

White Paper

FUNDING PUBLIC TRANSIT: THE PROBLEM AND A SOLUTION

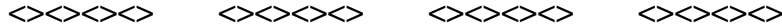
WEALTHY CORPORATIONS PAYING THEIR FAIR SHARE

Pittsburghers for Public Transit
March 15, 2016

Made available by Pittsburghers for Public Transit: <http://www.pittsburghforpublictransit.org/>

CONTENTS

	page
Preface	2
1. The Problem	3
2. Who Benefits From Public Transit	3
3. Who Else Benefits From Public Transit	4
4. Who Pays For Public Transit	4
5. Solutions at the Expense of the People	4
6. A Deeper Problem	5
7. Who Doesn't Pay For Public Transit – and What It Would Mean If They Did	6
8. Toward a Solution That Is Fair	9
Methodological Note	9
Sources	9



Preface

This is a white paper developed on behalf of Pittsburghers for Public Transit, prepared for consideration of our members, supporters, and the general public. The basic idea is clearly stated in the title and subtitle – the problem of funding public transit can be solved if wealthy corporations pay their fair share and give support to the transit system that brings their employees to the workplace everyday.

The purpose of this white paper is not to provide a policy blue-print, but instead to contribute to a larger discussion out of which definite policies and detailed plans will emerge.

We feel it is unfortunate that the kinds of facts and concerns focused on here rarely find their way into what are considered to be “practical” discussions of economic issues related to public transit. It is our hope that this position paper will help to introduce greater balance and clarity into such discussions.

Ultimately, we hope to see detailed proposals and practical measures that can be developed from the approach presented here. These can only be realized through popular campaigns and mobilizations – bringing the public into determining the future of public transit. Solutions will be brought about, in our opinion, through a deepening and expansion of the democratic process, a process of the people, by the people, for the people. That is what must shape the kind of public transit system our communities need.

Jonah McAllister-Erickson and Paul Le Blanc,
for Pittsburghers for Public Transit

FUNDING PUBLIC TRANSIT – THE PROBLEM AND THE SOLUTION: WEALTHY CORPORATIONS PAYING THEIR FAIR SHARE

Pittsburghers for Public Transit (PPT) has been working hard since 2010 to protect and improve our mass public transit system. Our experience has shown that when people join together, they can overcome problems that have an impact on all of us. We have found, however, an underlying problem that must be addressed if we are going to have the public mass transit system that our communities need. In this position paper, we want to identify that underlying problem and propose a solution.

In its earliest years, PPT helped to fight against the systematic de-funding and dismantling of our public mass transit system. Along with a broader statewide coalition that we helped to build, we persuaded a majority of Pennsylvania state legislators to hold back from projected funding cuts, at least for the next several years. Then – in neighborhoods that previous cuts had turned into “transit deserts” – we supported and helped organize community efforts to win at least partial restoration of transit service. Genuine gains have been made – first of all in the Baldwin and Groveton communities – with city and county governments, and the Port Authority of Allegheny County (PAAC) responding positively to persistent mobilizations from the neighborhoods.

It is clear that more must be done to provide all Pittsburgh communities with the kind of good-quality mass transit that we need. But this immediately brings us face-to-face with the problem.

1. The Problem

Extending bus routes, adding buses, adding more shelters, and improving service all cost something. New buses can cost \$300,000-\$500,000 each. A new bus route may cost \$1 million or more annually. Bus shelters have a price tag of roughly \$7,000. Restoring the positive aspects of the mass transit system of twenty years ago, let alone creating an even better one, cannot be done for free.

Total operating costs in 2015 for our transit system amounted to \$398 million. More would be needed to un-do all the previous cutbacks and for necessary improvements to provide decent public transit for all communities.

Where does the money come from? **Who pays?** An obvious and reasonable answer is that those who need public transit, those who benefit from it, should be expected to pay for it.

2. Who Benefits From Public Transit

Every person in our community benefits. All living, breathing, flesh and blood people in Pittsburgh and Allegheny County benefit from mass transit.

As PPT’s Transit Bill of Rights points out, “Public Transit not only provides basic mobility for many in our community, it is also essential urban infrastructure – just like roads, bridges, tunnels and utilities – that is crucial to the economic, social and, environmental wellbeing of our region.”

Those directly making use of public transit connect with jobs, schools, places of worship, their shopping areas, recreational and entertainment and sports activities, friends and family, and more. This contributes to more vibrant communities that are beneficial to all of us.

