2013/14 BUDGET BRIEFING
HOUSE APPROPRIATIONS COMMITTEE (D)
Report on Key Issues
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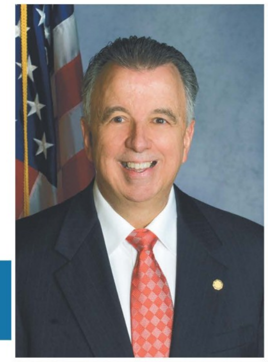
JOE MARKOSEK, DEMOCRATIC CHAIRMAN January 22, 2013



Anatomy of Highway & Bridge Funding

Pennsylvania maintains the dubious distinction of having the highest number of structurally deficient bridges in the country and the most miles of road in "poor" condition. The last major statewide highway expansion was in the 1950s and despite PennDOT's effective and efficient efforts to maintain more than 25,000 state-owned bridges and 43,600 miles of state-owned roads, insufficient funding has created a maintenance backlog that threatens our transportation infrastructure. Fuel taxes are the main source of highway and bridge funding; Pennsylvania now collects less revenue (fuel tax) per mile traveled than at any time in history. This document provides background information to understand how Pennsylvania funds highway and bridge repairs and reviews recent studies of the growing transportation funding gap. The governor is expected to release his proposal to address the commonwealth's funding shortfall soon. Staff will continue to follow the transportation funding issue and provide updates as appropriate at: www.hacd.net.

As the backbone that supports the state's economy, Pennsylvania's transportation system impacts every resident by enabling — or hindering — travel to work and school, visits with family and friends, and trips to tourist and recreation attractions while simultaneously providing businesses with reliable access for customers, suppliers, and employees.

For FY 2012/13, Pennsylvania will invest a total of $4.4 billion in its highways and bridges; $2.8 billion (64 percent) in state funds and $1.6 billion in federal funds.

Every state levies a unique combination of taxes and fees to fund its transportation investments. In Pennsylvania, transportation funding comes from a variety of sources, including:

- Federal funds (highway and public transit);
- Liquid fuels taxes (state gas tax);
- Licenses and fees;
- Transfers from the Pennsylvania Turnpike (tolls and bonding prescribed in Act 44 of 2007);
- Sales tax;
- Lottery proceeds;
- General Fund monies and
- Other minor sources such as fines from moving violations.

How Pennsylvania Funds Highways and Bridges

State highways and bridges are funded in Pennsylvania by the **Motor License Fund**. For FY 2011/12, state revenues deposited into the Motor License Fund totaled approximately $3.29 billion, from the following sources:

- Taxes on gasoline, diesel fuels and alternative fuels.
  - The **state tax on gasoline equals 32.3 cents** per gallon and includes:
    - a flat tax of 12 cents per gallon which has

MLF Defined

The Motor License Fund (MLF) is a special state revenue fund that may be used only for the costs of construction, reconstruction, maintenance and repair of, and safety on, highways and bridges in the commonwealth.

not changed since 1987;
    - the Oil Company Franchise Tax of 19.2 cents per gallon which has not changed since 2006 and
    - a 1.1 cent per gallon fee for the Underground Storage Tank Indemnification fund.
- The **state tax on diesel fuel equals 39.2 cents** per gallon and includes:
    - a flat tax of 12 cents per gallon which has not changed since 1987;
    - the Oil Company Franchise Tax of 26.1 cents per gallon which has not changed since 2006 and
    - a 1.1 cent per gallon fee for the Underground Storage Tank Indemnification fund.
- Fees for driver licenses, registration and other Vehicle Code provisions.
- Fines from moving vehicle violations.

Infrastructure Investment = Jobs

According to the Federal Highway Administration, every $1 billion invested in transportation infrastructure creates or saves approximately 30,000 jobs.

- Pennsylvania Turnpike Commission payments pursuant to Act 44 of 2007.

The PA Constitution restricts how the state may spend revenue collected from motor fuel (gasoline, diesel fuel, etc.) taxes, operator licenses and registration fees. Expenditures are restricted to:

- Cost of administration and collection;
- Payment of debt service for funds borrowed since 2008 for the construction and reconstruction of public highways and bridges;
- Construction, reconstruction, maintenance and repair of public highways and bridges and
- Safety on public highways and bridges.

