



FINAL REPORT

EXECUTIVE SUMMARY

May 2019 • Version 1.1

Dear Governor Wolf and Members of the Pennsylvania General Assembly:

On behalf of the Southeast Pennsylvania Partnership for Mobility (Partnership) – a collaboration between the Pennsylvania Turnpike Commission (PTC) and Southeastern Pennsylvania Transportation Authority (SEPTA), in coordination with the Pennsylvania Department of Transportation – we are pleased to present this vision for mobility in the five-county region and ways for the PTC to stabilize toll rates and expand its system to spur additional economic growth.

The enclosed report includes views shared by an Advisory Council comprised of leaders representing the region's major employers, civic associations, elected offices, and transportation agencies. The Council advised the Partnership with thoughtful guidance, and its wisdom is reflected throughout the report.

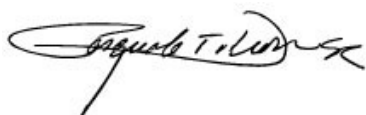
The report details the extent to which the five-county region has become a powerful economic engine for Pennsylvania, generating 41 percent of all economic activity in the Commonwealth with 32 percent of its population on just 5 percent of its land. It notes that this degree of density and economic productivity is not possible without a high-capacity, comprehensive transportation network to efficiently move people and goods throughout the region.

But it warns that the transportation network that is the backbone of this powerful economic engine cannot be taken for granted, and in fact is increasingly at risk. State legislation requiring the PTC to provide toll-backed funding to PennDOT to primarily fund transit operations has contributed to growing debt levels and 11 straight years of toll increases. Act 44-related debt has also constrained the PTC's ability to advance system improvement projects. The report describes in more detail the impact Act 44 continues to have on the PTC and its customers.

Meanwhile SEPTA, which in 2013 finally received dedicated funding to advance critical capital repair needs to begin rebuilding its aging infrastructure, now has a new challenge: increasing system capacity to keep pace with the region that has grown by more than 100,000 new residents since 2010. SEPTA has proposed a package of capacity-adding projects that would accommodate existing demand and unlock additional growth to keep the region's positive economic momentum going.

Addressing these two interrelated challenges – unsustainable funding sources and limited funding levels for transportation – are the focus of this report. Our hope is that it provides you with a clear understanding of these challenges and a useful menu of solutions to allow the region and the Commonwealth to thrive.

