THE DISTRIBUTION OF TRANSPORTATION DEVELOPMENT FUNDS IN LOS ANGELES COUNTY

MAY 1978

sales tax/or gas only?

By:

DAVID R. WILSON

The Transportation Development Act, or Senate Bill 325 (SB 325) as it is popularly referred to by most people, was signed into law by Governor Ronald Reagan on November 5, 1971. While the provisions of the Act had state-wide significance, particular interest focused on its implementation in Los Angeles County. The principal transit agency in the Los Angeles area, the Southern California Rapid Transit District, had been faced with substantial financial problems. Formed by the legislature in 1964, it like its immediate predecessor, the Los Angeles Metropolitan Transit Authority, had paid all of its expenses from revenues received from the fare boxes of its buses. By 1969-70 it was apparent that this situation could no longer continue if the District was to provide an acceptable amount of transit service for the area.

A temporary sales tax had been enacted by the legislature to help solve the District's immediate financial problems. It was apparent that a longer term solution for the District was necessary. By mid 1971, the District remained one of the few transit systems nationwide that did not receive some form of local tax subsidies. This state of affairs was well documented in a report by consultants to the District who pointed out that not only was the lack of continuing financial support eroding the District's future ability to operate

a satisfactory level of transit service for the metropolitan area, but was making it virtually impossible for the agency to qualify for federal matching funds to buy new buses and plan other capital expansion programs.

While the SCRTD faced serious financial problems, other California public transit agencies were running short of their own local resources most of which came from property tax revenues granted to them by their local electorates in the 1960's. Inflation and labor settlements had nearly exhausted the funds available and raised many tax rates to their voter approved limits. Efforts to tap the gasoline tax fund state-wide had been rejected by the voters a year earlier when Proposition 18 had failed at the polls.

Faced with this problem, a number of transit agencies and local governments joined forces to lobby the legislature for passage of SB 325. Strongly influenced and supported by the legislature's leading transit advocate Senate President Pro Tempore James R. Mills D. of San Diego, the new legislation was able to receive favorable approval. This legislation did in fact become the principal financial foundation for transit state-wide and for Los Angeles County in particular, serves as the foundation for operating aid, local matching monies to federal funds, and more recently funding of special programs in the transit area.

In broad scope, SB 325 extends the sales tax to gasoline purchases in the state. It reduces the state "take" of the overall sales tax by 0.25% remitting that portion of the tax to the county of its origin for use in transportation related purposes. In counties of 500,000 population or more, San Bernardino County excepted, funds must be used for public transit related purposes. In counties of less than 500,000 funds can be used for streets and roads if unmet transit needs are fulfilled. In recent years funding for bicycle paths has been included in the legislation.

The administration of SB 325 in the Los Angeles County area and immediate adjacent counties was originally placed in the Southern California Association of Governments. In Los Angeles County three provisions of the original Act related to the method to be used in fund distribution and the authority of local transit systems in the use of these funds. Article 2, Section 99221 states:

> 99221. It is the intent of the Legislature to improve existing public transportation services and encourage regional public transportation coordination. The Legislature recognizes that in the Southern California Rapid Transit District a unique factual situation exists where several municipal bus systems are providing essential local transportation services within the operating territory of the district, which was created by the Legislature to provide areawide coordinated public transportation services. Within the Southern California Rapid Transit District, the regional applicant shall be the governmental vehicle to establish a unified or officially coordinated public transportation system as part

of the comprehensively planned development of the urban area. Both the Southern California Rapid Transit District and the included municipalities that operate bus systems within the jurisdiction of the district are permitted to file claims pursuant to this chapter upon the local transportation fund of the County of Los Angeles; provided, however, an approved claim shall not be allowed for the purpose of the establishment by the municipality, after March 1, 1971, of a new service area outside the municipality which might further fragment public transportation services within the district. It is the intent of the Legislature that the Southern California Rapid Transit District should not be inhibited in its effort to improve transit services within the region by the expansion outside their city boundaries of the several municipal bus systems of the involved municipalities. The policy of the Legislature is that new services to meet public transportation needs outside of the municipalities presently operating bus systems which do not compete with, or divert patronage from, an existing operating bus system of an included municipal applicant under Section 99280, shall be provided and controlled by the Southern California Rapid Transit District in its role as the responsible public agency for providing public transportation systems and facilities within the region. #1

Article 5 Sections 99280 through 99284 states:

99280. An included municipal applicant shall not establish a public transportation system either by adding new routes or extending existing routes, by acquisition or otherwide, outside of its boundaries and outside of the reserved service area consisting of the area that would be formed by joining all points that are distant three-quarters of one mile from any point of any of its regularly scheduled routes in existence and in operation on March 1, 1971. No point within such reserved service area shall be more than three-quarters of a mile from a point on one of such regularly scheduled routes, without first providing the government board of the transit district with a 60-day advance written notice of its intention to add new routes or

extend existing routes outside of the reserved service area. Within 30 days of receiving such written notice, the governing body of the transit district shall either (a) notify the included municipal applicant that the transit district does not intend to add or extend the routes in question itself, in which case the included municipal applicant may proceed with implementation of its plans; or (b) serve immediate notice upon the included municipal applicant that the transit district desires to establish the proposed new service itself and is otherwise not precluded from doing so. In the event that the government body of the transit district elects to provide the service in question, it shall institute such service within 60 days of the time proposed by the included municipal applicant for initiation of such service.

