

Rendell proposes new oil company tax, leasing PA Turnpike to pay for mass transit, transportation needs.

In order to fund the state's mass transit and transportation needs, Gov. Ed Rendell is proposing as part of his 2007-08 state budget to create a new Oil Company Gross Profits tax , at a rate of 6.17 percent, and exempting those subject to the tax from the commonwealth's 9.99 percent Corporate Net Income tax. The governor's administration estimates these tax changes will yield a net revenue increase of \$760 million per year. This revenue would be used to fund Pennsylvania's mass transit systems.

Rendell is also proposing to lease or privatize the Pennsylvania Turnpike. Although the value of such an action is hard to determine, the Rendell administration's preliminary estimates suggest the commonwealth could generate as much as \$965 million per year. This revenue would be used for transportation funding purposes.

Listed below are the various options Rendell administration staff developed to provide the amount of funding for roads, bridges and mass transit recommended by the Transportation Funding and Reform Commission - an additional \$1.7 billion in annual state funding. Option 4 is the one that Gov. Rendell proposes to implement as part of the 2007-08 state budget.

NOTE: This information comes directly from the governor's 2007-08 executive budget.

Options Available for Solving the Transportation Crisis

Because of the importance of transportation to the citizens of the commonwealth, Governor Rendell directed his staff to develop four options to provide the amount of funding for roads, bridges and transit recommended by the Transportation Funding and Reform Commission.

Option 1: Adopt Commission Funding Structure Recommendations

Millions of Dollars			
Transit		Roads and Bridges	
Realty Transfer Tax 0.9% Increase	\$576	Oil Company Franchise Tax equal to 12.5¢/gal	\$815
Local Contribution @ 25%	\$184	PennDOT Fees	\$150
Totals	\$760	Totals	\$965

This option uses the funding recommendations identified by the Transportation Funding and Reform Commission. This scenario generates the funds necessary to meet the commonwealth's transportation funding needs. However, this option places a significant financial burden on

Pennsylvania's local governments and requires Pennsylvania residents to pay higher fees, a higher gas tax, and higher real estate transfer taxes. Other methods for closing the funding gap have less impact on Pennsylvania's residents and local governments.

Option 2: Leverage The Value of the Pennsylvania Turnpike, Limit the Proposed RTT Increase

Millions of Dollars

Transit		Roads and Bridges	
Realty Transfer Tax 0.5% Increase	\$286	PA Turnpike Leveraging	\$965
PennDOT Fees	\$100		
New Sales Tax	\$190		
Local Contribution @ 25%	\$184		
Totals	\$760	Totals	\$965

Other jurisdictions, such as the city of Chicago and the state of Indiana, have succeeded in generating significant revenue by leasing highways to the private sector under specified terms and conditions that protect the public's investment in these important public assets. In December 2006, the commonwealth solicited expressions of interest from private firms to determine the potential value of leasing or privatizing the Pennsylvania Turnpike. Although it is difficult to gauge the ultimate value of a turnpike lease, preliminary estimates suggest the commonwealth could generate as much as \$965 million a year for transportation funding purposes by leasing the turnpike to a private company.

If the amounts estimated from leasing the turnpike are realized, the commonwealth could fully fund its road and bridge needs. Because the commonwealth would need to generate much more revenue from the lease in order to also provide sufficient funds from this source to support transit's funding needs, a proposition that is unlikely, additional revenue sources need to be included in order to also meet transit's funding needs. This option would still impose a significant burden on local governments and Pennsylvania residents.

Option 3: Leverage Pennsylvania Turnpike, Introduce Additional Tolls

Transit		Roads and Bridges	
Introduce Interstate Tolls	\$300	PA Turnpike Leveraging	\$965
Realty Transfer Tax 0.5% Increase	\$286		
PennDOT Fees	\$174		
Totals	\$760	Totals	\$965

In recent years, the federal government has made it easier for states to collect tolls on existing interstate highways. As a result, another funding option could be for the commonwealth to institute toll collection on some of the major interstates that pass through the state. This could be an attractive scenario for a state such as, Pennsylvania due to the commonwealth's high level of "pass-through" traffic.

For purposes of this option it is assumed that 14 toll barriers would be erected on Interstate Highways 78, 79, 80, 81 and 95. Tolls would be set at the rate currently in effect on the Pennsylvania Turnpike —approximately 6 cents a mile for passenger cars. With the revenues generated by these tolls and the commonwealth funds currently allocated for maintenance and reconstruction of these roadways, an estimated \$300 million a year could be made available for transit funding.

Although such a toll plan would significantly reduce the need to raise public transit funds in other ways, it would still require another \$460 million a year to be raised from other sources, to meet the \$760 million in annual funding needed for transit.

Option 4: Leverage Pennsylvania Turnpike, Apply State Tax To All Oil Company Profits

Millions of Dollars

Transit		Roads and Bridges	
Oil Company Gross Profits Tax	\$760	PA Turnpike Leveraging	\$965
Totals	\$760		\$965

Because of high gasoline prices at the pump, the nation's oil companies have recently enjoyed record profits. Chevron earned a third-quarter 2006 profit of \$5 billion, the highest in the company's 127-year history. Exxon Mobil's profit during the same period was \$10.5 billion, nearly matching its own record for America's highest-ever profit. Pennsylvania residents and businesses helped to create these profits, yet due to the creative tax accounting methods they employ, oil companies have been able to shelter much of their profits from Pennsylvania taxes.

Subjecting oil companies to a tax collected on the basis of what is called "combined reporting" could eliminate this inequity. Using a combined reporting method, each firm's total profits are examined, and the portion of those profits attributable to activity in Pennsylvania is subjected to Pennsylvania tax. Seventeen states currently use combined reporting in one form or another.

In this option, oil companies would be subject to a new Oil Company Gross Profits tax at a rate of 6.17 percent; these companies would then be exempted from the commonwealth's 9.99 percent Corporate Net Income tax. Transferring these companies to this new tax, one that

incorporates a lower rate and a tax base calculated through combined reporting, is estimated to yield the commonwealth a net revenue increase of \$760 million per year.

Recommended Action

This budget proposes to implement Option 4, because it generates the amounts required to meet the commonwealth's transportation investment needs with the lowest likely impact on Pennsylvania residents. Pennsylvanians can expect to see dramatic results if this critical initiative is implemented. Our transit agencies will be able to provide 135 million additional rides every year, with 452,000 more passengers served on Amtrak's Keystone Corridor. On our highways and bridges, millions of dollars in new funding will be allocated for preservation, capacity expansion and operations and safety. Through this plan we can reduce by more than half the percentage of the non-interstate highway system in Pennsylvania that is in poor condition, increase the number of bridges repaired or replaced annually by 37 percent, and resurface 906 more miles and restore 163 more miles of state-maintained highways.