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PAT's Coming Windfall

The long sought after special "funding" stream has become reality for the Port Authority (PAT). A funding stream that had been lobbied for by a number of groups in the Pittsburgh community for many years. With the passage of the transportation bill in November, the wheels have been set in motion to begin substantial additions to funds dedicated to roads and bridges as well as for mass transit in Pennsylvania. Over the next four and half years through fiscal 2017-2018, funding for roads and bridges in the state are forecast by the Department of Transportation (DOT) to rise to $1.65 billion per year. Meanwhile, additional funding for mass transit is projected to climb to just under $500 million per year by 2017-2018. Projections show the increase in funding for transit at $60 million in the last half of the current fiscal year as the bill's provisions are implemented and then climbing to $355 million next year and on up to the half billion level over the following two years.

So what does this mean for PAT? Based on PAT's base year operating allocation as a percentage of all base year transit funding—24 percent as determined by the DOT—we can estimate the amount PAT is likely to receive from the newly enhanced allocations specified in the transportation bill. By the way, the 24 percent figure is very close to the percentage mentioned in the transportation bill for purposes of allocating funds to transit asset improvement. It is very likely that the $30 million in annual supplemental funding agreed to by the Governor has lifted PAT's share of transit funding out of the 24 percent range.

Note that for FY 2013-2014 PAT has budgeted state basic assistance at $163 million along with the Governor's special allocation of $30 million for a total of $193 million in state money. At that same time, by way of comparison, revenue from fare box collections is budgeted at just $82 million.

Meanwhile, for 2014 Allegheny County has forecast $40.5 million in combined drink tax and car rental tax revenue. Of that revenue $30 million has been allocated to cover the required match from the state. That leaves about $10 million which could be used to cover the required match for the $60 million in new state funding that could be forthcoming according to the DOT. Bear in mind that the RAD board is providing $3 million to help cover the $4.5 million match requirement for the Governor's contribution of $30 million that is over and above the state's normal formula determined funding. An important question here would be: In light of the jump in state funding that is coming, will RAD be as favorably disposed to continue granting dollars to an agency some of its members were loath to support in the first place?

By way of background, the drink and car rental taxes were authorized by state law in 2007 to generate funds to be used by the County to support mass transit, in particular to produce revenue to meet the state's 15 percent local match requirement to receive state operating funds. In short, the new taxes were designed to relieve the pressure on the County budget and to allow the County leadership to avoid having to make serious spending cuts or raise property taxes. As was noted at the time, the two taxes were inappropriate ways to subsidize mass transit but were instituted anyway. The County missed a golden opportunity to generate local revenues for transit support when it earlier adopted a local option sales tax to be used for purposes other than transit. The sales tax is a broad based tax paid by most residents and is therefore a far more equitable way to fund a widely used public service.

Assuming the drink and car rental tax revenue will continue to generate revenue in the $40 million range in the near term perhaps growing a million or so per year, by 2018 the revenue might reach $44 million. The County does have the authority to boost the drink tax percentage to 10 percent from the current 7 percent level. But that will be met with great opposition from owners of restaurants and bars.

Will $40 to $44 million be enough to meet the 15 percent matching requirement for the increased state funds in the years ahead or will other funds have to be diverted? Alternatively, will the state begin to waive the match requirement or lower it? In the current fiscal year, if the state's $60 million estimate for new transit revenue is correct, PAT will receive about $15 million of that, necessitating a local match of $2.25 million. An amount easily handled by the $10 million surplus of drink tax and car rental tax revenue, unless it is being used for other purposes.

In FY 2014-2015, the state expects $355 million in supplemental funding of which PAT's share will be approximately $85 million—requiring $12.75 million in additional match. One might reasonably assume that the Governor's supplemental contribution would go away in light of the increase in new funding. If that happens then the net rise would be only $55 million, needing a match of $8.25 million from the County. The County could manage that out of projected drink and car rental taxes with or without the RAD funds, assuming the state's basic operating grants are not increased as well.

In short, with $40 million to use as a match, the County can cover $267 million in total state funding, about a $100 million above the recent operating grant level. That presupposes the County is willing to use all of the special tax revenue to fund the match requirement. It could well be the current surplus in that revenue is being spent on other transit projects and might be hard to shift back to meeting matching needs.

On the other hand if, or when, the state supplemental funding rises to the $125 million level and the base year operating grants, augmented by the 5.6 percent annual adjustment factor, continue to rise, the drink and car rental tax as currently constituted will not be enough to cover the match. But it would be a nice problem for the County and PAT to have.

The big question for PAT: What will you do with all that additional funding? It would be reasonable to expect that the unions, having made concessions they were adamantly opposed to, will begin to demand some reinstatement of benefits. And with contracts coming due in a couple of years, management will not be able to cry poor as a result of having been made the beneficiary of large sums of new money.

Transit riders and workers should thank all the people who lease and rent cars, Turnpike users, tire buyers, and sales tax payers, fee payers, traffic fine payers and people buying alcoholic drinks in Allegheny County for their very generous support and subsidization of mass transit.

Jake Haulk, Ph.D., President

Allegheny Institute for Public Policy
305 Mt. Lebanon Blvd.* Suite 208* Pittsburgh PA 15234
Phone (412) 440-0079 * Fax (412) 440-0085
E-mail: aipp@alleghenyinstitute.org