Testimony
House Finance Committee
HB 1630/HB 952

Chairman Benninghoff, Chairwoman Mundy, members of the Finance committee. Thank you for the opportunity to testify today. I am Sharon Ward, Director of the Pennsylvania Budget and Policy Center a nonprofit nonpartisan research and policy organization based in Harrisburg.

The legislation, HB 1630 and HB 952 before you would reallocate revenue from the sales tax on motor vehicles to the Motor License Fund to pay for transportation programs. HB 1630 would affect the transfer over a ten year period, while HB 952 would move approximately $1.2 billion out of the General Fund into the Motor License Fund over a four year period. I am here today to urge you to oppose these bills and to suggest alternative.

Repairing our transportation infrastructure, including roads, bridges, transit, rail and airports is a core function of government and a high priority in 2013. Funding this infrastructure will create jobs, strengthen Pennsylvania's economy and prevent dangerous and costly bridge failures and potentially save lives.

We agree with the sponsors of this legislation that the need for transportation funding is acute and appreciate their efforts to look for new funding sources. Pennsylvania is a large, highly populous state with significant transportation needs that have been deferred for too long. We are the fifth highest in terms of road miles and have two large metropolitan areas, home to a just over 50% of the state's population in which transit is critical to the regional economy. Transit agencies post 445 million trips per year and need to modernize their infrastructure and improve efficiency. As has been well documented the Commonwealth is third in the nation in state owned bridges and has the largest number that are structurally deficient. Addressing these needs requires a long term commitment from the General Assembly for appropriate levels of funding.

We have three concerns about the legislation.

<u>Permanent Fiscal Crisis</u>
This legislation redirects substantial funds from the General Fund without replacing the dollars which leaves a large and insurmountable gap in the Commonwealth budget. While some may think this is a "pain free" way to dedicate more funding for roads in reality this is classic case of robbing Peter to pay Paul. To approve this transfer is to add the Commonwealth's existing structural deficit and create a permanent fiscal crisis. Our economy will not grow sufficiently to replace this revenue, and the reallocation will force cuts to hospitals, schools, early childhood programs, nursing homes and other services as important as transportation.

Pennsylvania is now facing the consequences of a decision just like this one made in 1998, to end the Capital Stock and Franchise tax without addressing the need to replace the revenue. That decision now costs more than $2 billion annually. Not cumulatively but annually. The General Fund budget has relied upon the three legged stool of sales, income and corporate taxes, however the corporate tax leg of the stool is much shorter and shrinking fast. This legislation would cut a slice off the second leg, the sales tax leg, further destabilizing this $30 billion enterprise.

HB 952 would reduce the current year budget, 2013-14 by approximately $300 million and reduce revenue available for the 2014-14 budget by around $600 million. HB 1630 taxes a slower but equally costly approach, reducing the General Fund by $120 million per year, for a total of more than $1.2 billion in 10 years in non-inflation adjusted terms. Let me put the reductions in perspective:

- A $120 million cut could be paid for by eliminating the Agriculture Department ($123.7 million) or by eliminating all veterans programs ($121.9 million).
- A $240 million cut would require eliminating all programs in DCED ($236 million) eliminating funding for Penn State entirely ($230 million) or eliminating early intervention for children prek-3rd grade ($222 million).

As you can see, the proposal would require significant reductions in core public services.

<u>Impact on Employment</u>
A second concern is the potential impact on jobs and the state economy. The transportation funding package is expected to create at least 50,000 new jobs, which is critical to Pennsylvania families and to jump start the economy which is still coming out of the Great Recession too slowly. That job growth will only occur if Pennsylvania invests new funds. If existing General Fund dollars are simply transferred to transportation projects Pennsylvania will have job losses in schools, hospitals, nursing homes, universities, libraries, and local governments. Since state services are more labor intensive and produce more jobs per billion invested than transportation services which are more capital intensive, the Commonwealth could lose more jobs than it gains.

<u>Impact on Transit Projects</u>
Pennsylvania is one of 25 states that restrict vehicle related revenues (either constitutionally or statutorily) to roads and bridges. Moving General Fund dollars into the Motor License Fund would therefore preclude any of these dollars being used for transit projects. There are some who might argue that motor vehicle funds should not be used for transit projects, however transit riders typically also contribute roads and highways through gas taxes, tolls and registration fees. In 2007 more than 85% of all motor vehicle registrations were held by people living in counties with one or more transit systems.

<u>Transportation Already Has Robust Fixed Revenue Sources</u>
Transportation has historically been a fee-based system, reliant on revenue from users rather than General Fund dollars. This is true across the United States. Typically, states dedicate gas tax revenue, tolls, aviation fuel taxes, license and registration fees, fines and other consistent revenue streams for transportation programs.

