

Post-Conference Report: 1989 Southeastern Pennsylvania State Legislators' Conference

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INTRODUCTION

The Fourth Annual Southeastern Pennsylvania State Legislators' Conference convened on May 18 and 19, 1989. As in other years, it provided a forum to develop solutions for critical issues facing the region. In a narrow sense, the Conference was a symposium on the future of the region's mobility infrastructure: the Port, SEPTA and the Airport. Indeed, as the Post-Conference Report reveals, much of the discussion concerned technical detail about the specific capital requirements and governance issues facing these three vital components of the region's transportation nexus. However, in a broader sense, the Fourth Annual Southeastern Pennsylvania State Legislators' Conference was a manifestation of a larger process to advance a regional agenda and to promote regional cooperation in Bucks, Chester, Delaware, Montgomery, and Philadelphia Counties. That the meeting process has continued for four years shows a genuine commitment by elected officials and business leaders to advance the concept of regional cooperation.

Transportation or mobility infrastructure issues are well suited to a regional approach for several reasons. First is the fact of geography: the facilities are physically located throughout the five-county region and cross municipal and county boundaries. Second, the magnitude of the capital investment required to build and maintain major transportation infrastructure transcends the capability of any single political jurisdiction. In this sense, fiscal reality provides a major incentive for regional cooperation.

The third reason is that mobility infrastructure and regionalism share a common purpose: to promote new connections. The Port and Airport are the primary means of moving persons and goods into and out of the region. They provide the major physical connections between the Delaware Valley and the rest of the world. SEPTA's mission is to move persons throughout the region by connecting residences and job sites in urban and suburban locales. The strategy of regionalism shares similar goals in that it seeks to develop connections between disparate political jurisdictions and, based on the strength of these connections, to position the Delaware Valley to prosper in the national and global economy.

This year's Conference marked somewhat of a milestone in the meeting process as legislators and CEOs agreed to move beyond the wage tax issue and work toward solutions for the major transportation challenges facing the region. The wage tax issue had been identified as a major source of friction between city and suburban legislators and as the primary stumbling block to regional cooperation. Considerable time and energy has been devoted to the wage tax and other tax restructuring issues during the past three years -- both at the annual Southeastern Pennsylvania State Legislators'

Conferences and in Harrisburg. When legislation passed both houses of the General Assembly and was signed by the Governor in the fall of 1988, it contained what appeared to be an acceptable compromise on the wage tax. However, a ballot question on a Constitutional amendment necessary to implement the restructuring of the State's local tax code was rejected by the voters by a wide margin in a May 1989 referendum. Although the first three years of the Southeastern Pennsylvania State Legislators' Conference fell short of resolving the wage tax issue, the early Conferences established an acceptable framework for examining issues of importance to the region. The regional delegation appeared eager to use this framework to tackle a new agenda at the 1989 Conference.

The Fourth Annual Conference was well attended by key decision makers from the region. Forty-one State Senators and Representatives from both sides of the aisle representing all five Southeastern Pennsylvania counties were present. Participants included both Senate and House Majority Leaders, Joseph Loeper and Robert O'Donnell, as well as other key members of the General Assembly. The legislators were matched by nearly an equal number of CEOs and other leading members of the business community. In addition, a score of resource persons from the Port, SEPTA and the Airport offered an informed picture of the inner workings and specific needs of their respective transportation agencies. Top management, including Louis J. Gambaccini (Chief Operations Officer and General Manager, SEPTA), James C. DeLong (Director of Aviation, Philadelphia International Airport), William P. Hankowsky (President, Philadelphia Industrial Development Corporation) and Nicholas S. Rashford, S.J. (Chairman, Delaware River Port Authority and President, St. Joseph's University), addressed the Conference in three plenary sessions.

The Conference officially got underway on Thursday evening as meeting participants gathered for cocktails and dinner at the Four Seasons Hotel. Senator Vincent Fumo introduced the keynote speakers for the evening, Majority Leaders Joseph Loeper and Robert O'Donnell. Loeper and O'Donnell assessed the prospects for bipartisanship in Southeastern Pennsylvania and considered the question of how Philadelphia might bolster its reputation in Harrisburg. Representative Dwight Evans, co-chair of the Philadelphia Delegation, also offered his own impromptu remarks in response to some of the speakers' prepared comments. That both Senate and House Majority Leaders hail from Southeastern Pennsylvania represents a significant opportunity for the region, particularly if both sides of the aisle can agree upon a common agenda.

MORNING PLENARY SESSION: THE PORT

The Morning Plenary considered the near and longer-term challenges facing the Port of Philadelphia. Discussion focused on capital and governance issues facing the Port. William P. Hankowsky led the morning session with an overview of the existing conditions and major market trends affecting the Port of Philadelphia. His remarks can be condensed as follows:

The Port's major facilities include the 115 acre Packer Avenue Marine Terminal located next to the Navy Yard in South Philadelphia and the 110 acre Tioga Marine Terminal located further upstream, immediately south of the Betsy Ross Bridge. The

Port's strengths lay in specialized or "niche" commodities, including fruit, paper and cocoa beans. The volume of these and other breakbulk commodities has been rising throughout the decade, accounting for 59 percent of the tonnage handled at the Port by 1987. In contrast, the volume of container traffic is declining, resulting in significant unused container-handling capacity at the Tioga and Packer Avenue Marine Terminals.

