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Turnpike tolls rise for the 10th consecutive year

Summary: For the 10th straight year the Pennsylvania Turnpike Commission (PTC) is raising tolls. It is doing so and will continue to do so for the foreseeable future, as a result of legislation from 2007 that mandates the PTC to remit $450 million annually to PennDOT. While many decry the rate increases, they also forget the misguided legislation that creates this situation.

While we have written about this before (*Policy Briefs: Vol. 7, Nos. 18, 38, 46 and 59; Vol. 12, No.5; Vol.13, No.3 and Vol. 14, No.2*), it is worth repeating how the PTC arrived at this point.

In 2007 then-Governor Rendell sought to lease the mainline turnpike to fund the state's transportation system of roads, bridges and mass transit. That plan met with heavy resistance from all sides. The Legislature then crafted what would become Act 44 of 2007. The crux of Act 44 was to transfer ownership of Interstate 80 from PennDOT to the PTC. The PTC would then toll Interstate 80 and give PennDOT $900 million per year beginning in fiscal 2009 and then rising 2.5 percent each year thereafter. That money would then be split between road and bridge projects and mass transit.

But, as the Institute warned on several occasions at that time, tolling Interstate 80 required permission from the federal government. Federal government guidelines require that any toll revenue from a federal interstate highway must be reinvested in that highway—and not on other purposes as was proposed in Act 44. After asking for permission and being denied three times, Act 44 had to be revised. Even though permission to toll Interstate 80 was not granted, the revised legislation kept the PTC on the hook for payments to PennDOT, albeit at a reduced rate of $450 million per year starting in fiscal 2011 (after paying $750 million in fiscal 2008, $850 million in fiscal 2009 and the full $900 million in fiscal 2010). Act 89 of 2013, which raised the oil company franchise (gas) tax to help fund road and bridge work across the commonwealth, reduces PTC's remittance obligation to PennDOT to $50 million starting in fiscal 2023.

As mentioned above, the money from turnpike tolls was to be shared between road and bridge work *and* mass transit. Strangely and perhaps questionably, the money going to support mass transit is not mentioned in recent news reports although is clearly a vital part of the revised Act 44. Of the current $450 million payment made to PennDOT, the PTC's Comprehensive Annual Financial Report (CAFR) from fiscal 2018 notes that $200 million of the scheduled annual payment supports road and bridge projects and $250 million supports transit throughout the commonwealth.

Thus, more than half of the mandated payment goes to the state's transit systems. It does so by placing this money in the Public Transportation Trust Fund, which was created through Act 44, along with money from the state sales tax, lottery funds for the Free Transit for Senior Citizens Program, state bond funding for capital projects and the remainder of the Public Transportation Assistance Fund (after funding payments on existing debt). According to the Port Authority of Allegheny County's Single Audit for fiscal 2017 (most recent available), it received $205.9 million from the Public Transportation Trust Fund (requiring a local match of $33.7 million) that year.

In order to make this $450 million payment to PennDOT, the PTC has been issuing debt for that purpose for several years. Total debt issued by the PTC includes non-traffic related debt linked to the Oil Franchise Tax revenues and Motor License Fee revenues (PTC's fiscal 2018 CAFR). Only debt issued against mainline tolls are used for the Act 44 payments. In fiscal 2007 the total mainline outstanding debt was $1.7 billion ($8.93 per vehicle). For fiscal 2018 that amount has ballooned to $12.2 billion ($60.70 per vehicle)—more than seven times greater in just 11 years. So far, the PTC has paid PennDOT $6.1 billion in Act 44 payments since fiscal 2008. Thus, of that debt total of $12.2 billion, 50 percent is the borrowing to cover the mandated payments to PennDOT.

Meanwhile, gross toll revenue has nearly doubled, rising from $624.5 million in fiscal 2008 to $1.2 billion for fiscal 2018. While toll revenue may be able to cover the mandated $450 million payment to PennDOT and even the total interest and bond expenses, the PTC still has its own expenses to meet. Total *operating* expenses for fiscal 2018 were $874.1 million. The loss before capital contributions (operating revenues minus operating expenses plus PennDOT payments and the total interest and bond expense) for fiscal 2018 was $647.9 million.

All this borrowing has severely eroded the PTC's financial position. In fiscal 2018 the PTC had total assets of $8.9 billion and total liabilities of $14.5 billion for a total net position of -$5.6 billion. With an increasingly negative net position—and the decreases in the net position have been happening annually since fiscal 2008—the cost of borrowing will almost certainly rise over time.

So how have the toll increases affected traffic on the system?

In fiscal 2008 there were 189.6 million vehicle transactions on the turnpike system with 164.1 million passenger vehicles and 25.5 million commercial vehicles. By fiscal 2018 the number of vehicle transactions bumped up by just 6 percent (201.2 million).

Passenger vehicles transactions rose by just 5 percent over the period while commercial vehicle transactions jumped by 12.5 percent. It has affected the composition of traffic as 86.6 percent of vehicles using the turnpike in fiscal 2008 were passenger (class 1) vehicles and in fiscal 2018 that had declined by nearly one percent (85.8 percent).

Importantly, however, the number of miles traveled has declined for both classes of vehicles. In fiscal 2008 revenue miles per passenger vehicle stood at 27.2 miles and for commercial vehicles it was 51.3 miles. In fiscal 2018, passenger revenue miles per vehicle fell slightly to 26.7 while for commercial vehicles it fell more dramatically to 45.2 miles (12 percent). Perhaps commercial vehicles are not able to pass along to their customers the increased cost of using the turnpike and may be finding alternatives to using the system.

The decision to use toll money to fund Pennsylvania's transit problems—both road and bridge and mass transit—was a very poor one. It has placed the PTC at a disadvantage as it needs to keep borrowing to meet obligations and raising tolls to make it work. At some point the toll increases will start to adversely affect the usage of the system, as the revenue miles traveled data is starting to show, especially with the commercial vehicles.

Another problem soon to face the commonwealth is a lawsuit filed by a truckers' association that the strategy to use toll revenues to fund something other than the road itself runs afoul of federal law. It was successful in suing New York, which used tolls to fund improvements to its canal system and have now turned their attention to Pennsylvania.

As a result, the PTC is not making current payments to PennDOT and instead putting that money aside pending the outcome of the lawsuit. What if federal courts find for the truckers again? Will they win back-tolls? And how will the current governor and Legislature react regarding transportation funding? Needless to say, this lawsuit and possible ramifications of a ruling against the Pennsylvania Turnpike Commission will be extraordinarily important and will require close monitoring and analysis.

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