



Making Bad Investments Won't Restore PA

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*Governor Wolf's **Restore PA** plan utilizes a natural gas severance tax and borrowing to fund infrastructure improvements. There's a better way to improve our infrastructure.*

Restore PA

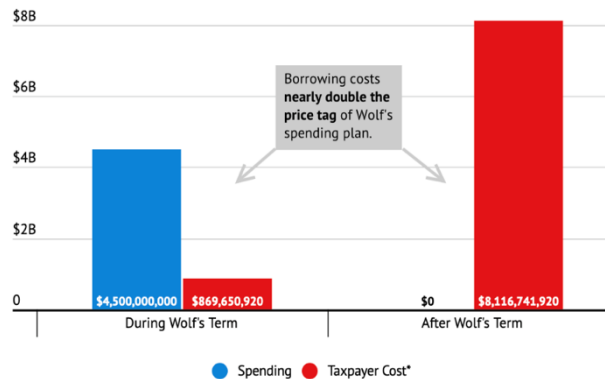
Governor Wolf's plan **spends \$4.5 billion on local infrastructure projects**. At current market prices, his proposed severance tax could generate roughly \$500 million a year to fund bonds for:

- Expanding internet infrastructure to rural areas of Pennsylvania.
- Infrastructure improvements to control flooding and flood assistance after disasters.
- Encouraging industry through move-in ready sites and access to natural gas utility lines.
- Restoration of blighted, abandoned, or contaminated spaces.
- Environmental projects like state park infrastructure, creation and maintenance of new local parks, and trail projects for recreational use.
- Funding for roads and public transportation projects.

TRUE COST OF WOLF'S 'RESTORE PA'?

\$9 BILLION OVER 30 YEARS

Gov. Wolf's "Restore PA" plan would borrow and spend \$4.5 billion on infrastructure—all during his term. But future generations would be saddled with a legacy of debt, costing taxpayers nearly \$9 billion, including interest, over 30 years.



All \$4.5 billion in spending would occur during Gov. Wolf's term, but future generations would be saddled with a legacy of debt. Total borrowing costs over 30 years equal \$9 billion, nearly double the spending.

Pennsylvania's Debt Problem

PA STATE & LOCAL GOVERNMENT DEBT

DEBTOR	DEBT OUTSTANDING	PER PERSON
TOTAL STATE	\$ 52,265,936,000	\$ 4,081
State	\$ 11,911,936,000	\$ 930
State Agencies & Authorities	\$ 40,354,000,000	\$ 3,151
TOTAL LOCAL	\$ 74,764,562,000	\$ 5,838
School Districts	\$ 29,163,770,740	\$ 2,277
County/Municipal/Twp/Other	\$ 45,600,791,260	\$ 3,561
TOTAL	\$ 127,030,498,000	\$ 9,919

State Debt: Governor's Executive Budget 2019-20, pg. G10 & G3.
Total Local Debt: [Census Bureau, 2016 State & Local Government Finance Historical Datasets and Tables, Debt Outstanding](#), "Local government amount" and "debt outstanding".
School District: [PA Department of Education, Short- and Long-Term Debt, 2017-18](#),
Calculated by "Debt outstanding end FY" minus "Net Pension Liability end FY, (rounded).
County/Municipal/Twp/Other: Calculated by "total local debt" minus "school district
Population: Census Bureau, [State Population Totals: 2010-2018](#), Annual Estimates of the Resident Population for the United States, Regions, States, and Puerto Rico: April 1, 2010 to July 1, 2018 (NST-EST2018-01), "Pennsylvania".



Even without the additional \$9 billion, current state debt is over **\$127 billion**, or put another way, almost \$10,000 for every man, woman, and child in the state. Restore PA would only worsen this existing problem.

Pennsylvania's Infrastructure isn't Underfunded

In **2013, Act 89** spent \$2.3 billion on infrastructure over five years. Despite this investment, Pennsylvania's infrastructure consistently **ranked at a C-** in both 2014 and **2018**, according to the American Society of Civil Engineers. The real problem is how infrastructure funds are distributed.

The Motor License Fund (MLF) is the largest contributor to PennDOT's budget, accounting for **68 percent** of all spending in 2018. The majority of MLF revenues come from the Liquid Fuels Tax, as well as licenses and fees.

Despite a majority of revenues coming from drivers, mass transit was the third largest line item behind maintenance and repairs of highway and bridges. Public transportation—including mass transit, rural & intercity transit, free and ride sharing, and passenger rail grants—accounts for **22 percent** of total PennDOT spending, at roughly **\$2 billion**. This means a sizeable portion of the fees paid by drivers are going to fund mass transit, instead of the funding the roads that these drivers rely on.