The idle cranes at Tioga and Packer Avenue are symptomatic of a difficult period for the Port of Philadelphia. At a time when the volume of world trade is rising, the Port is recording slow or no growth. As a result, the Port is losing market share, both to other ports on the Delaware River and to competing ports in New York, Baltimore, and Norfolk. Philadelphia's share of the Delaware River traffic has dropped from 70 percent in 1980 and to 42 percent in 1987. Moreover, the number of labor hours logged by members of the International Longshoreman's Association declined at an annual average rate of six percent a year for the last seven years. These trends are all the more disturbing because they are occurring at a time when the industry in general is healthy and ports in other regions are prospering.

The Philadelphia Port Corporation's operating deficit reflects the Port's difficulties and underscores the need for substantial restructuring. Fortunately, the necessary studies on governance and capital issues have been completed. Five major studies on the Port were prepared in 1988:

- Philadelphia Maritime Exchange Report;
- Wendt Committee Report to the Governor;
- PIDC Memorandum to the Philadelphia Port Corporation Management Committee;
- Philadelphia Port Corporation Strategic Business Plan; and
- Delaware River Port Authority Report.

While the studies vary in their scope and specific recommendations, all recognize that the Port represents an invaluable natural resource which makes a positive contribution to the regional economy. Significantly, none of the studies recommend abandoning maritime operations at the Port.

The Philadelphia Port Corporation Strategic Business Plan, prepared by Booz-Allen & Hamilton, looks at future market opportunities for the two types of general cargo -- containers and specialized cargo -- and outlines a business strategy for revitalizing the Port. The study recommends that the Port target paper, fruit and regional container businesses for growth. The regional container market represents a particularly significant growth opportunity as the Port is well positioned to transport an increasing share of goods in the tri-state area. The study also recommends action to defend the existing market shares in the relatively more mature cocoa bean, iron and steel markets, but places only limited emphasis on long distance container markets, lumber and motor vehicle sectors.

The ability of the Port to compete in the targeted markets depends on several key capital investments in Port infrastructure. Without these investments, the Port will continue to lose market share to other Delaware River and North Atlantic ports.

Recommended capital expenditures include new warehouses for paper and fruit and an Intermodal Container Transfer Facility at the Greenwich Yard, south of the Packer Avenue Terminal. The Intermodal Container Transfer Facility would provide an important link between the region's water, rail and highway systems and represents an investment in the future competitiveness of the region.

The economic benefits accruing from investment in the Port of Philadelphia are difficult to measure. Jobs and taxes are two commonly used benchmarks. The Port is responsible for an estimated 3,500 jobs for skilled and unskilled persons directly involved in its day-to-day operations. An additional 10,000 jobs in service, retail, and financial sectors are indirectly supported by the Port. In terms of taxes, business activity at the Port generates substantial direct and indirect benefits to the City and the State, including \$16 million in the form of wage, sales and income taxes.

But the true return on investment in the Port includes more than just an accounting of new jobs created and new tax revenues raised. Investment in the Port has important spillover effects which benefit all businesses which transport goods into or out of the region. Improved operational efficiency at the Port means lower transportation costs for businesses and, ultimately, lower prices for consumers. Moreover, new intermodal container transfer facilities will open up new markets to Pennsylvania manufacturers and enhance the export generating capacity of the region and the state. These benefits are not easily translated into dollars and cents, but are nonetheless important to the ability of the region to compete in a global, deregulated economy.

Following Hankowsky's summary of the physical and capital issues, Father Nicholas S. Rashford, S.J., Chairman of the Delaware River Port Authority and President of St. Joseph's University, spoke to the governance issues facing the Port of Philadelphia. He began by summarizing changes which have taken place in the Port's economic environment.

The business, regulatory and technological environments in which the Port operates have undergone a period of rapid change in the preceding decade. On the technological dimension, the advent of containers has fundamentally altered the way that many types of goods are transported. Increasing numbers of value-added commodities such as television sets and auto parts are now being shipped in regulation-sized metal container boxes. These containers are directly transferred via cranes from ships to trucks or trains for delivery to their inland destinations. Currently, most of the goods shipped through the Port of Philadelphia remain in the Delaware Valley. Containerization means that goods can be economically shipped far beyond this region, a development which significantly expands the area which the Port can serve. However, the key to maximizing the potential of containers depends on the Port's ability to transfer goods between ships and trucks and trains. The Port of Philadelphia currently lacks sufficient intermodal transfer capabilities to adapt to this new way of shipping goods. As a result, Philadelphia has not participated in the growth of this new market.

