



**Pennsylvania
Business
Council**

**Testimony
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**Joint Hearing – House Transportation and Policy Committees
Transportation Infrastructure Financing
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Good afternoon. My name is David Patti. I am the President & CEO of the Pennsylvania Business Council (PBC) – a business organization that represents among its membership the largest employers in the Commonwealth.

PBC envisions a Commonwealth in which residents enjoy a very high quality of life in sustainable communities, where those who are seeking employment find high quality jobs with good compensation, and where those who invest their capital and hard work can grow firms that flourish and are profitable.

I want to thank Chairmen Joe Markosek and Rick Geist of the House Transportation Committee for their longstanding commitment to tackling the difficult infrastructure problems that face Pennsylvania; and I'd like to thank the Chairs of the two Policy Committees Mike Sturla and Stan Saylor for bringing the emphasis and weight of their respective caucus leadership to this important issue. It is wonderful to see bipartisan commitment to this effort. Thank you all for the invitation to appear here this afternoon to discuss public policy proposals that will have significant ramifications for Pennsylvania's competitive position relative to other states and nations.

Infrastructure is not simply roads and bridges. Pennsylvania's transit system, passenger and freight rails, and sewer and water systems are all vital aspects of our state's infrastructure. Our power grid, gas transmission lines, and broadband cable connectivity are critical components of Pennsylvania's infrastructure. Our needs are not concentrated in a particular geographic area; they affect all Pennsylvanians across the entire state. All of Pennsylvania's infrastructure need immediate attention, albeit the topic of today's hearing is limited to transportation infrastructure.

Pennsylvania's roads are probably the most visible component of Pennsylvania's infrastructure. Commuters traveling across Pennsylvania's 45,000 miles of state roads can see that our Interstates and our secondary roads are in need of maintenance and expansion. It is imperative that our roads are in good condition to provide drivers a safe commute to and from work. Well maintained roads are necessary for the flow of goods: transporting raw materials in and getting finished products out.

Well maintained roads must be accompanied by safe bridges. The condition of our state's bridges is shocking. Pennsylvania is plagued with more structurally deficient bridges than any other state. More than 6,000 Pennsylvania bridges are in need of repair. Due to poor condition, some structurally deficient bridges have weight restrictions, which force truck drivers to take alternate, often much longer routes.

One of Pennsylvania's competitive advantages is its proximity to markets and customers, but logistics are a major cost for manufacturing, wholesale, and retail operations. Delays, closed lanes, weight restrictions, and detours are a cost to Pennsylvania's business community. Poorly maintained systems can increase maintenance expenses and decrease the useful life of vehicles. Delays can increase fuel consumption and reduce driver and vehicle productivity – more time sitting is less time moving product. And, poorly maintained systems pose safety hazards that not only increase cost, but risk lives.

From a cost-benefit perspective, the use of public funds to build and maintain infrastructure – even if that necessitates tax, fee or toll increases – can be less expensive than the cost of poorly maintained systems.

Our mass transit system has the potential to take some of the pressure off of our roads and bridges if it is well maintained. Although mass transit provides urban workers a reliable source of transportation while helping to alleviate road congestion, no state funding is set aside solely for transit. While it is appropriate to look to mass transit riders for a fee at the fare box, mass transit is a public good. The commerce of our cities depends on bringing workers of all classes to their place of employment. Pennsylvanians who work in service occupations on the third shift -- workers we take for granted who staff hospitals overnight, who provide us with clean offices and clean ready-to-go hotel meeting rooms – depend on mass transit when market forces alone would not offer adequate service. For years, however, we have pitted the needs of our highways and roads against the needs of our mass transit systems. It's time for Pennsylvania to recognize the need for adequate transportation systems for the entire Commonwealth.

Unlike mass transit, state funding is set aside solely for Pennsylvania's rail system. Our system includes 69 freight railroads and is more extensive than any other state stretching 5,145 miles. Through daily operation, our railroads themselves pay most of the \$135 million spent each year to maintain our system. Railroads eliminate the number of trucks needed to move products, which alleviates road congestion, and reduces fuel consumption. By some estimates, one cargo train can replace 280 trucks on our highways. To take full advantage of this private investment, however, it is essential that Pennsylvania maintain safe grade crossings and invest in intermodal facilities.

