Transportation Funding Update and Options, June 25, 2007

Funding for public transit tops the legislative agenda at the start of this week, and both Governor Rendell and House Appropriations Chair Dwight Evans have cautioned that a resolution must occur as part of the budget process. Without an infusion of funding, the Port Authority of Allegheny County (serving Pittsburgh and Allegheny County) will make permanent last week's layoff of 203 workers and 15% service cut and further reduce service and increase fares. In Philadelphia, SEPTA has scheduled a rate hike for September, and has drawn up plans to cut service by 20% and increase fares by 31% in the absence of a permanent source of funding to fill a $126 million deficit.

While transit is driving the time line this week, a consensus has emerged that long-term funding is necessary to stem the deterioration of the state's roads and bridges, and to adequately support transit. The Transportation Funding and Reform Commission established by Governor Rendell in 2005 documented the extent of the Commonwealth's transportation needs, finding that $852 million annually ($416 million for highways and $436 million for transit) would be necessary to preserve the existing system, and $1.7 billion in additional funds could improve mobility in every sector.

Increased fuel taxes and driver and vehicle fees could be used to fund road and bridge construction, but the Pennsylvania constitution dictates that those funding sources be used solely for public highway and bridge construction, reconstruction, maintenance, and repair. Public transportation must be funded another way.

Five plans have emerged for transportation funding and are summarized in the table below.

Proposed PA Transportation Funding Schemes, June 25, 2007

	Transportation Funding and Reform Commission	Governor Rendell	Pennsylvania Turnpike Commission	Senator Fumo	House Republican Caucus	House Democratic Caucus
Roads and bridges	$965 million	$965 million	$400 million	$400 million	$ 450 million	$400 million
Transit	$760 million	$760 million	$200 million	$350 million	$250 million	$515 million
Reserve	$0	$0	$0	$50 million	$0	$0
Local Match	25% of transit costs from locals	None	None	None	None	Increase from 13% to 20%

The Starting Point

The **Transportation Funding and Reform Commission** (TFRC) estimated a need for an additional $965 million per year for road and bridge construction and $760 million for transit improvements. The commission recommended that road funding be enhanced using an increase in the Oil Company Franchise Tax of 12.5 cent per gallon (raising $815 million) and an increase in various PennDOT driver and vehicle fees that would raise $150 million. Transit improvements would be funded at the state level by an increase in the Realty Transfer Tax of 0.9% ($576 million), with the remainder ($184 million) being required from local governments. While the commission's proposal funds the identified needs, it would raise the funds primarily from Pennsylvania drivers and residents.

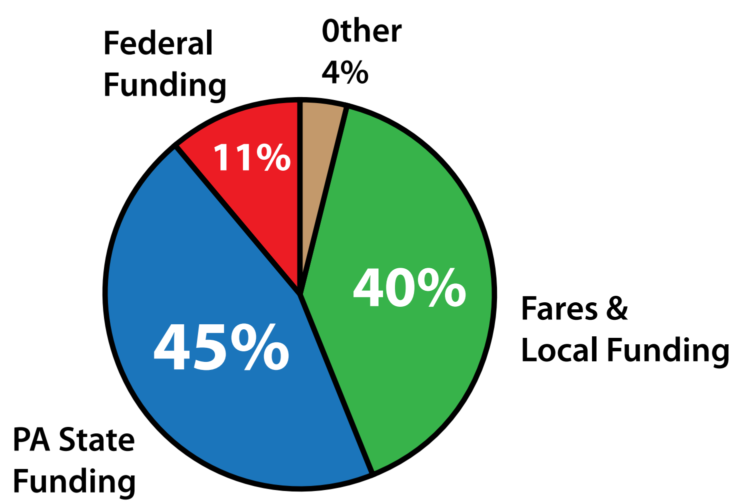
The plan put forward by **Governor Rendell** also met the identified funding needs beginning in 2007-08. A new Oil Company Gross Profits Tax was proposed to fund public transit and all road funding would be financed through the leasing of the Pennsylvania Turnpike. The administration likely selected these options because they would fall less on Pennsylvania residents than the TFRC approach. Neither the leasing of the turnpike nor the Oil Company Gross Profits Tax has generated significant support in the legislature to date.

