filing

NOTES: See page 4 of the text for an explanation of differences between the fiscal year deposits into MMTOA and the budgeted allocation from MMTOA to transit system accounts.

and to MTA New York City Transit. The payroll mobility tax and MTA Aid Trust Account revenues are deposited in separate accounts for operating and capital finance purposes, depending on the authority's needs.

Comparing Volatility: Dedicated Revenues vs Fares and Tolls

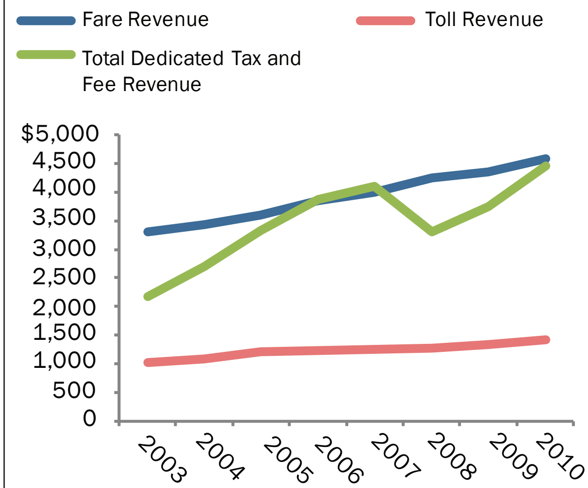
Following the revenue streams from the various state accounts to the MTA's budget can be a challenge. Knowing how much revenue to anticipate from these sources adds another layer of complexity.

From one year to the next, the dedicated tax and fee revenues have been more volatile—exhibited greater change from year to year—than fare and toll revenues. Over the years 2003 through 2010, fare and toll revenues continually increased, even through the recession. But over the same period dedicated tax and fee revenues rose and fell precipitously, with some of the largest revenue sources having the widest swings.

While fare and toll revenues are affected by changes in transit rider and commuter volumes, these revenue sources have typically held fairly steady even in economic downturns by tourism and residents who continue to use the system to get around town. In contrast, dedicated tax and fee collection levels are closely associated with the economic conditions in the region. Also, the state Legislature may affect funds made available to the MTA by changing either statutory determinations of the amounts of dedicated taxes and fees flowing to transit system

Dedicated Tax and Fee Revenues Have Been More Volatile Than Fare and Toll Revenue

Dollars in millions



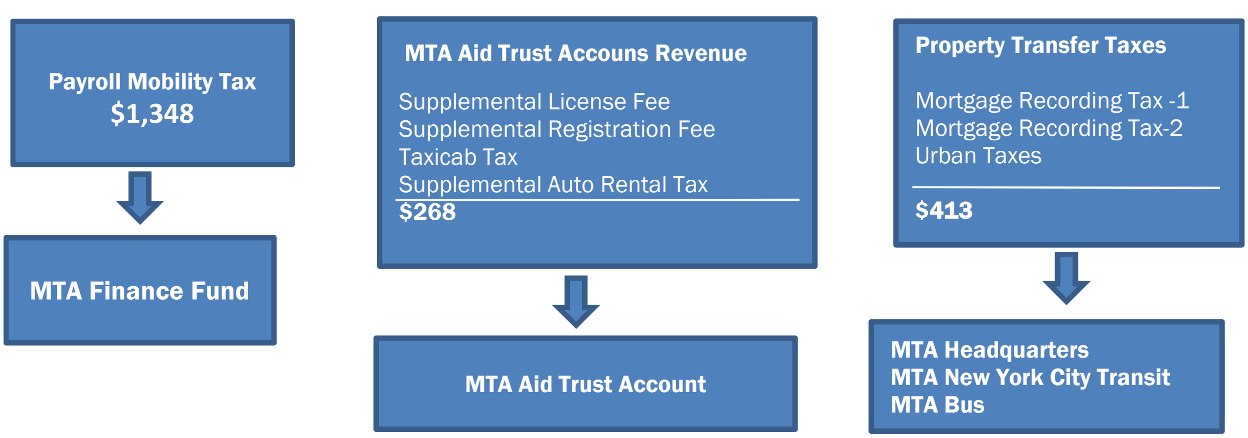
SOURCES: IBO; Metropolitan Transportation Authority Annual Financial Reports 2003 to 2010; Metropolitan Transportation Authority Financal Plans 2003-2011
NOTE: Data are not adjusted for tax rate or tax base changes.