State and federal policies continue to rely on liquid fuel taxes to fund the nation's transportation system. Policies have not kept pace with changes in the market that affect liquid fuel tax revenue including, higher prices at the gas pump, recent economic slowdown, the use of alternative fuels and more efficient vehicles.

For the most part, Pennsylvania uses current revenue to fund highway and bridge projects and has, until 2007, avoided borrowing since the interstates were built. The debt service from building the interstates almost became unmanageable during the 1970s; the General Assembly and subsequent administrations resisted debt-financed transportation projects. Act 44 of 2007, however, authorized the Turnpike Commission to borrow money to fund transportation projects, using Turnpike toll revenue to pay for the debt service. Furthermore, the act pledged specific revenues of the Motor License Fund as a guarantee for special revenue bonds issued by the Turnpike Commission. In addition, as part of Governor Rendell's Rebuild Pennsylvania initiative, the General Assembly approved $350 million in FY 2008/09 in debt for bridge repair projects. Another $200 million in bond financing was approved for bridge repairs in FY 2009/10 and 2010/11 under the Rendell administration, and again in 2011/12 under the Corbett administration.

Federal Funding

Federal funds for transportation amount to approximately 36 percent of Pennsylvania's overall expenditures for highways and bridges.

From a fiscal standpoint, the federal government is experiencing the same inadequate revenue for transportation needs that all states are facing. Despite the clear need for additional funding, Congress is hesitant to raise the federal taxes on motor fuels which have been stuck, since 1993, at 18.4 cents per gallon on gasoline and 24.4 cents per gallon on diesel fuel. The federal per-gallon

Gas Tax Misconception

In 2009, a survey poll conducted by Building America's Future, Public Opinion Strategies, and Greenberg Quinlan Rosner Research found that 60 percent of respondents believe the federal gas tax is raised annually. In fact, the federal gas tax has been unchanged at 18.4 cents per gallon since 1993. Similarly, revenues from the state gas tax do not change with the price of fuel. The state flat gas tax has not increased since 1987.

taxes are on top of Pennsylvania's levy of 32.3 cents and 39.1 cents per gallon on gasoline and diesel fuels, respectively.

Moving Ahead for Progress in the 21st Century (MAP-21) the new federal transportation authorization law was signed into law by President Obama on July 6, 2012. MAP-21 is the first long-term highway authorization enacted since 2005.

As part of President Obama's economic stimulus plan, the American Recovery and Reinvestment Act (ARRA) of 2009 provided more than $1 billion in additional federal funds to repair Pennsylvania's roads and bridges. Invested over three years, the ARRA funding helped repair nearly 500 bridges and resurface nearly 1,000 miles of highway. Every day nearly 3.4 million people travel the roads and bridges that were improved by ARRA investments.

Federal funds also support Pennsylvania's public transit systems, aviation, rail freight and ports.

Transportation Funding Commission Reports

In 2005, Governor Rendell appointed an independent Transportation Funding Reform Commission to study Pennsylvania's transportation needs. In 2006, that commission reported that the state confronted a $1.7 billion annual shortfall -- the gap between how much is spent on maintenance and what should be spent -- in transportation funding. Act 44 of 2007 was an attempt to address the funding shortfall, but it was insufficient and the gap continued to grow.

Pennsylvania's Transportation Advisory Committee (TAC) issued a report in May 2010, identifying a $3.5 billion annual funding shortfall. The TAC recommended additional transportation funding, as shown in the table in the next column.

To understand the magnitude of the funding increase being recommended, the General Assembly would have had to increase the taxes on gasoline and diesel fuel for 2010 by 51.8¢ per gallon. In other words, **the committee recommended a 91 percent increase in the level of highway funding and a 42 percent increase for public transportation**. No legislative action was taken to increase transportation funding.

PA Transportation Advisory Committee (TAC) Report (May 2010)

Recommended Funding	2010 Need	2020 Need	2030 Need
In Millions of Dollars			
Highway & Bridge	$2,576	$4,693	$6,545
Public Transportation	$484	$1,383	$3,063
Local Government	$432	$670	$1,092
Total	**$3,492**	**$6,746**	**$10,700**

In April 2011, Governor Corbett appointed a 40-member Transportation Funding Advisory Commission (TFAC) to "develop a comprehensive, strategic proposal for addressing the transportation funding needs of Pennsylvania." In August 2011, the TFAC provided a report to the governor with recommendations to raise $2.5 billion in new annual transportation revenue over a five-year period.

