

Pennsylvania's Transportation Funding Options 2021

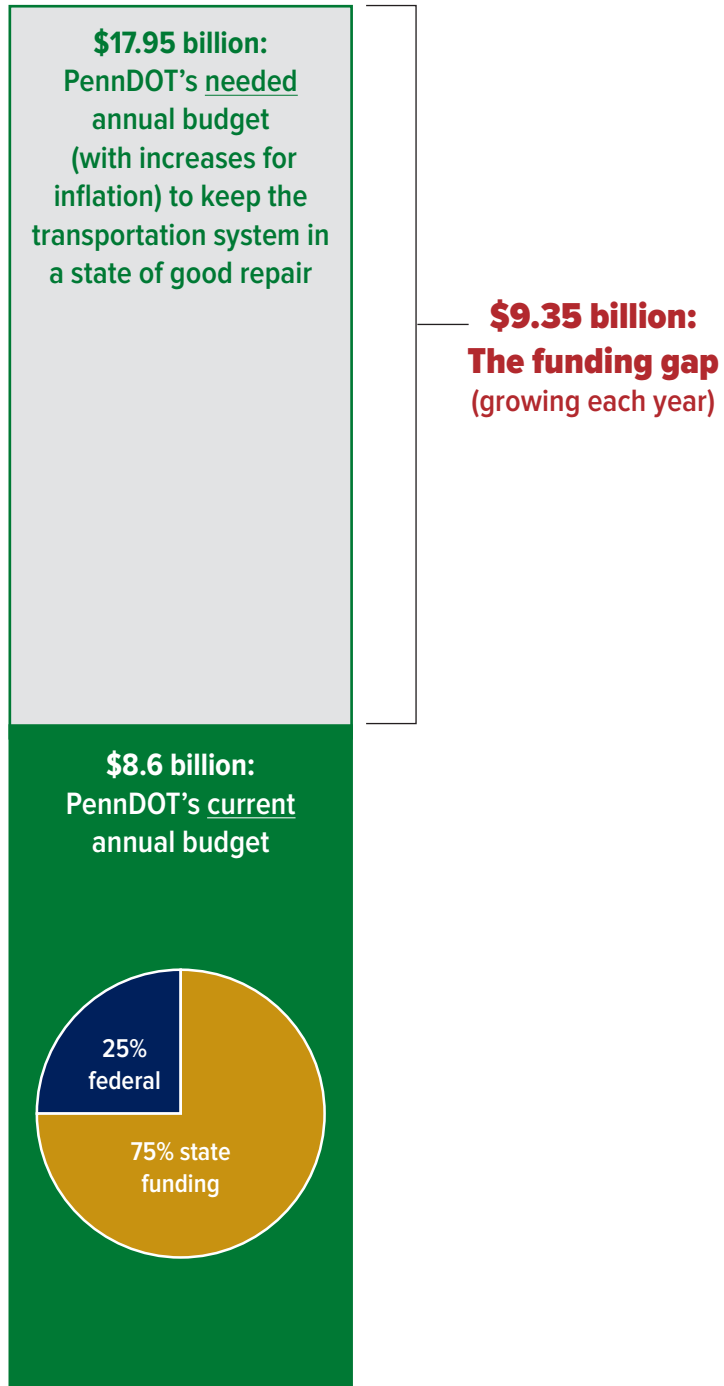
Choices for a
fair and comprehensive
funding solution

