

Follow the Money

The MTA's New Revenues

April 05, 2019

The New York State Adopted Fiscal Year 2020 Budget directs three revenue sources—the new New York City central business district (CBD) congestion tolling fee, the new real estate transfer tax on sales greater than \$2 million in New York City, and a share of State and City sales tax revenues—to support the Metropolitan Transportation Authority (MTA). The revenues will go to the “CBD Tolling Capital Lockbox” to support the MTA’s 2020-2024 Capital Plan (as well as subsequent capital plans). This blog clarifies what the revenue streams are and how they will flow to the lockbox.

Central Business District Tolling Program

The largest revenue stream will come from the new congestion pricing program that tolls vehicles entering Manhattan at 60th Street or south of it.¹ The law provided a governance structure and some specifics on the contours of the program, but many of the details are subject to administrative decision-making.

How the Program Will Work

CBD tolls will be implemented no sooner than January 1, 2021. The Triborough Bridge and Tunnel Authority (TBTA), the MTA affiliate agency that manages nine MTA bridges and tunnels in New York City, will implement and operate the tolling program in cooperation with the New York City Department of Transportation (DOT). A Memorandum of Understanding between TBTA and DOT is to be reached within 60 days of the State budget’s adoption.

Toll rates are not set in statute and will be determined by the TBTA board based on the recommendation of a six-member Traffic Mobility Review Board (TMRB).² (Previous analyses have recommended a peak rate of \$11.52.)³ The New York City Mayor can recommend one TMRB member to the TBTA, but the TBTA will appoint all six members. One of the six must reside in the region served by Metro-North Railroad and one in the region served by the Long Island Rail Road.

The Adopted Budget set the following parameters for the TMRB:

- At a minimum tolls are to be set to cover the cost of operating the tolling system and to support \$15 billion of capital investment in the MTA's 2020-2024 Capital Plan;
- Use of variable pricing structures, such as the time of day, day of the week, type of vehicle, and other factors;
- Passenger vehicles may be charged only once per day, while commercial vehicles can be charged more than once; and
- Exemption of emergency vehicles and vehicles transporting the disabled; consideration of additional exemptions, credits, or other discounts based on results from a traffic study.

Additionally, the State will offer a refundable personal income tax credit for congestion pricing tolls paid by residents of the zone with household income below \$60,000.

How Much Revenue Will It Generate and How Will It Be Used

The tolling program is expected to generate roughly \$1 billion annually to support \$15 billion in capital investment, as well as TBTA's cost of implementing and operating the program. The State is loaning \$100 million to TBTA to cover initial implementation costs. Revenues exceeding the annual operating cost will be deposited into the CBD Tolling Capital Lockbox, discussed in detail below. The revenue will not be not subject to appropriation by the Legislature and will not appear in the State budget.

Progressive Real Estate Transfer Tax

The Adopted Budget also increased real estate transfer taxes on residential and commercial properties in New York City, with new revenues dedicated to the MTA. The budget established two new components of the New York State Real Estate Transfer Tax (RETT), expected to generate \$365 million annually to support the MTA Capital Program.⁴

How the Tax Will Work

New York State levies its RETT; the Adopted Budget created two additional charges only for property transferred in New York City.

First, the base State RETT was increased 0.25 percentage points to 0.65 percent of the price of residential sales of \$3 million or higher and for commercial sales of \$2 million or higher in New York City.⁵ (See Table 1.) Generally, the seller pays the base RETT.

Second, a new “mansion tax” was added to the State RETT for New York City sales. Currently, all New York State buyers of residential property of \$1 million or more pay an additional 1 percent of the sales price. In New York City the new progressive mansion tax will be levied starting at 0.25 percent for residential sales between \$2 million to \$3 million, increasing to 2.9 percent for sales of \$25 million or more. Generally, the buyer pays the mansion tax.

Properties affected by the new taxes are also subject to the City’s Real Property Transfer Tax (RPTT): 1 percent on residential transactions of \$500,000 or less, 1.425 percent on residential transactions greater than \$500,000 and commercial transactions of \$500,000 or less, and 1.625 percent on commercial transactions more than \$500,000. Commercial transactions greater than \$500,000 also are subject to a 1 percent transaction tax that supports the MTA.