accounts or though annual appropriations of taxes and fees from the Dedicated Funds Pool and MMTOA.

Fares and Tolls. Although transit ridership declined in 2003 due to the poor regional economy, revenue increased following increases in fare and toll rates.[3] The base rate of subway fares rose from $1.50 to $2.00—a 33.3 percent hike—and commuter railroad fares and bridge and tunnel tolls were also increased. As a result, fare receipts rose 15.7 percent to $3.3 billion and toll receipts rose 9.5 percent to $1.0 billion. The

Allocation of Funds Available Directly to MTA and Related Entities, 2010

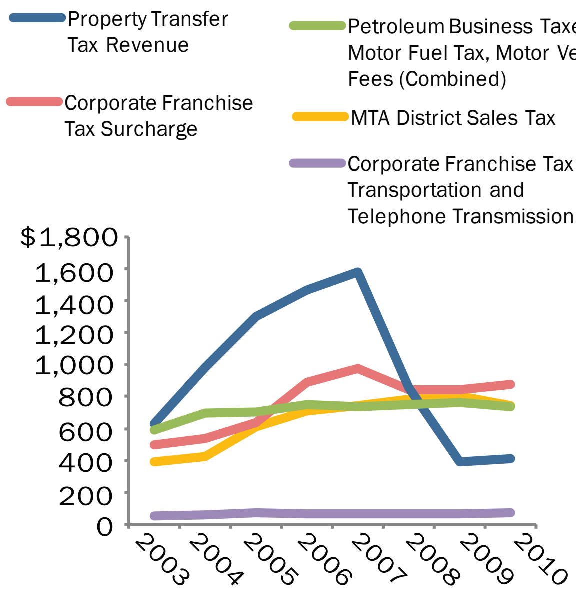
Dollars in millions



SOURCES: IBO; Metropolitan Transportation Authority February 2011 Financial Plan
NOTES: Allocations as of March 31, 2011. Dedicated tax and fee revenue figures are final estimate values from the February 2011 Financial Plan.

Property Transfer Tax Revenue Has Exhibited the Most Year-to-Year Changes Among Dedicated Taxes and Fees

Dollars in millions



SOURCES: IBO; Metropolitan Transportation Authority Financial Plans 2003 through 2011
NOTE: Payroll mobility tax and MTA Aid Trust Account taxes not shown due to limited collections history.

MTA estimates that had fare and toll rates remained unchanged and transit ridership experienced the same decline, fare revenue would have grown 3.1 percent to just under $3.0 billion in 2003 while toll revenue would have declined 4.3 percent to $893 million. Fueled by increased transit ridership and tourist demand, after 2003 fare and toll revenues exhibited moderate growth through the end of the decade. From 2003 through 2010, annual increases in fare revenue have ranged from 2.6 percent to 15.7 percent while increases in tolls have ranged from 0.7 percent to 9.8 percent. On an average annual basis since 2003, fare revenue has grown 4.7 percent and toll revenue has grown 4.8 percent.