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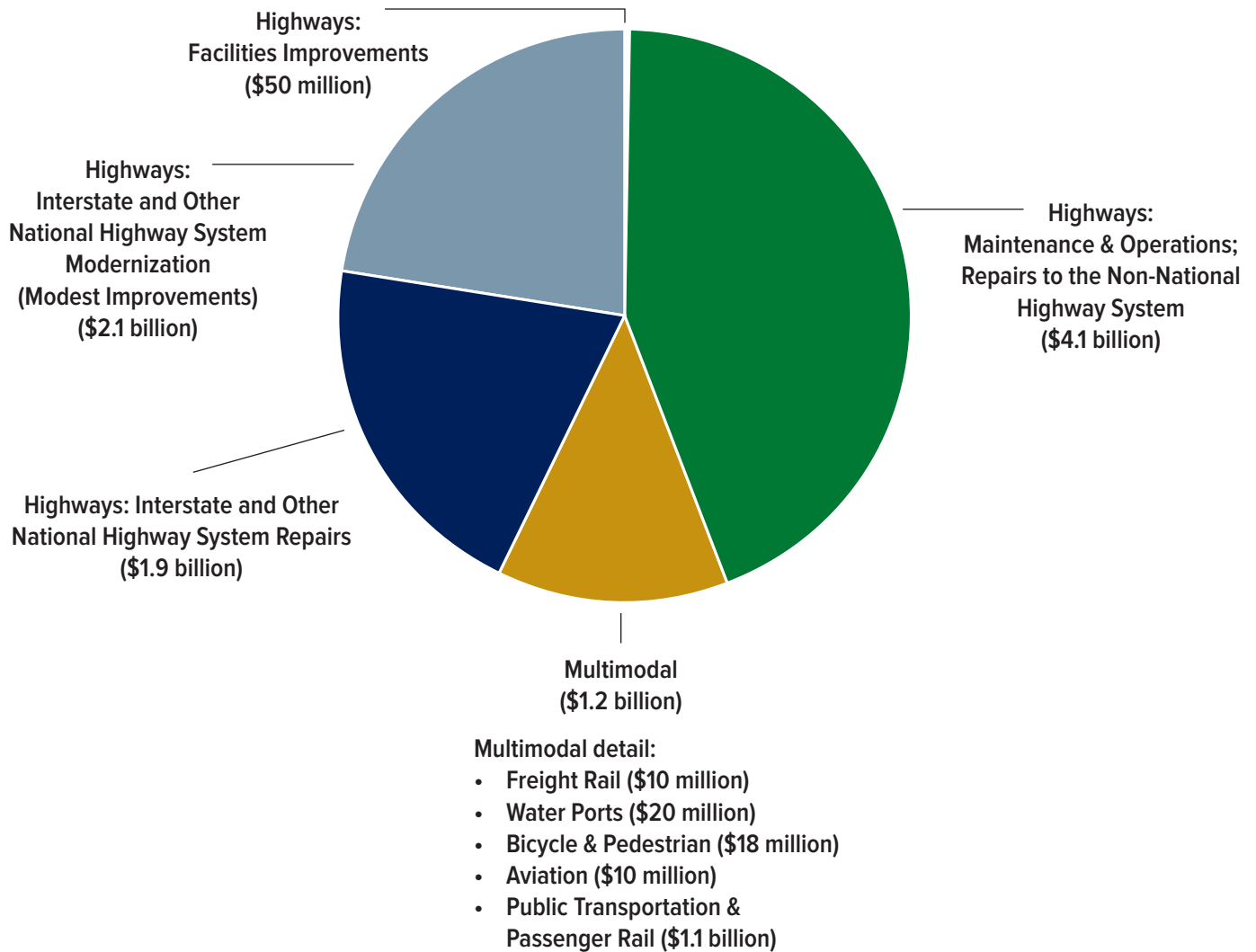
Pennsylvania's Staggering Transportation Funding Need

The stark reality is that PennDOT's \$8.6 billion annual budget needs to more than double to keep Pennsylvania's transportation system operating properly into the future. That must be our target for long-term funding solutions.



FY 2020-21

Breakdown of \$9.35 Billion Annual Unfunded Need



While highway and bridge assets are owned by the Commonwealth, multimodal assets are owned by a range of entities. Determining the full extent of system needs is complex. Estimates are based on PennDOT programming and reflect long-deferred state-of-good-repair capital and maintenance needs.

See the one-page document entitled “Where Does PennDOT’s Budget Go?” for more on Pennsylvania’s extensive transportation system and responsibilities.

How We Got to This Point

Our state and federal governments made major investments when transportation infrastructure (such as the Interstate Highway System) was originally built, but investments have not kept pace with the needs of an aging system. Further, inflation erodes our purchasing power (by nearly \$100 million per year!). Despite state action in 2013, the defined need wasn't met and there hasn't been meaningful federal investment action since 1993.

74%
of PennDOT's highway
and bridge funding
comes from federal and
state gas tax revenue—
which continues
to decline.

Gas tax revenue continues to shrink.

Fuel economy improvements and the transition to alternative fuels or electric vehicles (which are good things) will continue to reduce gasoline and diesel consumption, and therefore the revenue from the Liquid Fuels tax. We've long known we needed to find other ways to pay for transportation.

Act 44 and Act 89 didn't solve the whole problem.