Taken together, total State and City transfer taxes will range from 1.4 percent to almost 6 percent for properties selling for more than \$25 million. The new taxes will take effect on July 1, 2019.⁶

Table 1: Real Estate Transfer Tax Rates for Transactions in New York City, Reflecting NYS Adopted FY 2020 Budget

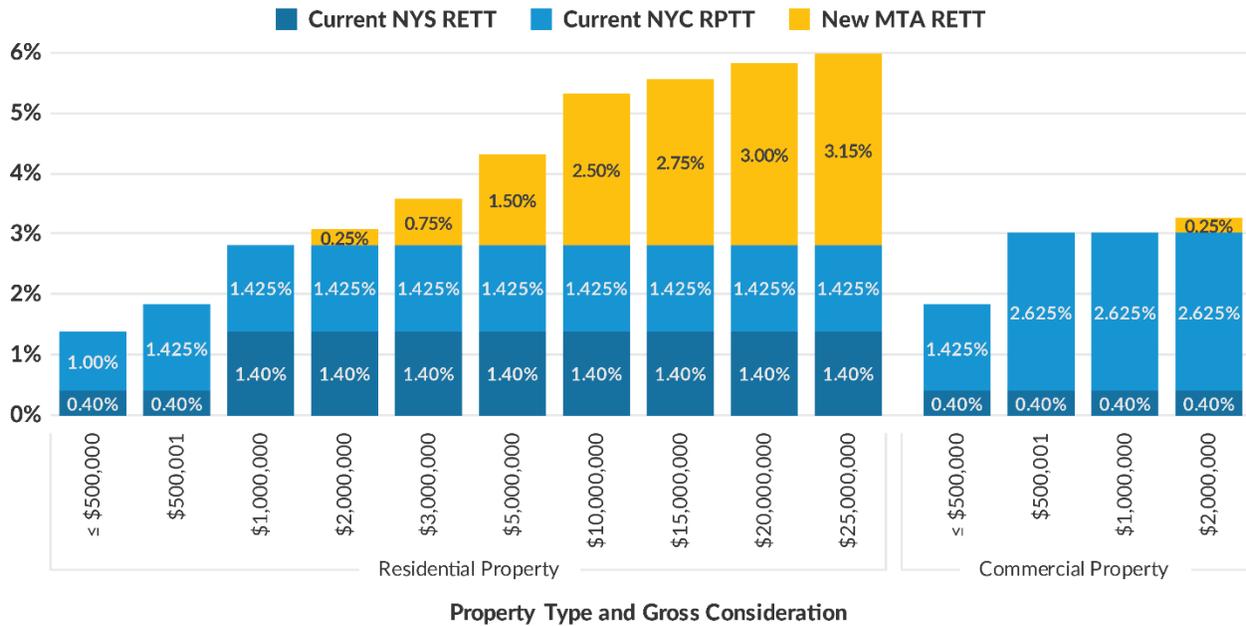
| Gross Consideration of at Least | New York State Transfer Tax | | | | | Total NYC Transfer Tax* | Total NYS and NYC Transfer Tax (on transactions in NYC) |
|--|--|--|---------------------------------------|---|---|-------------------------|---|
| | Base NYS Transfer Tax Rate (statewide) | New MTA Base Tax Surcharge in NYC (eff 7/1/2019) | Current State Mansion Tax (statewide) | New MTA Mansion Tax in NYC (eff 7/1/2019) | Cumulative State Transfer Tax in NYC (eff 7/1/2019) | | |
| Residential Property Transferred in New York City | | | | | | | |
| up to \$500,000 | 0.400% | 0.000% | 0.000% | 0.000% | 0.400% | 1.000% | 1.400% |
| \$500,001 | 0.400% | 0.000% | 0.000% | 0.000% | 0.400% | 1.425% | 1.825% |
| \$1,000,000 | 0.400% | 0.000% | 1.000% | 0.000% | 1.400% | 1.425% | 2.825% |
| \$2,000,000 | 0.400% | 0.000% | 1.000% | 0.250% | 1.650% | 1.425% | 3.075% |
| \$3,000,000 | 0.400% | 0.250% | 1.000% | 0.500% | 2.150% | 1.425% | 3.575% |
| \$5,000,000 | 0.400% | 0.250% | 1.000% | 1.250% | 2.900% | 1.425% | 4.325% |
| \$10,000,000 | 0.400% | 0.250% | 1.000% | 2.250% | 3.900% | 1.425% | 5.325% |
| \$15,000,000 | 0.400% | 0.250% | 1.000% | 2.500% | 4.150% | 1.425% | 5.575% |
| \$20,000,000 | 0.400% | 0.250% | 1.000% | 2.750% | 4.400% | 1.425% | 5.825% |
| \$25,000,000 | 0.400% | 0.250% | 1.000% | 2.900% | 4.550% | 1.425% | 5.975% |
| Commercial Property Transferred in NYC | | | | | | | |
| up to \$500,000 | 0.400% | 0.000% | 0.000% | 0.000% | 0.400% | 1.425% | 1.825% |
| \$500,001 | 0.400% | 0.000% | 0.000% | 0.000% | 0.400% | 2.625% | 3.025% |
| \$1,000,000 | 0.400% | 0.000% | 0.000% | 0.000% | 0.400% | 2.625% | 3.025% |
| \$2,000,000 | 0.400% | 0.250% | 0.000% | 0.000% | 0.650% | 2.625% | 3.275% |