As the nation began to grapple with the global recession that began in 2007, many individuals including Pennsylvania's Governor Rendell called on the Federal government to create jobs and stimulate economic recovery through investments in infrastructure. When the Federal stimulus legislation was finally enacted, however, only seven (7) percent was devoted to infrastructure improvements.

We cannot wait for the Federal government. These are costly issues, but waiting to take action will only make matters worse. We understand that it is easy for the General Assembly to find fault with any specific proposal. We believe that transparency and a full vetting of all ideas is appropriate and important. Doing "nothing" is NOT an option. The key objective in coming weeks and months is not finding fault, blame, or points on which to disagree. The key objective is to find solutions with which we all can live.

To that end, the Pennsylvania Business Council is prepared to support several steps to improve the way in which we pay for infrastructure and some proposals to generate new revenues:

1. First, before looking for new funds, let's take a look at how we spend existing transportation infrastructure funds. Three-quarters of the State Police budget now comes from the Motor License Fund that was created to pay for highway projects. PBC acknowledges that we have dire General Fund issues, but this policy decision made some years ago costs transportation infrastructure 13 percent of Motor License Fund revenues -- more than \$488 million/year. To reduce the strain an immediate switch would impose on the General Fund, we should cap State Police funding provided from the Motor License Fund and begin shifting the responsibility back toward the General Fund over a period of a few years.
2. Prevailing wage laws force Pennsylvania taxpayers to pay inflated wages to builders and laborers on public construction projects. The Pennsylvania Prevailing Wage Law applies to all public works projects including roads, bridges, public sewers and waterlines and, in a recent development, any project that received economic development assistance from the state. In recent years, it has been decided that prevailing wage should apply to local road resurfacing and maintenance programs that were previously exempt. The estimated inflation of labor costs on public projects due to prevailing wage is five (5) percent to 30 percent.
3. PBC supports the use of Public Private Partnerships (P3s) for the construction of new highways and added capacity, using appropriate tolls to pay for construction and maintenance of that specific infrastructure improvement. P3s leverage the private sector's access to global capital markets and capacity for risk-taking, while harnessing the administrative systems of government. P3s have real promise as Pennsylvania contemplates expanding infrastructure networks.
4. PBC recognizes that the gas tax is essentially a user fee on those who put the most wear on the roads and therefore we support a modest increase. There are two components to the "gas tax" which currently totals \$0.312/gallon for Pennsylvanians. The Liquid Fuels Tax component is \$0.120/gallon. Additionally there is an Oil Franchise Tax based on the wholesale price of fuel and currently pegged at 153.5 mills. However, this rate is applied to a wholesale price "capped" at \$1.25/gallon when the real wholesale price today exceeds \$2.00/gallon. This means the tax is capped at about \$0.192/gallon. (Fuel purchasers anywhere in the United States also pay a \$0.184/gallon Federal tax.)

State gas taxes range from a high of \$0.466/gallon (CA) to a low of \$0.140/gallon (WY). Pennsylvania's combined gas tax rate of \$0.312 puts the state at about the median. The Liquid Fuels Tax component has not been increased since 1983; \$0.12 in 1983 dollars is \$0.26 in inflation adjusted 2010 dollars. The Oil Franchise Tax calculation was last raised in 1997; coincidentally, \$0.192 in 1997 dollars is \$0.26 in inflation adjusted 2010 dollars. So, Pennsylvania's \$0.312 gas tax would be \$0.52 if adjusted for inflation. In this respect, one could argue that any gas tax increase below \$0.20/gallon is less than an inflationary increase.

It is estimated that every \$0.04/gallon increase of the combined gas tax would yield about \$250 million in new revenues. The Pennsylvania Legislature could enact a “back door” tax increase by raising the cap on this tax or eliminating the cap altogether. This move might be more politically palatable than a vote to increase a tax rate in an election year.