More than this, to the extent that public mass transit results in the use of fewer cars, there is less traffic and congestion. It also means less pollution, fewer carbon emissions, decreased use of fossil fuels, greener communities, and more breathable air.

3. Who Else Benefits From Public Transit

There is another kind of “person” – not made of flesh and blood – also benefitting greatly from public transit. The *corporations* into which the big businesses are organized are legally considered, by the courts, to be “persons.”

The benefits that public transit brings to them definitely expand their profit margins. This is true of profit-making enterprises such as BNY Mellon, PNC, and Giant Eagle, and it is also true of the fabulously profitable medical “non-profits” such as University of Pittsburgh Medical Center (UPMC) and Highmark (is Highmark a “non-profit”?).

Businesses rely on the fact that employees are brought to work by public transit, and so are many customers. Without these living, breathing people, and without the vibrant communities and neighborhoods in which they live and work and shop, the corporate “persons” would be unable to make the profits that enable them to thrive.

4. Who Pays For Public Transit

The bill for public transit is paid, in full and in multiple ways, by the living, breathing persons who benefit from it. There are, of course, the fares people pay when they use a bus or trolley. There is also advertising sold on transit vehicles and in transit shelters. But these sources, by themselves, could not keep our transit system going – they cover 27 percent of public transit costs in Allegheny County, which is comparable to transit agencies of that size across the country.

Workers keep our economy going. Blue-collar and white-collar working people from multiple sectors (industrial, commercial, secretarial, service, communications, transportation, medical, educational) together pay taxes to the national, state, and local governments out of which monies are allocated for public transit. Funding also comes from fees for various government services and fines for violations.

About 56 percent of transit funds (over \$212 million) currently come from the Commonwealth of Pennsylvania. Sources here include vehicle registration fees, fines for moving violations, motor license fees, and turnpike tolls (although current plans call for phasing out turnpike income and replacing it with a motor vehicle sales tax).

About 8 percent of transit operating funds (over \$30 million) currently come from Allegheny County. Sources here include a 7 percent drink tax on alcoholic beverages and a \$2/day tax for rental cars. A very small percentage of the 1percent sales tax (Regional Asset District) goes to Port Authority. About 9 percent of transit funds (over \$38 million) involve operating grants mostly from the federal and state governments, with a small portion also coming from the county. The federal money for transit comes from a national gas tax.

5. Solutions at the Expense of the People

There are many proposed solutions for providing more revenues for mass transit that would involve shifting the burden onto the majority of the people who use the system in order to work, shop, etc. and who are often completely transit dependent.

Some partisans of “small government” and *laissez-faire* economic policies (meaning the government would keep its hands off the economy) have proposed privatizing public transit. Our own local history indicates the perils of privately run transit. The Port Authority was founded in the 1960s due to the *failure* of more than 30 private transit companies in Allegheny County. When routes are privatized, fares go up and wages go down. Private companies are only accountable to their bottom line, not the public, which means they more often cut routes that aren’t profitable, stranding transit dependent riders. Publicly run transit is more accountable and, by definition, ensures better access and equity. Transit is better seen as part of the publicly-maintained infrastructure – the same as bridges, roads, streetlights, etc.

Some have argued that transit workers are overpaid – advocating that transit wages and the transit workforce should be cut. Studies show that companies who do not provide their drivers with competitive wages and benefits for performing a very demanding job have such a high turnover rate that the additional costs they spend on hiring and training negates any savings they may get by compensating workers less. A high employee turnover rate also leads to understaffing and less experienced staff, which means worse service and safety for riders.

It is argued that transit fares must be increased, but others note that fares in the Pittsburgh area are already among the highest in the United States, and that raising the fares too high would reduce ridership (a study of nearly 300 cities in the US proved that for every 1% increase in fares, ridership decreased by 0.5%) – resulting in less income rather than more. There is also the question of fairness. Should those sectors of the population who can least afford to pay, and those sectors who are already shouldering the greatest burden of paying for public transit, be expected to pay more?