The attached table, Appendix 1, provides some information on how states are currently funding transportation, including the how states allocate sales taxes to transportation.
The data shows that several states do allocate sales tax from motor vehicle sales or rental cars for transportation purposes; however the majority allocates these funds specifically for transit and other non-highway purpose.

One group of states that have allocated sales tax for multimodal transportation purposes are those without constitutional restrictions on use of license, gas tax and other transportation funds. They throw everything in the pot and use those funds for all modes of transportation. A second set of states that is more reliant on sales taxes are those, like Pennsylvania, that can't use gas tax or license fees for transit, so need to find some other funding streams.

Pennsylvania Should Consider a Mix of Cash and Debt Financing for Transportation.

The other conclusion that jumps out from this table is that Pennsylvania is highly reliant on cash rather than debt financing for transportation projects. SB1 and other approaches would keep the commonwealth firmly with the small number of debt adverse states.

11 states of 51 (with DC) fund transportation largely or exclusively on a pay as you go basis. Another 39 states use a combination of the two. Pennsylvania received a unique, but accurate designation in the report indicating a small and shrinking reliance of debt. We are clearly well outside of the mainstream in our mix or cash and financing to pay for long-term infrastructure improvements.

Prudent Use of Debt

Table 1 in Appendix A shows the average useful life of transportation infrastructure. Roads and bridges typically last 30 years, rail infrastructure can remain without replacement for a hundred years. These long-term investments are good candidates for long-term financing, just like your own home.

To pay for road improvements with cash is like paying for your house with cash, and in ten years letting someone else live there for free. Financing these long term improvement with long term bonds means that the users in 15 years will be contributing to the roads they are using.

Current transportation proposals rely 100% on cash. A prudent mix of pay as you go and debt financing would reduce the revenue required to pay for the improvements. Now is also a good time to borrow as interest rates are low.

There are some who object to government use of debt, and it is prudent to be cautious. Borrowing for long-term capital projects is considered to be an appropriate use of borrowing authority by the Government Finance Officers Association (GFOA) and other national experts. Borrowing to pay for operating expenditures is improper and we would generally oppose proposals to do so.

Can we afford it?

Tables 2 through 4 in Appendix One provide details on Pennsylvania's current debt structure. Table 2 shows that indebtedness is and is expected to be just over 16% of the constitutional debt limit. Table 3 shows the Commonwealth's projected debt amortization, which is on a declining path, indicating there is some room for new debt obligations. Table 4 shows debt as a share of General Fund revenue, which is how government debt is typically measured. You can see that transportation debt is 3% of Motor License revenue. General Fund debt is just over 4% of revenue, and has been for some time. Moody's considers a debt to revenue ratio of 5% low. Another way to measure indebtedness is in comparison to the overall economy. Pennsylvania's General Obligation and agency lease rental debt, in 2013-15 is about 2.5% of personal income.

How to Pay for Transportation?

The Commonwealth went to market for $750 million worth of bonds in October 2013. The average annual cost for interest and principle is $59 million annually. Our calculations, based on this same interest and amortization schedule indicates that the Commonwealth could float $2.5 billion in debt for an annual cost of less than $199,688 million. This would substantially reduce the gas tax increase necessary to pay for transportation improvements.

One suggestion to pay for transportation without redirecting sales tax from the General Fund is to continue the Capital Stock and Franchise Tax at its current rate of 0.89 mils or even at its 2015 rate of 0.45 mil and direct those funds to transportation. That would raise roughly $160 million annually that could be used to pay down debt. Since the tax is due to end it would not come at a direct cost to the General Fund. Or it could be structured as a minimum corporate tax that would be dedicated to transportation, at a fixed rate, $500 annually for example. In this way train and transit uses, drivers, long distance truckers and all businesses that profit from a good transportation system would contribute to its operation and maintenance.

Thank you for this opportunity and I would be happy to answer questions.

Appendix One.

Table 1. Debt is less than 20% of constitutional debt limit.

