



Model for Comprehensive Reform of Transportation Funding in Ohio

March 2016

Introduction and Policy Recommendations

In Ohio, the cost of construction materials has increased in the last decade while state gas tax revenues and federal funds have flattened. Additionally, demand has grown for all transportation modes, especially rail, aviation, and public transportation. To adequately maintain and strategically upgrade all Ohio's transportation system—Ohio must do something different.

The Greater Ohio Policy Center (GOPC) offers a detailed analysis of the 2013 reform to Pennsylvania's Transportation Budget as one viable model for Ohio. In light of the analysis below, **GOPC makes the following policy recommendations regarding transportation funding in Ohio:**

- Create a Multimodal Fund, similar to Pennsylvania's, which funds and coordinates investments in public transportation, aviation, freight rail, and deep water ports.
- Resource the Multimodal Fund with existing and new funding sources that are not constitutionally restricted to highways
- Incentivize local, county, and regional efforts to collaborate and share services through expert technical assistance and financial support
- Focused all funding to repairs and maintenance, with limited capital expansions

Pennsylvania as a Model for Transportation Budgeting Reform

Like Ohio, Pennsylvania is an older industrial state facing population stagnation and an aging transportation system. Prior to 2014, the Keystone state's aging infrastructure had become less dependable, it had the most structurally deficient bridges in the nation, and demand was going unmet for rural and urban transit.ⁱ

The dire state of bridges and roads in Pennsylvania, in addition to the growing demands on non-highway modes, compelled legislators to assess the state's transportation funding priorities and funding sources.

In late 2013, Pennsylvania passed a comprehensive transportation budget package (Act 89) that recalibrated funding to better resource all modes. Like Ohio, Pennsylvania constitutionally restricts its gas tax to use on highways and bridges, but through:

- creative recalibration of funding priorities
- select adjustments to fees and fines, and
- a single tax adjustment

PennDOT's budget is expected to increase by \$2.3 billion over 5 years (i.e. FY 2013-14 to FY 2017-18).ⁱⁱ



Snapshot of DOT Budgets: Ohio and Pennsylvania (Pre- and Post-Reform)

Portions of Pennsylvania's transportation budget reform bill went into effect upon gubernatorial signature. To avoid reflecting the impact of the 2013 reforms, we have analyzed Pennsylvania's FY 2011-12 DOT budget for comparison.

Support for Major Programs and Focus Areas

- ODOT's FY 2016-17 budget of \$5.87 billion and PennDOT's pre-reform budget of \$6.0 billion (i.e. FY 2011-12) both give high priority to highways and bridges.
- After Pennsylvania's reform, its \$7.9 billion budget in FY 2016-17 provided more diversified support for all modes.

Chart 1: Percent of DOT Budgets for Major Programmatic Categories

(totals do not sum to 100% due to rounding)

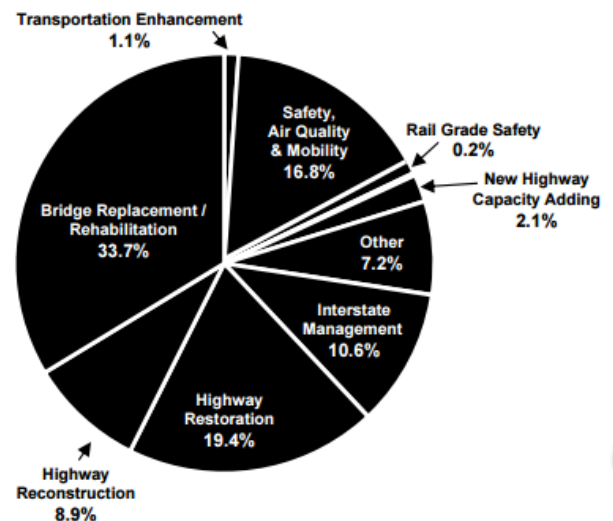
| | Pennsylvania (FY 2011-2012) \$6.0 billion budget ⁱⁱⁱ | Ohio (FY 2016-17) \$5.8 billion budget ^{iv} | Pennsylvania (FY 2016-2017) \$7.9 billion budget ^v |
|--|---|--|---|
| Highways, bridges, and local roads | 76% (65% for highways and bridges; 11% for local gov't bridge and road assistance programs) | 91% (85% for highway maintenance & construction; 6% for servicing debts related to highway projects) | 71% (60% for highways and bridges; 11% for local gov't road and bridge assistance programs) |
| Non-highway modes (rail transit, aviation, ports) | 20% | 3.25% | 25% |
| Department administration , including research & planning (OH); safety & licensing (PA) | 4% | 5% | 3% |