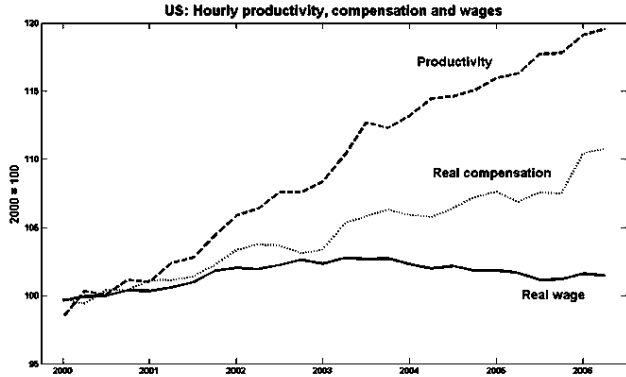
Similar questions of fairness arise in regard to the idea either of raising federal, state, or local income taxes to be earmarked for public transit, or of imposing and raising consumer taxes (including the drink tax, gas tax, sales tax, etc.) to help fund transit.

Such considerations, however, leave the central question unresolved. Where will the money come from to maintain and improve the public mass transit system that our people need and our communities deserve?

6. A Deeper Problem

The problem for public transit is part of a much broader and deeper problem afflicting our society and the U.S. economy as a whole. There seem to be diminishing funds available to meet multiple public needs: roads and bridges, education, housing, health care, social services, social security, and more. During the past five decades, a terrible shadow, longer and darker than ever in our lifetimes, has been cast over the quality of life for a majority of Americans.

One aspect of the problem has involved what seems to be a shrinking and tilting tax base. This has not been caused by business failures. Profits have climbed, as have the salaries of the top Corporate Executive Officers. It is a fact, of course, that – in part due to globalization and the export of many higher-paying jobs from the U.S. labor force – incomes of the majority of those who labor (and pay income taxes) have declined, despite the fact that productivity and corporate profits have dramatically risen.



Today, the majority of our population, 80% of Americans, have only 7% of the financial wealth, which makes up the major source for U.S. taxes. This obviously contributes to a shrinking tax base. **But there is another reason for the shrinking tax base.**

For years, and especially since the 1970s, the wealthiest segment of the population gets the lion's share of the nation's wealth, along with the major corporations that dominate the U.S. economy. **Those who control more and more of the wealth are paying less and less of their fair share** – starving those public sectors of the economy dependent on taxes: roads, bridges, education, housing, health care, social services, social security – and public transit.

American Pie Chart

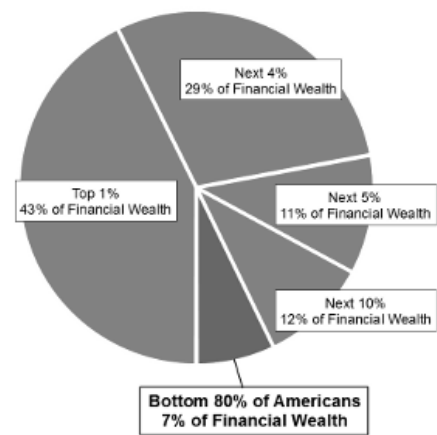
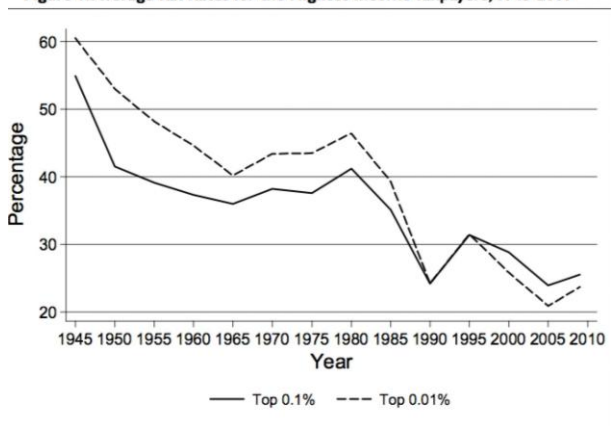
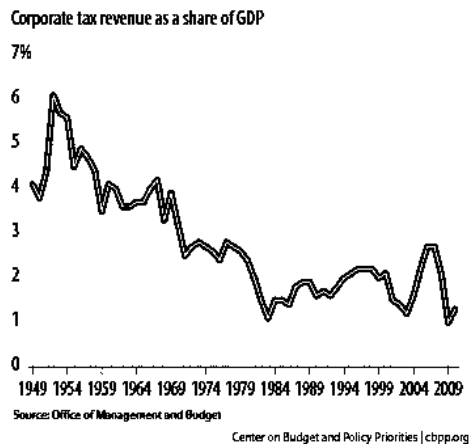


Figure 1. Average Tax Rates for the Highest-Income Taxpayers, 1945-2009



Corporate Tax Revenues Near Historical Lows



7. Who Doesn't Pay For Public Transit – and What It Would Mean If They Did

This brings us back to the so-called “persons” who are not living and breathing, who are not made of flesh and blood, who benefit greatly from public transit. These are the big businesses (profit-making enterprises and incredibly profitable “non-profits”) organized into corporations.

