

Primer

From the House Appropriations Committee

JOE MARKOSEK, DEMOCRATIC CHAIRMAN

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Transportation: Highway & Bridge Funding

Revenues

Highways, bridges, and the administration thereof, are funded in Pennsylvania exclusively by the Motor License Fund at a cost of roughly \$2.8 billion, including \$465 million in grants to local governments.

The Motor License Fund totals \$3.3 billion and obtains its revenues from the following sources:

- Taxes on gasoline, diesel fuel and alternative fuels;
- Fees for driver licenses, registration, and other Vehicle Code provisions;
- Fines from moving vehicle violations; and
- Pennsylvania Turnpike Commission payments pursuant to Act 44 of 2007.

Pennsylvania's Constitution has a special provision that restricts what the State may expend from revenues collected from motor fuel (gasoline, diesel fuel, etc.) taxes, operator licenses and registration fees. This is found in Article VIII, §11. These expenditures are restricted to:

- Cost of administration and collection;
- Payment of obligations incurred in 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.

The current tax on gasoline is 31.2¢ per gallon, and the tax on diesel fuel is 38.1¢ per gallon. This does not include fees for underground tank storage indemnification, which are 1.1¢ per gallon of gasoline or 8.25¢ gallon capacity fee for diesel fuel, which is assessed on the capacity of the storage tank.

Pennsylvania receives about \$1.7 billion in federal funding for highways and bridges, not counting the Federal economic stimulus program 2009. The source of the federal funding is also taxes on gasoline and diesel fuel, which is deposited in the U.S. Highway Trust Fund. The current federal rate is 18.4¢ per gallon of gasoline and 24.4¢ per gallon of diesel fuel. Some of the federal funding is flexible and can be used for mass transit.

In addition to the federal funding described above, the American Recovery and Reinvestment Act of 2009, (the Federal economic stimulus program), provides Pennsylvania with a one-time investment of \$1.03 billion for highway and bridge projects.

For the most part, Pennsylvania uses current revenue to fund highway and bridge projects and has, until recently, stayed away from borrowing since the interstates were built. The debt service from building the interstates almost became unmanageable during the 1970s, and the General Assembly and subsequent Administrations have been resistant to use debt-financed projects since then. 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 the Governor's Rebuild Pennsylvania initiative, the General Assembly approved \$350 million in FY 2008/09 in debt for bridge projects. Another \$200 million was approved for FY 2009/10, and then again in FY 2010/11.

Transportation Commission: Highways

On February 28, 2005, Gov. Rendell signed Executive Order 2005-1, creating the Transportation Funding and Reform Commission to study and make recommendations on how to reform the transportation system and to make recommendations on any additional funding that may be required.

In August, 2006, the Governor's Transportation Funding and Reform Commission released its initial findings. For highways and bridges, the Commission concluded that a funding crisis exists for maintenance and adequacy of Pennsylvania's transportation infrastructure. Funding for highways and bridges have not kept pace with inflation and projected growth in revenues will not keep up with requisite maintenance and traffic needs. Pennsylvania had more than twice as many structurally deficient bridges than the national average and 35 percent of the Commonwealth's secondary roads were rated "poor".

On November 13, 2006, the Commission issued its final report and recommended the following solutions:

- Implement four specific reforms that will save \$120 million.
- Raise an additional \$900 million for state highway bridges by
 - Increasing the gasoline and diesel fuel taxes by \$11.5¢ per gallon, raising \$750 million.
 - Increasing vehicle registration and other licensing fees to raise the remaining \$150 million. If applied across the board to all fees, this would raise the fees by 17 percent.
- Raise \$65 million for local government highway and bridge needs by increasing the gas and diesel fuel taxes by one cent per gallon.

The total 12 cent increase in gasoline and diesel fuel tax rates would have given Pennsylvania the highest tax rates in the nation.

In order to alleviate the funding constraint, the General Assembly has approved borrowing money for bridge projects: \$350 million for FY 2008/09, \$200 million for FY 2009/10, and \$200 million for FY 2010/11. While it may enable more projects to be

undertaken in the short-run, these bonds must be repaid, which reduces money available in the Motor License Fund in the future.

As part of his 2007/08 budget proposal, Governor Rendell presented two options to the General Assembly to raise an additional \$965 million for highways and bridges: (1) increase the Oil Company Franchise Tax on wholesale gasoline and diesel fuel by 12.5¢ per gallon or (2) lease the Pennsylvania Turnpike.

The General Assembly opted for a plan with Act 44 of 2007 to allow the Pennsylvania Turnpike Commission to toll Interstate 80 and use payments from the Commission to fund highway needs. Turnpike payments from Act 44 for highways and bridges are as follows: \$450 million for FYs 2007/08 and FY 2008/09, and \$500 million for FY 2009/10. Had the Turnpike been successful in tolling Interstate 80, then the Turnpike payments would have grown by 2.5% per year. Instead, the payment dropped to \$200 million.

On September 11, 2008, Associate Administrator for Infrastructure King W. Gee of the Federal Highway Administration (FHWA), U.S. Department of Transportation, sent a memo notifying the Commission and the Pennsylvania Department of Transportation that "FHWA has concluded that the agency is unable to move the application under the ISRRPP [Interstate System Reconstruction and Rehabilitation Pilot Program] at this time." The challenge for the future is to find a funding source to replace the loss of funds from this decision. On October 30, 2009, Pennsylvania resubmitted its application after making various changes in hopes of addressing the concerns of the federal government. On April 6, 2010, the FHWA issued a final decision denying Pennsylvania the ability to toll Interstate 80.

The consequences of the Federal denial to Pennsylvania are significant. For 2010/2011, for example, the Motor License Fund lost \$312.5 million.

This potential loss of Turnpike funding may be exacerbated by the potential loss of federal money. Pennsylvania lost \$400 million in federal rescissions at the end of September 2009 due to the inadequacy

of revenues to the Federal Highway Trust Fund. Congress is facing a financial crisis with inadequate revenues from the federal excise tax on motor fuels (18.4¢ per gallon gasoline and 24.4¢ per gallon diesel fuel) and other revenue that are deposited into the Fund.

Pennsylvania received some relief from the Federal government for transportation as part of the Federal economic “stimulus” bill. On February 17, 2009, President Barack Obama signed the American Recovery and Reinvestment Act into law, providing \$1.026 billion to Pennsylvania for highway projects. ARRA, however, was a one-time expenditure. Congress has yet to renew the Federal program, which originally expired September 30, 2009.

In May 2010, the Pennsylvania State Transportation Advisory Committee issued a report updating the recommendations from Gov. Rendell’s Transportation Funding and Reform Commission. The Committee identified \$3.5 billion in unmet need, a dramatic increase over the \$4.7 billion in current level of funding.

On April 28, 2010, Governor Rendell called the General Assembly into special session on transportation funding, but that session ended without any bills signed into law by the Governor.

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 licenses;
- Increasing fines for some traffic offense; and
- Deploying red light enforcement cameras (now expanded as of Summer 2012).

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

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).

House Appropriations Committee (D)

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