Taxes and Fees. Dedicated tax and fee revenues have been significantly more volatile than fare and toll revenues over the past seven years. Five of the MTA's largest sources of dedicated taxes and fees are closely associated with general business conditions—the corporate franchise tax surcharge, MTA district sales tax, petroleum business taxes, mortgage recording tax and the urban taxes. Together these taxes accounted for an estimated $2.5 billion of dedicated tax and fee receipts in 2010—55.7 percent of dedicated tax and fee revenues and 22.7 percent of combined dedicated revenue, fare, and toll receipts. In the years ahead, mobility tax collections should reflect changes in the business cycle as well; the rise and fall of mobility tax receipts will likely mirror the contractions and expansions of regional business, nonprofit, and government payrolls. However, the volatility of the mobility tax is not discussed in this section due to its limited collection history.

Other dedicated taxes and fees—motor vehicle fees, motor fuel tax, and the corporate franchise tax on transportation and telephone transmission—are less sensitive to changes in business conditions. Together they account for a modest share of dedicated tax and fee revenue—$354 million, or 7.9 percent. (Like the mobility tax, the volatility of MTA Aid Trust Account taxes and fees are not addressed below due to their limited collection histories.)

Property Transfer Taxes. Property transfer taxes have had the largest swings in collection levels of all dedicated taxes and fees for the period 2003 through 2010. That is because property transfer tax revenues over this period reflect the boom and subsequent bust in the market for commercial and residential real estate. After exhibiting strong growth from 2003 through 2007, mortgage recording tax revenues plummeted from a peak of $760 million in 2006 to an estimated $225 million in 2010—an average annual decline of 26.2 percent. Urban tax revenues tumbled from a peak of $894 million in 2007 to an estimated $188 million in 2010—an average annual decline of 40.6 percent—following the deterioration of the commercial real estate sector. Among the factors precipitating the decline was a lack of financing for developers and a general drop off in commercial property values on expectations of weaker demand from office-using industries.

Corporate Franchise Tax Surcharge. Corporate franchise tax surcharge receipts have also reflected significant volatility over the 2003–2010 period. Revenues surged 18.2 percent in 2005 to $638 million and then 38.8 percent higher to $886 million in 2006 before growth slowed to 10.0 percent with collections totaling $975 million in 2007. With the onset of the recession, revenue declined 13.6 percent to $842 million in 2008. The decline would have been greater had there not been increased auditing of corporate tax filers from 2006 through 2009 generating a nonrecurring boost in revenue. Surcharge receipts grew modestly in the next two years. While the financial sector, a major source of corporate tax revenue, enjoyed strong profits in 2009 and 2010, its tax liability was moderated by net operating losses incurred by banks and other businesses during the recession.

A Growing Set of Dedicated Taxes and Fees

Payroll Mobility Tax The mobility tax is by far the most significant revenue source for the MTA. Introduced in 2009 to help close an estimated $1.9 billion deficit, the tax is 34 cents per $100 of payroll applicable to nearly all employers in the area served by the MTA that have payrolls over $2,500 each quarter of the year. Corporate and unincorporated businesses, nonprofits, government agencies and school districts are subject to the tax. Revenues from the payroll tax flow into the MTA Finance Fund. These revenues may be used for a variety of purposes by the authority, including debt service and operating expenses. The authority received an estimated $1.3 billion from the payroll tax in 2010— 30.3 percent of dedicated tax and fee revenues.

Corporate Franchise Tax Surcharge. This tax is a 17 percent surcharge on the state franchise taxes of most corporations operating within the area served by the MTA. The surcharge only applies to the portion of franchise taxes levied on business activity that occurs within the MTA's service area. Originally imposed in 1982 as a temporary measure, the surcharge has been amended several times by the state Legislature to postpone its expiration, most recently in 2008, and is currently scheduled to expire in 2013. The surcharge has grown from $500 million in 2003 to a peak of $975 million in 2007. In 2010, the MTA estimates that the surcharge contributed $875 million to the Metropolitan Mass Transportation Operating Assistance Account—19.7 percent of dedicated tax and fee revenues.

