

Transportation Funding Project

Executive Summary

Newspaper headlines scream it; interest groups and state officials have studied and reported on it. Federal data demonstrate it. Drivers and transit riders know it from daily experience on the buses and rail lines, roads and bridges throughout the state: Pennsylvania's transportation systems are in bad shape – both physically and financially.

And it matters. In many ways, transportation is the lifeblood of the economy and an important component of quality of life. Each year, the average vehicle miles traveled (or VMT) per person are increasing – nationally and in Pennsylvania. And the number of riders of public transportation is growing as well. Interstate Highways - once created for defensive purposes during the Cold War era - now serve the entire economy, moving goods and people, providing access to jobs, shopping, education and more. Once, federal transportation dollars were focused almost exclusively on the development of a connected system of highways; now the focus has shifted to include not only highway development and reconstruction, but also to address the need for multi-modal transportation systems.

Pennsylvania is not alone in its transportation woes. Throughout the United States, federal, state and local governments struggle with transportation funding. In view of the many competing priorities for government resources and slow-growing dedicated revenue sources that are not keeping up with escalating materials and personnel costs for both transit operations and road and bridge construction, it's no surprise that funding for transportation has not kept pace with growing demands nor the growing needs of an aging system.

Nationally, the purchasing power of revenue from user fees such as the motor fuels tax is declining. National and state experts agree that in the future, transportation systems will not be able to rely as heavily on motor fuels taxes; as cars become more fuel efficient and because motor fuels taxes usually are cents-per-gallon, motor fuels tax revenue is not keeping pace with inflation. In some states, there has been slow movement away from traditional user fees toward sources that grow with inflation and toward non-associated fees and taxes at the state and regional level. Nationally, the trend is expected to increase over time as more state and local governments seek predictable, dedicated funding sources for transportation programs.

As Pennsylvania considers how to resolve its current financial and infrastructure-based transportation problems, there are several lessons that can be learned both from Pennsylvania's experiences and from the experiences of other states. These are summarized in the following four points.

Regional role in transportation policy

Transportation policy in Pennsylvania is not – and cannot be – one-size-fits-all. Each region has unique concerns – and unique needs. Pennsylvania's state leadership and transportation officials should reconsider the regional role in transportation decision-making and funding, including granting greater responsibility for regional transportation decision-making, providing taxing authority to a regional entity, and permitting regions to explore alternative financing mechanisms.

Through the federal Transportation Improvement Program (TIP) process, MPOs (Metropolitan Planning Organizations) have a role in allocating federal funds for roads and bridges. Though federal regulations dictate that regions have a say in transportation planning and policy implementation through the MPOs, transportation policy in Pennsylvania is largely a function of state government. Pennsylvania is unique in how it funds transportation, particularly transit. The proportion of transit funding that comes from state government – both capital and operating revenue – exceeds the national average. And in each of the states in this study (with the exception of New Jersey, which has a statewide transit system) the transit agencies rely much more heavily on regional dedicated tax sources than on state funds. In the states in this benchmark study, the regional role is limited predominantly to transit. However, a case can be made for a

Transportation Funding Project

greater regional role in both transit and roads/bridge policy and financing to better align all transportation decisions with regional decision-making such as economic development and land use. In order to maintain and improve Pennsylvania's transportation systems, regional funding should supplement – not replace – the state's ongoing role in providing baseline transportation funding.

Regional taxation is an idea supported by the general public, according to an IssuesPA/Pew poll conducted in September of 2006; in the poll, regional taxes to fund regional transportation projects received majority support. Statewide, the results show 61 percent support for regional taxes to fix deteriorating roads within the region, and the same for bridges. There is relative support for statewide for regional taxes to pay for new lanes/new roads regionally (53%) and for regional public transportation (47%). In comparison, the same poll showed considerably less agreement regarding statewide taxes for similar statewide projects, with no tax option getting more than 44 percent approval.

Transportation policies impact mobility between and among smaller levels of government and also impact land use and development decisions. Consequently, for a regional system to be successful, it must truly be *regional*, not a series of local systems. The municipal or even county level, therefore, is too small in most cases, according to a variety of stakeholders both inside Pennsylvania and nationally. The right size and structure of a transportation region is an important consideration for decision-makers.

Finally, although a greater regional role should be considered, this is not to say that the state no longer should have a role or responsibility for transportation funding. The state is – and should continue to be – responsible for existing state-owned infrastructure and for maintaining that infrastructure. The state also should have some level of responsibility for public transit operations as part of its support for a comprehensive transportation system throughout the Commonwealth. Regional authority to explore alternative financing mechanisms and regional taxes dedicated to transportation, however, would allow regions to make additional investments to supplement the state's investments in transportation infrastructure and operations.

Prudent use of debt

Like many states, Pennsylvania made liberal use of bonded indebtedness for transportation projects in the 1960s and 1970s, then experienced difficulty funding new infrastructure needs in subsequent years because of the debt service burden. At this time, Pennsylvania is in a fairly conservative position relative to other states, with bond proceeds for transportation projects representing 9.2 percent of transportation revenues from 1999 to 2004 versus the national average of 12.4 percent.

