Five Ways the Republican Tax Plan Hurts Transit

This week, US Congressional leaders announced that they have resolved the differences between the House of Representatives and Senate tax bills and intend to pass a final version by the end of the year. The legislation has been closely analyzed for its potential impacts on job creation, housing production, private investment and the so-called red/blue state divide. But studies have yet to focus on the plan's impact on the several million New Yorkers who ride subways, buses and commuter trains each day.

The Riders Alliance and Tri-State Transportation Campaign took a close look. Prospects for transit in the final version are grim. We found the resulting plan will likely harm transit in two significant ways – undermining efforts to repair and modernize our infrastructure and making commuting more expensive for riders.

As of now, Republicans propose to reduce revenue that could fund federal infrastructure spending, forego a logical infrastructure funding source from the anticipated repatriation of corporate profits, hinder state and local governments' ability to raise taxes or issue debt to spend on transit and even raise the cost of private, employer-subsidized spending on transit.

Meanwhile, the subway is falling apart. Delays have tripled in the past five years. Buses have slowed to walking speed in many areas. Ridership is down and a budget deficit looms. Fixing our subway will cost at least several billion dollars beyond what the Metropolitan Transportation Authority five year capital plan provides. **Just when riders need help most, this tax bill confirms New Yorkers' fear that federal policy will undermine rather than aid efforts to modernize transit.**

An analysis of the House and Senate Republican tax bills found that, if enacted, the bills would harm transit in the following ways:

1) Cutting $1.5 trillion from the federal budget jeopardizes key funding sources used to upgrade and modernize public transit

   By enacting tax reform that reduces federal revenue, Congress indirectly puts transit on the chopping block. The Senate budget resolution permits Congress to pass a bill adding up to $1.5 trillion to the federal budget deficit over 10 years.[1] Congress proposes to spend the bulk of this sum on corporate and personal income tax cuts.[2] The prospect of so much less revenue means that even cuts in federal entitlements like Social Security and Medicare are on the table.[3] With entitlements under threat, there will also certainly be less money for discretionary spending that our transit system relies on. For example, the MTA's nearly $32.5 billion capital program relies on over $7.5 billion from the federal government – over 23% of total investment.[4] Additionally, specific projects that are in the pipeline for New York City include Second Avenue Subway expansion (with $2 billion expected from the Federal Transit Administration's New Starts program), L train power upgrades (with a grant from FTA's Core Capacity Engineering program), and Woodhaven Boulevard Select Bus Service (with a grant from FTA's Small Starts program).[5] Of all federal discretionary spending, transit is especially vulnerable to budget cuts because it is distributed unevenly nationwide.[6] In the context of a shrinking federal budget, remaining funds are unlikely to be used for urban infrastructure projects.

2) The plan gives away the one-time windfall from repatriating offshore profits rather than investing it in infrastructure that will last

Tax reform is expected to result in a one-time bonus for the government as corporations bring money held overseas back to the US.[7] Everyone from the Brookings Institution to the Trump administration embraced the idea of dedicating at least a significant portion to infrastructure.[8] Maryland Democratic Senator Ben Cardin proposed an amendment to the Senate tax bill to designate tax revenue on repatriated corporate profits for infrastructure investment but his proposal failed by a vote of 43-57.[9] Instead, Congress will not use the one-time repatriated funds in that way, choosing to spend them on larger tax cuts for corporations and wealthy individuals. Congress is thus poised to pass up a unique opportunity to spend what is in effect new revenue on long-term, popular and economically vital investments, perhaps the last best chance for major federal infrastructure funding.

[1] https://www.nytimes.com/2017/10/19/us/politics/budget-vote-senate.html
[2] https://www.nytimes.com/2017/11/29/business/republican-tax-cut.html
[3] https://www.nytimes.com/2017/12/02/us/politics/tax-cuts-republicans-entitlements-medicare-social-security.html
[4] http://web.mta.info/capital/pdf/WEB2015-2019Program_reduced.pdf
[5] https://www.nytimes.com/2017/06/03/us/politics/trump-plans-to-shift-infrastructure-funding-to-cities-states-and-business.html; https://usa.streetsblog.org/2017/12/04/gop-tax-cuts-threaten-funding-for-transit-biking-and-walking/; https://www.transit.dot.gov/funding/grant-programs/capital-investments/current-capital-investment-grant-cig-projects.
[6] https://usa.streetsblog.org/2017/08/01/the-transit-budget-in-congress-only-looks-good-in-comparison-to-trumps-threats/
[7] https://www.bloomberg.com/news/articles/2017-10-01/cohn-says-repatriation-tax-rate-will-be-in-10-percent-range
[8] https://www.brookings.edu/wp-content/uploads/2016/06/Federalism-Series-Repatriation.pdf; https://www.bloomberg.com/news/articles/2017-02-08/trump-plan-to-tap-offshore-profit-for-infrastructure-gains-ally.
[9] https://www.politico.com/newsletters/morning-transportation/2017/12/04/tax-bill-passes-senate-with-nothing-for-infrastructure-038753