Sincerely,



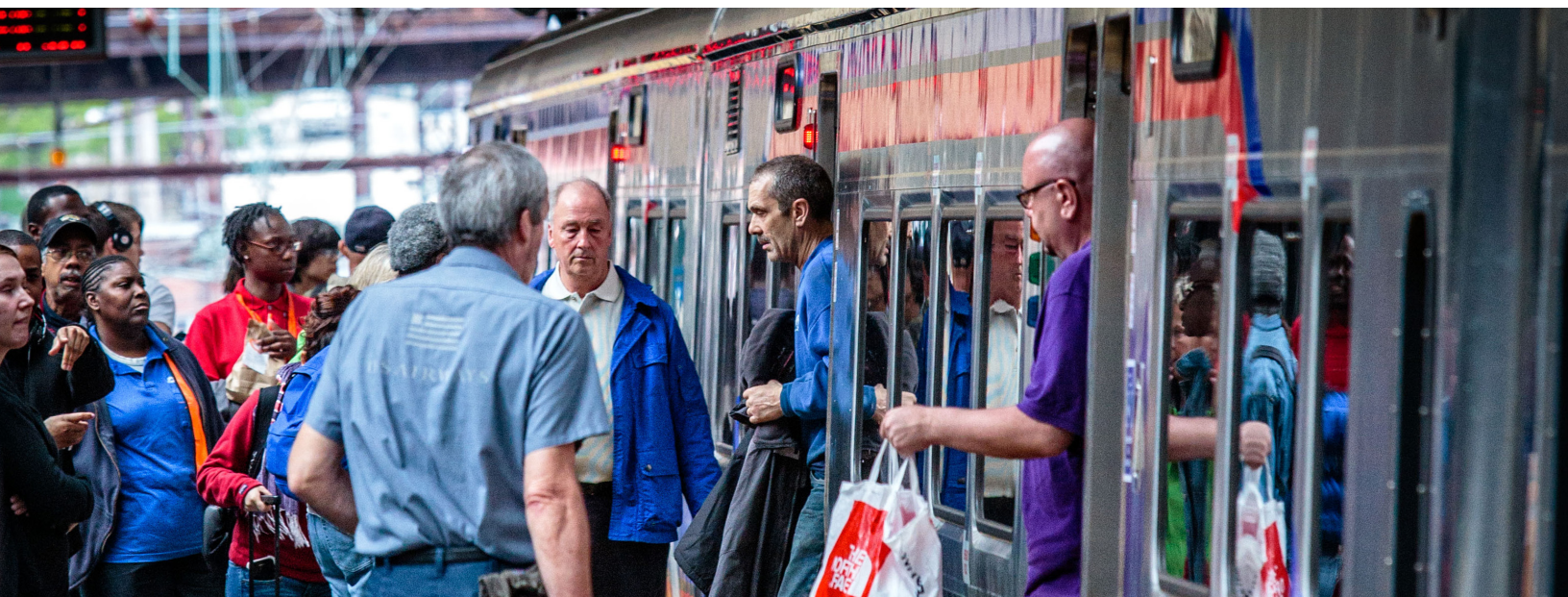
Pasquale T. Deon, Sr.
Co-Chair



The Honorable Leslie S. Richards
Co-Chair

Vision

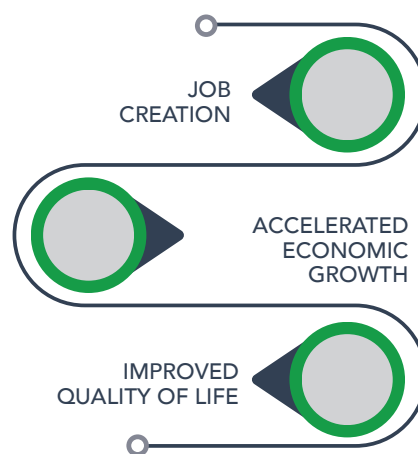
WHAT KIND OF REGION DO WE WANT TO BE?



With 4.1 million people living in the region, southeastern Pennsylvania is a powerful economic engine. **Efficient transportation systems fuel that engine, allowing people to reach their jobs, grow the economy, and live fulfilling lives.**

However, financial commitment to the Philadelphia region's transportation network—at multiple levels of government—lags behind that of its competitors. Without increased investment, there is a limit to what can be accomplished. By pushing forward and doubling down on what allows the region to be great, southeastern Pennsylvania can: **enhance quality of life locally and statewide; improve the reliability and sustainability of commutes; and generate new economic opportunities.**

Transportation is the key to:



Understanding the link between an efficient, effective transportation network and economic competitiveness, **competitor regions around the United States are investing more dollars in transportation.** Families, employees and employers are increasingly choosing where to locate by finding a transportation network that can help them get to and from where they need to go as safely and easily as possible.

This document lays out the challenges currently facing southeastern Pennsylvania's effort to grow the regional and statewide economies using its most important resource: its transportation network. **Given the importance of adequate and sustainable transportation funding to the Philadelphia region's economy and lifestyle, inaction is not an option.**

The Philadelphia Region is an ECONOMIC ENGINE FOR PENNSYLVANIA

On just
5%
OF
PENNSYLVANIA'S
LAND MASS...



Southeast PA...



generates
41%
OF PA'S
ECONOMIC OUTPUT



produces
36%
OF PA'S
GENERAL FUND
REVENUE



represents
32%
OF PA'S
POPULATION

The Voting Public Supports Transit Investment

Public transportation won 30 of 36 ballot measures in primary and general elections nationwide in 2018, which equates to a win percentage of 83 percent. Over the past two decades, public transportation measures have won more than 70 percent of the time. When given a chance for its voice to be heard, the public overwhelmingly supports transportation investments.

From Seattle to St. Louis and Minneapolis to Atlanta, studies show that companies are relocating to be near transit lines, as they seek to attract workers, especially millennials, who prefer living in more urban areas and increasingly don't want the long, driving commutes of their parents' generation.

— David Schaper
NPR

Advisory Council Recognizes the Need for Sustainable Solutions

In early 2018, the Southeastern Pennsylvania Transportation Authority (SEPTA) and the Pennsylvania Turnpike Commission (PTC) formed the Southeast Partnership for Mobility (Partnership) to address the challenges facing the region's transportation system. Working together with the Pennsylvania Department of Transportation (PennDOT), the Partnership formed a cross-sector advisory council of regional stakeholders (Council) representing major employers, civic leaders, local elected officials, and transportation agencies.