Prudent use of debt should include the identification of a dedicated and predictable revenue source to pay debt service and should be considered among the ways to finance long-term projects such as major road reconstruction, limited expansion, and public transit capital investments. Pennsylvania's current pay-as-you-go approach to highway and bridge transportation policy does not take advantage of the opportunity to structure the cost of investment across the life of the infrastructure, like a mortgage on a home or building. There are a variety of ways to use debt that can be explored – ranging from traditional bonds to special purpose and federal programs.

Public-private partnerships

The term public-private partnership (PPP) has been broadly applied to any innovative involvement of the private sector in the design, construction, operation, maintenance or financing of transportation infrastructure. A PPP may be as small as a design-build contract for a single project, with the purpose of reducing costs or accelerating completion, or as large as the long-term lease of the Pennsylvania Turnpike. Two noteworthy PPPs in other states involved billions of dollars of up-front concession fees paid to government agencies by private firms for the long-term lease of existing toll facilities, in exchange for the right to retain the revenue generated from tolls. Other PPPs enabled the construction of new toll roads for

Transportation Funding Project

reducing congestion and expanding capacity. With encouragement from the federal government, a wide variety of PPPs have emerged in the past five years. Because most of these partnerships are in the project planning stage or have begun implementation only recently, evaluating their ultimate success isn't possible at this time.

Currently, Pennsylvania has a limited ability design or implement PPPs. Enabling legislation specifically authorizing PPPs would enable PennDOT, MPOs and perhaps other entities to consider a wide range of alternatives, from design through funding. Transit authorities could explore opportunities for private sector involvement in operations, financing, and infrastructure. A provision to permit unsolicited proposals could offer private firms or regional entities incentive to think creatively about state and regional transportation infrastructure or to expedite regional priorities.

There are lessons to be learned from the experiences of others. For example, careful preliminary analysis of PPP agreements and detailed evaluation of project progress are important responsibilities of public agencies. The discipline of the free market provides private partners with ample incentive to avoid costly mistakes, but involvement of the private sector does not guarantee a trouble-free outcome. Also, stakeholders agree that any savings, revenue, or interest earned from engaging in PPPs should be funneled into transportation-related projects, not used to fund unrelated policies and programs.

Revenue sources that rise with inflation

Any solution to the transportation funding crisis should include a dedicated, predictable funding stream (or streams) able at least to grow with inflation. History has shown that a cents-per-gallon increase in the motor fuels tax or increase in vehicle registration fees cannot be a long-term, stand-alone solution because such taxes and fees are not responsive to inflation. Therefore, such increases would only be stopgap measures, and future decision-makers would face another financial crisis in the near future.

Possible transportation-related options to explore include a registration fee schedule linked to total Vehicle Miles Traveled (VMT) or the value of vehicle – or adjusting the floor and ceiling of the Oil Company Franchise Tax (OCFT) to make it once again responsive to inflation. Other alternatives would include an increase in or dedication of a portion of a non-transportation-related tax, such as an income or sales tax. A balanced approach should include a variety of options that are adequate, predictable, and likely to grow with inflation, preserving purchasing power.

While funding for transportation has grown in the past ten years – outpacing general inflation – the operating costs and construction and maintenance costs for the state's aging systems have been rising far faster. As Pennsylvania's roads, bridges, buses, and rail cars reach the end of their useful life, maintenance costs rise and major capital expenditures become necessary. Failure to address these needs will lead to greater deterioration of the state's transportation infrastructure – and result in even greater costs in the future.

In the end, there likely is no silver bullet, no single answer that will resolve the fiscal woes of Pennsylvania's transportation systems easily. The experience of other states indicates the fundamental difficulty of offsetting the ongoing erosion of the purchasing power of federal and state motor fuel taxes by means of toll roads, use of debt, public-private partnerships, asset sales, or more cost-effective methods of designing, building, operating, maintaining and financing highways, roads and transit facilities. Though these ideas may help narrow the gap between existing needs and available resources, eventually decision-makers will need to identify dedicated and sufficient sources of revenue to fill the gap – or see an ongoing deterioration of the state's transportation systems.

The current transportation funding crisis provides an opportunity for state leaders to redesign the state's transportation program not only to resolve the financial concerns, but also to create transportation policy that is responsive to differing regional needs and protects future transportation investments. Pennsylvania's

Transportation Funding Project

system of roads and bridges is mature and largely complete. In setting broad policy and when determining project-level funding, policymakers and planners should operate from the commonly agreed-upon philosophy of “maintenance first,” that maintenance of existing infrastructure takes first priority to begin to reduce the backlog of disrepair.

Pennsylvania’s needs are not dissimilar to those of other states. The state’s transportation systems must have adequate and predictable funding, dedicated sources of revenue that will grow with inflation, and the ability to adopt new and innovate programs, statewide or regionally, alone or in partnership with private entities. A combination of approaches, using some innovative programs and changes in decision-making procedures, as well as traditional tax revenue, is likely the most feasible solution to Pennsylvania’s transportation crisis. Pennsylvania has an opportunity not only to change the way the state funds transportation programs, but also to improve the way in which decisions are made and how transportation fits with other, related policy areas.

*This report did not attempt to independently determine the monetary size and scope of the existing need in the state transportation system, nor how the size and scope of the gap might be reduced by alternative service delivery models and practices.