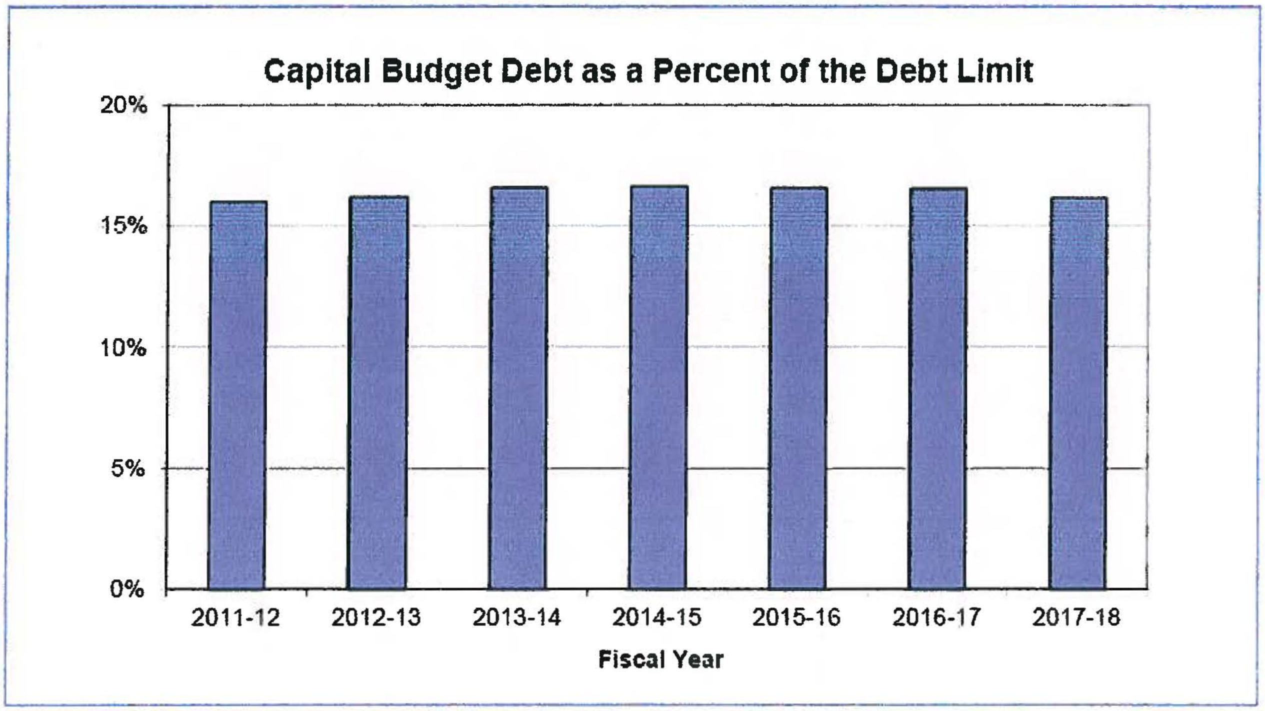
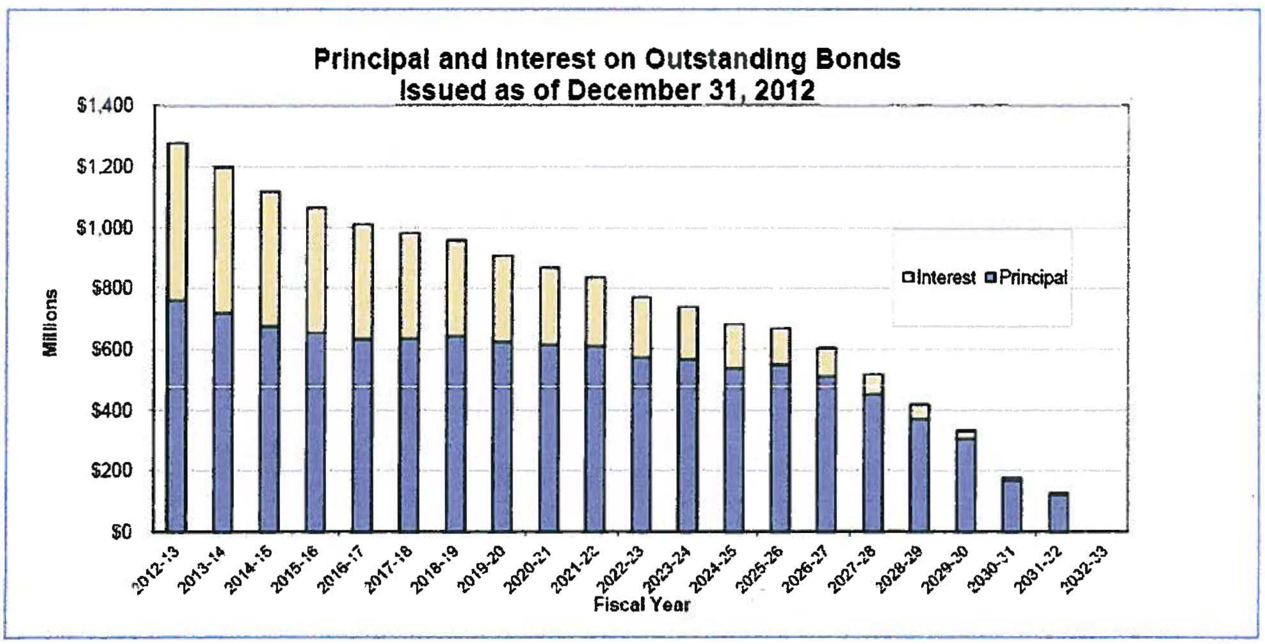