The Council represents a diverse array of regional perspectives—reflecting geographic areas, industries, employment centers, and economic backgrounds. Council members shared insights about the importance of supporting and growing a vibrant economy through new investment, as well as the transportation challenges facing the Philadelphia region and how to best address them.



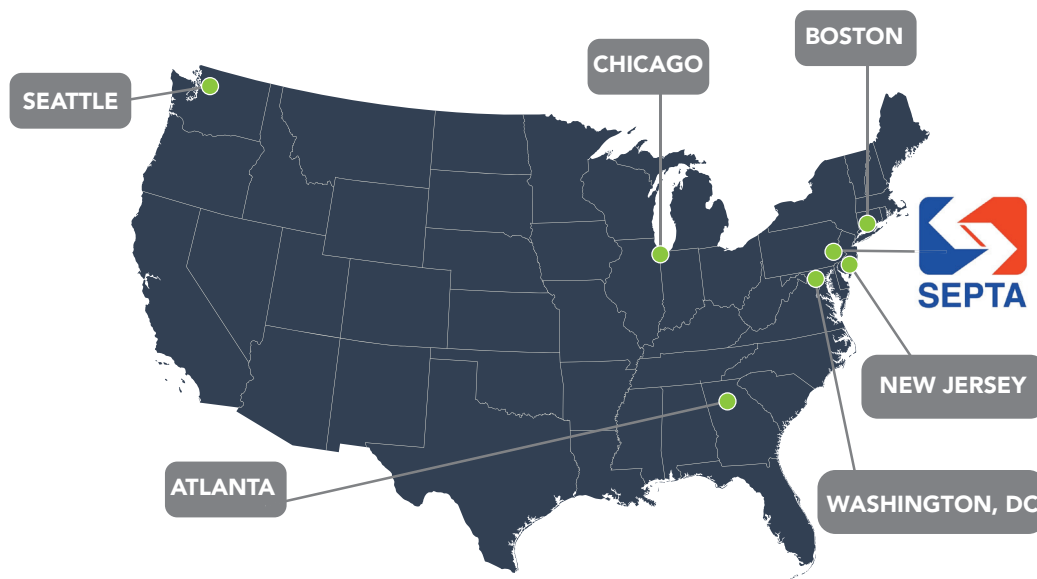
The Advisory Council

Pasquale Deon, Sr. – Southeastern PA Transportation Authority
 Leslie Richards – PA Department of Transportation
 Valerie Arkoosh – Montgomery County Board of Commissioners
 Leo Bagley – PA Department of Transportation
 Madeline Bell – Children's Hospital of Philadelphia
 Matt Bergheiser – University City District
 Chellie Cameron – Philadelphia International Airport
 Michael Carroll – City of Philadelphia
 Mark Compton – PA Turnpike Commission
 Vikram Dewan – Philadelphia Zoo
 Harold Epps – City of Philadelphia - Dept. of Commerce
 Joe Forkin – Delaware River Waterfront Corporation
 Chris Franklin – Aqua America
 John Fry – Drexel University
 Jennie Granger – PA Department of Transportation
 Peter Grollman – Children's Hospital of Philadelphia
 William Hankowsky – Liberty Property Trust

Brad Heigel – PA Turnpike Commission
 Daniel Hilferty – Independence Blue Cross
 Rudy Husband – Norfolk Southern Corporation
 Jim Kenney – City of Philadelphia
 Michelle Kichline – Chester County Board of Commissioners
 Jeff Kneuppel – Southeastern PA Transportation Authority
 Paul Levy – Center City District
 Robert Loughery – Bucks County Commissioners
 John McBlain – Delaware County Council
 Trayce Parker – UPS – Chesapeake District
 Denise Remillard – PA Dept. of Community & Economic Development
 Yesenia Rosado Bane – Office of the Governor
 Barry Seymour – Delaware Valley Regional Planning Commission
 Jerry Sweeney – Brandywine Realty Trust
 Jeff Theobald – Philadelphia Regional Port Authority
 Paul Tufano – AmeriHealth Caritas
 Angela Val – Philadelphia Convention & Visitors Bureau

National Trends

The Partnership evaluated other U.S. metropolitan areas to identify relatable challenges, best practices and paths forward. Atlanta, Chicago, Seattle, and Washington, DC all recently made major investments in public transportation; transit agencies in similarly-sized regions such as Boston and northern New Jersey are funded at higher levels than Southeast PA.



