Analysis of House Bills 1630 and 762
Testimony of Bob Dick
Policy Analyst, Commonwealth Foundation for Public Policy Alternatives
PENNSYLVANIA HOUSE FINANCE COMMITTEE
November 12, 2013

Good morning, my name is Bob Dick; I am a policy analyst for the Commonwealth Foundation, Pennsylvania's free-market think tank based here in Harrisburg. I would like to thank Chairman Benninghoff, Chairwoman Mundy, and the members of the Finance Committee for the opportunity to testify on House Bill 1630 and House Bill 762. We look forward to working more with the Committee as well as other members of the General Assembly on financing transportation spending without increasing taxes on working families.

Before commenting on the merits of HB 1630 and 762, I would first like to lay out the Commonwealth Foundation's principles for transportation funding in Pennsylvania. Pennsylvania's roads and bridges need repair. But before taking one more dollar from working men and women through higher taxes, lawmakers must work to ensure current dollars are being put to their best possible use.

Pennsylvania's transportation budget has doubled over the past 17 years. Yet, despite this, Pennsylvania is still home to more than 4,000 structurally deficient bridges and 10,000 miles of substandard roads, according to the Secretary of Transportation Barry Schoch. We're all in agreement that Pennsylvania's infrastructure is a vital part of our economy and must be adequately funded. With that being said, there are many alternatives to funding the state's transportation needs.

Prioritize Every Dollar

Prioritizing every dollar means that transportation funding must be considered in light of **all** state spending priorities. While it is important that critical areas in need of additional funding are identified, we must also look at the tax dollars spent each year on less pressing priorities, such as bike trails and beautification efforts. We also need to be looking to redirect or eliminate spending on non-core government functions, such as building hockey arenas and convention centers and subsidizing film producers and corporations. Privatizing government functions that don't meet the "Yellow Pages Test" is an additional way to free up revenue to fund the state's transportation needs.

Redefine Prevailing Wage Mandates

Pennsylvania's Prevailing Wage Law was enacted in 1961 to protect construction workers from out-of-state competition, mandating that contractors pay the wages that "prevail" in each region on all government construction projects more than $25,000. This limits the number of construction jobs in the state and forces up costs for state and local governments.

According to U.S. Census data, Pennsylvania state and local governments spend more than $10 billion on construction. Based on wage data, prevailing wage raises the total cost of construction projects by 20% on average.

This represents upwards of $2 billion in extra costs for Pennsylvania taxpayers each year. Part of this savings could be reinvested in to fixing Pennsylvania's roads and bridges. Even minor changes to prevailing wage, like increasing the threshold at which prevailing wage must be paid or exempting road maintenance would save millions of dollars a year that could be used to fix our deteriorating infrastructure.

Utilize Public-Private Partnerships

Pennsylvania must continue to embrace public-private partnerships to encourage private investment in infrastructure. Immediately implementing P3s on express lanes, high occupancy lanes, highways, and bridges could reduce costs to taxpayers and commuters and improve quality.

The Pennsylvania Turnpike is a prime candidate for employing a P3 given the recent allegations of corruption. But short of leasing the Turnpike, rolling the toll road into PennDOT and eliminating an unnecessary bureaucracy would offer substantial savings in transportation spending. Millions of tax dollars in savings could be realized if the state legislature were to dissolve the Turnpike bureaucracy and right-size its workforce.

Further, competitive contracting in mass transit could also save taxpayers millions, as it has reduced operating costs in other cities across the U.S. by 20-50%, with savings of about 35% being the norm.

Users Pay

To the extent possible, transportation funding should come directly from the users who benefit. This may include additional toll roads or toll lanes, so long as tolls flow solely into improving the road being used, rather than redirecting funds elsewhere. This same principle should apply to mass transit funding. Transit riders should bear the primary burden for financing the costs, rather than non-users.

Transit agencies must also increase its reliance on local funding and fares rather than state taxpayers. In order to become efficient, transit agencies must be more dependent on attracting customers and meeting local needs. Currently, agencies' funding depends on how effective their lobbyists are, not on how well they provide service. Pennsylvania should require the competitive contracting of all transit services, and transit riders should pay their fair share of the costs rather than having their transportation choices subsidized by the taxpayers.

Analysis of HB 1630 and HB 762

I provide this background to offer the perspective that the transportation issue isn't simply about how much revenue the state has to spend on infrastructure, but about how we spend that money. But with that said, let me speak to HB 1630 and HB 762, which deal solely with the issue of providing more funding for transportation via shifting revenue streams to the Motor License Fund.

When crafting transportation funding plans, lawmakers should keep one important principle in mind: Users should pay for the government they use. Current funding sources like the gas tax and vehicle fees are proxy "user fees" for roads and highways—sales tax on vehicles fit that same formula. None are as precise as user fees like tolling if the funds from tolls are used for the roads and bridges being tolled, avoiding cross-subsidization.