Deregulation has also transformed the way that ports must do business. In a regulated environment, freight rates were firmly established and shippers had limited options. Port operators faced little competitive pressure and were relatively uninvolved in deal making. However, in the new deregulated environment, all modes of transportation -- rail, water, highway and air -- vie with each other through a new competitive pricing structure. Port operators must be able to provide efficient connections between the water and rail and highway systems and must have the flexibility to adapt to rapidly changing market conditions.

The Port of Philadelphia has fared less well in this deregulated environment than rival ports in Baltimore, New York and Norfolk. One important factor is that Maryland and Virginia have made substantial capital investments exceeding \$250 million to modernize their ports over the last ten years. Given competing priorities in the City budget and the demise of Federal revenue sharing, the City of Philadelphia simply could not match these expenditures. The City devoted approximately \$10 million of its capital budget to maintain Port infrastructure during the last decade. Recognizing that the City could not commit the necessary resources to maintain a competitive port, the Mayor of Philadelphia proposed that the State assume control over Port operations effective July 1, 1989.

While recognizing the significance of the trends which have transformed the Port of Philadelphia during the 1980s, Father Rashford remained optimistic about its future. He outlined four steps for the legislature to take to benefit the Port.

First, the Pennsylvania General Assembly must pass legislation creating the Philadelphia Regional Port Authority (PRPA) to replace the Philadelphia Port Corporation. Creating the PRPA will trigger the release of \$33 million of already appropriated state funds for capital investment in the Port's terminals and piers. Because the Philadelphia City budget does not include any funds for the Port Corporation beyond the current fiscal year, the legislature must act before June 30, 1989 in order to sustain operating viability and to avoid further damage to business confidence in Port operations.

Second, the Pennsylvania and New Jersey state legislatures must pass a concurrent resolution permitting the Delaware River Port Authority to issue \$100 million in bonds and to establish the Port Enhancement and Development Fund. This fund would be used to construct an intermodal facility in South Philadelphia and an International Trade Center in Camden and to create a revolving loan fund to dredge the Delaware River and finance related maritime projects. DRPA has a bonding capacity of \$250 million and the bonds are backed by bridge toll revenues. Although there was a perception among some legislators that legal restrictions prohibit the use of DRPA toll-backed bonds for projects benefitting the Port, Father Rashford clarified that the restrictions apply to economic development projects, not maritime projects. Bond proceeds can be used for maritime projects as long as DRPA receives bi-state authorization.

Third, the Pennsylvania General Assembly should appropriate capital funds to develop double-stack container transport capacity for rail lines along the Philadelphia to Pittsburgh corridor. Double-stacking greatly improves the economics of transporting

cargo by rail and developing this capacity from Philadelphia to Pittsburgh would be an important draw for the Port. The State Capital Budget allocated \$37 million for this work, although the funds have yet to be appropriated. Conrail would contribute \$7 million and would undertake the work modifying tunnel and bridge crossings to permit double-stacking.

Finally, Father Rashford recommended that the legislature begin considering the issue of bi-state unification for ports on both sides of the Delaware River. In general terms, the purpose of this reorganization is to unify the operations of the PRPA and the South Jersey Port Corporation under the auspices of a bi-state agency such as the DRPA. The reorganization would be codified in a bi-state compact and would require approval by both state legislatures and Congress.

After the morning plenary session, the Conference broke up into six small groups to discuss issues surrounding the pending PRPA legislation, the DRPA capital projects, and the concept of bi-state unification. These small groups provided a unique opportunity for CEOs, legislators and members of the Port community to sit at the same table and exchange ideas about issues affecting the future of the Port. A variety of themes emerged from these small group discussions.

- Regional cooperation is key to the future of the Port. The experience of the Philadelphia Port Corporation suggests that no single county can afford to devote the capital resources required to maintain a modern port. In the near term, bipartisan cooperation on the Pennsylvania side of the river will be required to pass legislation in Harrisburg authorizing the creation of a regional port authority. Moreover, the success of longer-term efforts promoting unification of port facilities on both sides of the Delaware will depend on the ability to foster cooperation on a bi-state basis.
- Creation of the Philadelphia Regional Port Authority to replace the Philadelphia Port Corporation is the first priority. The budgetary reality is that the PPC is not funded beyond June 30, 1989. As a result, the new regional authority must be in place prior to July 1 to allow for a smooth organizational transition and to avoid a spate of bad press. Creation of the authority will also release \$33 million for badly needed capital projects such as upgrading existing facilities and constructing new paper and fruit warehouses. There was also a general consensus that the PRPA must be established before other issues facing the Port can be addressed. The prevailing view held that a single agency should be in control of Pennsylvania ports before the legislature can evaluate options involving ports on the New Jersey side. As a result, most groups suggested that the legislature defer the DRPA and unification questions until after the PRPA or its equivalent is established.
- Issues relating to the composition and organization of the board dominated the discussion of the PRPA. Few of the small groups questioned the need for a regional port authority. Indeed, the prevailing sentiment at the Conference was that a new regional authority should be created to oversee and operate the Port.

