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Governor's Plans for Mass Transit

In the proposed budget for FY 2013-2014, the Governor laid out a plan to increase transportation spending for state highways and bridges, help with local roads, Turnpike projects and mass transit. The plan calls for raising additional revenues primarily through the elimination of the cap on the wholesale price of fuel used to calculate the Oil Company Franchise Tax liability. Other transportation taxes will be lowered—such as reducing the liquid fuels tax on gasoline by 17 percent over two years—as an offset to the retail price impact that will likely occur as the Oil Company Franchise Tax moves significantly higher. Some administration accounts have suggested that transportation-designated revenues will rise about $500 million next fiscal year (FY) 2013-2014 and over five years increase to about $1.8 billion annually beyond the current level in FY 2017-2018. If the reports are accurate the plan will raise and spend an additional $5.4 billion more than would happen without the tax increase over the next five years.

However, based on data in the budget, these figures appear to be too high. First of all, the FY 2017-2018 total operating spending for transportation is only $1.2 billion above the current spending rate and, second, the cumulative five year boost above the current level is only $3.9 billion.

For mass transit, or public transportation as it is generally designated in the FY 2013-2014 budget documents, the Governor's summary page describing the proposed transportation changes indicates mass transit will receive approximately $250 million more per year than it currently receives. However, that figure does not match up with projected appropriation in the Transportation Department budget. It is only in year five, i.e., FY 2017-2018, that the increase reaches the $200 million mark above current year spending. In the coming fiscal year the proposed appropriation actually drops. Significant increases are not projected until year three (FY 2015-2016).

Note too, that in FY 2017-2018, five years out, the annual operating appropriation reaches $755.6 million, a rise of $45.6 million or just 6.4 percent above the current FY 2012-2013 budgeted expenditure. Next year, in FY 2013-2014, appropriations for transit operations are budgeted to fall before beginning a modest growth trend in FY 2014-2015.

Indeed, most of the five year jump in mass transit funding out of current revenues is slated for the line item called Asset Improvement—which next year absorbs the capital improvements line item to simplify the accounting. Asset Improvement appropriations hold flat until year three when they jump by almost $100 million and, after staying flat in year four, leap by more than $100 million in FY 2017-2018, reaching $251.6 million. Note that combined asset improvements appropriations and capital improvement appropriations in the current fiscal year stand at $53.3 million. Thus, after five years this category of spending will have risen by just under $200 million and account for the bulk of new state expenditures on mass transit.

There is other funding for capital projects through the Capital Facilities Funds and the Public Transportation Assistance Fund but that funding appears to be level at $175 million throughout the period.

But there are more serious problems with the plan as revealed in budget forecast data. Based on estimates provided in the FY 2013-2014 budget documents, the elimination of the wholesale price cap on the Oil Company Franchise Tax will raise only $1.06 billion more in revenues five years from now in FY 2017-2018 than are forecast for the current fiscal year. Moreover, the budget documents' projected five year cumulative addition to revenue from eliminating the wholesale price cap compared to current year levels is only $3.8 billion. Then too, other categories of motor license fees and taxes are being lowered considerably holding down net motor license fund revenue growth.

By the same token, funds for transportation are also taken from other state revenue sources. For example, mass transit receives a 4.4 percent share of the state sales tax, payments from the Turnpike Commission, the Lottery, certain motor vehicle fees and from Capital Facilities Fund bond proceeds. These funds will help revenue available for transit to increase.

An immediate question arises concerning the use of the Oil Company Franchise Tax for mass transit. Motor fuels taxes are constitutionally not permitted to be used for purposes other than highways and bridges. Unless there is a plan to shift fungible revenues to mass transit, the plan as proposed will probably not pass muster. If there is such a provision it is not spelled out anywhere in the Transportation Plan or in the recently released budget.

One thing is certain: motorists will not take kindly to having the price they have to pay for fuel raised to fund mass transit. Especially motorists in most of non-urban Pennsylvania where there is no public transportation. And even more especially when the income transfer is going to support transit agencies that are egregiously expensive and cost inefficient. Local transit should instead receive a large share of its support from a local tax levy that has been put to voters in a referendum. A local option sales tax for example distributes the cost of subsidizing public transportation to those who benefit most from the presence of the transit services. A share of parking tax revenue in a county or city would be another option for raising revenues to subsidize transit. But there is a reason the Constitution prevents the use of motor fuels from being diverted to transit and that law needs to be enforced.

Beyond the funding source considerations, it is incumbent on the Commonwealth as creator of the transit authorities to take more responsibility to help ensure efficiencies of operation and to keep costs under control. For instance, Pennsylvania should immediately end the right of transit workers to strike. The right to strike has been the single biggest factor in driving the Port Authority to virtual bankrupt status. The appointment of board members of the Port Authority exclusively by the Chief Executive of Allegheny County is another serious problem. The Legislature and Governor should look for ways to insure high quality, non-political appointments to boards as important as the Port Authority.

Moreover, Pennsylvania will continue to ill-serve its taxpayers until it eliminates the prevailing wage requirement on construction and maintenance projects that use state funds. Many millions could be saved each year that could be returned to taxpayers or shifted to other core services, reducing the tax burden on the state's residents and businesses.

Finally, the transit plan will gradually raise the local match to receive funds for capital projects to 20 percent from the current 3.3 percent and gradually raise the match to receive operating funds from 15 to 20 percent. These changes are designed to help ensure better local management. It could help restrain unnecessary and poorly thought capital projects. In Allegheny County the 20 percent match requirement could lead to a hike in the drink tax, which was originally created to generate the local matching funds but was lowered from 10 percent when it produced more than enough revenue to meet the County match.

Another provision in the proposed mass transit scheme requires local transit agencies to modernize services by carrying out consolidation studies. If cost savings can be realized and agencies implement the consolidation they will have their matching fund requirement for state dollars drop from 20 to 15 percent. If they fail to adopt the changes their local match for state funds will rise to 25 percent. Unfortunately, what is meant exactly by consolidation studies is not clear. Does it mean consolidation of routes or service runs within a county's transit agency? Or does it mean consolidation of services with other counties' transit agencies? If the latter, the opportunities for the Port Authority are slim indeed because of its very high labor compensation costs compared to the other regional agencies. Who will evaluate the studies to see if they have assiduously looked for savings or considered sufficiently radical changes that would produce significant savings?

Rather than trying to force consolidation as a way to lower costs, the language of the bill ought to set outsourcing targets—with either private carriers or other regional carriers. For example, in the next five years 25 percent of Port Authority bus service should be provided by lower cost regional or private carriers. These carriers would get the Port Authority state per passenger subsidy passed through to them as the contractor carrier to enable them to compete for bus service.

In short, the proposed mass transit plan offers little in the way of real structural change either in management or in the underlying drivers of cost.

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