These corporations could not operate without public transit. Over 55% of workers downtown commute via public transit. Employers cannot run their businesses, hospitals cannot function, stores cannot sell their goods, banks cannot make their deals, schools cannot hold their classes, and sports teams cannot fill their stadiums, if there is not adequate transit service to these locations. However, nearly all of the funding for our transit system does not come from the corporations that rely on it so much.

It is the individual user who is paying. The bulk of funding comes from fares, motor vehicle registration fees, license fees, moving violation fees, and drink taxes. So unless a corporation is paying for its employees to drink at a bar, or paying for its employees' speeding tickets, the only contribution is through the company's use of rental cars, its own fleet of vehicles, and a tiny percentage of the sales tax. There are some employers that might contribute to the purchase of a transit pass, but it's primarily the riders who are paying their own fares.

What would it mean for public transit in Allegheny County if corporations made a serious contribution to this public service that they need and benefit from?

Here is a list of some of the biggest profit-making corporations in Allegheny County (including one well-known “non-profit”), with a list of their stated or estimated net incomes:

Allegheny Technologies: \$154 million

American Eagle Outfitters: \$82.93 million

BNY Mellon: \$2.651 Billion

Consol Energy: \$660 million

EQT (natural gas producers): \$390.572 million

Federated Investors: \$162.2 million

Giant Eagle: \$ 192 million

GNC (General Nutrition Corporation): \$262 million

H.J. Heinz (now privately held by Berkshire Hathaway): \$1.072 billion

PPG: \$2.231 billion

PNC: \$4.1 billion

UPMC: \$338 million

WESCO (electrical appliances): \$276.4 million

This is, of course, not a complete list. Just considering these, however, we can see that the total profit-pool is approximately: \$14 billion.

It must be acknowledged that not all of these corporations are the same. For example, UPMC, Giant Eagle, and PNC, and are among the biggest employers in the area with local employees numbering 43,000, 10,577, and 10,000, respectively – a total of 63,577 workers. Some of the others have relatively few local employees. Some, such as BNY Mellon, PPG, and GNC make much of their profit through operations outside of Allegheny County, while others make the bulk of their profits here. In all fairness, it could be argued, that “one size doesn’t fit all,” that it would be unfair to tax each and every corporation at the same rate – whether it was the 9.9 percent that all Pennsylvania businesses are supposed to pay (but don’t, thanks to multiple tax loopholes, schemes and maneuvers), or even the 3.6 percent that all Pennsylvania residents are supposed to pay. If legislation was being developed, time and effort might be required to work out appropriate details. This might be complicated – but it is hardly impossible!

To give a sense of what this might mean, let’s assume that every business in Allegheny County was taxed a modest 1 percent for the maintenance of a public transit infrastructure. This very modest transit tax on the corporations listed, would increase the amount of money available to the Port Authority of Allegheny County by \$140 million, which could mean an increase of the current operating budget from \$398 million to \$538 million. If all the major businesses paid at least a very modest amount – without counting on a free ride from hardworking tax-payers or corporate loopholes – their contribution could solve the funding problem that afflicts our public transit system.

It is worth noting that there are already some corporations, some of the substantial educational “non-profits,” that recognize their responsibility to help maintain public transit and voluntarily make significant contributions: the University of Pittsburgh, Carnegie Mellon University, and Chatham University. (For example, in 2015 the University of Pittsburgh paid a total of \$5.9 million to the Port Authority of Allegheny County to help ensure transportation for its students and employees.)

8. Toward a Solution That Is Fair

There are different opinions about what is “fair.”

Some who term themselves “free-market conservatives” are inclined to argue that the fairest thing is to eliminate government and taxes altogether – that the wealthy deserve their wealth, and that if we simply let businessmen do business, all will be well. Others considering themselves partisans of “socialist democracy” argue that all is *not* well under such a system, that the wealth is actually created by the lives and labor of the great majority of the people, and that it would be fair to take the wealth away from the wealthy and use it to meet the needs of all.