Post-reform, PennDOT's highway and bridges program prioritized asset preservation and maintenance through two programs:

- bridge replacement and rehabilitation
- highway restoration

Increasing new highway capacity receives only 2.1% of the allocations (Chart courtesy of PennDOT).^{vi}

Current Four-Year Project Distribution (October 2014 – September 2018)





Major Funding Sources and their Proportional Support in DOT Budgets

- Prior to Pennsylvania's 2013 budget reform, roughly the same proportion of Pennsylvania's and Ohio's budgets came from the state gas tax.
- After reform, PennDOT relied less on its constitutionally restricted gas tax and more on state funds dedicated to non-highway transportation-related programs, such as transit.
- Ohio relies significantly more on federal funds than Pennsylvania.

Chart 2: Funding Sources for DOT Budgets (totals do not sum to 100% due to rounding)

| | Pennsylvania (FY 2011-12) ^{vii} | Ohio (FY 2016-17) ^{viii} | Pennsylvania (FY 2016-17) ^{ix} |
|--|---|--------------------------------------|--|
| Constitutionally limited state funds (i.e. gas tax) ^x | 33.7% | 30.0% | 25.7% |
| Federal funds | 26.6% | 52.9% | 24.5% |
| Bond revenues (OH-federal GARVEE bonds, state highway bonds) | PA folds these revenues into state and federal sources | 10.8% | PA folds these revenues into state and federal sources |
| Dedicated state funds, unrestricted by constitution , such as PA portion of sales tax for transit, turnpike transfers | 21.3% | NA Not currently in use | 23.4% |
| Dedicated/restricted funds for specified uses (ex. dedicated aviation fund in OH and PA, dedicated allocations from the lottery fund in PA for transit) ^{xi} | 18.2% (14.31% restricted funds + 3.84% augmentations ^{xii}) | 0.1% | 26.3% (23.37% restricted funds + 2.94% augmentations ^{xiii}) |
| General funds (ex. GRF in Ohio) | 0.3% | 5.1% | 0.1% |

As a result of the five year reform package, Pennsylvania's revenues and major transportation programs are on track to be much more diverse, and competitive, than Ohio's.

How Pennsylvania is "Growing the Pie"

The two main sources of state funding for Pennsylvania's transportation system are the **Motor License Fund** and the **Multimodal Fund**.

The **Motor License Fund** is a special fund in the state budget that is limited to bridges, roads, and highways. It is analogous to Ohio's gas tax in terms of its restricted uses. To increase funds in the Motor License Fund, Pennsylvania adjusted its two main revenue streams: taxes and fees.

The Budget Reform created the **Multimodal Fund**, a fund that supports non-highway modes of transportation including: public transportation, aviation, passenger and freight rail, deep water ports, and bike/pedestrian facilities. The Fund is primarily resourced through new and existing fees and



reallocations of existing state revenues that are not restricted to highways. The Fund ramps up to \$144 million by FY 2017-2018.^{xiv}

Tax Reform: Adjustment, Elimination, Harmonization

The most significant reforms to Pennsylvania's budget were:

- Adjustment to the **Oil Company Franchise Tax (OCFT)**. Over the five year reform, Pennsylvania will remove the OCFT's \$1.25 cap, incrementally raise the tax, and establish a \$2.99 per gallon floor that will go into effect in FY 2017-18.^{xv}

The OCFT is assessed on distributors and is passed on to consumers through prices charged at the pump.

- Elimination of a \$0.12 per gallon liquid fuel retail tax that was paid by consumers at the pump. This elimination offsets the OCFT increase.^{xvi}
- The **Alternative Fuels Tax (AFT)** tracks with the OCFT rate. The Alternative Fuels Tax is assessed on a per gallon equivalent; fuel dealers remit the tax which applies to electricity, natural gas, hydrogen, and other sources of vehicle fuel.^{xvii}

The OCFT and AFT are constitutionally limited to highways, bridges and roads and are the bulk of the *Motor License Fund*.