MTA District Sales Tax. The MTA district sales tax is a 0.375 percent tax on the sale of the same goods and services covered by the state's 4.0 percent sales tax. Sales tax revenue has grown from $393 million in 2003 to $609 million in 2005 fueled by a 0.125 percentage point increase in the tax rate. More recently, sales tax revenue peaked at $803 million in 2009 before declining to an estimated $741 million in 2010—16.6 percent of dedicated tax and fee revenues.

The state Legislature, New York City, and other local governments have on occasion offered sales tax holidays and exemptions on clothing and footwear costing as much as $500. While these tax breaks have reduced the overall level of sales tax receipts, the MTA is compensated for the foregone revenue by the state and local governments which each pay half of the cost.

Petroleum Business Taxes. Petroleum business taxes are levied statewide on a variety of businesses that refine or sell different types of petroleum-based fuel. The petroleum business tax consists of three taxes: the basic tax, the supplemental tax, and the carrier tax. The basic tax is levied on automotive fuel (gasoline and diesel), aviation gasoline, nonautomotive diesel fuel, and residual petroleum products. The supplemental tax is levied on automotive gasoline and diesel. The carrier tax is levied on fuel purchased by motor carriers outside of New York State but used within the state. The combined petroleum business tax deposits to the Mass Transportation Trust Fund and Metropolitan Mass Transportation Operating Assistance Account that flow to the MTA are estimated by IBO to account for 10.2 percent, or $452 million, of the dedicated tax and fee revenues in 2010.[4]

The basic and supplemental petroleum business tax rates vary by product. The state fiscal year 2010-2011 basic tax rate for automotive gasoline was 9.8 cents per gallon while the basic tax rate for railroad diesel fuel was 8.5 cents per gallon. The supplemental tax applies only to automotive gasoline and diesel fuel. That rate was set at 6.5 cents per gallon for gasoline and 4.75 cents per gallon for diesel in 2010-2011. The basic and supplemental carrier tax rates are set at the same rates as the basic and supplemental rates that apply to gasoline and diesel.

Both basic and supplemental petroleum business rates are subject to annual adjustments based on the changes in the federal producer price index for refined domestic petroleum production. Tax rates rise with price increases and fall with price decreases. While these rate adjustments could be a significant source of revenue volatility, a hard cap on year-to-year rate changes of 5 percent limits the impact of petroleum price changes on revenues.

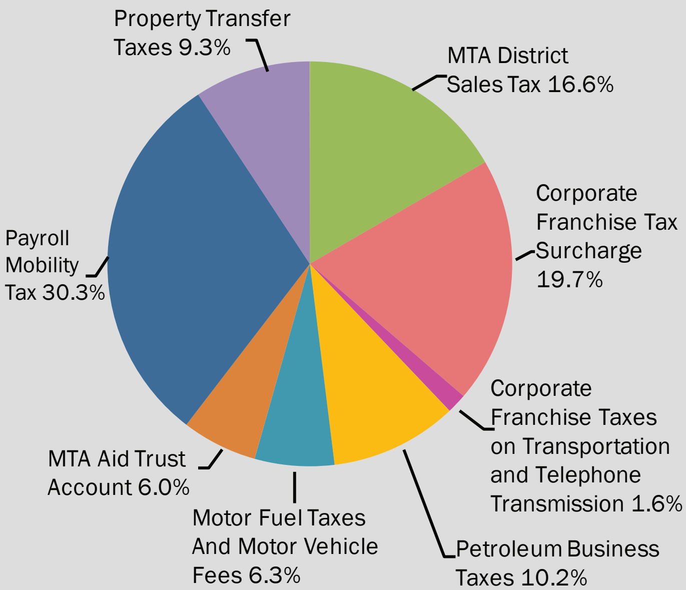
Mortgage Recording Tax. The state collects mortgage recording taxes (MRT) on residential and commercial mortgages associated with property within the region served by the MTA. There are two kinds of mortgage recording taxes: MRT-1, a tax of 30 cents per $100 of mortgage value paid by the borrower taking out a mortgage loan, and MRT-2, a tax of 25 cents per $100 of mortgage value which is paid by the institution that makes a mortgage loan to a borrower. Both MRT-1 and MRT-2 revenues flow directly to the MTA. According to statute, MRT-1 revenue is used to cover MTA headquarters expenses first and bus and railroad expenses second. MRT-2 revenue is first used to support transit systems in Dutchess, Orange, and Rockland counties and, second, to cover various other operating and capital costs of the MTA. In 2010, combined MRT-1 and MRT-2 revenues came to an estimated $225 million, 5.1 percent of MTA dedicated tax and fee revenues.