Funding Options Pursued by Competitors

| REGION | LOCAL FUNDING MECHANISMS FOR TRANSPORTATION |
|----------------|--|
| Washington, DC | Real estate tax, sales tax, ride-hailing tax, hotel tax, gas tax |
| Chicago | Sales tax, real estate transfer tax, ride-hailing tax |
| Seattle | Sales tax, vehicle registration fees |
| Atlanta | Sales tax |

The four competitor areas also followed imitable paths to reach solutions:

1

Developed local or regional funding solutions

2

Gained support from the business community, public advocacy groups, and elected officials

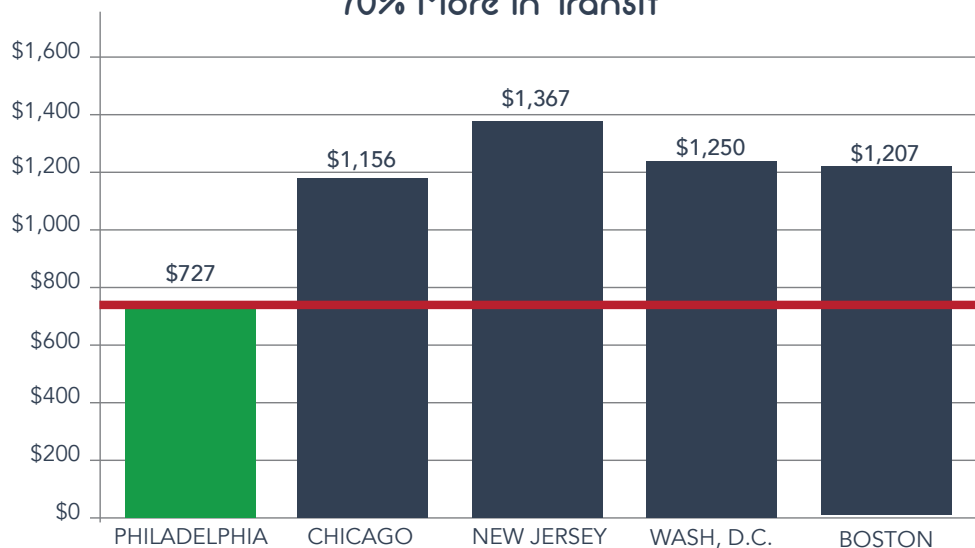
3

Included tangible, quick-implementation service improvements as part of their long-term strategies

4

Increased existing taxes to raise funds

Competitor Regions are Investing 70% More in Transit



FY2017-2018 Capital Budgets (millions) Includes federal, state and local funding.

Southeast Pennsylvania's Challenge

SUSTAINABLE, BONDABLE INVESTMENT



A safe and reliable multi-modal transportation network requires stable, sufficient transportation funding. As reported in a February 2019 study by the Pennsylvania Transportation Advisory Committee (TAC), *Risks to Transportation Funding in Pennsylvania*, **projected transportation funding is not adequate to meet statewide needs**; cost pressures further strain existing resources. Additional risks include national policy changes, legal decisions, and reduced oil company franchise tax revenue. **Pending litigation against the PTC has amplified and hastened the need for change.**

Vision

Job Creation • Accelerated Economic Growth • Quality of Life

Solution

Act 44 Relief: Sustainable transition of Act 44 payments



Solution

Funding for SEPTA projects of significance
Funding for PTC projects of significance



Challenge

Act 44's public transportation funding mechanism is unsustainable for the state's General Fund, the PTC, and transit statewide.

Challenge

To support new jobs, remain economically competitive and improve quality of life, higher levels of transportation investment are needed in Southeast PA.

