POLICY BRIEF

An electronic publication of
The Allegheny Institute for Public Policy

November 3, 2006 **Volume 6, Number 59**

Port Authority Employee Costs Gallop Higher

A recent *Policy Brief* (Vol.6, No. 54) documented the egregious hourly pay levels of Port Authority (PAT) drivers compared to transit drivers in other cities around the country. Unfortunately, that is only part of the story of how outrageously expensive and rapidly growing the PAT's employee costs are.

According to audited financial statements, PAT's spending for employee benefits jumped an astounding 59 percent from $64 million in 2003 to $101.5 million in 2006. This massive rise in benefit expenditures accounts for almost 60 percent of the increase in total operating costs during the three-year period. With salaries and wages in 2006 at $137 million, the $101.5 million in benefit outlays put the ratio of benefit payments to wages at 74 percent. By comparison, in 2003 that ratio was only 48 percent. Looked at another way, spending for benefits has climbed to 33 percent of total operating expenditures and can be expected to continue driving PAT's total costs upward at fast pace. And certainly several times faster than the growth of passengers served. It now costs PAT about $30,000 in benefit payments for each employee currently on the payroll.

The outsized growth in benefit costs reflects escalating health care premiums as well as the need for PAT to increase pension contributions to maintain a funding level to meet actuarial liabilities. PAT is contractually obligated to allocate the funds necessary to pay for the extraordinarily generous health and pension plans—the types of plans that have bankrupted many private sector companies and threaten the solvency of many others.

Consider that PAT's unionized employees are able to retire with full benefits after 25 years of continuous service. Full benefits are also available to employees who reach age 55 meeting "certain service requirements" but who do not have 25 years of service. Upon full retirement, the participant receives 2.25 percent of his/her average annual compensation over the last four years of service multiplied by the number of years of continuous service. Alternatively, the worker could choose the average of the highest four years pay out of the last eight.

Thus, a 55 year old with 30 years with PAT could receive 67.5 (30 times 2.25) percent of his average pay during the last four years or the average of the highest four years out of the last eight. As we have seen, overtime use at the Port Authority is rampant with many drivers receiving over $80,000 a year in total pay. If the 55 year old with 30 years could

average $71,000 with lots of overtime during the last four years of work, he would receive an annual retirement income equal to his base pay of around $47,000. Then, to further sweeten the deal, he will receive a supplemental payment of $500 per month until he is 62--and eligible for Social Security. The plan as constructed—and guaranteed—is actuarially suspect because of the enormous overtime usage of people close to retirement.

The good news for retirees does not end with the generous pension allowances. Once the employee becomes a retiree, that person is eligible for health care benefits for the remainder of their life. These benefits include insurance coverage for medical, hospital, prescription, dental, and vision as well as Medicare Part B premium reimbursement (Audited PAT financial statements 2005, 2006). The health care insurance is provided at no cost or significantly reduced cost.

According to the latest Audited Financial Statement, there were 3,216 recipients of retiree healthcare insurance on the rolls in fiscal 2006. PAT paid $25.8 million to cover the premiums for retiree health care, up a stunning 79 percent from $14.4 million paid in 2003. Looking to the future, health care insurance cost is virtually certain to increase every year. And, the number of recipients will almost certainly rise placing even greater upward pressure on the amount of money PAT will have to come up with to cover health insurance premiums for retirees.

While the recent sharp rise will probably not be sustained, a further doubling of premium payments over the next six or seven years is entirely possible unless PAT can somehow alter the requirements set out in contracts years ago. Retiree health care is an unfunded liability of the Port Authority that is growing rapidly. As with the City and many municipalities, the legacy costs of past generosity will become a giant burden on taxpayers. A burden they did not have a chance to vote for.

Of course, the current employees' health care costs are also skyrocketing and PAT is responsible for covering most of the increases. Combined, the health expenses for retirees and active workers are helping to push PAT toward insolvency. Only two real options are open. Ever more tax dollars to cover the pension and health care liabilities of retirees and the rising cost of current employees or begin to roll back the compensation and benefits packages through givebacks, layoffs, and outsourcing along with programs to reduce the size and scope of operations while greatly increasing efficiency in terms of cost per passenger.

In light of PAT's already precarious fiscal condition, it cannot afford to wait to begin shedding costs. Close the Wabash tunnel or turn it over to Penn DOT, sell land to raise funds, eliminate the least traveled routes, replace large buses on low volume runs with smaller vehicles, go to split shifts to cover rush hour periods and cut back service during off hours.

The first thing the Port Authority should do is stop construction of the North Shore Connector. It will be extraordinarily costly to build and costly to operate—requiring money it does not have. With all the mistakes and over promising they have done, a little

humility about now would be a good thing. The system is too big, too costly, and does not provide an acceptable return on taxpayer money. The North Shore tunnel project is a looming financial nightmare.

With all its current and projected funding needs to cover employee costs and benefits, it is ridiculous for PAT to go to the legislature and ask for more money unless and until it demonstrates that it has begun to come to grips with is crumbling financial situation. Rhetoric will not do. Tangible, meaningful steps will be needed.

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