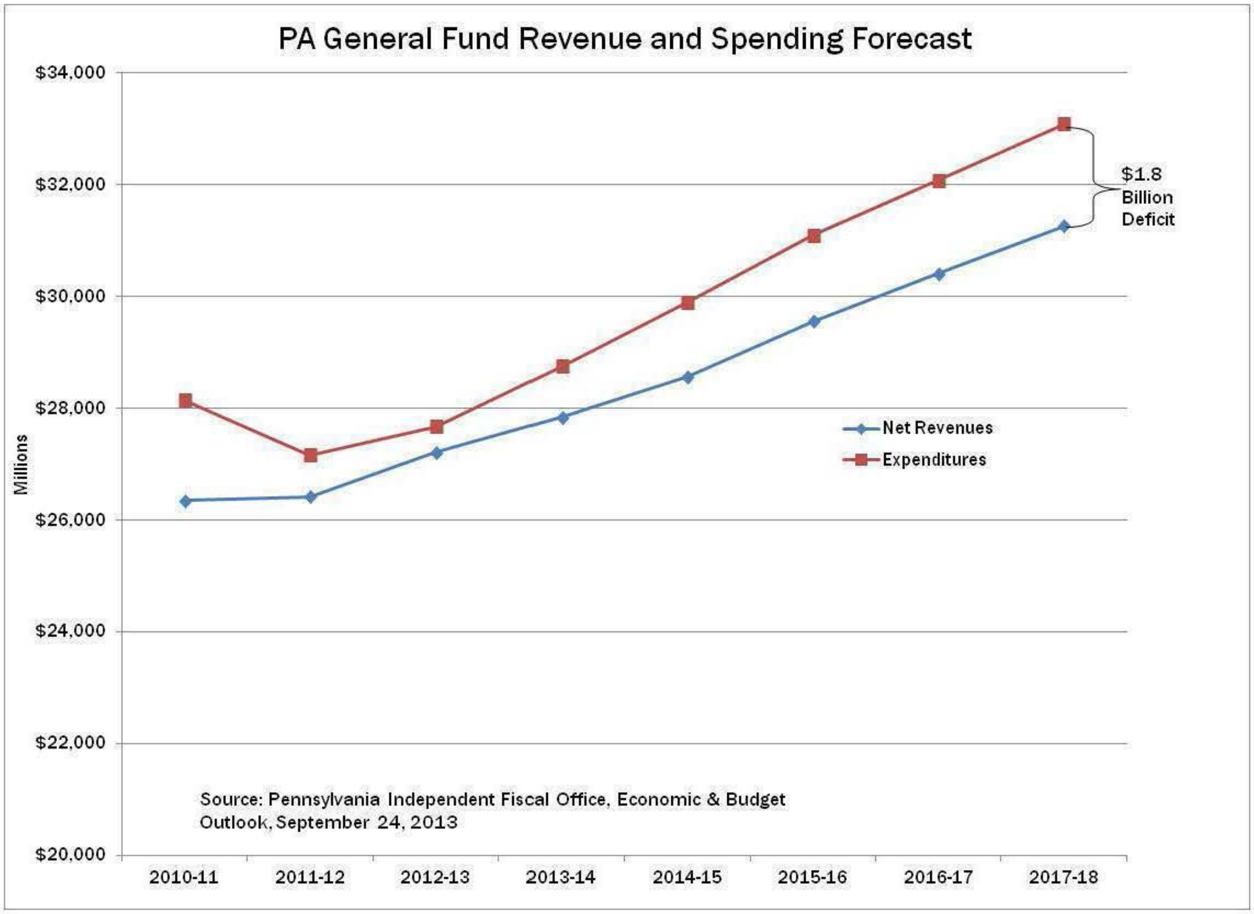
Generally, HB 1630 and HB 762 follow this idea of charging motorists for the cost of using transportation infrastructure, which is a step in the right direction.