Eager not to be leased a private firm; the **Pennsylvania Turnpike Commission** developed its own plan. The most recent version involves using the proceeds of a $4 billion bond issue over 10 years. Future Motor License Fund revenue would be used to repay the bonds, providing $400 million per year for 10 years of highway and bridge construction. Interstate 80 would be "leased" to the Turnpike Commission by PennDOT and a series of limited toll booths intended to capture interstate travel would be constructed, generating $350 million by 2010 for public transit. Tolling I-80 could take several years as tolling infrastructure is not yet in place. This plan provides roughly half of the funding for highway/bridge construction and public transit that was recommended by the TFRC.

The Legislative Response

The Governor rejected the TFRC funding recommendations, instead proposing alternatives that would minimize additional costs to drivers and taxpayers. Legislators, in keeping with the general mood in Harrisburg, are also largely unwilling to use broad-based taxes, such as gasoline or realty transfer taxes, to provide reliable long-term funding options and have looked to other alternatives. While the governor's plan did not include a local contribution as recommended by the TFRC, lawmakers seem more willing to include some form of local funding for transit in the final package.

Sources of Pennsylvania Public Transit System Operating Revenue, 2005



Source. Federal Transportation Administration, *2005 Transit Profiles*

The chart at right details sources of operating funds for the states 24 largest transit systems. State dollars represent 45% of operating funds, local revenues and fare box collections contribute 40%, while federal funding represents only 11% of operating costs. (For a listing of funding sources for each transit system in Pennsylvania, see the appendix.)

Senator Fumo offered a plan similar to that of the Turnpike Commission. It permits the Turnpike Commission to issue bonds that would generate $800 million per year in transportation funding. $400 million would be used for highways and bridges, $350 for public transit, and $50 million in reserve to be used as needed. The bonds would be repaid using toll increases beginning in 2010 and the tolling of I-80. Specific toll increases have not been detailed, and it is unknown how much of the turnpike revenue would come from out-of-state users as compared to Pennsylvania residents. This plan provides about half of the funding the TFRC says is needed to remediate Pennsylvania's transportation system.

The **Republican Caucus** of the House of Representatives issued a plan that would initially provide $700 million per year in funding, but may exceed the $1.7 billion requested by the TFRC in future years. All funds would come from tolls introduced on Interstate Routes 78, 79, 80, 81, and 95. No details have been made public as to the time line for tolling these routes or what the nature of the tolling system would be. The plan would provide $250 million in the first year, $300 million in the second year, and $350 million in the third for mass transit, and an additional $450 million per year for three years for highway construction. It is not clear how funds would be distributed between highway and transit needs in the future or how funds would be available before the federal approval and implementation of the new tolling regime. Local commuters would be able to avoid the new tolls using technology—although that raises legal issues. Users of the highway system would pay for this plan, in the case of I-80; two-thirds of users are from out-of-state while other highways have higher proportions of in-state traffic. Funding adequate for needs identified by the TFRC would not be available for several years.

The **Democratic Caucus** of the House of Representatives have issued plans of their own. Its initial plan, too, included tolling I-80 and issuing bonds repaid by future toll increases. The House Democratic plan also had a number of unique features. It would increase a number of driver and vehicle fees. Professional sporting event tickets would be subject to sales tax. The current Liquid Fuels Tax would have been eliminated and the Oil Company Franchise Tax would have been increased to provide a net increase in fuel tax funding. Local governments are to raise a share of transportation funding in one of four ways: a realty transfer tax (0.28%), a parking surcharge, an earned income tax (0.07%), or a sales tax (0.13%). By 2009-10, funding for transit under this proposal is projected to rise to $766 million and highway/bridge construction is projected to reach $653 million. This proposal provides funding more quickly than several of the other plans.