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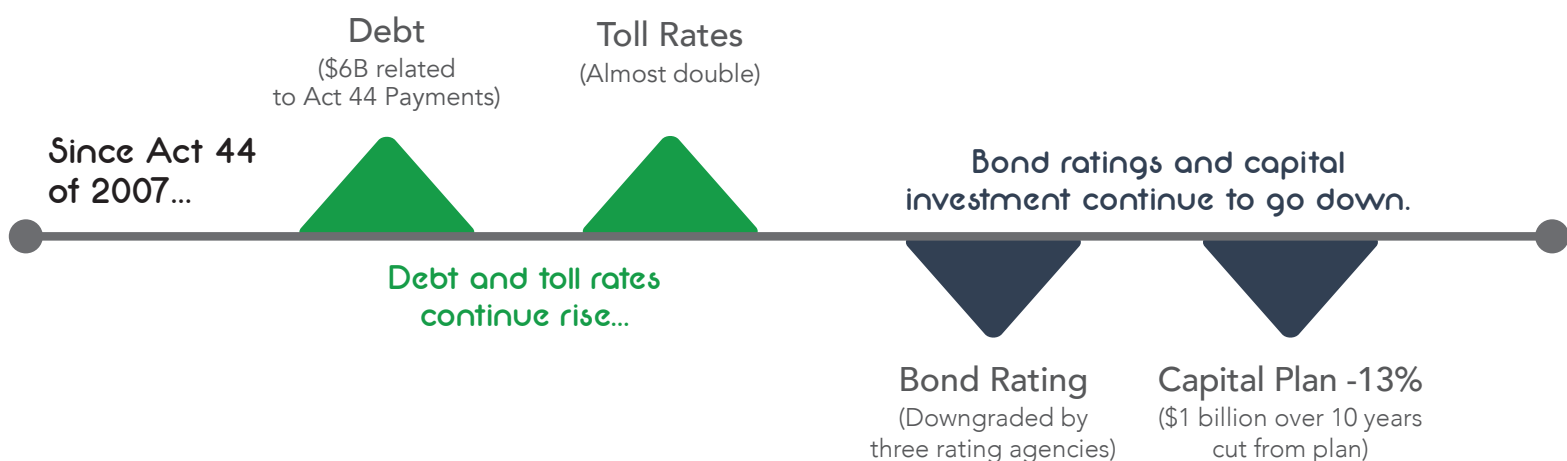
Even if current federal and state funding levels remain the same, the revenue sources currently used to fund SEPTA and other transit agencies around the Commonwealth have placed the state's General Fund, the PTC, and statewide transit funding in an untenable long-term situation.

In July 2007 the Pennsylvania General Assembly enacted Act 44, which expanded the PTC's mandate from constructing, operating and improving the PA Turnpike to also providing annual funding contributions of \$450 million for broader Commonwealth transportation needs. Since Act 44's passage the PTC has provided more than \$6 billion in funding to PennDOT; the PTC has primarily financed its Act 44 commitments to the Commonwealth through the issuance of bonds.

Act 89 in 2013 directed that the PTC's annual \$450 million payments be used to support transit capital and operating, multi-modal and other non-highway programs. By formula SEPTA receives almost 70% of these payments, but because the PTC must borrow money to make its payments, it is not bondable revenue for SEPTA.

A financial shift in 2022 will relieve the PTC but place additional burden on Pennsylvania's budget. Beginning on July 1, 2022 the PTC's required annual contribution to PennDOT will be reduced from \$450 million to \$50 million. Current law stipulates motor vehicle sales tax revenues will be earmarked to replace that reduced funding with a floor of \$450 million from the state's General Fund.

Act 44 IMPACTS to PA Turnpike and Its Customers. Since 2007



Pending Litigation Jeopardizes Act 44 Payments

Challenging the constitutionality of transferring toll revenue to the Public Transportation Trust Fund (PTTF) to fund public transportation, a lawsuit filed against the PTC by the Owner Operator Independent Drivers' Association and National Motorists' Association has jeopardized the PTC's ability to make its mandated payments. If the lawsuit continues to delay PTC payments, the PTTF may not recover the \$450 million per year through FY 2021-22.

One implication of the litigation has already occurred—the PTC is unable to borrow money to make its Act 44 payments in FY2019. In the interim, PennDOT has temporarily shifted funds to cover a portion of the shortfall, but that practice is temporary; wider cuts to transit capital and operating budgets across the state will occur in FY 2019-2020. *All told, a \$1.8 billion loss could affect both the PTTF and the Multimodal Transportation Fund through 2022.*

At this time, the outcome of the legal challenge is uncertain.

Importance of Bondable Revenue

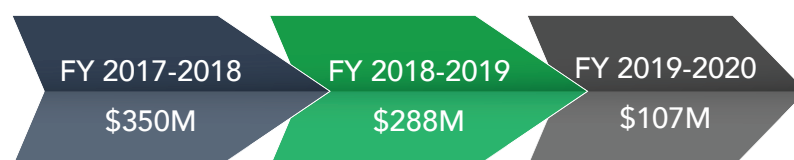
A point of emphasis for delivering the region's vision is to ensure bondable revenue streams. Many regional projects of significance, such as SEPTA's \$2.4 billion regional rail fleet replacement and service enhancement, require large amounts of upfront money for procurement. *Without the ability to leverage bonding and financing, SEPTA would be forced to stockpile funds over years—possibly a decade or more—to advance and complete projects considered essential to the region's vitality today.*