Moreover, a number of legislators and members of the Port and business community spoke of the need to run the Port like a business and suggested that hiring a professional executive director was the best way to accomplish this end. There was little consensus, however, on the appropriate size and structure of the new agency's board of directors. The merits of several competing formulas for organizing the board were discussed, including SEPTA and Convention Center based models. Nearly all groups concluded that Port legislation could not move forward until issues of board size, composition and authority were resolved.

The debate centered around two questions. First, how should representation on the board be divided between appointments made by the Governor's Office, the party caucuses, and the affected counties? The division of power between the Governor's Office and the party caucuses was clearly one key underlying concern. Moreover, at the time of the Conference, there was no consensus whether all three waterfront counties -- Bucks, Delaware, and Philadelphia -- would get a seat on the board or whether the sole county representative would come from Philadelphia. The second question in the debate was how the board could be structured so that one party does not come to dominate the decision-making process? The discussion at the Conference focused on potential voting mechanisms, such as the "super-majority" concept that became part of the Convention Center Authority.

- The perception in Harrisburg that the Port takeover constitutes another "Philadelphia bailout" must be addressed. Several small groups reported that their colleagues in Harrisburg view the Port issue as another "Philadelphia bailout." Left unchallenged, this perception will complicate efforts to pass legislation, both now and in the future. While the State is being asked to put up funds to subsidize Port operations and upgrade the physical plant, the State will receive something in return, namely, ownership and control of the Port itself. A recent Cushman and Wakefield appraisal confirmed that the economic value of the asset of the Port far exceeds the State's contribution. Moreover, the pending legislation is not a bailout in that it does not increase appropriations to Philadelphia or put any new money in the Mayor's pocket. Nonetheless, without evidence to the contrary, some members of the General Assembly will be inclined to vote against the Port legislation on the grounds that it is a Philadelphia bill.
- The economic benefits to investment in the Port need to be better defined and communicated to the legislature. Investment in the Port will most certainly create new jobs and new tax rates, although the exact numbers can be debated (and, in fact, the numbers were debated at the plenary session). However, these calculations overlook other kinds of returns on investment in the Port. Investment in the Port has major spillover effects benefitting business, and can be thought of as investment in the export generating capacity of Pennsylvania. For example, the Port represents the potential for local manufacturers to expand their businesses by tapping new markets. Moreover, the benefits of developing an intermodal transportation network extend beyond the Delaware Valley. Several legislators

spoke of the need to develop a coalition of key manufacturers throughout the state to lobby for investment in an intermodal transportation network, noting that pressure from the business community could generate considerable support for the legislation and counter the notion that Philadelphia is the only beneficiary.

- Highway tolls which penalize east-west traffic place the Port at a disadvantage. Trucks traveling from the Port of Philadelphia to Pittsburgh pay about \$100 in tolls on the Pennsylvania Turnpike for a one-way trip. In contrast, north-south traffic from Baltimore to New Stanton incur no tolls. This toll structure encourages shippers to plan north-south routes and places the Port of Philadelphia at a competitive disadvantage.
- The quality of professional leadership at the Port has greatly improved. Although the Port is still governed by multiple agencies, there was a general recognition that these agencies are managed by good people, and that communication between the agencies and other members of the Port community has genuinely improved during the last several years. Key stakeholders have formed a Special Task Force which meets on a bi-weekly basis to address problems and plan for the Port's future. One example of their leadership was provided by the response of the Port community to reports of tainted Chilean grapes. Within 48 hours of the first reports of a problem, the Special Task Force formulated a plan to ensure the safety of the produce and communicated this plan to the media and the public. Within several weeks consumer confidence was restored and a major crisis was averted.

PORT POSTSCRIPT

Within days after the close of the Conference, reports from Harrisburg were filled with encouraging news concerning prospects for breaking the legislative logjam on the Port. House and Senate leadership met privately in order to iron out details concerning the composition of the Board of Directors and the powers of the new authority. Despite several last minute requests, including Conrail's efforts to restrict PRPA's ability to establish carrier routes and limit the authority's eminent domain powers, the House passed legislation by a 188-14 margin on June 27. The Senate unanimously passed the PRPA bill on June 30, the last day of the regular session. Governor Casey signed the legislation creating the new authority on July 10 in a public ceremony at the Packer Avenue Marine Terminal. Casey also announced the release of \$33 million in State capital funds to rehabilitate pier and terminal facilities, bringing the total appropriation for Port capital projects to \$57 million for the year.

Despite the debate at the Conference about the appropriate size of the Board of Directors, an acceptable formula was developed. Leadership agreed upon an eleven-member board that shared the power of appointment between the Administration, three counties, and the party caucuses. The final formula gives the Governor four unrestricted appointments and allots one appointment to each of the four party caucuses. The remaining three members are to be selected by the Governor from three short (three-person) lists of candidates approved by governments in Philadelphia, Bucks and

Delaware Counties. In a clever variation of the "super majority" concept, the legislation provides that certain important issues must receive the support of a "qualified majority." A qualified majority must carry at least two votes from the Governor's four unrestricted appointments and three of the four caucus-appointed votes. This arrangement shares power between both parties and between the executive and legislative branches of government.