3) The plan upends the finances of states with the vast majority of transit riders, including New York, undermining another key source of funding for transit modernization

By breaking with longstanding practice of letting federal taxpayers deduct state and local tax payments, the plan makes state and local revenue comparatively more expensive to raise. Republicans in both houses of Congress have now agreed to tax all state and local tax payments above $10,000, pressuring states and cities to tax and spend less.[10] Higher-tax states – including California, New York, Illinois, New Jersey, Massachusetts, Maryland and Connecticut – are also among the most heavily transit-reliant states and home to the lion's share of the nation's transit riders.[11] In New York, the MTA capital plan relies on a combined $11 billion from the State and City of New York – more than one-third of the total.[12] The MTA annual operating budget relies on a combination of state and city subsidy and dedicated tax revenue for 43% of spending; incidentally, downward pressure on these sources can only place upward pressure on fares.[13] Deterred from raising tax revenue, states will be hamstrung in their efforts to make transit improvements that attract investment and spur job growth.

4) The plan would raise state and local borrowing costs for transit infrastructure by eliminating advance refunding of municipal bonds

The plan would prohibit state and local government issuers from refinancing their tax exempt bonds to take advantage of lower interest rates more than 90 days before the bonds can be bought back. The MTA has taken advantage of the current tax policy to save money on loan interest; for example, last month, the MTA issued $2.2 billion of advance refunding bonds.[14] But the Republican tax plan would stymie similar future sales by eliminating state and local issuers' ability going forward to sell new tax exempt bonds to cut their interest payments on existing bonds.[15] Locking state and local governments into higher interest rates – or else taking their savings on new lower interest but non-exempt bonds -- will raise their long-term overall borrowing costs and deter them from taking on debt to finance transit infrastructure.

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[10] https://www.curbed.com/2017/12/6/16739576/tax-reform-salt-deduction-repeal

[11] https://www.citylab.com/equity/2017/12/the-tax-bill-provision-that-has-cities-up-in-arms/547397/; https://www.census.gov/prod/2011pubs/acs-15.pdf.

[12] http://web.mta.info/capital/pdf/WEB2015-2019Program_reduced.pdf

[13] http://web.mta.info/mta/budget/pdf/MTA%202017%20Adopted%20Budget%20February%20Financial%20Plan%202017-2020.pdf

[14] https://www.breckinridge.com/insights/details/municipal-market-supply-a-qa-with-cio-david-madigan/; http://www.pressreader.com/usa/the-bond-buyer/20171122/281539406262612.

[15] https://www.amwa.net/article/amwa-reiterates-support-advance-refunding-bonds; http://thehill.com/opinion/finance/364747-congress-must-preserve-private-bonds-to-pay-for-infrastructure.

5) The plan taxes employers that subsidize their employees' transit expenses

Both houses of Congress have voted to eliminate the tax incentive for businesses that pay directly for their employees to use public transit.[16] For years, US tax policy has promoted transit use by permitting employers that pay for employees' transit passes and related costs to deduct those payments as business expenses – but no longer.[17] As a result, businesses will have to pay more to provide transit for their employees, which will discourage employers from providing this benefit to their workers.

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In sum, by applying the brakes to federal, state, and local transit funding, Congressional Republicans' tax plan marks a wholesale retreat from traditional government support for transit just when New York's transit crisis demands a multibillion dollar fix. States and cities like ours, whose economies rely on transit systems that are in dire need of maintenance and expansion, will be forced to find their own local solutions. Moreover, with state and local taxation more expensive in the New York City region, we will likely have to look beyond tax revenue to fund projects.

Analysis of the federal tax proposal indicates that non-tax funding sources like congestion pricing, currently under discussion among Governor Cuomo and state lawmakers, become comparatively more necessary and also more politically palatable than some other options on the table. This is particularly true because congestion pricing is a progressive revenue source, charging car owners who drive into the central business district while protecting affordable fares for transit riders who are on average lower income and have few other options.

As the federal government shirks its historic role of investing in public transit, pressure will build on state and local governments to pick up the slack. At the same time, the federal tax bill hampers those governments in their efforts to fund infrastructure by raising the political and economic costs of taxing and borrowing. **As toolkits shrink, congestion pricing remains one of the few available mechanisms left unscathed by the federal tax bill and able to raise sufficient funds to fix the ailing subway.**

[16] http://actweb.org/house-tax-reform-bill-preserves-transit-benefit/
[17] http://www.latimes.com/nation/la-me-ln-transportation-tax-bill-20171129-story.html