PA Act 44 of 2007 and PA Act 89 of 2013 provided urgently needed infusions of predictable funding to shore up transportation statewide, particularly our public transportation systems. However, they only addressed a portion of the funding need.¹

Emergency repair needs have skyrocketed.

PennDOT budgets \$30 million per year for emergency repairs such as landslides and washouts. In Fiscal Year 2018-19 alone, the state experienced severe flooding that caused \$120 million in road and bridge damage. Although PennDOT incorporates practices proven to make infrastructure more resilient to natural disasters, severe weather events combined with aging infrastructure have resulted in emergency repairs becoming more frequent and more costly.

Federal pavement condition requirements for Interstates have gotten more stringent.

Interstate highways, which carry 26 percent of all vehicle-miles traveled, must meet rigorous pavement standards and be maintained proactively to lower overall costs. Although PennDOT supports this "asset management" approach, keeping our Interstates in compliant condition requires diverting funds from other state and local needs (\$150 million diverted in Federal Fiscal Year (FFY) 2021, increasing \$50 million per year until Interstate investment reaches \$1 billion in FFY 2028).

Federal transportation spending hasn't increased meaningfully since 1993.

When federal funding doesn't keep pace with the nation's needs, federal mandates, or even inflation, state governments are expected to fill the void. However, the Commonwealth does not have the deep pockets or financing tools of the U.S. government.

Deferred maintenance costs more in the end.

When there isn't enough funding to cover needs, PennDOT must put off repairs. When we as Pennsylvanians choose not to invest in preventative maintenance—year after year—small problems snowball into major reconstruction projects.

COVID-19 has been devastating.

PennDOT has already lost \$500 million in gas tax revenue through the pandemic. Transit fare revenue has dropped by about half statewide. For now, CARES Act funding has kept transit afloat, at reduced service levels. Aviation fuel revenues dropped by a further \$1.5 million. Federal COVID relief funding provided \$407 million, which was primarily used to avert a wholesale shutdown of the highway and bridge construction program in late 2020.



Flood damage requires emergency repairs

¹In fact, Act 44 and Act 89 created a crushing debt of \$14 billion for the Pennsylvania Turnpike Commission by diverting toll revenue to PennDOT. The Turnpike has been forced to raise tolls every year. In July 2022, the \$450 million annual Turnpike payment to PennDOT drops to \$50 million. To replace and augment that amount, \$450 million per year in vehicle sales tax revenue is to be transferred from the General Fund to PennDOT. However, the General Assembly has shown interest in repealing that provision.

PennDOT Efficiencies and Innovation

PennDOT has scrutinized its operations to find every opportunity to save money—doing more with even less. PennDOT has managed to save nearly \$100 million over the past five years, and is a leader in Lean organizational efficiency practices. PennDOT is also leveraging the 2012 law making public-private partnerships (P3) an option in delivering new or improved transportation services.

\$38.5 million

saved over three years
by using lower-cost materials for
secondary roads

\$49 million

saved over four years
through the
County Accreditation Program



\$10 million

saved over five years
by implementing efficiency
improvements identified by
PennDOT employees
(WorkSmart and IdeaLink programs)

P3

A Public-Private Partnership to
replace 558 bridges was part of
PennDOT's reduction in poor-
condition bridges from more than
6,000 in 2008 to 2,500 today.

The Department launched **PennDOT Pathways** in November 2020 to analyze new future-focused sources of funding for our transportation system that could better serve our communities and all Pennsylvanians for the next generation. Public input was sought and nearly 6,000 people participated online. As part of PennDOT Pathways, PennDOT has undertaken a **Planning and Environmental Linkages** (PEL) study to identify near- and long-term funding solutions and establish a methodology for their evaluation. An early finding is the potential for major bridge tolling to fund the reconstruction or replacement of those vital structures. To pursue this funding alternative, PennDOT is advancing the Major Bridge P3 Initiative. Results of the PEL study and related outreach and analysis are expected to be available in Summer 2021. See [PennDOT.gov/funding](https://www.penn.gov/funding) for more on PennDOT Pathways.

To make ends meet in the meantime, PennDOT has taken steps including steadily reducing the size of its construction program, from \$2.5 billion in 2015 to \$1.6 billion in 2020. The current anticipated construction lettings for 2021 is \$1.9 billion. Of course, the underlying needs have not gone away. What does go away are family-sustaining construction and engineering jobs.