Urban Taxes. The urban taxes consist of a separate MRT in New York City levied on commercial mortgages, and a real property transfer tax levied on sales of commercial real estate property, which includes apartment buildings. Ninety percent of these taxes flow directly to MTA New York City Transit general operations, 6 percent flow to New York City Transit's paratransit operations, and 4 percent flow to MTA Bus on a monthly basis. Through the urban taxes, the MTA receives about 63 cents on every $100 of commercial mortgage value greater than or equal to $500,000 and $1 on every $100 of the sales price of commercial property above $500,000. In 2010, urban tax deposits amounted to an estimated $188 million, 4.2 percent of total dedicated revenues.

MTA Aid Trust Account Taxes and Fees. Other new dedicated revenue sources introduced in 2009 include supplemental motor vehicle license and registration fees, a supplemental car rental fee, and a 50 cent charge on taxi rides within the MTA service area. These revenues flow into the MTA Aid Trust Account and are used to service debt for MTA Bridges and Tunnels, or to pay for operating and capital costs of the MTA's related entities. For 2010, revenues from these sources are estimated to total $268 million, 6.0 percent of dedicated taxes and fees.

The Mobility Tax Accounted for Almost One-third of All Dedicated Tax and Fee Revenue in 2010

2010 Dedicated Revenue Allocated to the MTA and Related Entities: $4.5 billion



SOURCES; IBO; Metropolitan Transportation Authority February 2011 Financial Plan
NOTES: Metropolitan Transit Authority-related entities include New York City Transit, MTA Bus, MTA Long Island Bus, MTA Long Island Rail Road, MTA Metro-North Railroad, Staten Island Railroad, MTA Capital Corporation Company, and MTA Bridges and Tunnels.

Motor Vehicle Fees. Motor vehicle fees are derived mainly from state vehicle registration and driver license fees. As of 2010, over half of vehicle registration fees and a portion of other motor vehicle-related fees are deposited in the Dedicated Funds Pool with 37 percent flowing to the Mass Transportation Trust Fund. Motor vehicle fees have grown from $96 million in 2003 to an estimated $183 million in 2010. Motor vehicle fees accounted for roughly 4 percent of dedicated revenues in 2010, based on IBO's estimate.[5]

Motor Fuel Taxes. Motor fuel taxes consist of an 8 cents per gallon tax levied on both gasoline and diesel fuel and paid by fuel distributors registered within New York State. The gasoline rate has been constant since 1972 when the rate was raised a penny per gallon. The diesel fuel rate has been constant since 1996 when it was lowered from 10 cents to 8 cents per gallon. Motor fuel tax revenue has ranged between $97 million and $101 million, and accounted for roughly 2 percent of dedicated tax and fee revenues in 2010, according to IBO's estimate.

Corporate Franchise Taxes on Transportation and Telephone Transmission. In New York State, two corporate franchise taxes are imposed specifically on trucking and local telephone companies. One is levied on the gross earnings in New York State of the companies. The second tax is levied on the firms' capital stock, capital stock dividends, or a minimum payment of $75 (whichever is higher). The tax base is unlikely to grow rapidly since the tax is not levied on mobile phone businesses, the most dynamic part of the telecommunications sector. Also excluded from the tax are receipts earned from international and interstate transportation services. From 2003 through 2010, this tax collected between $52 million and $71 million, 1.6 percent of dedicated revenues in 2010.

