Rethinking Port Authority Subsidies

As the General Assembly wrestles with the issue of whether to provide more money for the Port Authority, it needs to rethink its approach to transit funding. We have argued previously that no additional funds should be forthcoming unless or until there has been a thorough performance audit and comparative study of Port Authority efficiency and operating cost effectiveness. There is strong evidence (see Policy Brief, Vol.4. No.44) that the Port Authority does not compare favorably with many systems across the country.

One thing is certain: as long as the state, federal and county governments are willing to keep finding taxpayer dollars to cover expanding costs arising out of very generous wage and benefit packages, there will be little incentive on the part of the transit agencies to do the hard work of reining in expenditures. This is a logical outcome of having a unionized monopoly provider of public transportation. The unions who can shut the system down have unwarranted and unhealthy power over the public’s ability to get around and therefore on the economy as a whole. It is up to the state government to shift the balance of power back toward taxpayers and transit users.

As the cost of transit rises relative to private sector costs, we need to ask some hard questions. For one, whose responsibility is it to underwrite the sharply increasing costs arising out of overly generous labor contracts? Should taxpayers bear the brunt of the increasing costs or should the people using the system bear the cost increases that exceed local income gains?

There is a strong case that the users of the system should pay those costs. First, fare increases force the riders who benefit from the service to pay a larger share of the true cost of providing the service. Second, fare hikes have the added benefit of focusing the public’s attention on the problem of rising costs and keeping the focus on transit system costs. On the other hand, simply doling out more millions of taxpayer dollars by the state spreads the pain over a much larger group and has correspondingly less ability to force transit cost savings. That is one of the reasons the transit systems have been able to continuously go back to the Commonwealth for more money and avoid facing up to the need to streamline operations and hold down costs.

If the General Assembly decides to force the transit authorities to rely more on cost savings and fare hikes to balance their budgets, it will also want to consider how the subsidies it provides should be used. Currently, the subsidy per ride for farepaying passengers is equal since all passengers pay the same fare for the same trip. And while those buying weekly, monthly or annual passes can achieve average fares below the single ride rate if they use the pass 10 or more times per week, the prices of passes are the same for all buyers.

Thus, the present subsidy mechanism makes no distinction between low-income riders and higher income riders. Even the free ride program for seniors is not means tested. The question we
should be asking is: Since one of the objectives of public transit is to provide affordable transportation, doesn’t it make sense that low-income workers should get more of a subsidy than higher income workers who are better able to afford it? After all, one of the principal goals of the state should be to encourage people to work and earn their own way.

To be sure, as higher fares are required to keep the system operating, the relative burden on low-income workers becomes even greater.

What all this suggests is that perhaps we should rethink how subsidies are awarded to transit systems, the Port Authority in particular. The Port Authority is saying they face a revenue shortfall of $25 million for the current fiscal year and $35 million for the fiscal year beginning in July. Rather than willy-nilly raising taxes and providing additional state aid to fill the shortfall, the General Assembly should insist that about half of the gap ($20 million) be closed by cost savings, $5 million through rate hikes with the remainder to be closed by additional state subsidy.

In this instance, the state would provide $20 million in grants, of which $10 million would be used to create transit vouchers for low-income Allegheny County workers. The remaining $10 million would be in the form of a direct allocation to the Port Authority. The vouchers would be issued in the form of a card with $200 in annual credit. That credit would be used at Port Authority service centers to cover the higher cost of monthly passes created by fare hikes. In this way, passengers will pay more of the cost of riding while poorer workers are protected from the higher fares.

Alternatively, the Commonwealth could simply set up a voucher plan for low-income workers in the amount of $10 million to $15 million and leave it to the Port Authority as to how it solves its budget crisis.

Clearly, these numbers are meant to be illustrative. Depending on the actual budget shortfall and the legislature’s preferences, the numbers could be changed to fit the circumstances. In any event, the state’s financial support would be substantially less than the $35 million sought by the Port Authority.

Furthermore, the money for the voucher program (and perhaps the entire additional transit allocation) should be redirected from one of the many economic development programs already in place. Since the objective is to help and encourage lower income workers to get and keep jobs, there is a significant jobs promotion component in the voucher plan. No new tax money should be raised to fund transit vouchers. Pennsylvania must set some priorities when it comes to allocating its funds. The state cannot continue to pour enormous sums into questionable development programs and at the same time be looking for new ways to tax Pennsylvanians to maintain an overly expensive, inefficient transit system.

Whatever the eventual transit funding scheme the legislature produces, it needs to ensure that the transit system managers be put on notice that containing costs and producing efficiency levels that compare favorably with other systems around the country are expected and that there will be consequences for failure to achieve better results.

Jake Haulk, Ph.D.  President

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Allegheny Institute for Public Policy
305 Mt. Lebanon Blvd.* Suite 208* Pittsburgh PA  15234
Phone (412) 440-0079  * Fax (412) 440-0085
E-mail:  aipp@alleghenyinstitute.org