State-Level Funding Options

Following are potential sources of additional state-level transportation revenue that have been identified in previous studies (see References). The dollar amount shows the expected range of new income per year.

General Transportation-Based

Electric Car Fee \$5.5M–\$9.2M

\$150 to \$200 general fee (including hybrid charge)

Vehicle Sales Tax \$450M–\$500M

1.93%–2.14% increase to address the Act 44/89 sunset in 2022

Vehicle Registration Fee \$750M–\$1.5B

100% to 200% increase

Tire Tax. \$12.5M

\$1 increase from \$1 to \$2 per tire

Vehicle Lease Fee \$100M

3% increase from 3% to 6% of lease payment

Accelerate PSP Funding Reduction from Motor License Fund \$32M–\$673M

Use General Fund in lieu of MLF to pay for Pennsylvania State Police

Aircraft Registration Fee \$250K–\$350K

New fee based on aircraft weight, estimated average \$300 per aircraft

Use-Based

Mileage-Based User Fee \$3.8B–\$8.4B

New road user charge of 3.16 cents (current gas equivalent) to 7 cents per mile

TNC Fee \$80M–\$100M

New fee of \$1 per trip for transportation network companies such as Uber and Lyft.

Vehicle Rental Fee \$80M

\$2 increase from \$2 to \$4 per rental

Excise Tax on Goods Delivery \$300M–\$500M

Percentage of value or per-package fee similar to proposed federal Highway Transportation Services Tax² (percentage could also be allocated to local governments)

Congestion Pricing \$525M–\$900M

Toll Interstates and expressways in Philadelphia, Pittsburgh, Harrisburg, and Allentown

Limited Tolling \$290M–\$450M

Statewide bridge tolling and tolling of new capacity as express lanes

Major Bridge P3 \$2.2B³

Toll selected major bridges to fund maintenance through a public-private partnership (P3)

Full Tolling \$1.8B–\$2.9B

Statewide tolling of Interstates and expressways (federal authority required)

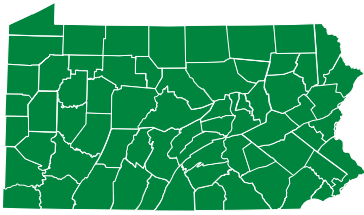
Gas Tax⁴ \$75M–\$112M

2% to 3% increase per year, indexing to inflation

²Proposed by the American Road and Transportation Builders Association (ARTBA): http://www.licanys.org/files/3414/7731/8344/The_BOLD_Act_Revenue_Package_Outline.pdf and https://www.artba.org/wp-content/uploads/2019/07/Task_Force_Final_07.08.19.pdf

³Revenue generation limited to bridge costs.

⁴Pennsylvania already has the second-highest gas tax in the U.S. However, the state’s fees associated with owning a car (vs. operating it) are relatively low. Commonwealth leaders have intentionally kept the “entry costs” of car ownership low while ensuring that those who drive more miles contribute their fair share toward roadway maintenance via the gas tax. Regardless, gas tax options are not sustainable long-term funding because gasoline and diesel sales are projected to steadily decrease with improving fuel economy and the transition to electric vehicles.



State legislators can unlock many additional transportation funding and financing options for local governments.

See the next page for the list of local options requiring statewide enabling legislation.

Traditional Revenue Sources

- Corporate Income Tax \$300M**
1% increase
- Personal Income Tax \$350M–\$450M**
0.10% increase (based on current structure)
- Sales Tax \$350M–\$450M**
0.25% increase
- Real Estate Transfer Tax . . . \$215M–\$265M**
0.50% increase

No Legislative Action Required

- Driver’s License Photo Fee \$6.6M**
Raise fee \$2 from \$9.50 to \$11.50 to break even for next eight years
- Real ID Fee. \$125M**
Beginning October 1, 2021, raise fee from \$30 to \$60 to break even for next three years
- Emission Sticker Fee \$57M**
New \$8 fee; same as inspection sticker

If we promptly implemented **all of these options**, the Commonwealth could generate sufficient additional revenue to **fully address** Pennsylvania’s transportation funding gap.