Petroleum Business Taxes. Legislative changes have affected the level of petroleum business taxes flowing to the dedicated revenue accounts. Annual percentage changes in petroleum business tax receipts from 2003 on ranged from an increase of 17.8 percent in 2004 to a decline of 7.6 percent in 2010—a swing of 25.4 percentage points. The jump in revenue from 2003 to 2004 from $399 million to $470 million can be attributed partly to the state Legislature's approval of greater petroleum business tax allocations to the dedicated revenue pool early in the last decade. For example, in state fiscal year 2000–2001, the Legislature eliminated the minimum taxes on petroleum beginning March 1, 2001 and reduced the rate on commercial heating oil by 33.0 percent beginning September 1, 2002. To offset the revenue losses from the smaller tax levy and the lower rate on commercial heating oil, the Legislature gradually increased the Dedicated Funds Pool's share of the petroleum business taxes and earmarked additional income from motor fuel taxes and vehicle registration fees for the fund.

MTA District Sales Tax. The MTA district sales tax is typically less affected by economic changes than other dedicated tax and fee sources due to its diverse tax base. Sales tax revenue grew moderately over the 2003-2010 period, with the exception of 2005–2006 when the MTA transit sales tax was raised from 0.25 percent to 0.375 percent beginning June 1, 2005—a 50 percent increase in the rate. Revenue jumped 43.8 percent in 2005—rising nearly $200 million to $609 million—and rose 16.4 percent, or $100 million, in 2006. Had the tax hike not taken effect, IBO estimates that revenue would have risen 10.8 percent to $469 million in 2005 and 0.8 percent to $473 million in 2006.

Other Taxes. The growth of revenue from most other taxes has been affected by changes in statutory allocations and fees. Motor vehicle fee receipts grew rapidly from 2000 through 2003 due to statutory changes in the share of fee revenue dedicated to the Dedicated Funds Pool, and they are likely to again grow rapidly in coming years due to the 25 percent hike in license and registration fees enacted in state fiscal year 2009–2010. MTA revenue from motor fuel tax receipts also grew strongly at the beginning of the decade due to three statutory increases in the percent of motor fuel tax revenue allocated to the Dedicated Funds Pool. After strong growth in the first half of the decade, receipts from the corporate franchise taxes on transportation and telephone transmission declined in 2006 and increased little in subsequent years, in part because taxes on mobile phone businesses, the most dynamic part of the telecommunications sector, are not included in the tax base.

The Effect of Legislative Appropriations. Each fiscal year, the Legislature appropriates funds from dedicated tax and fee revenue accounts to meet statutory debt service requirements of the Dedicated Tax Fund and to fund the Transportation District Account which receives a portion of dedicated taxes and fees specifically to help cover the operating expenses of the MTA and its related entities. In recent years the state Legislature has made changes

The Range of the MTA's Forecast Error for Dedicated Tax and Fee Revenues Is Increased Significantly by the Volatility of Property Transfer Taxes

Dollars in millions

	Actual Revenues			Forecast Revenues			Forecast Errors		
	Total Taxes and Fees	Property Transfer Taxes	Taxes and Fees Net of Property Transfer Taxes	Total Dedicated Taxes and Fees	Property Transfer Taxes	Taxes And Fees Net of Property Transfer Taxes	Total Dedicated Taxes and Fees	Property Transfer Taxes	Taxes and Fees Net of Property Transfer Taxes
2005	$3,325.5	$1,300.9	$2,024.6	$2,388.6	$648.9	$1,739.7	-28.2%	-50.1%	-14.1%
2006	3,876.2	1,464.5	2,411.7	2,910.2	748.0	2,162.2	-24.9%	-48.9%	-10.3%
2007	4,106.8	1,580.6	2,526.2	3,329.1	1,081.7	2,247.4	-18.9%	-31.6%	-11.0%
2008	3,297.8	855.3	2,442.5	3,825.6	1,241.2	2,584.4	16.0%	45.1%	-5.5%
2009	3,739.7	389.3	3,350.4	3,980.2	476.5	3,503.7	6.4%	22.4%	-4.4%
2010	4,449.9	413.1	4,036.8	4,951.8	541.2	4,410.6	11.3%	31.0%	-8.5%