The one exception to the OCFT is gas sold for power motorboats. Those tax revenues are disbursed to the Pennsylvania Fish and Boat Commission and will be used to improve high-hazard dams.^{xviii}

Modernization of Fees and Fines

The rest of the *Motor License Fund* (e.g. gas tax fund) is resourced through fees. The budget reform included:

- \$1 increase on **vehicle registration fees** twice over the 5 years (till FY 2017-18)^{xix}
- \$1 increase on **operator fees** twice over the 5 years (till FY 2017-18)^{xx}

To resource the *Multimodal Fund*, the Legislature redirected fees that were not restricted to highways and bridges but were going to the Motor License Fund. The legislation also increased select fees and is expected to generate \$265 million by FY2017-18.^{xxi} The funding sources for the Multimodal Fund are:

1. Increased **fines in lieu of license suspension** for lapsed insurance
 - expected to generate \$7M/year; dedicated to transit^{xxii}
2. Flat \$150 **fine for disobeying traffic control devices** (e.g. running a red light). \$125 of the fine goes to mass transit
 - estimated to generate \$40M annually^{xxiii}
3. **Surcharges on traffic tickets** for select offenses (driving left of center, overtaking a school bus, speeding, disobeying weight restrictions, etc)^{xxiv}



4. \$1 per **new tire fee**^{xxv}
5. \$2 per day vehicle **rental fee**^{xxvi}
6. Vehicle **lease tax** (3% of total lease price)^{xxvii}

Select Transfers and Reallocations

In addition to the fees above, the legislation funds the *Multimodal Fund* through the reallocation of existing revenue streams:

- 4.4% of annual state sales and use tax receipts go to the Multimodal Fund^{xxviii}
- Annual allocation of \$25 million from the Turnpike to transit
- Transfers from the Lottery Fund to support elderly transit services^{xxix}
- Dedicated funding for aviation and ports
- Interest on bonds

Other Cost Savings Measures: Local Control, Shared Services, Collaboration

The reform legislation encourages local entities to work together and with the state to achieve economies of scale. Key provisions include:

- Raised prevailing wage requirements. Pre-reform projects that cost \$25,000 or more triggered prevailing wage; post-reform, the threshold was raised to \$100,000 or more.^{xxx}
- A mandate and funding for PennDOT to do a regionalization feasibility study of local mass transit systems. The legislation gave PennDOT discretion to utilize funds to incent consolidation and mutual cooperation agreements.^{xxxi}
- A program that bundles bridge design and construction bids on state and local bridges.^{xxxii}
- A collaboration between the state and municipalities to improve traffic signals in high-congestion areas. PennDOT pays for capital costs; cities must pay for maintenance of equipment.^{xxxiii}
- Gave counties the option to assess a \$5 vehicle registration fee. The funds can be used by the county in any way that liquid fuel tax funds were previously expended (estimated aggregated revenue up to \$57 million).^{xxxiv}

Conclusion

Ohio should look to Pennsylvania as a model as it assesses transportation funding options and develops a strategic path forward to remain competitive and responsive to business and citizens. While Ohio may not replicate every component of Pennsylvania's reform, the Keystone state's package provides inspiration and models for long term support of all of Ohio's essential transportation modes.



This Memo was researched and written by Alison D. Goebel, GOPC Deputy Director and Alex Highley, GOPC Project Associate. This research was made possible with support from the George Gund Foundation.