Local-Level Funding Options

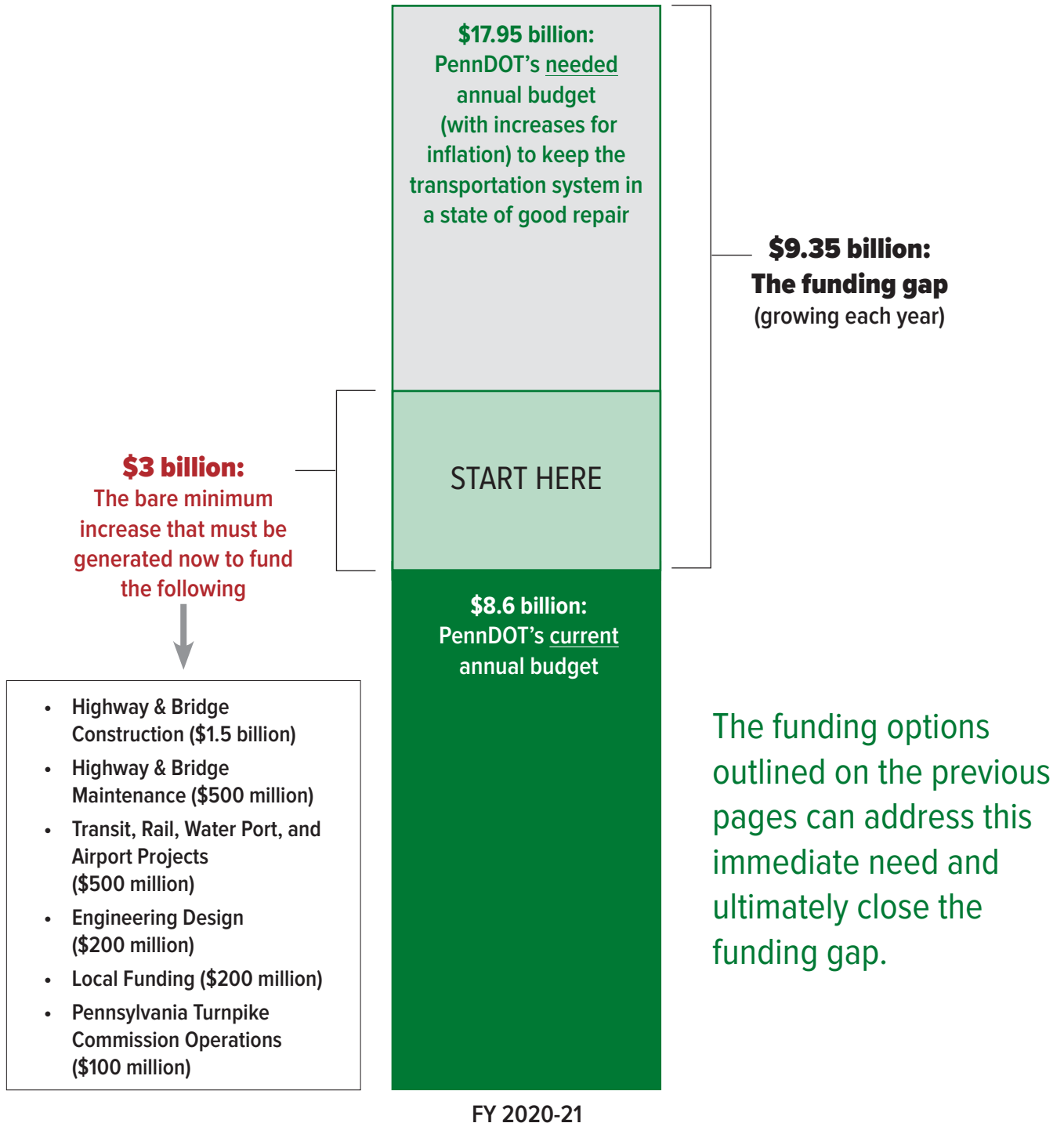
Following are potential sources of additional transportation revenue for regions, counties, and municipalities. These options were identified as part of two mobility studies that evaluated ways to fund projects of regional significance in the Philadelphia and Pittsburgh metropolitan areas (see References). This revenue would not replace state funding—it would generate additional money to allow regions to undertake priority projects that could not otherwise advance. Revenue amounts would be dependent upon the region’s characteristics.

