HISTORY OF MASS TRANSIT FUNDING IN PENNSYLVANIA

- There are over 70 transit systems in five classes determined by fleet size and type of service in Pennsylvania.

- Transit receives funds from six state sources: The Public Transportation Assistance Fund (PTAF), Act 3 of 1997, General Fund operating subsidies, Lottery Revenue for Free Senior Citizen fares, TANF jobs access funds and capital subsidy through the bond funded program.

- First dedicated funding enacted in 1991 (PTAF - Act 26). Funds estimated to be $200 million in following fiscal year (1992); only $194 million twelve years later. Funds initially provided by car rental fee, tax on vehicle leases, tax on periodicals, $1 tax on each tire and portion of the Public Utility Realty Tax (PURTA). Periodical tax was replaced with .0053 % of sales tax due to collection difficulty. PURTA tax declined from $60million to $14.4 million, a decline of over $35 million when electric deregulation was enacted. Approximately $18 million was replaced by Utility Gross Receipts Tax.

- Act 3 of 1997 dedicated an additional 1.22 % of sales tax, up to $75 million. It was intended to replace lost federal operating subsidy.

- Operating subsidies from the General Fund have grown in only two of the eight years prior to the current fiscal year and were reduced by 6% this fiscal year.

- Capital funds have not grown sufficiently to match 100% federal growth under TEA-21; Port Authority and SEPTA have had to spend federal funds in advance of state share for approved capital projects with the total state shortfall currently at $180 million. Cannot match federal new starts funds at required 40-50% non-federal share to allow expansion of Pennsylvania systems. SEPTA is only major system in the country to receive no funds from this source and Port Authority projects are at risk of halting due to lack of match.

CURRENT TRANSIT FUNDING CRISIS

- **REVENUES + SUBSIDIES = EXPENSES**; i.e., if the expenses go up, the either revenues (fares) or subsidies must go up; conversely, if revenues and subsidies to not grow to match expenses, expenses must be cut. Transit systems have done extensive trimming over the last few years to avoid massive service cuts in light of lack of funding growth (SEPTA - $420 million over the last 8 years; Port Authority - $140million; smaller systems, amounts consistent with size.)

- The 6% cut in General Fund Operating Subsidies enacted during the spring of 2003 only exacerbated structural problem. That cut has now been restored. The current level must grow in the future to reflect growth in the overall state budget.

- SEPTA confronted $55 million unfunded deficit for current fiscal year and proposed major service cuts, administrative cost reductions and a fare increase to balance its budget. Port Authority faced a $ 20 million unfunded deficit and proposed layoffs, service reductions and a fare increase. Smaller systems proposed commensurately drastic measures. In some cases, facing cessation of service to entire communities in their service areas. A one-year fix has been cobbled together but the long-term structural problem remains.

- Structural problem comprised of:
  - Lack of growth in operating subsidy (initial FY 2004 level is same as provided in FY 94-95; final FY 2004 level is same as provided in FY 2003)
  - Failure of PTAF to meet expectations (nuisance taxes had no growth)
  - Impact of utility deregulation (Largest of PTAF sources, PURTA, declined drastically). On December 23, 2003, the erratic revenues from PURTA were replaced with revenues from the Sales and Use Tax. This did not represent a higher level of funding but stabilization at current levels.
  - Cap on Act 3 revenues – no growth
  - Expenses outside of system control (health care costs, pension funding due to stock market, propulsion cost and fuel cost) coupled with normal inflation lead to growing budgets despite stringent cost control measures in industry (see Eileen Freiner reports)

- Led to overall unmet funding need, to maintain current service levels, provide state of good repair capital funds and cover only non-federal costs of capital portion of major capital initiatives of more than $650 million in fifth year out.

PENNSYLVANIA PUBLIC TRANSPORTATION ASSOCIATION PROPOSAL

Sixteen-month collaborative process involving representatives from each of five classes, representing 74 transit systems. Each class negotiated its funding formula and allocation within the class. Began with a set of principles and a needs assessment for operating, routine capital and major capital initiatives.

Proposal represents result of those negotiations, reduction of request from $650 million annually to $250 million given realities of state budget situation and agreement of all transit classes on funding levels and language of proposal.