Reportedly, an updated version of this House Democratic proposal scraps the gas tax changes and relies more on tolls. Tolling I-80, expanding the sale tax base, and the local matching responsibilities are all thought to have been retained in this version. It is not known what the new plan would generate in terms of revenue.

Questions to Consider in Evaluating Plans

Transportation infrastructure, whether transit or roadway, is critically important to the state's economic health. Public investment, financed through taxes and fees, is necessary to sustain the state's transportation infrastructure. In today's Harrisburg climate, in which politicians perceive the public to be strongly averse to taxation even for needed investments, state political leaders face the temptation to find a short-term fix that generates some additional revenues for infrastructure but not enough to stabilize the systems for the long-term nor sustain substantial system improvements. Keeping this structural reality in mind, below are some points to consider in evaluating the final funding decisions for transportation.

> **Does the funding method raise sufficient revenue to meet transportation objectives?** Do the funding mechanisms identified provide enough money to meet the needs of rebuilding the transportation systems? Are we resolving or simply postponing the crisis?

Is there a dedicated funding source for transit? Funding for roads and bridges comes from dedicated sources (including gasoline taxes, motor vehicle licenses, registrations, and fees) but transit has no adequate, dedicated funding source. Long-term solutions require dedicated funding streams.

Are funding sources stable? Funding sources need to be predictable and increase over time to account for future cost increases and to repay debt (if necessary).

How is funding split between transit and road construction? How does the plan split funds between the two needs, particularly over time? Initial allocations may change significantly based on the funding sources selected. To help with reduction of greenhouse gas emissions to address the climate change challenge, transit funding must be adequately funded in the future.

How is funding split between state and local sources? How much money from the plan is expected to be raised from local sources? How will local governments raise the required funds? What happens if local sources do not meet funding expectations? Can local governments and taxpayers afford additional taxes? In general, because localities have widely different capacities to pay for services locally, relying heavily on local funding is a more regressive approach and increases the risk of difficulty meeting funding requirements in the future.

Is there infrastructure for shifting any local funding to the regional level? Does the plan call for regional, county, or municipal funding? Many observers believe that coordinating should occur at a regional level, but no regional entities with taxing authority exist. Regional funding helps overcome gaps in local capacity to fund services because most regions include some affluent suburbs as well as lower-income inner urban and rural areas. Shifting transit funding to the regional level would also fit with the national and state movement that favors regional approaches also to economic and workforce development. Does the plan create such a regional taxing authority for transit? Is there stakeholder buy-in at the local level for regional cooperation?

When will the funds from the proposal become available? In cases of tolling, bonds may be required to fill the funding gap as tolling plans will take years to approve and implement. Are funds adequate to meet first-year needs?

Conclusions

Every individual and business in Pennsylvania will benefit from transportation improvements and should be expected to contribute to those improvements. Unfortunately, the debate to date has focused on protecting Pennsylvanians from paying for this critical long-term need rather than how funds can be raised and apportioned fairly. Everyone who benefits should contribute in some way, users should contribute more, and ability to pay, for individuals and governments, must be considered in evaluating revenue options.

Still, there are several ideas on that table that provide adequate, reliable funding and do so fairly.

Taking advantage of new flexibility to **toll existing interstates** is a promising approach. Toll revenue can be used directly or to pay off long-term debt. Pennsylvania funds very little of its transportation projects with debt, and the state's overall debt levels are low.

The House Democrats proposal to **apply sales tax to sporting events** is inventive and long-overdue. Many sports facilities have been constructed with public dollars, and it is fair to recapture some of that investment. Moreover, the tax is more likely to be paid by higher-income individuals.

Raising motor vehicle fees is a reliable long-term source of funding. The Commonwealth could establish significantly higher registration fees for sports utility vehicles, as some states have done, or for low gas mileage cars. It has the potential for revenue growth as well, as the number of registered vehicles per person is increasing.