Revenue Potential		
High	Medium	Low
Statewide Enabling Legislation Required		
<ul style="list-style-type: none"> Earned Income Tax Sales Tax Local Services Tax Mileage-Based User Fee Property Tax Surcharge Real Estate Transfer Tax Vehicle Property Tax Gasoline Sales Tax 	<ul style="list-style-type: none"> Interstate Tolling Congestion Pricing Cordon Pricing Transportation Network Company (Rideshare) Fee Hotel Occupancy Tax Cigarette Tax Liquor/Malt Beverage Tax 	<ul style="list-style-type: none"> Vehicle Registration Fee Excise Tax on Adult Bicycles Lead Acid Battery Tax Telecom Surcharge Opportunity Zone Incentives
Options Available Now		
<ul style="list-style-type: none"> None 	<ul style="list-style-type: none"> Transit Fare Surcharge Rolling Property Tax Assessment Surface Coverage Fee Tax Increment Financing Transportation Access Fee 	<ul style="list-style-type: none"> Fee in Lieu of Parking Fee in Lieu of Transportation Improvements Rezoning for Private/Transit Development Parking Space Fee

Next Steps

The \$9.35 billion funding gap must be addressed in a way that provides long-term, predictable funding at the level needed to properly sustain Pennsylvania transportation. PennDOT recognizes that it is a daunting amount, especially in light of the Commonwealth's range of pressing needs.

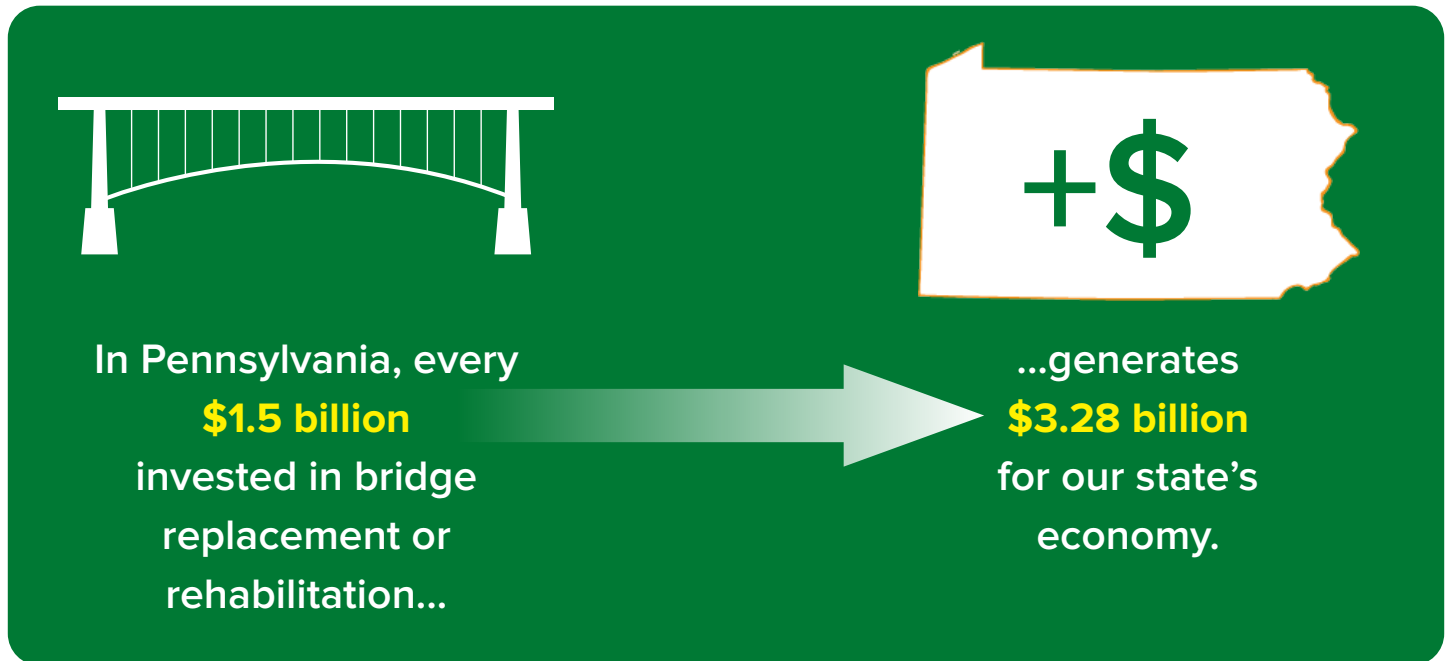
As a first and immediate step toward closing the funding gap, we as Pennsylvanians must generate \$3 billion to meet our most urgent transportation needs.