- ⁱ <http://t4america.org/docs/bridgereport2013/2013BridgeReport.pdf>
- ⁱⁱ <http://www.legis.state.pa.us/WU01/LI/BI/SFN/2013/0/HB1060P2697.pdf> <http://www.tdawisconsin.org/index.html>
- ⁱⁱⁱ <http://budgetfiles.pa.gov/budget2013/DetailReports/Agency/PFS/transportationpfs.html>
- ^{iv} <http://www.lsc.ohio.gov/fiscal/transportation/transbudget131/greenbook-dot.pdf>
- ^v <http://budgetfiles.pa.gov/budget2016/DetailReports/Agency/PFS/transportationpfs.html>
- ^{vi} <http://budgetfiles.pa.gov/budget2015/DetailReports/Agency/program/transportationprogram.html> , page E43-10
- ^{vii} <http://budgetfiles.pa.gov/budget2013/DetailReports/Agency/SFA/transportationsfa.html>
- ^{viii} <http://www.lsc.ohio.gov/fiscal/transportation/transbudget131/greenbook-dot.pdf> p4 for federal funding in FY16-17; p5 for state gas tax in FY16-17; page 7 for bone revenue in FY16-17; <http://www.lsc.ohio.gov/fiscal/transportation/transbudget131/greenbook-overview.pdf> p3 for GRF funds; p 14 for dedicated purpose funds
- ^{ix} <http://budgetfiles.pa.gov/budget2016/DetailReports/Agency/SFA/transportationsfa.html>
- ^x Pennsylvania's budgets classify the Motor License Fund, which is limited to highways and bridges, as a "special fund."
- ^{xi} Pennsylvania classifies funds that are peeled off from another state source as "augmentations." For example, much of the lottery fund is dedicated to programs for older Pennsylvanians. A portion of the lottery fund goes to support senior transit; that disbursement from the lottery fund "augments" the transportation budget. <http://budgetfiles.pa.gov/budget2015/DetailReports/Agency/program/transportationprogram.html>
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- ^{xiv} [http://boroughs.org/ckfinder/userfiles/files/expanded%20Analysis%20DRAFT%20Act%2089%20of%202013\(1\).pdf](http://boroughs.org/ckfinder/userfiles/files/expanded%20Analysis%20DRAFT%20Act%2089%20of%202013(1).pdf)
- ^{xv} [http://boroughs.org/ckfinder/userfiles/files/expanded%20Analysis%20DRAFT%20Act%2089%20of%202013\(1\).pdf](http://boroughs.org/ckfinder/userfiles/files/expanded%20Analysis%20DRAFT%20Act%2089%20of%202013(1).pdf); [http://psats.org.s97340.gridserver.com/ckfinder/userfiles/files/Act%2089%20of%202013%20\(HB%201060\)-Analysis%20\(11-22-13\).pdf](http://psats.org.s97340.gridserver.com/ckfinder/userfiles/files/Act%2089%20of%202013%20(HB%201060)-Analysis%20(11-22-13).pdf)
- ^{xvi} [http://psats.org.s97340.gridserver.com/ckfinder/userfiles/files/Act%2089%20of%202013%20\(HB%201060\)-Analysis%20\(11-22-13\).pdf](http://psats.org.s97340.gridserver.com/ckfinder/userfiles/files/Act%2089%20of%202013%20(HB%201060)-Analysis%20(11-22-13).pdf)
- ^{xvii} http://www.revenue.pa.gov/GeneralTaxInformation/Tax%20Types%20and%20Information/Pages/Motor%20and%20Alternative%20Fuel%20Taxes/Alternative%20Fuels%20Tax%20Forms.aspx#.Vr-O_krLIU
- ^{xviii} <http://www.pacounties.org/GovernmentRelations/Documents/TransportationSummary20131121.pdf>
- ^{xix} <http://www.pacounties.org/GovernmentRelations/Documents/TransportationSummary20131121.pdf>
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- ^{xxii} <http://www.pacounties.org/GovernmentRelations/Documents/TransportationSummary20131121.pdf>
- ^{xxiii} [http://boroughs.org/ckfinder/userfiles/files/expanded%20Analysis%20DRAFT%20Act%2089%20of%202013\(1\).pdf](http://boroughs.org/ckfinder/userfiles/files/expanded%20Analysis%20DRAFT%20Act%2089%20of%202013(1).pdf)



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<http://www.legis.state.pa.us/cfdocs/legis/LI/consCheck.cfm?txtType=HTM&ttl=75&div=0&chpt=65>

xxv http://www.revenue.pa.gov/GeneralTaxInformation/Tax%20Types%20and%20Information/Pages/Public-Transportation-Assistance-and-Vehicle-Rental-Tax.aspx#.Vr-Os_krLIU

xxvi http://www.revenue.pa.gov/GeneralTaxInformation/Tax%20Types%20and%20Information/Pages/Public-Transportation-Assistance-and-Vehicle-Rental-Tax.aspx#.Vr-Os_krLIU

xxvii http://www.revenue.pa.gov/GeneralTaxInformation/Tax%20Types%20and%20Information/Pages/Public-Transportation-Assistance-and-Vehicle-Rental-Tax.aspx#.Vr-Os_krLIU

xxviii <http://budgetfiles.pa.gov/budget2015/DetailReports/Agency/program/transportationprogram.html>

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<http://budgetfiles.pa.gov/budget2015/DetailReports/Agency/program/transportationprogram.html>

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<http://www.pacounties.org/GovernmentRelations/Documents/TransportationSummary20131121.pdf>

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