POLICY BRIEF

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Does RAD Make PAT Mad?

The Governor's Transportation Funding Advisory Commission (TFAC) has a singular purpose as spelled out in the Executive Order creating it: "…develop a comprehensive, strategic proposal for addressing the transportation funding needs of Pennsylvania". As of now the most reliable estimate of a transportation funding shortfall is $3.5 billion. The Governor wants the funding sources to be "reliable, dedicated, inflation sensitive, and adaptive to changing environmental factors".

Sounds a lot like the presentation made by the Port Authority (PAT) to County Council in March when noting that a "key to sustainability" for the agency was "reliable, predictable, County, state, and Federal funding that grows with the economy". PAT and the state's 37 other operators of mass transit would be included in any funding reform mechanism along with roads, bridges, and airports.

The state is the largest funder of mass transit in Pennsylvania (with a sizable portion of that coming from the state sales tax), but the question of how to generate local funds for transit has been a debate for a long time. Clearly, since transit service is primarily aimed at local residents, there is a strong argument to be made that local communities ought to bear a sizable portion of the cost of that service. Taxpayers in areas not served by mass transit already pay taxes to support roads, why should they also pay to subsidize transit riders in far off cities?

Indeed, in other parts of the country local sales taxes are a common method of funding mass transit. According to data from the National Transit Database some $5.2 billion in local sales taxes were dedicated to transit use in 2009. Systems in Dallas ($378m), Atlanta ($276m), Denver ($241m), Cleveland ($142m), Charlotte ($60m), and New Orleans ($48m) are but a handful that rely on local sales taxes as a primary source of transit funding.

Most recently in 2007 the General Assembly passed Act 44, which permitted Allegheny County to levy new taxes on alcohol and car rentals to replace property taxes as a local match. At the time the County Executive noted "I wanted to use part of [Allegheny County's 1 percent] sales tax, but Harrisburg said no. They gave us the drink and car rental taxes because those were the options that have been tried in Philadelphia and other cities".

Allegheny County's local option sales tax generated $162 million last year, while the drink and car rental taxes netted $28 million. In a hypothetical scenario, which one would PAT choose if free to do so?

Currently, a sales tax for transit in Allegheny County is not a viable option. The local 1 percent sales tax (Regional Asset District Tax—known as RAD) funds regional assets in Pittsburgh and around the County but primarily in Pittsburgh (libraries, museums, the zoo, aviary, sports stadiums, etc.) and provides revenue to the County and municipal governments. That was a conscious policy choice made by civic and political leaders in the early 1990s. As we pointed out in March of 2007 (see *Policy Brief, Volume 7, Number 15*) "…if the region's leadership had felt that mass transit was more of a regional asset than cultural amenities and sports facilities, the issue of dedicated local funding might have been determined fifteen years ago".

Moreover, the drink tax and car rental tax levies were intended to raise money for the County so it would be able to come up with the required 15 percent match in order to obtain the state funds. As the large amounts of local funds dedicated to transit in other cities demonstrate, County residents probably should be covering a significantly larger share of transit costs than they currently do.

The problem of course is there is zero assurance that if PAT had been afforded access to more local funding earlier it would not have spent itself into financial chaos even sooner. PAT's addiction to building new facilities and its lax control of worker compensation costs and gross inefficiencies would have inevitably brought about serious financial conditions.

Be that as it may, because the revenue from the RAD tax is claimed legally and traditionally by a number of entities, any sales tax support for PAT would almost certainly necessitate an increase in the tax rate. Adding a fraction of a point onto the current Allegheny County sales tax would take it above 7 percent. An additional full point would tie it with the sales tax in Philadelphia, which, incidentally, uses none of its sales tax revenue for transit support. The previous Transportation Commission under Governor Rendell recommended counties and municipalities be given the ability to levy an additional sales tax of up to 0.25 percent.

So should the Governor's task force recommend a local option sales tax increase as part of their final report due in August they would be plowing familiar ground. A referendum to see if County voters support a 0.25 percent additional tax to preserve PAT service would be very interesting. One thing is sure, thoughtful voters will not support such a tax increase unless and until PAT gets its financial house in order and gets its compensation costs and debt burden under control. The state will have to provide real help in that effort by requiring service outsourcing, eliminating the right of workers to strike and removing the PAT monopoly over transit services in the County. Then, and only then, would the tax increase have a chance with voters.

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