SEPTA Capital Projects at Risk

A number of SEPTA's regional projects are in jeopardy of deferral because of the lawsuit. A sample of affected major projects include:

- City Hall Station Reconstruction and ADA improvements
- Station accessibility projects on Market Frankford Line and Broad Street Line
- Real-time service information
- City and Suburban Transit Trolley Modernization
- Elwyn to Wawa Rail Service Restoration
- Regional Rail Station Accessibility and Improvement Projects across the region
- Bridge and Substation Rehabilitation Projects across the system
- 69th Street Terminal Parking Garage

If litigation continues to prevent Act 44 payments, SEPTA's funding from PennDOT is at risk and will be reduced significantly starting July 1, 2019.



Challenge

To support new jobs, remain economically competitive and improve quality of life, higher levels of transportation investment are needed in Southeast PA.

In Southeast PA, transportation funding is a combination of federal, state, and local sources. In PA, Act 44 of 2007 created a dedicated funding source for transit systems, based in part on payments from the PTC. Even if current federal and state funding levels remain the same, there are not enough funds for SEPTA and the PTC to deliver the strategic projects of significance that would allow the region to thrive. Locally, the Philadelphia region has limited authority to generate its own revenue to invest in its own transportation system, because most local funding sources require statewide enabling legislation.

Statewide Funding for Transportation is Also FALLING SHORT...

The Pennsylvania TAC study identified a current \$5.5 billion annual funding gap:

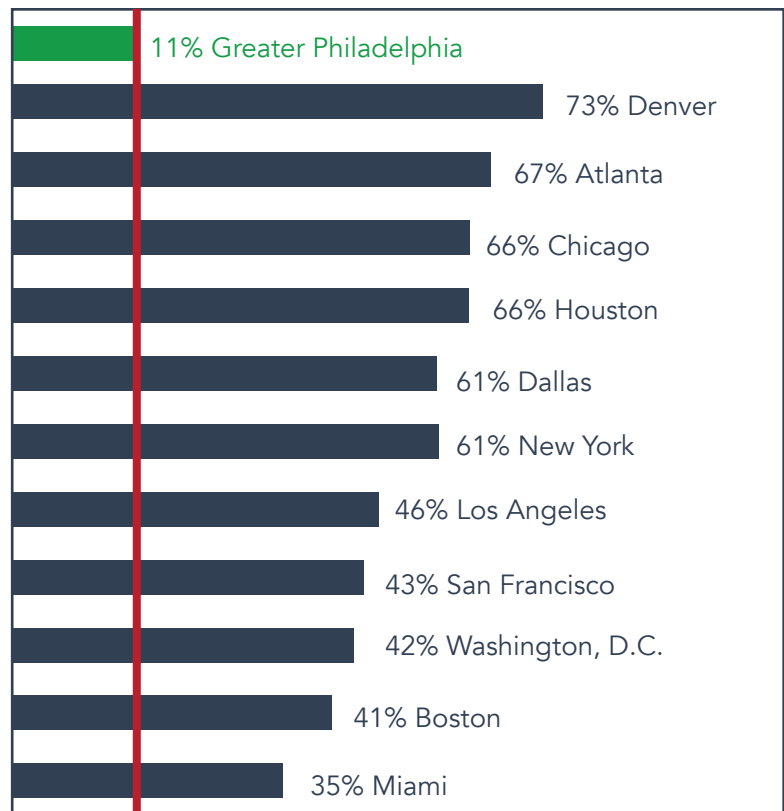
Public transportation:
\$1.2 billion in unmet needs

Interstate highways and bridges:
\$2.5 billion in unmet needs

National Highway System highways and bridges:
\$1.8 billion in unmet needs

The study also identified several significant risks that jeopardize federal and state funding, as well as the Act 44 payments.

...the percentage of funding Southeast PA receives from local sources is WELL BELOW AVERAGE



Percent of transit capital funding from local sources (2006-2015)
Source: National Transit Database



Rendering of King of Prussia Rail, Montgomery County

SEPTA Projects of Significance

SEPTA has identified four projects crucial to maintaining the system in a state of good repair, meeting increasing capacity demands of its diverse ridership, and connecting developing areas of the region. **Without relief from Act 44 and additional bondable revenue, these projects cannot be delivered.**

- ◆ Market-Frankford Line Capacity Improvements - \$1.3 billion
- ◆ Regional Rail Silverliner Car Fleet Replacement and Service Enhancement - \$2.4 billion
- ◆ Trolley Modernization - \$1.6 billion
- ◆ King of Prussia Rail - \$1.2 billion

Transportation is critically important when it comes to delivering patient care. Traffic on the Schuylkill Expressway is unpredictable and public transportation is sometimes overcrowded – causing patients to be late for appointments and severely delaying employees who are coming to and going home from work. But CHOP is still growing to meet the region's needs. We're building a new hospital in King of Prussia and new facilities on our University City campus. We employ 16,000 people now and we will be adding thousands more over time. Addressing transportation is integral to our growth strategy. All four of SEPTA's projects of significance would help us overcome the challenges we face.