* The New York City Transfer Tax flows to the New York City general fund, except for 1 percentage point levied on commercial transactions more than \$500,000 that goes to the MTA.

Note: Yellow shaded columns are rates enacted in the Adopted FY 2020 NYS Budget; remaining rates were already in place. Residential property is one-, two-, three-family homes, and individual residential cooperative and condominium units. The current NYS Base Rate and Mansion Tax provide \$119 million to the New York State Environmental Protection Fund and the remaining funds go to the clean water/clean air bond debt service fund; the base tax surcharge and MTA Mansion tax will flow to the CBD Tolling Capital Lockbox.

Source: New York State Assembly, *Parts 000 and ZZZ of A.2009-c* (2019-2020 Session); and City of New York, Department of Finance, *Statistical Profile of the New York City Real Property Transfer Tax: Calendar Year 2017* (August 2018).

Figure 1: New York State and New York City Transfer Tax Rates for Transactions in New York City, Reflecting NYS Adopted FY 2020 Budget



Note: Rates apply to sales at or above the gross consideration. Tax due based on rate times the total gross consideration. Residential property includes one-, two-, and three-family homes, individual residential cooperative units, and individual residential condominium units.

Source: New York State Assembly, *Parts 000 and ZZZ of A.2009-c* (2019-2020 Session); and City of New York, Department of Finance, *Statistical Profile of the New York City Real Property Transfer Tax: Calendar Year 2017* (August 2018).

How Much Revenue Will It Generate and How Will It Be Used

The New York State Division of the Budget estimates that the two newly enacted RETT surcharges will generate \$365 million per year and are expected to support approximately \$5 billion in MTA capital needs. In contrast to the CBD tolling program that is designed to achieve a target yield, these revenues are estimates based on the enacted policy; however, they are likely to be volatile as are the existing State and City real estate transfer taxes. The funds from these taxes will be deposited by the New York State Comptroller directly into the CBD Tolling Capital Lockbox. They will not be subject to appropriation by the Legislature and will not appear in the State budget.

Sales Tax Intercept

How the Intercept Will Work

The last component of new MTA capital funding comes from allocating a portion of State and City sales tax revenue.² While the enacted State budget required Internet

marketplace sellers to collect sales tax on online purchases, the sales tax support of the MTA is not tied directly to that additional revenue.

The State Comptroller is directed to “intercept” State sales tax revenue and to deposit it into a newly created Central Business District Trust Fund, which subsequently would be appropriated by the Legislature to the CBD Tolling Capital Lockbox. Statute specifies the deposit will be \$112.5 million in State fiscal year 2020, \$150 million in State fiscal year 2021, and will increase 1 percent annually thereafter.