LUNCHEON PLENARY SESSION: SEPTA

At the luncheon session, legislators and CEOs turned to transit issues and heard from SEPTA's General Manager and Chief Operations Officer, Louis J. Gambaccini. Gambaccini offered a short slide presentation on the state of SEPTA which focused mainly on the chief funding issues facing the transit agency.

SEPTA is the fourth largest transit system in the country, covering four million passenger miles daily in a multi-modal network which includes 20,000 bus stops and 250 rail stations throughout the five-county region. SEPTA provides the transportation equivalent of 45 new lanes of highway and its replacement cost is calculated at \$75 to \$100 billion in current dollars. Additionally, SEPTA is the region's ninth largest employer with 9,600 employees.

Although SEPTA operates with one of the highest rates of farebox recovery in the nation, it relies on operating subsidies, primarily from state and local government, to fill the gap. This reliance places budget planners in a difficult situation as the level of operating assistance fluctuates dramatically from year-to-year. Persistent operating shortfalls during the last thirty years often forced SEPTA to defer maintenance on existing infrastructure and postpone needed capital improvements. These policies free up dollars in the short term but ultimately add to the cost of operating the system as safety problems develop and disrupt regular service. In Gambaccini's words, "This is no way to run a railroad."

During the last decade, support for capital projects has eroded at all levels of government. The Federal government, which invested heavily in mass transit during the 1960s and early 1970s, retreated from the arena during the last decade. SEPTA's annual capital funding allocation from the Federal government has been cut in half during the 1978 to 1987 period, with most of the cuts occurring since 1983. State-level support for capital projects, which is typically provided as a percentage of Federal funds, has decreased by a similar proportion over the same period. The combined effect of these cutbacks is to reduce the overall level of capital funding by 47 percent in real dollars during the decade.

Gambaccini described a three-part, thirty-year rebuilding program to guide the transit system into the next century. In Part One, SEPTA completed the rapid rail link to the Airport and the Center City Commuter Tunnel, replaced its bus fleet, and rehabilitated critical segments of the transit system. A highly successful vehicle overhaul program drastically reduced vehicle breakdowns and improved on-time performance. New quality control programs were put into place which succeeded in eliminating graffiti

from the bus fleet, providing perhaps the most visible symbol of SEPTA's turnaround to the riding public. Part One of the rebuilding program was completed during the 1980s and carried a \$1.8 billion price tag.

Gambaccini outlined the major components of the second phase of the long-term plan to be implemented during the 1990s. The overriding goal of this phase of SEPTA's rehabilitation is to provide the capacity in the existing system to accommodate today's growth. The major capital elements in Part Two include:

- Complete the replacement and expansion of the bus and rail rolling stock;
- Complete the Broad Street Subway Renewal;
- Improve the passenger communications network; and
- Rebuild the first half of the Commuter Rail System.

In addition, SEPTA will initiate several new services, including supplemental commuter parking at regional rail stations and limited expansion of existing bus and rail routes. Gambaccini estimated that this ten-year program can be completed for \$3.5 billion.

In Part Three of the rebuilding plan, slated for the first decade of the 21st century, SEPTA will complete the reconstruction of the Frankford El and finish the rehabilitation of the Commuter Rail lines. At this point, the network will be expanded to facilitate inter-suburban travel by adding new suburban bus and rapid rail service. These capital improvements, along with a continued commitment to meeting service standards, will position SEPTA to maintain the best transit system in the country.

Gambaccini stressed that SEPTA cannot meet this goal or undertake its rebuilding program without new support from Harrisburg. Federal priorities have shifted away from transit for the time being, and SEPTA does not anticipate additional dollars from Washington over the near term. However, SEPTA and the riding public do not have the luxury of waiting until other issues, such as air pollution and over-dependence on foreign oil, prompt federal lawmakers to reconsider transit. Instead, SEPTA is asking Harrisburg to assume greater responsibility for funding its operating and capital budgets beginning with the new fiscal year. On the operations side of the ledger, SEPTA is requesting a one-time \$40 million boost in state appropriations for fiscal year 1990. The transit agency is also seeking a ten-year commitment for \$600 million in supplemental capital assistance from the State to finance Part Two of its rebuilding plan. Gambaccini stressed that SEPTA's ability to maintain and expand the region's transit infrastructure depends on securing a dedicated funding base for mass transit.

An open discussion on prospects and political strategies for addressing SEPTA's needs followed Gambaccini's presentation. The discussion was significant in that it provided the opportunity for city and suburban legislators to engage in a genuine dialogue about SEPTA's role in the evolving regional economy and highlighted the competition between highways and mass transit uses for State capital funds. The discussion centered on four areas.