— Madeline Bell
President and Chief Executive Officer
The Children's Hospital of Philadelphia

SEPTA's projects of significance will change the economic trajectory of the region, increasing the growth path of southeastern PA by an estimated 50% over 30 years. The four projects, at a total cost of \$6.5 billion, are projected to generate \$17.1 billion in additional tax revenues (net present value) - a 12.3% internal rate of return on investment.



11.4 million SF
additional commercial
development in
downtown Philadelphia
and King of Prussia



149,900
additional jobs
across the region



\$10.1 billion
additional annual
earnings across
the region



\$20.5 billion
total property
value growth



\$17.1 billion
net present value
of expected
increase in tax revenue



PA Turnpike/I-95 Interchange, Bucks County

PA Turnpike Projects of Significance

The PTC is unable to fund projects that would support reliability and access, generating additional economic opportunity in the region and statewide. **Without relief from Act 44 and additional bondable revenue, these projects cannot be advanced.**

- ◊ I-95 Interchange, reconstruction/widening between Bensalem and Delaware River, and Delaware River Bridge - \$1.1 billion
- ◊ Total reconstruction/widening, Route 29 to Valley Forge - \$325 million
- ◊ Reconstruction/widening, Norristown to Bensalem - \$2.0 billion
- ◊ Montgomery County Interchanges - \$245 million

The PA Turnpike's \$60 million Route 29 Interchange in Chester County opened to traffic in 2012. In order to better estimate the interchange's impact investment to the region, the PTC commissioned an economic impact analysis in 2018. Between 2010 and 2015, the interchange's total estimated economic impacts to Chester County were:



9,700 -
16,160
total new jobs



\$866 million -
\$1.4 billion
total labor income



\$3.5 billion -
\$5.8 billion
total economic
output



\$28 million -
\$58 million
new state and local
tax revenue within
Chester County

Funding and Financing - Menu of Options

ACT 44 RELIEF AND ENABLING ADDITIONAL LOCAL INVESTMENT



PA Turnpike/I-95 Interchange, Bucks County

As part of its effort, the Partnership has identified three specific needs which must be addressed to fully achieve its vision. They are:

- ◊ Sustainable transition of Act 44 payments,
- ◊ Funding for SEPTA projects of significance, and
- ◊ Funding for PTC projects of significance.



Solution

Act 44 Relief:
Sustainable transition
of Act 44 payments

As currently stipulated by Act 89 of 2013, Act 44 relief for the PTC begins in 2022, when the PTC's annual payments will be replaced with at least \$450 million of bondable General Fund revenue (using existing tax on the sales of motor vehicles). There are several options to mitigate impacts of the current law.

ACT 44 RELIEF: FUNDING AND FINANCING OPTIONS

1. Stay the course as legislated in Act 89 of 2013 — replacement of the PTC's payments with \$450 million of General Fund dollars starting in 2022.
2. Provide relief to the PTC prior to 2022, either at one time or gradually at a \$100 million per year over a four-year period starting in 2019 and ending in 2022. There are a number of benefits of a gradual stepdown outlined below.
3. Replace some or all of the currently earmarked \$450 million of existing General Fund revenues with new General Fund revenues. For illustrative purposes, options for new General Fund revenues are shown in the chart at the bottom of the page.

The Benefits of a Gradual Stepdown

| | | | |
|------------------------------------|----------------------------------|---|---------------------------------|
| Gradual transition to General Fund | Additional relief to PA Turnpike | Additional bondable revenue to PA transit operators | Quicker toll rate stabilization |
|------------------------------------|----------------------------------|---|---------------------------------|

Statewide Revenue Generation Options

| Option | Basis | Revenue Potential (\$ millions) |
|--|---|------------------------------------|
| Sales Tax | Increase of 0.25% | \$350 - \$450 |
| Personal Income Tax | Increase of 0.10% | \$350 - \$450 |
| Real Estate Transfer Tax | Increase of 0.50% | \$215 - \$265 |
| Transportation Network Company (TNC) Fees (Uber, Lyft, etc.) | New fee of \$1 per trip | \$80 - \$100 |
| Congestion Pricing | Tolling of additional PA Interstates, and other congestion pricing strategies | At least \$200 depending on extent |
| Tire, Vehicle Lease, and Vehicle Rental Fees (Public Transportation Assistance Fund) | Increase fees from \$1 to \$2 per tire, \$2 to \$4 per rental, and from 3% to 6% of lease payment | \$125 - \$150 |

These options have been used in other states and in Pennsylvania to address transportation funding needs.

