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Who Should Pay the Payroll Mobility Tax? The Case Against Excluding Suburban Counties

The legislature is currently contemplating a Payroll Mobility Tax (PMT) increase from 0.34 percent to 0.5 percent to fund the MTA. Some legislators have proposed an exemption for the suburban counties in the MTA region — Long Island and the Hudson Valley — arguing that it is unfair for businesses in these regions to pay more into the MTA system. However, these suburban economies largely depend upon the economy of New York City, which itself depends upon the functioning of the MTA. Moreover, exempting suburban counties from the 0.16 percent increase would unfairly shift operating costs of the Long Island Rail Road and the Metro-North Railroad onto New York City.

Key Findings:

- Long Island Rail Road (LIRR) and Metro-North Railroad expenses currently account for approximately 25 percent of MTA operating costs.
- The suburban counties in the MTA region currently pay the PMT, contributing about 25 percent of PMT revenues – equal to their regional transit systems’ share of MTA operating costs.
- Residents of Long Island and the Hudson Valley who commute to New York City for work, and the local jobs they support, collectively account for over half (57 percent) of employment in the suburban counties.
- Under the Governor’s proposed 0.16 percent PMT increase, the State would raise \$800 million. Exempting the suburban counties in the MTA region from the .16 percent increase would decrease the revenue yield of a higher PMT rate by approximately \$200 million, or 25 percent.

Closing the MTA Operating Deficit

The MTA’s annual operating budget (\$19 billion) relies on numerous different revenue sources, including dedicated taxes, state appropriations, and fare revenues. Among the biggest sources of

dedicated tax revenue is the Payroll Mobility Tax (PMT), an employer-side payroll tax that applies to businesses throughout the MTA region.¹

The MTA faces recurring operating deficits of \$3 billion per year, after emergency federal aid is exhausted as early as 2025. In an attempt to partially solve this problem, the Governor has proposed a modest PMT rate increase of 0.16 percent, which would raise an additional \$800 million for the MTA annually. Opposition to this proposal from the suburban counties in the MTA region argues that it is unfair for suburban counties to shoulder the burden of financing New York City's transit system.

How the Suburbs Depend on the NYC Economy and the MTA

The suburban counties of the MTA region depend in large part upon the vibrant economy of New York City. FPI finds that, in total, approximately 57 percent of employment in the suburban counties is attributable to the NYC economy, which in turn depends on the MTA.²

About one in six suburban workers commutes to New York City for work. Commuters earn an average wage of \$104,200 – 30 percent higher, on average, than the wages of non-commuter suburban residents. These wages account for about one-fifth of total suburban wages.³ The higher wages earned by commuters in New York City translate into higher consumer spending in their local economies. This promotes local job creation and economic growth, such that well over half of local suburban economic activity is attributable to the city economy.

While it may seem that the local communities of Long Island or the Hudson Valley should not be burdened with paying for the MTA, the economic reality is that these communities depend daily on the reliable functioning of the whole MTA system.

Suburban Counties Should Cover their Share of LIRR & Metro-North Operating Costs

The MTA system includes the Long Island Rail Road (LIRR) and Metro-North Railroad, which provide public transit service throughout Long Island and the Hudson Valley. Together, the LIRR and Metro-North account for approximately 25 percent of the MTA system's operating costs (excluding central system costs, as discussed below).⁴ This is consistent with the share of PMT revenues contributed by these counties, also about 25 percent.⁵

¹ The seven counties in the MTA region (the Metropolitan Commuter Transportation District) other than New York City's five boroughs are: Nassau, Suffolk, Westchester, Rockland, Putnam, Orange, and Dutchess. PMT receipt estimate is based on counties' 25% share of total MCTD GDP. Source: Bureau of Economic Analysis, "Gross Domestic Product by County" (accessed March 2023), <https://www.bea.gov/itable/regional-gdpand-personal-income>.

² FPI analysis of data from the American Community Survey. Analysis estimates indirect jobs induced by suburban commuters to New York City using the induced jobs multiplier for professional services from the Economic Policy Institute. Sources: US Census Bureau, American Community Survey, 2021, 1-year file; Josh Bivens, "Updated employment multipliers for the U.S. economy" *Economic Policy Institute* (January 2019), <https://www.epi.org/publication/updated-employment-multipliers-for-the-u-s-economy/>.

³ FPI analysis of US Census Bureau, American Community Survey, 2021, 1-year file.

⁴ Based on operating expenses for LIRR, MTA, NYCT, and MTA bus company. Analysis excludes central system costs, including debt service, bridges and tunnels, and headquarters. Source: MTA, "MTA 2023 Final Proposed Budget" (November 2022), <https://new.mta.info/document/101141>.

⁵ Bureau of Economic Analysis, "Gross Domestic Product by County" (accessed March 2023), <https://www.bea.gov/itable/regional-gdpand-personal-income>.

FPI analysis of MTA, "Capital Plan 2020-2024: All Agencies Project Details" (Q4 22), <https://web.mta.info/capitaldashboard/CPDPlan.html?PLN=8&AGY=a>.

Central system costs include debt service on the MTA's capital projects. These projects disproportionately benefit the suburban regions. The share of current MTA capital spending dedicated to the LIRR and Metro-North is 41 percent — greater than their share of operating costs.⁶

Given their deep economic ties to the regional economy and benefit from the MTA, the suburban counties should be fully included in the PMT to cover the costs of commuter transit lines and maintain service and investment across the system.

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FPI analysis of MTA, "Capital Plan 2020-2024: All Agencies Project Details" (Q4 22), <http://web.mta.info/capitaldashboard/CPDPlan.html?PLN=8&AGY=a>.