5. Of course, as vehicles are designed to achieve better mileage or use other fuels, gas tax revenues will decline. Moreover, alternative fuel vehicles still require road system capacity and still cause wear to roads and bridges. Long-term the gas tax may be neither equitable or sufficient. It is unclear whether the technology currently exists for a vehicle miles tax and administration at a state level would be difficult, but experiments in Europe suggest that a Federal vehicle miles tax with benefits to the states might be possible in the near future.
6. A toll on drivers of a particular road is the most direct form of a user fee, and is therefore the most equitable funding mechanism for that infrastructure improvement. There was opposition to the Act 44 plan to toll Interstate 80 on an equity argument – the toll would have been levied on one geographic region to benefit the entire state. I would note, that users of the Pennsylvania Turnpike have absorbed a 33 percent increase in tolls in the last 30 months – and those revenues are already funding statewide transportation programs.

PBC believes it is worth exploring a proposal to seek Federal approval to toll ALL Interstate highways as a statewide and equitable solution, provided that the toll revenues are restricted to use for maintenance and capacity building on those roads and their associated bridges and ramps. It is our understanding that such a plan would be viable without Federal government pre-emption because the funds would be used to maintain the roads tolled. Such a plan to fund Interstate maintenance and capacity building, would free gas tax revenues for use on the secondary roads and mass transit – effectively increasing that funding. We would have to study, of course, the potential for tolls to push traffic onto secondary roads and exacerbate problems there. We believe, however, that the concept merits consideration.

7. Currently, Pennsylvania charges \$36/year to register a private automobile. Commercial vehicles, RVs, and other vehicles have other registration fee rates. Increasing the car registration fee by just \$1.00/year would generate \$8 million, according to estimates cited by Governor Rendell; and he reports that increasing all vehicle registration fees consistent with inflation would generate \$327 million annually. Car registration fees range from a low of \$8 (AZ) to a high of \$70 (CT) – under certain circumstances \$428 in Iowa! Using the Governor’s figures, Pennsylvania could raise \$80 million through a \$10/year registration fee increase and remain within the norm. PBC believes that raising the vehicle registration fees for commercial vehicles constitutes an unfair burden on business and would make Pennsylvania – which as the “Keystone State” is so dependent on logistics operations – less competitive. Therefore, PBC opposes increasing registration fees for commercial vehicles, but would support an increase on private and recreational vehicles, provided it is used for transportation infrastructure maintenance and capital expenses – not PennDOT administrative expenses.

8. Similarly, many states have sought to increase funding for transportation related programs by increasing drivers' license fees. A standard, initial Pennsylvania driver's license costs \$33 and renewals are \$28. The Governor estimates that a \$1.00 increase would yield \$2.4 million. That's not a significant amount of money in terms of infrastructure needs. PBC would support a modest increase in the driver's license annual fee with the same caveat that the revenue from the license increase be used for transportation infrastructure maintenance and capital expenses – not PennDOT administrative expenses.
9. PBC opposes the use of debt for maintenance. PBC believes debt is an appropriate financing mechanism for building capital projects, but believes maintenance is an ongoing operation that should be paid for from current operating funds.
10. PBC does not support privatization of an existing Pennsylvania toll road at this time, but might reconsider when circumstances change. PBC does not reject out-of-hand the concept of privatizing the Pennsylvania Turnpike or another road. However, PBC believes the "deal" proposed several years ago was poorly constructed – the numbers wouldn't work. Moreover, current global economics and world capital markets make it highly unlikely such a deal could be done at this time.

Good infrastructure is necessary to maintain the high quality of life Pennsylvanians deserve. Sound infrastructure is important for economic success and is essential to our competitive growth. Finding a common solution is going to be difficult, but infrastructure needs to be a top priority for our state government. The Pennsylvania Business Council is ready to join our elected policymakers as partners in the search for solutions. These efforts are critical to creating a more competitive Pennsylvania; a more prosperous Pennsylvania; a better Pennsylvania for all of us.

Thank you for your time.