- Congress and the federal government are unlikely to initiate new funding for mass transit unless the links between mass transit and other environmental and national security problems are made clear. Although Congress invested \$50 billion in mass transit over the last quarter century, support for capital projects is only half of what it was seven or eight years ago. Proposals for increasing the federal commitment to mass transit generate little enthusiasm, and few observers expect priorities to change in the near term. However, Gambaccini believes that new support can be generated if the investment is marketed as a means to address other environmental and national security problems which rank higher on the national agenda. For example, while lawmakers are not particularly interested in talking about mobility infrastructure, Congress and the White House are currently engaged in a serious debate about air quality. Increased reliance on mass transit offers tangible benefits to air quality, and these benefits provide a strong argument for renewed federal commitment to mass transit. This linkage approach presents an opportunity for seeking new federal dollars for transit as part of a Clean Air Act appropriation.
- A coalition of "vital stakeholders in SEPTA" should be organized to promote the transit agency's interests in Harrisburg and Washington, D.C. Despite the fact that SEPTA services over 1.1 million passengers on a typical weekday there is no organized constituency of transit users. Riders are geographically dispersed and tend to be outsiders to the political process. Other segments of society recognize an interest in SEPTA, but do not act to promote mass transit in any coherent manner. Gambaccini suggested that SEPTA should build a coalition of vital stakeholders to fill this gap. According to Gambaccini, the stakeholders include members of the business community, trade unions, the environmental community and the civic community. While it will take several years to create this coalition, the combined influence of these already organized individuals and institutions could have a powerful impact on the political process.
- Conference participants debated the extent to which SEPTA constitutes a truly regional asset. While no one disputed that SEPTA is important to the City of Philadelphia, several persons argued that suburban counties receive minimal benefits from the transit system. For example, it was noted that in Chester County as many persons walk to work as take SEPTA. Moreover, the prevailing pattern of decentralized residential and commercial development in the suburban counties means that many new job and housing locations will be beyond the reach of the existing SEPTA network. Several legislators contended that SEPTA's \$3.5 billion capital program holds little promise for the suburbs as it seeks only to maintain the current transportation infrastructure and offers little in the way of new services. These legislators argued that the suburbs need more highways, not more transit. Others argued that despite the system's shortcomings, there is no viable alternative to SEPTA. Although suburban congestion will continue to mount, it is simply physically and financially impossible to add significant new highway capacity to the region's transportation network. Denying SEPTA badly needed capital funds will not result in any more new miles of highway construction, and,

in fact, will be counterproductive as frustrated transit users resort to the roadways. Gambaccini cited new patterns of reverse and inter-suburban commuting which are emerging and which will increasingly benefit the suburban counties by linking jobs and workers. Proponents of SEPTA also argued that Philadelphia needs SEPTA and that, in the long run, the suburbs depend on the vitality of Center City.

- Proponents of a dedicated funding base for mass transit must overcome significant obstacles. Although no one argued against the concept of a dedicated funding base for SEPTA, there was little consensus on a source of revenue to support the venture. Past efforts to enact a new tax on cigarettes to be earmarked for SEPTA did not make it out of committee. Some legislators spoke in favor of devoting a portion of gasoline tax revenue to float bonds to finance SEPTA's capital budget. However, the Pennsylvania State Constitution specifies that gas tax proceeds may only be used for highway projects, and several members of the suburban delegation cautioned against doing anything that would hurt highways. It was suggested that it would be politically easier to enact a new tax -- for example, a tax on automobiles -- than to modify the Constitutional provision concerning gas tax expenditures. Others urged the regional delegation to challenge "conventional wisdom" about the realm of the politically possible, and pursue bold new strategies to secure a predictable funding base for SEPTA.

SEPTA POSTSCRIPT

SEPTA received a substantial increase in operating funds from the State for the fiscal year beginning July 1, 1989. Governor Casey and state legislators agreed to increase the State's contribution from \$150 million to \$161 million and to transfer about \$33 million in expenses for SEPTA's vehicle overhaul program from SEPTA's operating budget to its capital budget. The combined effect of these two measures is to increase available funds for day-to-day expenses by \$44 million. While this appropriation does nothing to address SEPTA's longer-term funding problems, it does ease the agency's immediate financial crunch.

That SEPTA did relatively well in the annual budget battle suggests that the General Assembly recognizes the caliber of leadership at the top of the transit agency, both inside the agency and at the Board of Directors. Legislators may have also taken note of the broad-based coalition of corporate, labor, and civic leaders, consumer and environmental groups and other SEPTA-supporters who travelled to Harrisburg to lobby on behalf of the agency at the end of June.

AFTERNOON PLENARY SESSION: THE AIRPORT

The final plenary session of the day concerned capital and governance issues facing the Philadelphia International Airport. Jim DeLong, Director of Aviation at the Philadelphia International Airport, began the session with a multi-media slide show. The slide show is an up-to-date marketing tool recently developed to promote the potential of the Airport worldwide.

The Philadelphia International Airport has experienced a period of rapid growth during the last decade. The number of passenger trips per annum has risen by 60 percent from 9.6 million in 1978 to 15.5 million in 1987, and, with certain improvements to airfield capacity, the Airport can grow to serve 50 million passengers per year by 2010. While deregulation of the airline industry propelled much of this growth during the last decade, the Airport possesses several strategic advantages supporting continued expansion. These include superior access to the region's highways, advanced intermodal capabilities, and the Airport's location in the midst of a major population center on the East Coast.