Among its major recommendations, the TFAC called for lifting a cap on the Oil Company Franchise Tax, which is paid by fuel distributors. Phasing out the cap over five years potentially generates $1.4 billion in year five and beyond. Among the other recommendations:

- increasing annual fees for vehicle registration and driver's license;
- increasing fines for some traffic offenses and
- deploying red light enforcement cameras (expanded Summer 2012).

The full report is available online at www.tfac.pa.gov.

Both commissions recognized that the economic and social consequences of failing to address our deteriorating transportation system will be enormous. Transporting goods will become more difficult and costly to Pennsylvania farmers, truckers, manufacturers, wholesalers, and retailers. Without adequate funding, PennDOT will be forced to close bridges also making it increasingly difficult for businesses to move or expand within the state. Pennsylvania has had one major bridge collapse, (Interstate 70 in 2005) and several smaller collapses; there are more than 5,086 state-owned bridges listed as structurally deficient — meaning they are currently safe but in need of significant repairs -- or closed or posted.

Policy Issues

PA Turnpike: Act 44 of 2007

In an attempt to address the growing transportation funding gap, the General Assembly passed Act 44 of 2007 (sponsored by Rep. Joe Markosek) which provided for payments to PennDOT from the Pennsylvania Turnpike Commission at two different levels. One level included additional revenue that would be collected by instituting tolls on Interstate 80 (I-80) which traverses the northern tier of the state from east to west. Because the tolling plan required federal approval which was uncertain at the time, Act 44 included payment levels without revenue from tolls on I-80. In September 2008, the Federal Highway Administration (FHWA) formally rejected Pennsylvania's plan to toll I-80 under the Interstate System Reconstruction and Rehabilitation Pilot Program.

In October 2009, Pennsylvania resubmitted its application, after making various changes, in hopes of addressing the concerns of the federal government and ultimately winning approval to toll I-80. In April 2010, FHWA issued its final decision, denying Pennsylvania's proposal to toll the interstate.

To date, the Pennsylvania Turnpike Commission provided $3.625 billion to PennDOT since Act 44 was enacted in 2007. The Turnpike would have transferred an additional $450 million to PennDOT in 2010 and annually thereafter if tolling of I-80 was permitted. PennDOT reallocated the funds from the Turnpike for highway, bridge and public transportation projects across the state.

Public Private Partnerships

On July 5, 2012 Governor Corbett signed Act 88 of 2012 authorizing Public Private Partnerships (P3s) for transportation projects in the commonwealth. This law allows PennDOT and other transportation authorities and commissions to partner with private companies to participate in delivering, maintaining and financing transportation-related projects. This law also created a seven-member Public Private Transportation Partnership Board to examine and approve potential public private transportation projects.

On January 10, 2013, the P3 Board approved the first project. This project will solicit private sector proposals to manage and operate PennDOT's 511 system, 511PA, as well as the Pennsylvania Turnpike's Roadway Information Program (TRIP).

Conclusion

Discussion about how to address Pennsylvania's transportation funding needs is expected to be a hot topic in the Spring 2013 legislative session. While the merits of various solutions are debated, everyone seems to agree that a crippled transportation system would make access to jobs, health care and other essential services much more difficult for many Pennsylvanians, especially senior citizens and people with disabilities.

House Appropriations Committee (D)

Representative Joseph Markosek, Chairman
Miriam A. Fox, Executive Director
Bernie Gallagher, Transportation Analyst

Questions or comments?
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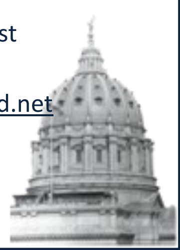
Visit us on the web: www.hacd.net



Transportation Funding Time Line

2005

July 2005 – Nine-member Transportation Funding and Reform Commission starts work on exploring efficiencies and funding options for highways, bridges and transit.

2006

November 2006 – Commission issues final report identifying $1.7 billion annual funding gap. Recommends increases in Oil Company Franchise Tax and vehicle and registration fees and expanded local taxing options to close gap.

December 2006 – Governor Rendell issues call for expressions of interest from firms interested in a Public Private Partnership (P3) involving a lease of the Pennsylvania Turnpike. Forty-eight responses received.

2007

February 2007 – Governor Rendell calls for a long-term lease of the Pennsylvania Turnpike and a 6.17 percent Oil Company Gross Profits tax to close the $1.7 billion a year transportation funding gap.