Basic components of bill:

- Maintain formulas and funding levels for current programs.

- Restore the $16.1 million cut from operating subsidies statewide as part of the FY 2003-2004 budget: DONE on December 23, 2003.

- Dedicate an additional 3.2184% of the sales tax to be allocated to transit service stabilization and state of good repair programs ($250million annually, statewide).

- Funding allocations for all new money (beyond restoration) will be:
  - PennDOT Intercity Rail – 3.4%
  - Class 5 (Community Transit) – 4.5%
  - Class 4 (Rural Transit) – 2.3%
  - Class 3 (Small Urban Transit) – 5.6%
  - Class 2 (Port Authority of Pittsburgh) – 22.5%
  - Class 1 (SEPTA) – 61.8%

- Replace Public Utility Realty Tax from 1991 dedicated funding package (Act 26) with an additional 0.1434% of the Utility Gross Receipts Tax (intended to be revenue neutral). DONE. Replaced with .417 percent of the sales and use tax on December 23, 2003.

- Remove the $75 million cap on the 1.22% of sales and use tax dedicated to transit by Act 3 of 1997.

- Create a new program structure for distribution of any general revenue funds dedicated for major capital initiatives.

- Provide for one time catch-up of deferred state capital matching funds for Class 1 and Class 2 transit entities. Initial year of this funding included in Act 38, November 28, 2003. Four more years at the same level are needed to provide for replacement.

- PPTA has identified several potential sources of replacement revenue including but not limited to tire tax and car rental tax increases, inspection surcharges and removal of sales tax exemptions. The decision on funding sources, however, is ultimately up to the General Assembly and Administration.

PUBLIC TRANSPORTATION'S CONTRIBUTION TO THE COMMONWEALTH

Public transportation is provided in some form, in all counties in Pennsylvania.

Public transportation riders in Pennsylvania's largest urbanized area cover a substantially larger share of their rides through fares (approximately 50%) that the national average (approximately 30%).

Public transit carries workers, both inbound to the central business district of an urban area and, increasingly, outbound to newly created jobs in the suburbs. The outbound market is a rapidly growing service, e.g., between 1900 and 2002, service on SEPTA's regional rail lines and suburban transit increased by almost 40% while city service remained approximately the same.

Public transit in Pennsylvania provides more than 300,000,000 rides annually - - that is more than one million rides on an average weekday. More than 40 million seniors ride free or at low cost on buses, vans trolleys, inclines and trains annually. Pennsylvania transit agencies provide nearly 3 million trips to people with disabilities on paratransit services, including work, school, medical and entertainment trips. Pennsylvania's public transit systems operate over two BILLION vehicle miles aboard 6,500 vehicles. Prior to the economic downturn, transit was experiencing substantial ridership increases.

In some communities, public transit is the only means that those without cars can use to get to the doctor, shopping, to church and to other vital life activities. This is particularly true of elderly and infirm citizens in rural areas, students and low-income individuals.

Transit has played an immense role in the success of welfare to work efforts.

Transit provides an alternative to building additional roads in congested urban areas. The Texas Transportation Institute (TTI) released this year's Urban Mobility Study, the longest running independent analysis of traffic in 75 US metropolitan areas, including southeastern Pennsylvania. For SE PA it reported that regular transit services in the Philadelphia area saved drivers more than 31,000 hours in travel time in 2001. Without transit, local traffic delays would have increased by about one-third, costing residents an additional $614 million in lost time and fuel on top of the $1.5 billion it cost in 2001. Nationwide, transit saved $21.2 billion in added dollars in lost time and fuel.

Public transit produces 95% less carbon monoxide, more than 92% fewer volatile organic compounds and nearly half as much carbon dioxide and nitrogen oxides than the auto for every passenger mile traveled. It also reduces annual emissions of pollutants that create smog - - volatile organic compounds and nitrogen oxides - - by more than 70,000 tons and 27,000 tons respectively. Public transportation uses about one-half the fuel of private autos, SUV's and light trucks, freeing fuel for moving goods and use in industry and agriculture.

