



Port Authority Staring into the Abyss—Again

In what is fast becoming an annual rite of fall, the Port Authority (PAT) has issued an advisory telling one and all that disastrous service reductions are coming unless state taxpayers come up with tens of millions of additional dollars to support its spendthrift ways. Now we are told the deficit for the fiscal year beginning in July 2012 will reach \$64 million absent a big increase in state money. The original projected deficit for the current fiscal year of \$47 million was filled by a miraculous infusion of \$34 million in emergency state funding, a fare increase and service reductions accompanied by personnel cutbacks.

To meet the \$64 million deficit—representing about 20 percent of PAT’s projected spending—the Authority is saying it will be necessary to cut service by as much as 40 percent. It is not clear from the press announcement whether the remaining \$11 million of emergency funds from last year are being counted in the revenue projection. In any case, the budget hole is very large. Why? First, there is no state emergency funding on the horizon. And there is a lot of resistance in the Legislature to bailing out PAT and its never ending series of financial crises. Second, despite efforts to reduce expenses, the burden of worker benefits, legacy costs and debt payments keep consuming ever greater shares of total outlays.

Required Authority pension payments will double between 2011 and 2013. Health care expenditures for retirees continue to rise. And with the number of retirees already exceeding the number of active employees by a widening margin, future layoffs will increase the ratio of retired to active still further. Thus, retiree costs as a fraction of total outlays will maintain their upward trend. The predicament PAT finds itself in is manifestly unsustainable. Reducing service year after year guarantees an ever worsening financial picture as well as a catastrophe in terms of cost effective delivery of transit services. What’s more, the service cuts deprive Allegheny County residents of convenient, reliable transportation opportunities—which is presumably PAT’s primary reason for being.

Almost a year ago, we issued a *Policy Brief* (Volume 10, Number 65) describing the awful condition of PAT as a “death spiral”. In the latest news briefing, an Authority spokesperson described the situation as being in a death spiral. The fact is the Authority’s calamitous difficulties cannot be solved by anything the Authority can do on its own. The solution lies in state government actions.

We have outlined those steps before and they are worth repeating. The Governor and the Legislature must move quickly to deal with the underlying causes of the Authority’s predicament while keeping uppermost in their minds the reason the transit agency exists—i.e., providing reliable, economically efficient service that offers the greatest levels of convenience possible.

From that perspective, it must be recognized that debt service, legacy costs, high labor compensation expenses, and work rules that inhibit efficiency have to be dealt with in a meaningful way.

On that point, there has to be a solution devised to enable the Authority to get out from under the legacy cost problem. Without such a plan, the Authority will never achieve significant overall cost per rider reductions. Something like bankruptcy might be the only answer. Otherwise taxpayers will have to continue pumping in more and more subsidies.

On the problems of high labor compensation, work rules and outsourcing service, the state needs to eliminate the right of public transit workers to strike. With the massive imbalance in negotiating power the threat of a strike confers upon the union, addressing these important elements in improving cost effectiveness and overall efficient delivery of transit services has proven to be impossible. The last three contract settlements are testimony to this truth.

Finally, one important step the Legislature can take is already underway. The House has passed a bill that takes away PAT's monopoly over transit services. It is now being considered in the Senate. Enactment of the monopoly stripping legislation would mark an enormous and dramatic step in bringing competition to the market and have a very salutary effect on the balance of power in contract negotiations. As such, there would be opportunities to change work rules and enhance management prerogatives.

However, this step, while very important, will not solve the legacy cost problem that hangs over the Authority like the sword of Damocles. That problem will require some out of the box legislative thinking—unless of course taxpayers are forced to pay for an increasingly expensive and shrinking organization.

At some point in the not too distant future, this long festering problem must be dealt with in a manner that provides Allegheny County residents with access to mass transit while reducing the need for state taxpayers to pony up more and more money to maintain the status quo.

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