Despite these strategic advantages, the Airport cannot grow without capital investment and long-range planning. To this end, the Division of Aviation has developed a Capital Improvement Program designed to decrease delays and improve the operational efficiency of the Airport. Key elements of this plan include:

- Renovation of Terminals B, C, D, and E;
- Airfield improvements;
- Completion of Terminal A, the International Terminal;
- New parking garage facilities;
- New hotel construction;
- Preparation of a new Airport Layout Plan; and
- Development of plans for future terminal, Terminal F.

Many of these elements are already funded and underway, financed by the proceeds of a \$129.6 million 1988 Revenue Bond Issue. Others, such as the hotel development, will be undertaken by the private sector. Improving airfield capacity presents the most significant challenge to the expansion of the Airport. Planned and proposed measures toward this end include resurfacing runways, constructing six new taxiways, and, most importantly, constructing a new runway for small cargo and commuter planes.

The slide presentation also illustrated several ways in which the Airport benefits the region. In the simplest terms, the primary purpose of the Airport is to safely and efficiently move people and goods into and out of the Delaware Valley. Many, if not most, sectors of the economy rely on this ability in some way or another. For example, any firm which sends or receives an overnight delivery package or holds meetings with persons from outside the region needs the Airport to conduct business. In this sense, a well-functioning airport provides essential transportation services to business and industry that facilitates the expansion of existing firms and helps attract new firms to the region. Detailed economic impact assessments have calculated the dollar value of benefits to the economy at \$3 to \$4 billion. Moreover, the Airport is a major employer in the region, directly and indirectly responsible for more than 8,000 jobs. There are also beneficial spillover effects to the rest of the regional economy to the extent that the Airport facilitates tourism. Completion of the new International Terminal, Terminal A, will be particularly important in this respect, as it will open up new direct links between Philadelphia and travelers from abroad. Finally, a well run, modern airport makes a favorable first impression on visitors and business travelers to the region. In a sense, the

vitality of the Airport is a symbol of the vitality of the region and provides concrete evidence that Philadelphia is a world-class city.

James DeLong followed up the slide presentation by elaborating on the major capital and governance issues facing the Airport. He related that the Airport's three runways can handle 50 to 55 aircraft movements per hour, but beyond this threshold aircraft gridlock sets in. The solution to this problem is to construct a new 5,000 foot runway which would divert commuter traffic and other small planes away from the longer 10,000 foot runways required by commercial planes. Environmental assessment and design studies are underway, and it is already apparent that significant noise and wetlands issues must be resolved before the new runway becomes a reality. Moreover, additional lands must be acquired for the runway right of way and early signs are that the affected residential community may oppose the Airport's expansion.

DeLong explained that the Airport is not seeking major new State appropriations to finance its \$450 million capital program. The vast majority of the program (\$375 million) will be financed locally, mainly from revenue derived from airport operation, such as landing fees and terminal space rentals. The Federal government is expected to underwrite \$50 million in the form of Federal grants-in-aid. The Airport is anticipating that the remaining \$25 million will come from the State. The Redevelopment Fund of the Pennsylvania Capital Budget includes a \$25 million line item for the Airport, however, this expenditure has never been authorized. Moreover, it is unlikely these monies will be forthcoming in the current budget cycle as the Redevelopment Fund is over committed and because of political pressure to spread money around to other areas of the state. (The Convention Center and St. Christopher's rehabilitation projects in Philadelphia drew heavily from the Redevelopment Fund during the last budget year.)

DeLong explained that the Airport had intended to use the \$25 million appropriation to defray the cost of completing Terminal A. Absent government subsidy, the Airport will have to pass the cost of constructing the new International Terminal along to its end users, i.e., air passengers. Current estimates are that an \$18 per ticket surcharge will have to be imposed to recoup the cost of completing the project. This surcharge will in effect raise the price of coming to Philadelphia, which is likely to detract from the region's efforts to promote tourism and develop its hospitality industry.

While ticket surcharges hamper the Airport's competitiveness, the possibility of reorganizing the Airport to function as an independent authority offers a significant opportunity to improve Airport operations and prospects for the future. The Airport is owned by the City of Philadelphia and operated by the Division of Aviation in the City's Department of Commerce. Although DeLong characterized the Airport's relationship with the Department of Commerce as professional, there are several significant disadvantages associated with operating the Airport as a branch of City government.

First, City procurement practices are cumbersome and inflexible, constrained by the requirements of the City Charter. In practical terms, this means that the Airport is not able to respond quickly to unexpected events such as mechanical failures or other

changes in business conditions. DeLong also noted that civil service and residency requirements complicate the task of attracting and retaining the best talent in the industry. Finally, the Airport depends on other, often overworked and understaffed city agencies for support in such areas as personnel and legal services. Cutbacks in these city agencies threaten the Airport's ability to operate as an efficient provider of transportation services.

One solution would be to create an independent authority to operate the Airport. Most major airports operate as authorities, including the airports in New York, Boston, Baltimore, and Washington, D.C. -- all of Philadelphia's primary competitors on the east coast. Deregulation has accelerated the pace of change in the air travel industry, and it is important that Philadelphia create a structure with the flexibility to react to changing business conditions. Several Conference participants endorsed the concept of creating an independent airport authority and expressed confidence that it would be politically feasible to do so.

