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Another new year, another turnpike toll hike

Summary: The Turnpike Commission raised tolls again in 2021. It did so to meet the funding mandate placed on it to pay for mass transit and road and bridge projects across the commonwealth. The commission issues debt against toll revenues to pay PennDOT $450 million per year. The commission's debt level has reached nearly $15 billion and is likely to keep rising.

It's that time of year again. No, not for making resolutions but for the Pennsylvania Turnpike Commission (PTC) to increase tolls. It has increased tolls annually since 2009 to satisfy a funding requirement under Act 44 of 2007, which was created to provide money for public transit, roads and bridges. The commission's annual commitment is for $450 million with $250 million going toward public transit and the remainder for road and bridge repair.

Act 44's original intent was for the PTC to lease Interstate 80 from PennDOT pending federal approval (*Policy Brief, Vol. 7, No. 59*) at a price of $900 million per year (the payments increased over time from $750M in 2008 to $900M in 2010). Once the federal government denied the request to toll I-80, the payments from the PTC to PennDOT remained, although lowered to $450 million through 2057, leaving the PTC no alternative than to use existing toll revenue from the turnpike.

Even though the payments were reduced to $450 million, the PTC's plan was to float bonds against toll revenues and pay the debt service with toll increases which were to continue annually until 2050. Act 89 of 2013 amends the earlier requirement so that the $450 million payment will end in fiscal 2022; it also specifies that $30 million of the $450 million is to come from current PTC revenues with the remainder to be funded through bond issues (PTC Comprehensive Annual Financial Report (CAFR) for fiscal years ended May 30, 2020 and 2019). Beginning with fiscal 2023 that payment falls to $50 million, which is to be paid from current revenues.

But as previous *Briefs* have documented this borrowing has resulted in deterioration of the PTC's financial position as the debt has climbed rapidly.

When Act 44 of 2007 was passed, the PTC had $2.5 billion in total bonds outstanding with $1.66 billion in mainline bonds (67 percent of total)—the bonds financing the Act 44 payments. The remainder are bonds issued against revenues from the oil franchise tax and motor license fund. By fiscal 2011 that amount tripled to $7.7 billion with $6.5 billion in mainline bonds (84 percent). The latest CAFR shows that for fiscal 2020, which ended May 31, 2020, total outstanding debt is now approaching $15 billion ($14.96 billion) with 90 percent ($13.43 billion) comprised of mainline debt.

Mainline debt is issued against toll revenues and the ability to pay depends upon traffic. In fiscal 2007 the PTC noted that 185.4 million vehicles used the turnpike. With $1.66 billion in mainline debt, the per vehicle debt for mainline bonds stood at $8.93. By fiscal 2011 the per vehicle debt rose nearly 400 percent to $34.29 and then to $57.57 in fiscal 2019 when 214.6 million vehicles used the turnpike and the mainline debt was $12.35 billion.

The final quarter of fiscal 2020 (March, April and May) was heavily impacted by the pandemic (see *Policy Brief Vol. 20, No. 17*). For fiscal 2020, the PTC shows that 190.5 million vehicles used the turnpike, an 11 percent decline from fiscal 2019, for a mainline debt per vehicle of $70.51. Bear in mind that most of fiscal 2020 was over before the pandemic started.

As mentioned above, the Turnpike Commission relies on toll revenues to retire the debt. For the first six months of fiscal 2021 (June through November 2020) traffic totals are well off the pace from previous years. Using the data from the PTC's monthly traffic reports, exit data for these months show that 64.3 million vehicles (all classes) used the system—23.4 percent fewer than during those same months in 2019 (June through November of fiscal 2020).

Traffic is broken out between passenger (class 1) and commercial (classes 2-9). According to the CAFR, passenger vehicles in fiscal 2020 paid 53 percent of the toll revenues while commercial vehicles paid the remaining 47 percent. This ratio has changed over the last few years when from 2011-2017 passenger vehicles paid approximately 57 percent with commercial vehicles paying the remaining 43 percent of toll revenue.

This is likely to change even further as the drop in passenger traffic during those first six months of fiscal 2021 is greater than that of commercial vehicles (27.3 percent vs. 1.5 percent) as more people choose not to travel for either business or pleasure. However, during the pandemic deliveries of goods to stores and factories were largely maintained while passenger traffic slowed significantly due to state ordered restrictions and fewer commuters.

And with pandemic conditions still prevalent, traffic levels are not likely to rebound in the second half of fiscal 2021 which will leave the PTC with even fewer toll dollars to meet expenditures. In fact, outside consultants have estimated that it will be a couple of years, perhaps by 2025, before traffic volumes return to pre-pandemic levels.

This is going to put more strain on the commission's ability to pay down this debt.

The current total net position (assets minus liabilities) of the PTC is a negative $6.69 billion. Total net position was first reported for the PTC in fiscal 2012 when it was a negative $2.05 billion. The metric prior to that was called total net assets. The last positive amount occurred in 2009 ($156.48 million). The PTC has been running a negative net position for the last 11 years. At some point this will affect the commission's ability to borrow—either through a higher interest rate or even at all.

The PTC has taken some cost-cutting measures. According to the CAFR, it "instituted a hiring freeze for both management and union positions." But more importantly the PTC "approved a measure … to lay off approximately 500 employees, primarily fare collection-related employees." This continues a trend. In fiscal 2011 there were 852 employees in toll collection.

By fiscal 2020 that number declined to 601—a nearly 30 percent drop. An additional 500 employees will leave just around 100 employees in that function.

The CAFR also claims the PTC will be cutting "capital spending by 25.0% to include Turnpike System protection projects only." It also states that "(t)he Commission has no legal obligation to complete the unfinished portions of the Mon/Fayette Expressway and Southern Beltway projects at this time." We questioned the rationale and justification of extending the Mon/Fayette Expressway (*Policy Brief Vol. 17, No. 27*) and this project should be dropped.

The PTC has been placed in an awkward position in having to borrow against toll revenue to meet an obligation to fund mass transit and PennDOT's road and bridge projects. The inescapable results are annual toll increases on the turnpike system. This strategy has plunged the PTC deeply into debt. The pandemic has already added to the funding difficulties and is expected to hamper toll revenues for quite a few years more. The PTC has taken some steps in reducing personnel costs that should help going forward. While it will see some relief as required payments will fall next year, travelers of the turnpike will not be so fortunate as tolls will continue to rise for the foreseeable future.

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