Likewise, PA Turnpike drivers are subsidizing mass transit systems they don't use. Under Act 44 of 2007, the PA Turnpike Commission is supposed to pay PennDOT **\$450 million** a year through

2022. Act 89 of 2013 modified this slightly to require the full amount to be dedicated to public transit. The commission has struggled to make payments, and last year those payments were stalled entirely due to a pending lawsuit. The payments drop to \$50 million in 2022. However, the PA Turnpike is lobbying to have those payments [end earlier](#). Sooner or later, the loss of Turnpike funds will force PennDot to allocate even more of their budget to mass transit.

Natural Gas Drillers Already Fund Infrastructure

Proponents of the severance tax continually justify it by claiming that Pennsylvania is the only state that doesn't tax natural gas. This is not [true](#). While Pennsylvania is the only major natural gas producers without a severance tax, it is also the only state that charges [an impact fee](#). Since 2012, the impact fee has raised [\\$1.4 billion](#). According to the most recent estimates from IFO, the impact fee was expected to bring in [\\$247 million](#) in 2018—a \$37 million increase from 2017.

Despite using other states as a justification for new taxes, Wolf's plan isn't to trade the tax for the fee, rather it is to combine the severance tax with the impact fee and more than double the burden on the natural gas industry to fund infrastructure.

However, the impact fee already supports infrastructure projects. A portion of impact fees are distributed to local governments and can be used on projects within 13 different categories. Of these categories, [the five](#) listed below deal with the construction and maintenance of infrastructure, disaster preparedness, and environmental protection.

1. Construction, reconstruction, maintenance and repair of roadways, bridges, and public infrastructure.
2. Water, storm water and sewer systems, including construction, reconstruction, maintenance, and repair.
3. Emergency preparedness and public safety, including law enforcement and fire services, hazardous material response, 911, equipment acquisition, and other services.
4. Environmental programs, including trails, parks and recreation, open space, flood plain management, conservation districts, and agricultural preservation.
5. Preservation and reclamation of surface and subsurface waters, and water supplies.

In addition to local government infrastructure projects, the impact fees fund the Marcellus Legacy fund. In 2017, the fund received [38 percent](#), or more than \$61 million, in impact fees revenues. The disbursements [include](#):

- 20% Commonwealth Financing Authority
- 25% Highway Bridge Improvement
- 15% County Rehabilitation of Greenways
- 13% Water and Sewer Projects - PA Infrastructure Investment Authority
- 13% Water and Sewer Projects - Commonwealth Financing Authority H2O PA Program
- 10% Environmental Stewardship Fund
- 5% Hazardous Sites Cleanup Fund

Recommendations

Pennsylvania's infrastructure is in poor shape, but recent history shows additional taxes and borrowing are not solutions. Instead, here are five ways to reduce the costs of infrastructure maintenance.

1. Eliminate the prevailing wage mandate. The prevailing wage sets wages for laborers on public works projects priced over \$25,000. This wage is artificially inflated. For example, workers doing renovations for East Stroudsburg University in 2017 were paid **24–64 percent** more than the average wage for their professions on the private market. Eliminating this mandate would go a long way in reducing costs.

2. Utilize competitive contracting for mass transit. Competitive contracting allows government to hire a private company to run portions of their transit system. The goal is to align the profit motive of the company with the delivery of public services to enhance services. The exact savings **differ dramatically** based on the details of the contract. London, for example, experienced an initial savings of **50 percent** when they contracted parts of their bus services.

3. Reduce diversions from the MLF to non-transportation items. While portions of the MLF are sent to mass transit, larger portions are diverted to the State Police. Transfers totaled almost **\$780 million** last year. State police transfers from the MLF are set to be reduced by **4 percent** every year. Accelerating the reduction would allow lawmakers to direct more dollars to infrastructure.

4. Stop using driver charges to fund mass transit. Make transit systems rely on user fees, not taxpayer subsidies. State government could continue to offer direct subsidies to users who cannot pay their own way rather than subsidizing the entire system.

5. Continue to reduce the debt burden. Lowering the commonwealth's debt burden could free resources for infrastructure improvements. Two attempts at state debt reduction recently passed in the House:

- **House Bill 880** (Rep. Andrew Lewis) aims to lower debt by increasing annual payments for economic development projects.
- **House Bill 24** (Rep. John Lawrence) would mandate that payment for loans be equal across all years of repayment, instead of having ballooning payments that strap future years with increased debt burdens.