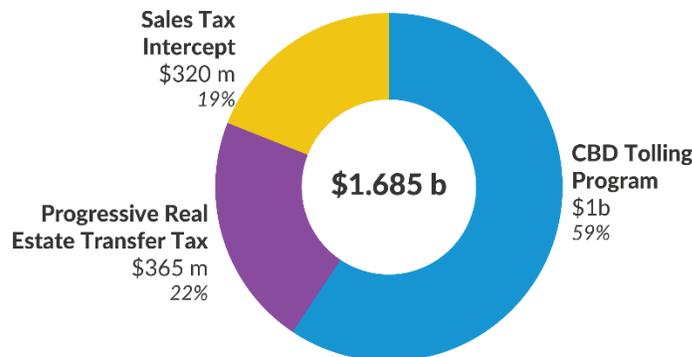
The State Comptroller is also directed to deposit City sales tax revenue directly into the CBD Tolling Capital Lockbox. The deposit will be \$127.5 million in State fiscal year 2020, \$170 million in State fiscal year 2021, and will increase 1 percent annually in State fiscal year 2022 and beyond.

Central Business District Tolling Capital Lockbox

Once the congestion tolling program is operational, revenues from all new resources are estimated to yield at least \$1.685 billion annually, which is expected to support roughly \$25 billion of the MTA’s 2020-2024 Capital Plan. (See Figure 2).

All of the funds will be deposited into the CBD Tolling Capital Lockbox.⁸ (See Figure 3). The Lockbox will be established and controlled by TBTA. The funds can be used for the cost of the tolling program, the 2020-2024 capital program, or subsequent capital programs, but cannot be used for the MTA’s 2015-2019 capital plan. Additionally, the legislation states that the funds in the lockbox will supplement, not supplant City, State, or federal support for the MTA capital program.

Figure 2: Projected Annual Deposits to the CBD Tolling Capital Lockbox

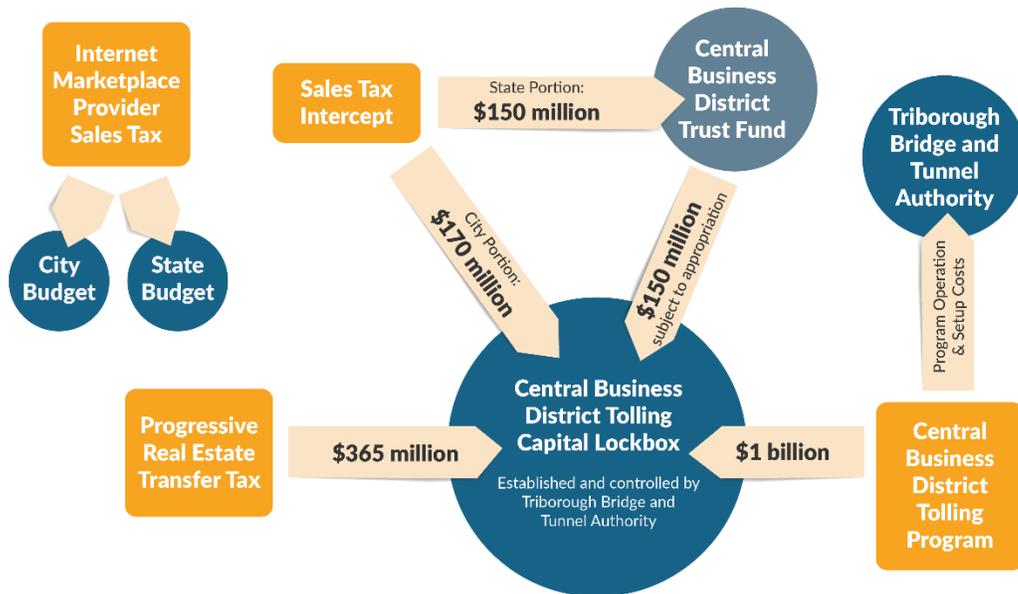


Source: New York State Assembly, Parts G, OOO, and ZZZ of A.2009-c (2019-2020 Session).