SOURCES: IBO; Metropolitan Transportation Authority Financial Plans 2005-2011

NOTES: 2010 Data are final estimates per the Metropolitan Transportation Authority's February 2011 Financial Plan. Negative (positive) forecast errors denote under-estimates (over-estimates). February Financial Plans are source of forecast revenues with the exception of 2009. The July Financial Plan was used in 2009 because it contains the first forecasts of the payroll mobility tax and MTA Aid account taxes and fees.

to dedicated tax and fee appropriations prior to and after deposits have been made in transit system accounts, subsequently changing the amount of money made available to the MTA.

Since 2009, the state Legislature has approved three reductions to dedicated tax and fee revenue that had already been appropriated by the state Legislature. In December 2009 the state reallocated $143 million that had been previously appropriated and deposited in the Metropolitan Mass Transportation Operating Assistance Account in order to help close a $2.7 billion state budget gap. In September 2010, the state reduced $16.7 million in dedicated tax and fee revenues earmarked for the MTA to make up for shortfalls in funding for the state's Medicaid expenses. In May 2011, the state approved use of $200 million in transportation operating account receipts to pay debt service on transit bonds that would otherwise be paid out of the state's General Fund. However, $100 million in existing state economic development capital funds will be used to partially offset this amount, leaving the authority with a net loss of $100 million.

The Challenge of Forecasting Dedicated Revenues

Given the MTA's wide variety of dedicated revenue sources and rapidly changing economic conditions, it can be difficult to accurately forecast tax and fee revenue. In addition to the difficulties state and city forecasters typically experience when they project revenues, there are three reasons the MTA's forecasts have been particularly challenging.

First, the extreme volatility of real property transfer taxes—which accounted for nearly 40 percent of the MTA's dedicated revenues in 2007—made the authority's forecasts of total revenues especially difficult over the past several years.[6] The rapid run-up and subsequent decline of the markets for residential and commercial real estate led forecasters at every level of government (including IBO) to underestimate property transfer tax receipts during the boom and overestimate these receipts during the bust. The MTA was no exception to this trend. Comparing the MTA's February revenue forecasts (the first of three forecasts produced for current-year collections) with actual revenues, the MTA underestimated property transfer tax receipts by close to 50 percent annually in 2005 and 2006 and by 32 percent in 2007. In the following three years, it overestimated these revenues, with the each year's forecast error ranging from 22 percent to 45 percent. These forecast errors are far greater than those for all other dedicated taxes and fee revenue together, which were underestimated each year during the 2005-2010 period, by as little as 4 percent and by as much as 14 percent.

The volatility of the property transfer taxes is more a problem for the MTA than for the city or state because the authority is far more dependent on these taxes. At the peak of the real estate cycle in 2007, property transfer taxes made up 39.1 percent of the MTA's dedicated taxes and fees, compared with 8.7 percent of total tax receipts for New York City (city fiscal year 2007) and 1.7 percent of New York State's tax receipts (state fiscal year 2007-2008). After three years of steep declines, property transfer taxes accounted for just 9.3 percent of the MTA's dedicated revenues in 2010 compared with 2.6 percent for New York City in city fiscal year 2010 and less than 1 percent of New York State revenues in state fiscal year 2009–2010.[7]

Another problem is that the MTA's February forecasts precede any tax policy changes in the state's adopted budget for the upcoming year. For example, the MTA's February 2005 estimates of MTA district sales tax revenue differ significantly from actual collections because the retail sales tax rate was increased from 0.25 percent to 0.375 percent in June 2005. February 2005 sales tax estimates appear to significantly underestimate expected revenue because they were calculated using the 0.25 percent tax rate as opposed to the new 0.375 percent rate.