Lawmakers would do well to **expand the sales tax** to other exempt items (not including food or clothing) such as bottled water or candy and gum and use those revenue to fund transit (removing the current $75 million cap in favor of a percentage of the sales tax revenue).

While there may be some merit in a **regional funding** option, without infrastructure for this, local funding is likely to strap communities with few resources and may not result in substantial additional funding.

Finally, lawmakers should not rule out changes in the state's **personal income tax rate**. Pennsylvania has the second lowest income tax rate of 42 states with income taxes. In addition, options exist even under the state's constitutional uniformity clause to make the state's income tax system less regressive and raise additional revenue. For example, the tax rate could be raised on classes of income that go primarily to upper end taxpayers, such as dividends.

Appendix A: Pennsylvania Transit Systems Sources of Operating and Capital Funding, 2005

	Operating					Capital			
Transit System	Fare Revenue	Local	State	Federal	Other	Local	State	Federal	Other
Access Transportation Systems, Inc. (ACCESS)	23%	0%	0%	0%	77%	0%	0%	0%	0%
Altoona Metro Transit (AMTRAN)	16%	3%	50%	29%	3%	3%	36%	61%	0%
Beaver County Transit Authority (BCTA)	27%	10%	42%	22%	0%	4%	32%	65%	0%
Berks Area Reading Transportation Authority (BARTA)	21%	2%	50%	25%	1%	3%	44%	54%	0%
Cambria County Transit Authority (CamTran)	14%	8%	62%	14%	2%	3%	52%	45%	0%
Capital Area Transit (CAT)	18%	6%	41%	35%	1%	4%	19%	78%	0%
Centre Area Transportation Authority (CATA)	48%	5%	29%	17%	1%	3%	37%	60%	0%
County of Lackawanna Transit System (COLTS)	16%	8%	62%	11%	2%	3%	20%	77%	0%
Erie Metropolitan Transit Authority (EMTA)	40%	6%	32%	21%	2%	2%	46%	52%	0%
Fayette Area Coordinated Transportation (FACT)	4%	9%	69%	17%	1%	4%	17%	80%	0%
G G and C Bus Company, Inc.	50%	5%	34%	11%	0%	3%	17%	80%	0%
Lehigh and Northampton Transportation Authority (LANTA)	18%	3%	53%	26%	0%	3%	31%	66%	0%
Luzerne County Transportation Authority (LCTA)	13%	14%	61%	11%	1%	4%	16%	80%	0%
Mid Mon Valley Transit Authority (MMVTA)	21%	2%	45%	30%	2%	13%	12%	76%	0%
Pennsylvania Department of Transportation (PENNDOT)	30%	0%	70%	0%	0%	0%	7%	93%	0%
Port Authority of Allegheny County (Port Authority)	22%	10%	55%	12%	1%	4%	24%	72%	0%
Red Rose Transit Authority (RRTA)	19%	2%	33%	43%	3%	10%	24%	66%	0%
Shenango Valley Shuttle Service (SVSS)	5%	9%	64%	14%	7%	3%	65%	31%	0%
Southeastern Pennsylvania Transportation Authority (SEPTA)	37%	8%	43%	9%	3%	3%	48%	49%	0%
Southwestern Pennsylvania Commission (SPC)	44%	0%	0%	37%	18%	0%	0%	80%	20%
Trans-Bridge Lines, Inc.	100%	0%	0%	0%	0%	0%	0%	0%	0%
Westmoreland County Transit Authority (WCTA)	13%	12%	36%	34%	5%	1%	20%	79%	0%
Williamsport Bureau of Transportation (CityBus)	20%	7%	54%	17%	3%	3%	17%	80%	0%
York County Transportation Authority (rabbittransit)	49%	3%	23%	25%	0%	0%	29%	71%	0%

Source. Percentages calculated using reported Pennsylvania public transit system profiles compiled in Federal Transportation Administration, *2005 Transit Profiles*.