March 2007 – Governor Rendell announces the selection of Morgan Stanley to advise administration on three options:

- A lease or concession of the Pennsylvania Turnpike to a private operator;
- The Turnpike Commission proposal to issue bonds, raise tolls, and create a $1 congestion fee in urban areas of the turnpike and
- A highly leveraged debt recapitalization of the turnpike by the Turnpike Commission or another public entity owned by the commonwealth.

April 2007 – U.S. DOT Secretary Mary Peters visits Governor Rendell and legislative leaders in Harrisburg to urge Pennsylvania to take the lead in solving transportation funding issues, including the use of P3s.

May 2007 – U.S. Reps. James Oberstar, chairman of the House Committee on Transportation and Infrastructure, and Peter DeFazio, chairman of the subcommittee on highways and transit, write to Governor Rendell urging him NOT to have Pennsylvania enter into a P3 agreement.

May 2007 – Governor Rendell submits draft legislation to the General Assembly permitting a P3 and a lease of the Pennsylvania Turnpike.

May 2007 – The commonwealth's financial advisor, Morgan Stanley, releases a report estimating the potential value of a turnpike lease.

July 2007 – The General Assembly adopts, and Governor Rendell signs **Act 44**, (sponsored by Rep. Joe Markosek) which creates a public-public partnership between PennDOT and the Turnpike Commission to apply for federal permission to convert Interstate 80 into a toll road and raise tolls on the existing turnpike to generate on average $946 million a year for transportation needs in Pennsylvania.

Aug. 1, 2007 – Interstate 35 bridge collapses in Minnesota, killing 13 people and focusing renewed attention on transportation investment issues.

October 2007 – PennDOT and the Turnpike Commission enter into a 50-year lease agreement covering Interstate 80 and setting the stage for the turnpike to operate it as a toll road. PennDOT and the commission file a joint application to the federal government seeking authorization to convert the interstate into a toll road.

December 2007 – The Federal Highway Administration asks the Turnpike Commission and PennDOT a series of 14 clarifying questions, dealing with such issues as details of the planned reconstruction and rehab of the interstate, how proposed payments to PennDOT from toll revenue were derived, how toll revenues would be used and bonding details.

2008

May 2008 – Governor Rendell announces that Citi Infrastructures Investors and Abertis Infraestructures have submitted a winning $12.8 billion bid for a 75-year lease of the Pennsylvania Turnpike. The winning team commited to a capital investment plan in excess of $5.5 billion. The agreement included:

- limits on toll increases;
- protections for existing turnpike employee collective bargaining agreements;
- completion of the turnpike's current 10-year capital investment plan and
- maintenance of the turnpike and annual audits to ensure compliance.

June 2008 – House Bill 2593 (sponsored by Reps. Dwight Evans and Steve Cappelli) introduced to permit lease of turnpike.

July 22, 2008 – Turnpike Commission resubmits I-80 tolling application to the Federal Highway Administration.

Sept. 11, 2008 – Federal Highway Administration rejects the Turnpike Commission application to convert Interstate 80 into a toll road. Governor Rendell calls on General Assembly to "give prompt and serious consideration" to the proposal to lease the turnpike.

Sept. 30, 2008 – $12.8 billion bid from Citi-Abertis consortium expires. General Assembly takes no action on leasing legislation.

2010

May 2010— Pennsylvania's Transportation Advisory Committee (TAC) issues report identifying a $3.5 billion annual funding shortfall. The committee recommended a 91 percent increase in the level of highway funding and a 42 percent increase for public transportation.

June 30, 2010 – Funding under Act 44 reduced by $450 million per year because of loss of Interstate 80 tolling; $450 million remains payable for highways, bridges and transit each year from tolling increases on mainline turnpike.

2011

April 2011 – Governor Corbett appointed a 40-member Transportation Funding Advisory Commission (TFAC).

August 2011 – TFAC provides a report to Governor Corbett with recommendations to raise $2.5 billion in new annual transportation revenue over a five-year period. Among its major recommendations:

- lifting the cap on the Oil Company Franchise Tax;
- increasing annual fees for vehicle registration and driver's license;
- increasing fines for some traffic offenses and
- deploying red light enforcement cameras (expanded in Summer 2012).

2012

July 2013 – Governor Corbett signed Act 88 of 2012 authorizing Public Private Partnerships (P3s) for transportation projects in the commonwealth.