A third difficulty arises because taxes with a limited history of collections are particularly hard to forecast accurately. Two major sources of MTA revenue, the payroll mobility tax and trust account taxes and fees, were introduced in 2009. Most of the MTA's $381 million revenue shortfall in 2010 was due to lower-than-expected payroll mobility tax collections. The mobility tax underperformed February 2010 estimates by $321 million (23.8 percent). The February 2010 forecast for the mobility tax of $1.7 billion was based partially on the expected receipt of $179 million in delayed 2009 mobility tax liabilities from businesses—payments that failed to materialize. In July 2010, the authority revised the mobility tax forecast down by $386 million to $1.2 billion, reflecting both lower-than-expected receipts for the first half of the year and the lack of income from the delayed payments.[8] Mobility tax receipts are estimated at $1.3 billion for 2010—an increase from the July 2010 outlook, but still $321 million lower than the authority's February 2010 forecast.

MTA Aid Trust Account taxes and fees also fell short of the forecasts. These revenues came in $60 million lower—22.4

percent—than the forecast published in February 2010 due to lower-than-expected collections in license and registration fees.

A Forecast of Challenges Ahead. Going forward, the MTA's financial health will continue to be affected by the volatility of its dedicated taxes and fees, many of which closely track the ups and downs of the regional business cycle. Gyrations in the property transfer taxes—the MTA's most volatile sources of dedicated revenues—have been far steeper than changes in the economy as a whole; from a peak of $1.6 billion in 2007, total transfer taxes plummeted 75.4 percent in just two years. Most of the MTA's receipts from dedicated taxes and fees have fallen significantly in recent years. Since 2007, when most dedicated taxes and fees had peak collections, dedicated taxes and fees have declined an average of 11.6 percent a year—a decline of $1.3 billion.[9] Dedicated tax and fee revenues may stabilize in the near term if multiple sectors of the regional economy continue to grow at a steady pace. Nonetheless, the MTA's pool of dedicated tax and fee revenues will likely remain among the most important—and most volatile—sources of income for the authority for years to come.

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Endnotes

[1]By statute $7.5 million of the basic petroleum business tax (see sidebar) is first appropriated directly to the MTA. Of the remaining basic tax, 80.3 percent flows to the Dedicated Funds Pool and 19.7 percent flows to MMTOA.
[2]The MTA does not report the city's subsidy to MTA Bus as part of the distribution from MMTOA to transit system accounts and upstate entities. Therefore it is not included in chart on page 5.
[3]In addition to the increases in fares and tolls, other factors such as unfavorable weather conditions and the August blackout also depressed ridership and bridge and tunnel crossings.
[4]IBO used state fiscal year data on petroleum business tax revenues and motor vehicle related taxes and fees to estimate the receipts on a calendar year basis. The difference between estimated 2010 state and calendar year revenues for these taxes is modest: calendar year revenue is estimated at $607 million compared with state fiscal year revenue of $604 million.
[5]For both motor vehicle fees and motor fuel taxes, IBO derived the 2010 calendar year percentage by dividing state fiscal year 2010–2011 collections by total calendar year dedicated tax and fee revenue.
[6]The format of forecast presentation currently used by the MTA became standard practice in 2005. To preserve consistency, only forecasts for 2005 through 2010 are discussed in this section.
[7]Unlike the city and state figures, which are based on actual collections data, the 2010 figure is the MTA's "final estimate."
[8]According to the MTA's November 2010 Financial Plan, the authority's forecast was based primarily on projections made by the New York State Department of Taxation and Finance, which incorporated overstated payroll tax estimates provided by businesses.
[9]The calculation of the 2007–2010 revenue decline excludes the mobility tax and the MTA Aid Trust Account because these taxes did not exist in 2007.

Detailed Revenue Tables