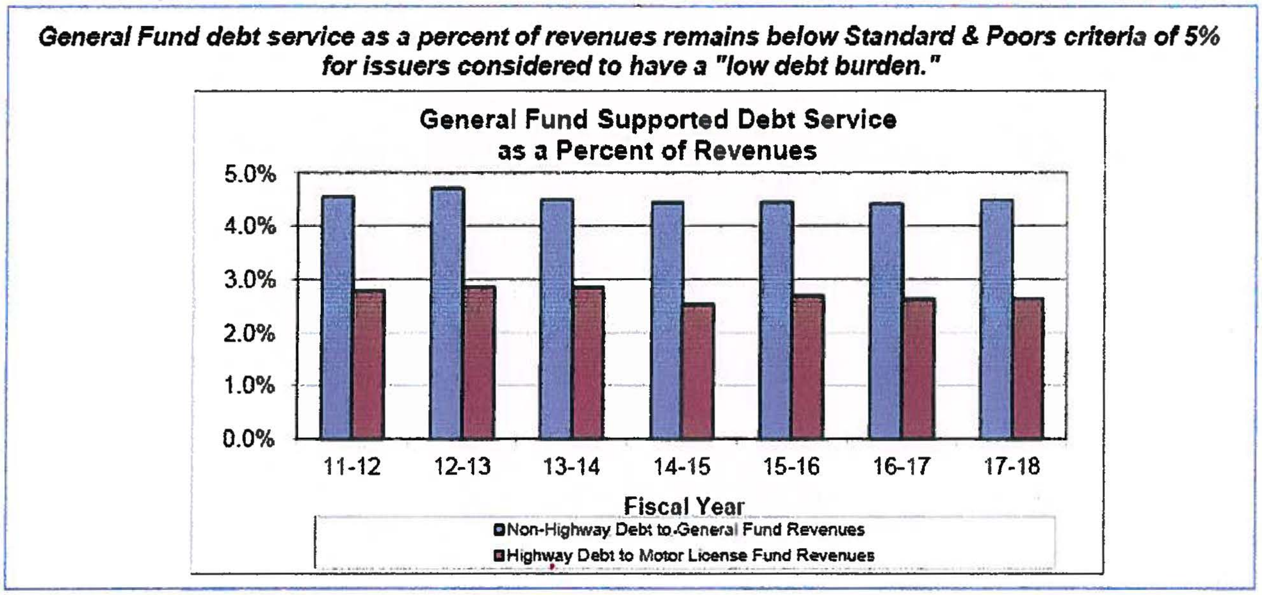