The post-presentation discussion provided the opportunity for legislators and other conference participants to gain a better understanding of the fundamental capital and governance issues. Several points were established:

- The Philadelphia International Airport is primarily a self-supporting entity and is not seeking a substantial infusion of capital funds from the State. The Airport operates on a break-even basis, and requires no annual appropriation or subsidy from State or local treasuries. However, occasional capital projects, such as the construction of major new airport facilities such as a new International Terminal, can greatly benefit from a one-time expenditure of state funds. Absent the \$25 million appropriation from the State, the Airport will have to enact a significant ticket surcharge which will decrease the competitiveness of the regional facility.
- There is relatively little prospect of building a new airport in the region. The scarcity of suitable, undeveloped sites presents one obstacle, although it was argued that the Willow Grove Naval Air Station conceivably could be partially converted to non-military use. Even if a site could be acquired, approval (and funding) from the FAA and the major airlines would be difficult to obtain. Denver and Austin are currently engaged in uphill battles to build new airports, and Philadelphia would most likely face a far tougher fight.
- The Philadelphia International Airport is a valuable transportation resource. James DeLong reported that several major airlines were engaged in a bidding war for Eastern's gates and the right to establish a new hub in Philadelphia. The competition for the gates suggests that Philadelphia is perceived as a valuable location and is, in effect, a vote of confidence in the future of the Airport and the region.

AIRPORT POSTSCRIPT

Several significant developments affecting the future of the Airport occurred in the weeks immediately following the Conference. First, Midway Airlines closed a \$200

million plus deal with Eastern Airlines in June, acquiring sixteen DC-9 airplanes, the rights to two Philadelphia-to-Canada air routes and Eastern's hub operations at Philadelphia International Airport. The transaction must still be approved by U.S. Bankruptcy Court (because strikebound Eastern filed for protection from its creditors last spring) as well as from the U.S. Departments of Transportation and Justice. However, Midway does not anticipate any serious challenges and has already begun preparations to establish what it describes as a "billion dollar hub" in Philadelphia. Midway has emerged as one of the true success stories of deregulation and, as a recent Philadelphia Inquirer editorial states, "The airline's arrival can't help but help the economy of the region."

Efforts to resolve Airport governance issues also advanced. The Airport Advisory Board initiated a review of options for reorganizing the Airport in July. The study was prompted by the need to streamline the procurement process and to modify personnel practices, both of which are currently constrained by the City Charter. The Airport Advisory Board's recommendations may be the first step toward creating an authority structure to oversee Airport operations.

Terminal A continued to take shape, although some changes will be incorporated into the final plans for the facility. The City Art Commission recommended a modified design for terminal ceilings and interiors with the intent to provide Airport visitors with a more visually pleasing experience (the City Art Commission has the right to review the aesthetic design of anything built wholly or in part with City funds). While Terminal A construction progressed, the \$25 million appropriation from the State capital budget was not authorized in fiscal year 1989. The line item for the Terminal A project is listed under the nearly depleted Redevelopment Fund, and absent an amendment to the capital budget, the Airport is unlikely to receive financial support from the State to subsidize the project's completion.

CONFERENCE WRAP-UP

Planning for the future of the Port, SEPTA and the Airport is a complicated undertaking, both because the issues themselves are complex and because the underlying governance and capital questions have no easy answers. Governance questions require creative solutions which balance competing interests between Republicans and Democrats, the Governor's Office and the General Assembly, Harrisburg and local officials and, in the case of the Port, Pennsylvania and New Jersey. Moreover, the end product of this balancing act must be a professional, competent, governing agency capable of carrying out its mandate in an era of scarce public resources.

The capital questions are difficult because they involve large sums of money and because the dollar value of the return on these investments can be difficult to calculate. Jobs and taxes are the most frequently cited indicators, but these do not seem to capture all of the benefits to investment in transportation infrastructure. To further complicate matters, governance and capital questions must be attacked in tandem as it is just as meaningless to create an unfunded organization, as it is to make capital commitments without the human resources to ably manage the investment.

Fortunately, the caliber of the professional leadership at the Port, SEPTA and the Airport was not in question. Indeed, the legislators and business community expressed considerable confidence in the people occupying both the executive offices and boardrooms at the Port, SEPTA and the Airport. For the Port, there was a sense within the Port community that communication and management decisions have substantially improved during the last couple of years, particularly since Nicholas Rashford assumed the chairmanship of the Delaware River Port Authority. Louis J. Gambaccini and Board Chairman J. Clayton Undercofler are credited with restoring confidence in the transit agency in the region and in Harrisburg. And James DeLong's advance billing as a first rate manager and aviations expert has been borne out during his tenure at the Philadelphia International Airport. The region is fortunate to attract this caliber of individual. All their skills and those of the legislature and business community will be required to tackle the challenging transportation issues which will face the Delaware Valley in the 21st century.

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