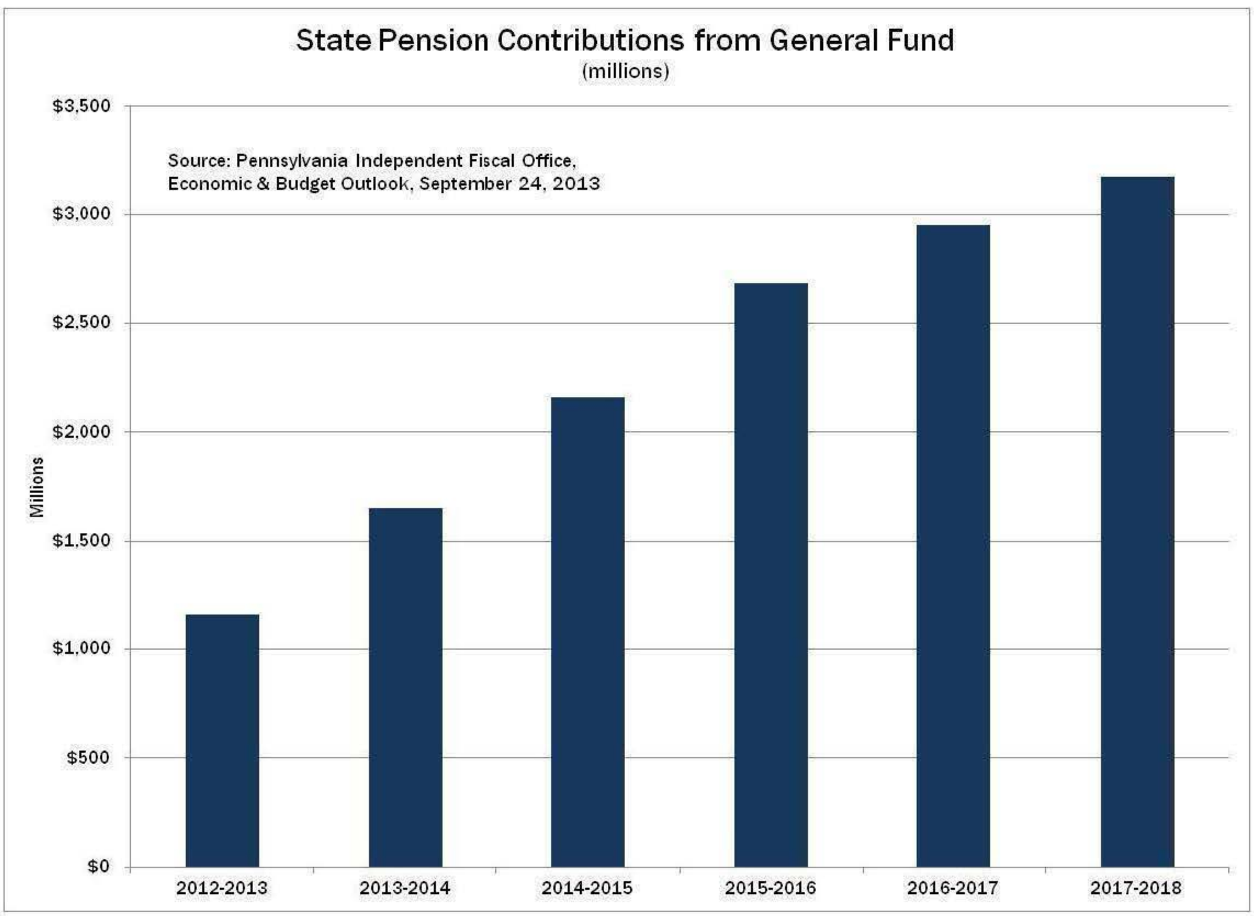
The main concern with HB 1630 and HB 762 is the effect on General Fund revenue from such a shift. Yet the transfer of revenue in HB 1630 would represent less than 1% of the 2014-2015 General Fund Budget (projected to exceed $29 billion).

This would leave lawmakers with more than 99% of the projected budget revenue to fund other government programs, while providing increased funding for transportation—which should be among the highest priorities for state officials—without raising any taxes or on Pennsylvania families or drivers. Pennsylvania already has the 10th highest state and local tax burden and the 15th highest tax rate on gasoline, according to the Tax Foundation.

While HB 762 diverts more tax dollars to the Motor License Fund faster than HB 1630, the projected revenue shifted from the General Fund would still leave lawmakers with more than 98% of projected revenue.

Finally, any gap either of these two bills would create in General Fund spending vs. revenue is dwarfed by the gap that already exists, due to unsustainable pension and welfare cost increases. Our analysis, based on Independent Fiscal Office (IFO) forecasts, estimates Pennsylvania's budget deficit will reach $1.8 billion by 2018, absent any policy changes and including only modest spending increases in areas like education. The charts below illustrate this funding gap.


PA General Fund Revenue and Spending Forecast
$34,000
$32,000
$30,000
$28,000
$26,000
$24,000
$22,000
$20,000
Millions
$1.8 Billion Deficit
Net Revenues
Expenditures
Source: Pennsylvania Independent Fiscal Office, Economic & Budget Outlook, September 24, 2013
2010-11
2011-12
2012-13
2013-14
2014-15
2015-16
2016-17
2017-18


State Pension Contributions from General Fund
(millions)
$3,500
$3,000
$2,500
$2,000
$1,500
$1,000
$500
$0
Millions
Source: Pennsylvania Independent Fiscal Office, Economic & Budget Outlook, September 24, 2013
2012-2013
2013-2014
2014-2015
2015-2016
2016-2017
2017-2018

That is to say, lawmakers need to address these spending drivers—particularly pensions and Medicaid—regardless of the revenue impact of this legislation. Pennsylvania isn't facing a revenue problem, we have a spending problem. Some of these issues may be addressed in this committee and some elsewhere, but I raise it simply to put the impact of both pieces of legislation into context given the fiscal challenges facing Pennsylvania. I have included two charts at the end of this testimony in order to show the dire need for structural fiscal reforms, especially with regard to the pension system. Fiscal reforms must be made or Pennsylvania could go the way of Detroit.

Thank you again for the opportunity to share our perspective, and we look forward to answering your questions.