In areas confronting air pollution, public transit can reduce the contribution of motor vehicles to pollution by allowing freer flow of traffic and by providing a less polluting mode of transportation than individual use of autos. Three of Pennsylvania's urban areas are among the 25 worst in the country - - Pittsburgh with over 130 unhealthy air quality days between 2000 and 2002, Philadelphia with over 80 and the Harrisburg-Lebanon-Carlisle area with almost 60. Each of these cities has more unhealthy days than Chicago and Dallas.

Public transit systems spend more than ONE BILLION DOLLARS annually with Pennsylvania businesses. These expenses are for Made-in-Pennsylvania products and services ranging from steel to foam seating to security. More than 2,000 Pennsylvania businesses benefit from transit's investment, not just large vehicle manufacturers.

Transit agencies generate a huge return on investment. Capital projects such as vehicle acquisition and infrastructure improvements generate an additional $6.00 investment for each $1.00 directly spent.

Public transportation agencies directly employ approximately 15,000 men and women throughout the Commonwealth. These individuals are employed citizens who pay federal, state and local taxes.

PENNSYLVANIA PUBLIC TRANSPORTATION ASSOCIATION (PPTA)

STATE FUNDING PROPOSAL

Existing Funding Structure

- All capital and operating programs remain in place at current formulas and funding levels.
- Maintain general fund operating replacement and increase it by the rate of increase of the overall state budget (estimated at 3%)

New Funding Structure

- Permanently remove Sales and Use Tax cap on Act 3 of 1997. In FY 2003-04 this results in an additional $19.8 million.

- Permanently increase the percentage of Sales and Use tax dedicated to public transportation by 3.2184% resulting in a $262.3 million increase in FY 2004-05 (initial proposal was $250 million in FY 2003-2004) for service stabilization and state of good repair capital projects.

- Provides funding for public transportation in all 67 counties of Pennsylvania.

- New funding allocations as follows:

    - PennDOT Intercity Rail – 3.4%
    - Class 5 – 4.5%
    - Class 4 – 2.3%
    - Class 3 – 5.6%
    - Class 2 – 22.5%
    - Class 1 – 61.8%

- Increase State Capital Program from current $125 million to $250 million for capital state of good repair needs. The new $125 million should be from dedicated sources to allow for bonding.

- Make available matching funds for major capital investment projects to meet Federal Transit New Start Project funding policy (not included in $250 million increase).

Payment of Deferred State Capital Match

Continue to provide $36 million annually for the next four years beginning with FY 2004-05 ($180 million total) for a one-time catch-up of deferred state capital matching funds for Class 1 and 2.

State Funding Proposal

Capital and Operating Program

Fiscal Year	2004	2005	2006	2007	2008
Remove Cap on Act 3 of 1997 revenues					
Act 3 Statewide Forecast	$94.8	$99.4	$100.4	$108.1	$111.9
Less Cap Amount	($75.0)	($75.0)	($75.0)	($75.0)	($75.0)
New State Funding	**$19.8**	**$24.4**	**$25.4**	**$33.1**	**$36.9**
Increase allocation of sales and use tax to transit by $250 million, or 3.2184% using the statewide total in FY 2003-04 as the base year					
SUT growth at State forecast rate	**$250.0**	**$262.3**	**$274.4**	**$285.3**	**$295.2**
Grow General Fund Operating Assistance beginning in 2004/05 at 3.0% per year					
General Fund OA	$270.0	$278.1	$286.5	$295.1	$303.9
Less 2003/04 Budget Base	($270.0)	($270.0)	($270.0)	($270.0)	($270.0)
New State Funding	**$0.0**	**$8.1**	**$16.5**	**$25.1**	**$33.9**

New State Capital and Operating Funding Total	**$269.8**	**$294.9**	**$316.2**	**$343.5**	**$366.1**

Capital Program

Fiscal Year	2004	2005	2006	2007	2008
1. One-Time Catch-up for Deferred State Match *Increase annual bond program and spread payment for current liability over five years*	**$36.0**	**$36.0**	**$36.0**	**$36.0**	**$36.0**

Pennsylvania Public Transportation Association

TRANSIT DRIVES PENNSYLVANIA