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SEPTA FUNDING

Editorial | Big oil a fat target

Gov. Rendell wants to tax oil company profits to pay for mass transit.

It's a new, magic-bullet kind of idea for dealing with a chronic problem - mass transit's money woes - that Harrisburg chronically lacks the political will to address.

Politically, the idea is a slick bank shot. But that does not mean it can't work. It might address a real problem.

SEPTA is facing a budget shortfall of about $130 million. The agency warned last week that it would raise fares at least 11 percent by July 1, and might need to cut jobs and services, depending on the level of state aid this year. Pittsburgh's transit system is in a similar financial crisis.

The state has had to raid its federal highway funds in recent years to keep buses and subways running. And many of Pennsylvania's more than 70 transit agencies, in cities large and small, have fallen far behind on upgrading their aging fleets.

The state's economy relies on a dependable mass-transit network. Mass transit links vast numbers of willing workers to distant jobs they couldn't otherwise reach, cutting down on unemployment, welfare and crime. Good mass transit is also a key magnet for the new wave of young urban professionals who have been repopulating America's cities, including Philadelphia.

Fares alone don't pay for mass transit. The state perennially lacks a dependable source of money to keep the systems running.

In Harrisburg, the quest has always been complicated by this fact: The gas tax, already high in Pennsylvania, is constitutionally dedicated to highways. So mass-transit backers have had to invent new revenue sources. Then, given Harrisburg's anti-urban political realities, they've had to link their revenue idea to a bump in the gas tax for highways.

With a gas-tax hike being a political nonstarter this year, Rendell had to get really creative. So he has.

A commission put together by Rendell in 2005 suggested raising the realty transfer tax by 0.9 percent on the sale of homes, which would raise $576 million per year for mass transit. Instead, Rendell came up with a proposal that, he claims, won't hurt consumers: a new 6.17 percent tax on oil companies' gross profits.

It's easy politically because just about everyone resents big oil companies these days (that is, everyone except their shareholders). ExxonMobil posted a $39.5 billion *profit* in 2006, the largest ever for a U.S. corporation.

Despite these profits, oil companies paid only about $71 million in corporate net income taxes in Pennsylvania last year. A loophole in state tax law allows companies doing business in Pennsylvania to transfer their revenue to another state, so it can't be taxed here. Oil companies aren't the only ones to exploit the loophole, but they make a nice, fat target.

Rendell's numbers crunchers tell him this tax would raise $760 million annually for mass transit.

The political slickness resides in his claim that consumers wouldn't pay this tax at the pump. Rendell says he would authorize the state attorney general, who doesn't report to him, to ensure, somehow, that oil companies don't pass along the cost to motorists.

Nonsense, says a petroleum industry lobbyist.

"You're increasing the cost of doing business in Pennsylvania, and you cannot prevent companies from passing on a tax," said Rolf Hanson, executive director of the Associated Petroleum Industries of Pennsylvania.

Hanson cited a 1983 U.S. Supreme Court ruling that disallowed Alabama's attempt to bar gas producers from passing onto consumers a tax increase on oil and gas.

A petroleum industry analyst counters that such legal arguments are "typical smoke and mirrors" from the industry. Tim Hamilton, who testified before Congress last year about oil company profits, said government monitoring to prevent corporations from passing taxes onto consumers "is done all the time."

The main problem with the tax would seem to be enforcing and administering it. It will be hard to determine how much of a company's profit is derived within the state. Oil companies can afford to hire smart accountants and attorneys to limit their tax liabilities.

In reality, it shouldn't matter that much if customers do end up feeling some of this pinch at the pump.

It's simply good public policy to raise the cost of consuming oil, while generating support for the alternative to driving, mass transit. Rendell may have concocted a politically palatable way to do that.

Recent spurts in gas prices demonstrate that drivers may gripe, but they keep buying gas. Why not capture some of that revenue for a good public cause at home, instead sending it off to oil companies or OPEC states?