Solution

Funding for SEPTA projects of significance



With \$350 to \$450 million in new annual bondable revenue, SEPTA can leverage debt service to advance delivery of its \$6.5 billion projects of significance. There are three options to generate those funds: enabling legislation allowing the region to generate its own funds; statewide action distributing revenue to transit, including SEPTA, statewide; or a combination of the two.

With enabling legislation, jurisdictions within Southeast PA could be more responsive, and would be better positioned to pursue sets of solutions tailored to their constituencies' wants and needs. This locally

driven model has gained public support nationwide, and has been successfully implemented by competitor regions around the country. Any local funding alternatives should be in addition to current levels of state and federal funding and targeted specifically at transportation improvements.

PROJECTS OF SIGNIFICANCE: FUNDING AND FINANCING OPTIONS

1. Statewide enabling legislation allowing the five-county Philadelphia region to generate \$350-450 million of new annual bondable revenue. The chart below provides a number of options which could be considered at the regional and local level if enabled to do so.
2. \$650 million in additional statewide bondable revenue for transit, providing SEPTA with the \$350-450 million it needs by formula.
3. A combination of new statewide bondable revenue and enabling legislation allowing the region to generate its own revenue.

SEPTA & PTC Projects of Significance

Need \$350M-\$450M/YR Bondable Revenue

TYPE OF FUNDING OPTION

TRADITIONAL

TRANSPORTATION RELATED

VALUE CAPTURE

Regional Funding and Financing Options

REVENUE GENERATION POTENTIAL

| REV. > \$100M | \$50M > REV. > \$25M | REV. < \$15M |
|--|---|--|
| <ul style="list-style-type: none"> Earned Income Tax Property Tax Surcharge Real Estate Transfer Tax Sales Tax | <ul style="list-style-type: none"> Sales Tax (Base Expansion) | <ul style="list-style-type: none"> Cigarette Tax Hotel Occupancy Tax (excluding City of Philadelphia) Liquor/Malt Beverage Tax |
| <ul style="list-style-type: none"> Mileage Based User Fee/ Road User Charge Vehicle Property Tax | <ul style="list-style-type: none"> Interstate Tolling / Congestion Pricing TNC Fee Transit Fare Surcharge | <ul style="list-style-type: none"> Excise Tax on Adult Bicycles Lead Acid Battery Tax Vehicle Registration Fee |
| | <ul style="list-style-type: none"> Rolling Property Tax Assessment Surface Coverage Fee Tax Increment Financing (TIF) Transportation Access Fee | <ul style="list-style-type: none"> Fee in Lieu of Parking Fee in Lieu of Transportation Improvements Rezoning for Private/Transit Development Opportunity Zone Incentives Telecom Surcharge |

Solutions in **GREEN** text require legislative action.

Solution

Funding for PTC projects of significance



To advance its projects of significance—particularly new interchanges in Bucks and Montgomery counties—the PTC would need \$50 million to \$75 million in additional bondable revenue for its capital program. Assuming the relief of Act 44, there are two possible means by which to fund the PTC's significant projects.

PROJECTS OF SIGNIFICANCE: FUNDING AND FINANCING OPTIONS

1. Using a portion of the revenues raised by the options described above SEPTA's projects of significance.
2. A \$0.01 to \$0.02 subsidy from the Oil Company Franchise Tax.



The Guiding Principles

The Advisory Council concurs that:

- Transportation is not a cost—it is an investment that supports jobs, economic growth, and quality of life.
- Companies and employees view mass transit as a key differentiator in choosing where to locate their business or where to work.
- Competitors to the Philadelphia region are making higher levels of investment in mass transit.
- Turnpike toll rate increases necessitated by Act 44 adversely affect the economic competitiveness of Philadelphia industry.
- New additional recurring revenue is needed to support SEPTA's projects of significance and for additional interchanges between the PA Turnpike and the local roadway network.