Table 2. Pennsylvania's debt load declines over time.



Source: Governor's Executive Budget 2013-14

Table 3. Highway Debt is 3% of Motor License Revenue.



Source. Governor's Executive Budget 2013-14.

Table 4. Lifespan of Transportation Infrastructure

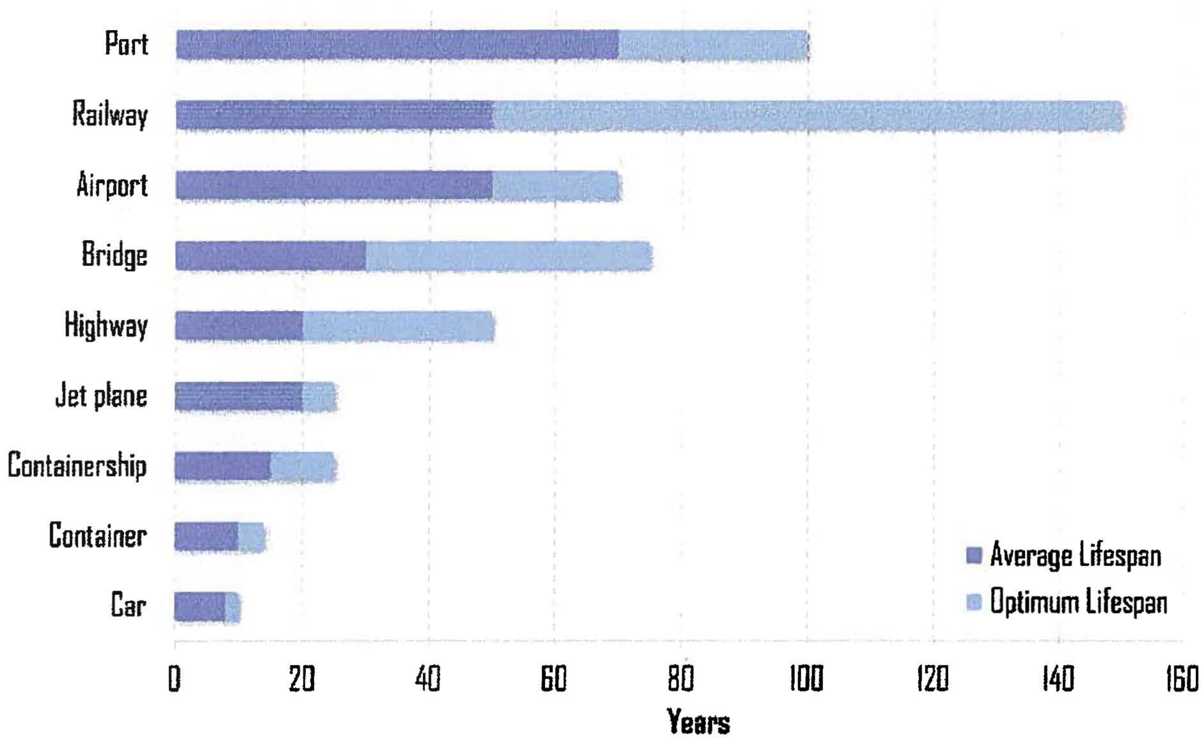


Table 5. State Transportation Funding

State	Transit restrictions?	Source of Funding Bonding	Dedicated Sales Tax ?
Alabama	Yes	Mainly paygo	No
Alaska	No	Combination	Yes
Arizona	No	Mainly bonding	Yes
Arkansas	Yes	Combination	75% RV to transit
California	No	$20 billion GO bonds	No
Colorado	Yes	Combination	General sales tax to transit and rail
Connecticut	No	Combination	MV/RC
Delaware	No	Combination	No
Florida	No	Annual GF allocation	MV/RC
Georgia	Yes	Annual GF allocation	No
Hawaii	No	Combination	Yes for aviation
Idaho	Yes	Combination	No
Illinois	yes	Mainly paygo	No
Indiana	Yes	Combination	General sales tax to transit and rail
Iowa	Yes	Paygo	MV/RC to transit
Kansas	No	Combination	General sales
Kentucky	Yes	Combination	Yes
Louisiana	No	Combination	No
Maine	Yes	Combination	RC to Transit, aviation, rail
Maryland	No	Combination	Yes
Massachusetts	No	Combination	General sales tax for transit debt repayment
Michigan	No	Combination	No
Minnesota	Yes	Combination	MV/RC: 60% roads/40% transit
Mississippi	Yes	Combination	No
Missouri	Yes	Combination	MV/RC to roads, portion of MV sales to transit
Montana	No	Paygo	MV/RC
Nebraska	No	Pay as you go	MV/RC roads and transit
Nevada	Yes	Combination	MV/RC
New Hampshire	Yes	Combination	No
New Jersey	No	Combination	MV/RC roads and transit
New Mexico	No	Combination	MV/RC roads and transit
New York	No	Combination	MV/RC roads and transit
North Carolina	No	Combination	MV/RC roads and transit
North Dakota	Yes	Pay as you go	Yes
Ohio	Yes	Combination	No
Oklahoma	No	Combination	No
Oregon	Yes	Combination	No
Pennsylvania	Yes	on paygo	General sales tax to transit
Rhode Island	No	Bonding	No
South Carolina	No	Combination	No
South Dakota	Yes	No bonding authority	MV/RC
Tennessee	No	Mainly paygo	No
Texas	No	Shift to bonding 2001	Motor lubricants
Utah	Yes	Combination	MV/RC general for transit
Vermont	No	Pay as you go	MV/RC roads and transit
Virginia	No	Combination	MV/RC roads and transit
Washington	Yes	Combination	MV/RC for transit
West Virginia	No	Combination	MV/RC
Wisconsin	No	Combination	Small share general sales tax
Wyoming	Yes	No bonding authority	No
DC	No	Combination	No

Source: NCSL and AASHTO Center for Excellence in Project Financing, Transportation Governance and Finance. May 2011