The legislation requires 80 percent of the lockbox funds to support capital projects of New York City Transit and its subsidiaries, with priority given to the subway system, bus system, and investment in outerborough areas with limited mass transit capital projects. Ten percent will support capital projects of the Metro-North Railroad and 10 percent will support capital projects of the Long Island Rail Road. Additionally, the MTA will be required to set aside a yet-to-be determined amount of its 2020-2024 capital program to expand transit availability in areas of New York City and nearby suburbs that currently have limited mass transit options, with details to be delineated in a Memorandum of Understanding.⁹

TBTA can use the revenues in the lockbox to pay for the cost of the tolling program, the capital program, or pledge them to secure bonds to support the tolling program or the capital program; TBTA may also transfer the funds to the MTA to pay for the capital plan or debt service on the capital plan.

Figure 3: Flow of Funds into the Central Business District Tolling Capital Lockbox



Source: New York State Assembly, Parts G, OOO, and ZZZ of A.2009-c (2019-2020 Session).

Conclusion

The new revenues are expected to provide \$25 billion in financing for MTA capital projects; they will take different paths, but will all be deposited in the Lockbox. The new

taxes will begin in state fiscal year 2020 and congestion pricing will be implemented no sooner than state fiscal year 2021. The MTA's next capital plan begins in calendar year 2020.

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Footnotes

1. See: New York State Assembly, *Part ZZZ of A.2009-c (2019-2020 Session)*, https://nyassembly.gov/leg/?default_fld=%0D%0A&leg_video=&bn=A02009&term=2019&Summary=Y&Text=Y.
2. The TBTA board is the MTA board; “the MTA is governed by a Board consisting of a Chairman and 16 other voting Members, two non-voting Members, and four alternate non-voting Members, all of whom are appointed by the Governor, with four recommended by New York City’s mayor and one each by the county executives of Nassau, Suffolk, Westchester, Dutchess, Orange, Rockland, and Putnam counties. (Members representing the last four counties cast one collective vote). The six non-voting seats are held evenly by members of the Permanent Citizens Advisory Committee (“PCAC”), which serves as a voice for users of MTA transit and commuter facilities, and by representatives of organized labor. All voting and non-voting Members are confirmed by the New York State Senate.” Metropolitan Transportation Authority, *Comprehensive Annual Financial Report For the Years Ended December 31, 2017 and 2016* (June 25, 2018), p. 5, http://web.mta.info/mta/investor/pdf/2018/2017_CAFR_Final.pdf.
3. Fix NYC Advisory Panel, Report (January 2018), <http://www.hntb.com/HNTB/media/HNTBMediaLibrary/Home/Fix-NYC-Panel-Report.pdf>.
4. See: New York State Assembly, *Parts OOO and ZZZ of A.2009-c (2019-2020 Session)*, https://nyassembly.gov/leg/?default_fld=%0D%0A&leg_video=&bn=A02009&term=2019&Summary=Y&Text=Y; State of New York, *Tax Law, Section 1402* (accessed April 4, 2019), <https://codes.findlaw.com/ny/tax-law/tax-sect-1402.html>; and City of New York, Department of Finance, *Statistical Profile of the New York City Real Property Transfer Tax: Calendar Year 2017* (August 2018), https://www1.nyc.gov/assets/finance/downloads/pdf/reports/reports_rptt/2017_rptt_report.pdf.
5. Price here refers to the gross consideration of the transaction.
6. Will apply to contracts entered into after April 1, 2019.
7. See: New York State Assembly, *Part G of A.2009-c (2019-2020 Session)*, https://nyassembly.gov/leg/?default_fld=%0D%0A&leg_video=&bn=A02009&term=2019&Summary=Y&Text=Y.
8. See: New York State Assembly, *Part ZZZ of A.2009-c (2019-2020 Session)*, https://nyassembly.gov/leg/?default_fld=%0D%0A&leg_video=&bn=A02009&term=2019&Summary=Y&Text=Y.

9. The Memorandum of Understanding will be entered into by the Secretary of the Senate Finance Committee, the Secretary of the Assembly Committee on Ways and Means, and the Director of the Budget, and agreed to no later than 90 days after approval of the 2020-2024 MTA capital program. New York State Assembly, *Part ZZZ of A.2009-c* (2019-2020 Session), https://nyassembly.gov/leg/?default_fld=%0D%0A&leg_video=&bn=A02009&term=2019&Summary=Y&Text=Y.