For those not inclined to engage in such disputes, the practical issue stubbornly remains. What is the best way, and the fairest way, to share the tax burden that will be necessary for

maintaining a good public system of mass transit in the Pittsburgh area? A system that leaves no one out, that serves all the neighborhoods and all of the people, a transit system that is needed to sustain a healthy and vibrant community.

It is likely that a majority of the people – who wish to live in a healthy and vibrant community – feel that everyone should make a contribution to that kind of mass transit system. And it is certainly not fair for major corporations not to make a serious contribution. They make considerable profits thanks to their connection with our community, and they have the means to contribute meaningfully to ensuring that we have the transit system the Pittsburgh area needs.

We need to move toward a solution that is fair.



Methodological Note: *Net income* means all a business’s income after all expenses are paid (commonly understood as *profits*). For so-called “public” corporations, this information is available to the public and was taken from annual share-holder reports or third party compilations of earnings report. For the “private” corporations, such as Giant Eagle, estimates of net income are based on publically available gross revenue reports; we then looked at the net earnings of similar publically traded companies to get an estimate of their net earnings.



Sources

GENERAL INFORMATION

Bivens, Josh and Lawrence Mishel. “Understanding the Historic Divergence Between Productivity and a Typical Workers’ Pay,” Economic Policy Institute, September 2, 2015, <http://www.epi.org/publication/understanding-the-historic-divergence-between-productivity-and-a-typical-workers-pay-why-it-matters-and-why-its-real/>, accessed Jan. 21, 2015.

“Corporate Tax in the United States,” Wikipedia, https://en.wikipedia.org/wiki/Corporate_tax_in_the_United_States, accessed Jan. 21, 2016.

“Income Inequality in the United States,” Wikipedia, https://en.wikipedia.org/wiki/Income_inequality_in_the_United_States, accessed Jan. 21, 2016.

Strachen, Maxwell. “Corporate Tax Revenues Nearing Historical Lows as a Percentage of GDP, Report Says,” Huffington Post, May 25, 2011, http://www.huffingtonpost.com/2011/03/02/corporate-tax-revenues-ne_n_830361.html, accessed Jan. 21, 2016.

Sussman, Anna Louie. “Inside the Fight Over Productivity and Wages,” *Wall Street Journal*, September 8, 2015, <http://blogs.wsj.com/economics/2015/09/08/inside-the-fight-over-productivity-and-wages/>, accessed Jan. 21, 2016.

Wolff, Edward N. “Recent Trends in Household Wealth in the United States: Rising Debt and the Middle-Class Squeeze—an Update to 2007,” Working Paper 589, Levy Economics Institute of Bard College March 2010, http://www.levyinstitute.org/pubs/wp_589.pdf, accessed Jan. 21, 2016.

PROFITS AND EMPLOYEES OF CORPORATIONS

Book of Lists Pittsburgh, Pittsburgh PA, Pittsburgh Business Times 2015 144-165.

“Financial Press Release.” PNC Bank, 15 Jan. 2016 Web. 01 Feb. 2016
< <http://phx.corporate-ir.net/phoenix.zhtml?c=107246&p=irol-newsArticle&ID=2129569>>

"Pittsburgh Regional Alliance - Regional Data." *Pittsburgh Regional Alliance - Regional Data*. Allegheny Conference, n.d. Web. 01 Feb. 2016. <<http://www.pittsburghregion.org/RegionalData.php>>.

INCOME OF PORT AUTHORITY

Barlow, Kimberly K. "University Times." *University Times Pitt Port Authority Sign Pact Comments*. N.p., 06 Dec. 2012. Web. 01 Feb. 2016. <<https://www.utimes.pitt.edu/?p=23698>>.

DOWNTOWN WORKERS USING PUBLIC TRANSIT

Downtown Pittsburgh: Living, Working & Commuting: 2010 studies profiling Downtwon Pittsburgh Residents, Workers and Commuters. Pittsburgh Downtown Partnership http://www.downtownpittsburgh.com/files/docs/pdp-264-market_research_booklet_final.pdf

2015 State of Downtown Pittsburgh. Pittsburgh Downtown Partnership. http://www.downtownpittsburgh.com/files/docs/2015_sodp-final.pdf