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Hard to Feel Sympathy for PAT

Another year, another budget crisis. The Port Authority's (PAT) budget projection for 2010-2011 calls for yet another funding shortfall; this time about $25 million. PAT's planning and development committee chair is saying that it will be the most challenging budget his board has faced. If PAT is looking for sympathy, they shouldn't look to the Allegheny Institute.

We have written repeatedly over the past seven years that unless PAT's costs are better contained, budget problems would develop even if additional revenue sources were found. Consider that just in the last three years the state Legislature produced Act 44 which not only taps into revenues from Turnpike and Interstate 80 tolls (if I-80 tolling is ever permitted), but also allowed Allegheny County to enact the poured drink tax and rental car tax. Both new taxes are dedicated revenue streams for the transit agency. While tolling I-80 has not been accomplished—the plan to siphon some of the funds for mass transit runs afoul of Federal law—the money from the poured drink and rental car taxes came rushing in. Prior to that, the Governor shifted Federal highway funds to bailout PAT. As we predicted, the additional funding was not enough. Nor have the fare increases prevented the upcoming deficit.

It's the costs and their never ending climb that creates the problem. Costs at the transit agency remain among the highest in the country. As we demonstrated in a 2008 *Policy Brief* (*Vol.8 No.35*) PAT's operating cost per passenger bus trip at $4.30 was greater than those of 19 major cities. The 20-city average (including PAT) was $3.22. One of the largest components of their costs is employee costs.

In a subsequent *Policy Brief* (*Vol. 8 No.76*) we reported that for 2007 PAT's labor costs per trip were $3.45 and much higher than major cities including Washington DC ($1.80), Philadelphia ($1.74) and Los Angeles ($0.98). The average for the 18 cities in this study was only $2.11. Furthermore, we noted that PAT's driver wage was 23 percent above the 18-city average while fringe benefits were an astonishing 80 percent above the 18-city average.

Not only did we report these recent findings but we have been calling attention to PAT's outrageously expensive cost structure for many years prior. Then too, the Governor's Transportation Task Force also reported on PAT's egregious costs. In 2007, the Task Force explicitly called for needed cost reductions and efficiency improvements. All this evidence and more notwithstanding, PAT squandered a golden opportunity to slow and reverse spiraling costs during the last labor contract negotiations in 2008.

Prior to the two sides sitting down, the County Executive set the tone by saying he would withhold the monies from the drink and rental car taxes until cost reductions were achieved. The County's money was needed to unlock state funding of $180 million. So, in effect, he was threatening to shut the system down. The unions called his bluff and the system remained open, the money was released, and a new contract agreement was reached. PAT officials hailed the contract as a good deal for the transit authority and one that would put their finances in order by targeting long-term costs.

But as we now see all too clearly the contract did not rein in near-term employee costs. Wages were not frozen, let alone reduced, and any estimated health-care cost savings for retirees was minimal at best considering the size and scope of the transit agency's legacy costs. Worst of all management did not insist on including outsourcing or competitive bidding of routes in the contract and there was no call for using smaller, more efficient buses to create more flexible and cost effective service. Management failed to win any semblance of meaningful cost reductions for the near term, despite the County Executive's directive to do so. This failure is coming back to haunt them.

A little more than a year and a half later, PAT budget projections are as bad as they have ever been with a budget shortfall anywhere from $25 million to $50 million (if the tolling of I-80 is not approved). Health insurance premiums, which should have been contained during the last contract negotiations, will increase by 10 percent or $6 million in the upcoming budget year. Pension contributions will increase by $10 million.

Of course PAT is placing the blame for their woes on the national economy. The stock market decline is being blamed for deteriorating the value of the pension plan, necessitating the higher contributions. The recession is being blamed for job losses which have reduced ridership and revenues. While the recession has certainly reduced commuter trips, ridership has been problematic for decades while PAT's costs have continued to increase. As a result they have been diving deeper and deeper into the taxpayers' pockets for years.

But PAT may not be able to dip further into those pockets in the future. An enormous amount of political capital was expended both in Harrisburg passing Act 44 and in Allegheny County passing the drink and rental car taxes. Governments at all levels are experiencing budget crises. PAT is facing a much tougher environment for raising new funds. Will they use this opportunity to do something they should have done two years ago—declare their intention of moving toward outsourcing at least 30 percent of bus services and implement a hiring freeze to free up positions to begin the outsourcing. Will they seize this moment to take the needed steps or just cut service, their usual way of reducing costs? This is the only cost-cutting means available to management as long as they refuse to take steps employed by many transit systems around the region and nation.

And so it goes. Year after year. Maybe Harrisburg will finally do the right thing and outlaw transit strikes. It won't fix this year's problem but it could set the stage for getting PAT on a sustainable path in future years.

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