NATIONAL CENTER FOR POLICY ANALYSIS

An Accident Waiting to Happen: New York City's "Crash Tax"

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New York City is one of the latest municipalities to propose a "crash tax" to fund emergency services. More aptly described as an emergency service user fee, motor vehicle collisions and vehicle fires would result in a charge ranging from $365 to $500. It is still not clear who will ultimately be liable for the fee.

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The crash tax and others like it are gaining popularity across the United States as a solution to budget shortfalls. To-date, 26 states have implemented a charge on motor vehicle collisions, according to the Property Casualty Insurers Association of America. Some communities have fees of more than $2,000.

New York City is right to look for alternative revenue streams, but imposing a fee in emergencies is not the answer.

The Shortage of Revenue. The Fire Department of New York City (FDNY) is among the busiest and most expensive fire departments in the country. It responds to a variety of emergency and nonemergency calls for assistance, including medical emergencies. Nationally, the cost of resources for emergency services (such as equipment, apparatus, training, salaries and pensions) has risen tremendously. Property taxes are the primary funding source for fire departments, but fluctuating property values are not related to the need for emergency response in society. As a result, emergency services may face uncertain budgets when property values change.

Fire departments and ambulance agencies lose money on emergency medical transports. This is especially true for transports of individuals enrolled in public health programs (Medicare and Medicaid), because reimbursement doesn't cover the cost of the service. According to a 2007 report by Medicare's Inspector General, one-fourth of ambulance transports for the publicly insured did not meet Medicare requirements, resulting in $402 million of improper payments per year. The Inspector General states "Medicare covers and pays for emergency and nonemergency ambulance transports when a beneficiary's medical condition, at the time of transport, is such that other means of transportation, such as taxi, private car, wheelchair van, or other type of vehicle, would jeopardize his or her health."

New York by the Numbers. According to the FDNY's 2009 statistics, fire units responded to 473,024 alarms and FDNY ambulances made more than 1.3 million runs. Although it is more expensive to operate the fire service, there is greater revenue loss in ambulance transportation because of the medical reimbursement formula, higher call volume and higher consumption of nonreusable goods.

According to 2009 FDNY call statistics, fire trucks responded to:

- 26,666 structural fires and 17,011 nonstructural fires (include brush, rubbish and vehicle fires);
- 25,378 "malicious false alarms;" and

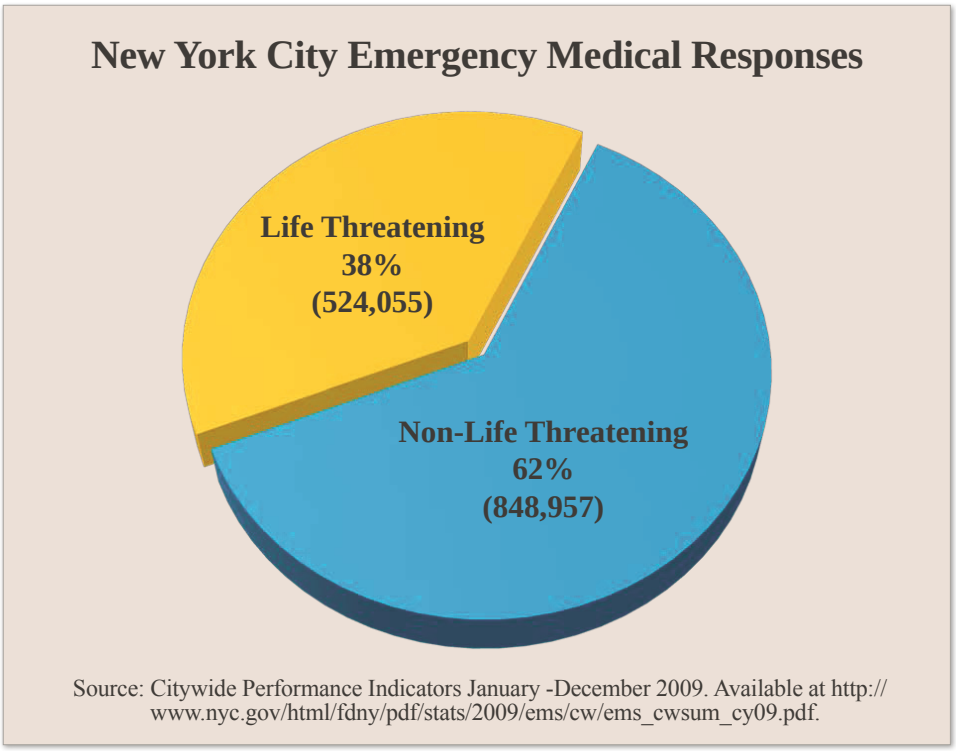
- 209,536 medical alarms (44 percent of fire truck responses).

More interesting is the fact that ambulances responded to 848,957 nonemergency medical calls [see the figure]. In many of these cases, there were alternative means of transportation.

If the FDNY responded to 36,500 car fires and car accidents per year (about 100 per day) and charged the maximum crash tax of $500 per call, the calls would generate revenues of approximately $18.25 million. However, suppose a $50 user fee was applied only to the 848,957 nonemergency medical responses. Even with a 50 percent collection rate the city would raise more than $21 million. Additionally, if this fee reduced nonemergency calls by, say, 5 percent, based on national data from the Inspector General, it would generate approximately $6.5 million dollars in savings.

Emergencies versus Nonemergencies. Good tax (or fee) policy is based on balancing equity, neutrality and administrative costs. Equity refers to treating people in similar economic circumstances the same, as well taxing people proportional to their ability to pay. Neutrality refers to how the policy changes or incentivizes behavior. A smaller user fee ($50, for example) applied to nonemergency calls for medical transport would better balance these principles than a $500 crash tax.

The demand for services in actual emergencies is relatively inelastic: in general, demand does not change if the price changes. When fees are imposed in emergencies, users will absorb the cost because there is no comparable alternative. Large fees in emergency situations also violate the principle of vertical equity because they are regressive, placing a larger burden on low income earners.



Source: Citywide Performance Indicators January -December 2009. Available at http://www.nyc.gov/html/fdny/pdf/stats/2009/ems/cw/ems_cwsum_cy09.pdf.

On the other hand, demand for ambulance or fire services in nonemergency situations is relatively elastic because there are alternatives. A fee in those situations will have a greater effect on behavior — reducing the number of nonemergency calls.

New York City's crash tax also violates the principle of neutrality because, at the margin, a high fee encourages individuals who may require emergency services to choose riskier alternatives. Finally, the crash tax will be associated with higher administrative costs as there are currently limited mechanisms in place to collect or administer fees for fire truck responses.

With a low user fee on nonemergency medical transportation, people of similar economic circumstance would be treated the same. It would be more neutral because the tax base would be larger and any change in economic or user behavior would favor the safety of the individual. In addition, there would be minimal administrative cost with a nonemergency ambulance user fee because the mechanism for collection already exists.

Conclusion. The current fiscal environment will force municipalities to look for alternative sources of revenue. User fees show promise for additional sources of revenue, but are inappropriate for emergencies. Ultimately there is a need for reform of tax funding and insurance reimbursement policies to address the long-term financial sustainability of emergency services.

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