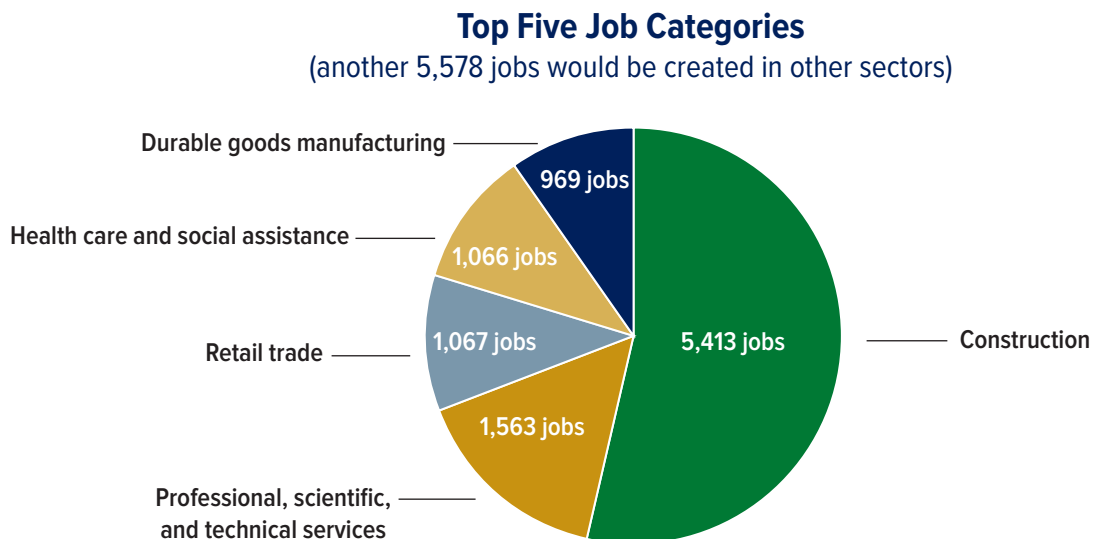
The Economic Benefits of Transportation Investment

Government spending on transportation is an especially worthwhile investment. The immediate yield is good construction-related jobs that spur economic activity in other sectors. Long-term, residents and businesses reap the compounding benefits of moving people and goods efficiently.

The following figures summarize recent economic analysis on the benefits of investment in just one aspect of transportation infrastructure: bridges.



A hypothetical \$1.5 billion bridge investment would create an estimated 15,656 “job-years.”⁵



⁵One job-year is equivalent to one year of individual employment. Figures calculated by HDR, Inc., using BEA RIMS II multipliers.

It's Time to Really Solve Transportation Funding

Looking ahead, the trends are clear. We can expect more freight and passenger traffic (therefore roads and bridges that wear out faster, along with increasing congestion to address), and at the same time a steady transition to electric vehicles that erases income from the traditional gas tax.

We need to act now, working together through a transparent, collaborative process to find fair, responsible, bipartisan solutions to providing the transportation infrastructure and services Pennsylvania needs to support a strong, stable future.

The transition to electric vehicles is well underway and will only gain momentum.

March 2019–March 2020 in PA

15% increase
in electric vehicle
registrations

22% increase
in hybrid vehicle
registrations

The automobile industry has committed \$225 billion to electric vehicle (EV) development:

Ford: 40 EV models by 2022

Chrysler: 12 EV models by 2022

Volkswagen: 50% EV models by 2030

Honda: 100% models to have EV option by 2022

BMW: 15-25% of sales by 2025

Toyota: 50% of sales by 2025

Volvo: 50% of sales by 2025

Source: Business Insider



Freight growth and congestion are sharply increasing:

Where we saw 10 trucks in 2011 we can expect to see 17 trucks in 2040.

Source: PA Comprehensive Freight Plan

References

This document draws upon the following funding studies.

Southwest Pennsylvania Partnership for Mobility Final Report (June 2019)

https://www.paturndot.com/pdfs/about/SW_Mobility_Final_Report.pdf

Southeast Pennsylvania Partnership for Mobility Final Report (May 2019)

https://www.paturndot.com/pdfs/about/SE_Mobility_Final_Report.pdf

Risks to Transportation Funding in Pennsylvania (February 2019)

<https://talkpatransportation.com/perch/resources/documents/tac-2019-transportation-funding-risks-report.pdf>

Transportation Funding Advisory Commission Report (August 2011)

<https://www.penndot.gov/about-us/Documents/TFAC%20Executive%20Summary.pdf>