The operation by included municipal applicants of new or extended routes established pursuant to this section are subject to the condition whereby the transit district may assume operation of such new or extended routes, if it is not otherwise precluded from doing so, after a 60-day notification by the transit district to the included municipal applicant. No route so assumed by the transit district may be abandoned by the transit district without first serving a 60-day written notice of intent to abandon on the included municipal applicant which previously provided the service. Subsequent to the abandonment by the transit district, the included municipal applicant may, at its option, resume service if it is not otherwise precluded from doing so.

Any included municipal applicant, as a condition precedent to filing a claim under Article 4 (commencing with Section 99260) of this chapter, shall file with the transportation planning agency a certified route map showing those regularly scheduled routes in existence and in operation on March 1, 1971, outside of its boundaries. Such certified map shall also indicate by an appropriate legend the service area where the consent of the transit district is not required under the terms of this section.

The establishment of new routes, or the extension of existing routes, outside the boundaries of an included municipal applicant, but within the reserved service area, as defined in this section, shall not be permitted where the operation or establishment of such routes will compete with or divert patronage from a route of the transit district as of the date the transit district is given the notice hereinafter required. Before any such new routes are established or existing routes are extended, the included municipal applicant shall give the transit district an appropriate 60-day notice.

99281. The transit district shall have authority to operate or establish new routes or extend existing routes in all or part of the area outside a municipal applicant, except where the operation or establishment of such service will compete with or divert patronage from an existing service of any included municipal applicant or service in a reserved service area under Section 99280; provided, however, that such limitation established outside a reserved service area by an included municipal applicant under Section 99280.

Except if both the secretary and the statutorily created regional transportation planning agency designate otherwide the regional applicant shall have the sole prerogative of using funds available under this chapter for the purpose of constructing and operating a grade-separated mass transit system, regardless of whether the operation of such a system competes with or diverts patronage from any services of an included municipal applicant.

99282. All transit districts and all municipal applicants shall be encouraged to establish maximum coordination of public transportation services, fares, transfer privileges, and all other related matters for the overall improvement of public transportation service to the general public requiring such services within the affected areas.

99283. The consent of a transit district to the operation of a public transportation system by an included municipal applicant pursuant to Section 99280 may include a requirement for interchange of transfers on an appropriate basis between the

public transportation system of the included municipal applicant and the public transportation system of the transit district, or any nominee of such transit district, in connection with the furnishing of services by such public transportation systems.

99284. The violation by a transit district or an included municipal applicant of any provisions of this article, or of any agreement between them with regard to providing public transportation services, shall disqualify the transit district or the included municipal applicant, as the case may be, from filing a public transportation claim pursuant to Article 4 (commencing with Section 99260) of this chapter, and the transportation planning agency shall take no further action in connection with the approval of any pending public transportation claim of the transit district of the municipal applicant, as the case may be, until it determines that such violation has ceased. #2

Article 6 Section 99300 states:

99300. The maximum amount of the approved claim of each of the included municipal applicants within the Southern California Rapid Transit District and of the district itself shall be determined as follows:

(a) In the case of an included municipal applicant, the amount shall equal the amount the district as a regional applicant would be eligible for pursuant to Section 99271, if there were no included municipal applicants in the district, times the ratio of the total miles traveled within the district by the conveyances of the public transportation system of the included municipal applicant to the total miles traveled within the district by the conveyances of such systems of all such applicants in the district and of the district itself as determined by the secretary for the last calendar year.

(b) In the case of the district itself, the amount shall equal the amount it would be eligible for as a regional applicant pursuant to Section 99271, if there were no included municipal applicants in the district, less the approved claims of all of the included municipal applicants within the district. #3

What these portions of SB 325 did was to establish the original funding and service area relationships between the RTD and the seven municipal carriers in the County. In total they can be summed up as the following:

1. The Southern California Rapid Transit District was recognized as the regional carrier and principal transit operator in Los Angeles County.

2. The District had the right to expand or institute new service on its own unless that service would divert riders from a municipal carrier because of route proximity.

3. The municipal carriers which included Santa Monica Municipal Bus Lines, Culver City Municipal Bus Lines, Montebello Municipal Bus Lines, Torrance Transit System, City of Commerce Transit System, Gardena Municipal Bus Lines and Long Beach Public Transportation Company, were not allowed to extend their routes outside their current service area as they were on March 1, 1971 without the consent of SCRTD.

4. Funding was distributed based on vehicle miles operated by the transit agencies with claims for such funding submitted to SCAG for its approval.

Prior to 1974, the relationship between the munis and RTD remained fairly stable. SCAG staff distributed TDA monies based on mileage formulas with appropriate consideration for federal capital grant matching funds and the near term operating plans of all transit agencies in the County.

Three events, however, began to significantly alter this situation in late 1974. First, the RTD failed in its second attempt to secure voter approval for an areawide rapid transit system and expanded bus network. Secondly, major

new federal transit funding legislation was passed. This provided more money for capital projects and new money for a federal operating subsidy program. The institution of the federal operating subsidy program, along with the available 325 funds apportioned to the District by SCAG enabled RTD to vastly expand its bus routes and thus vehicle miles, despite the referendum failure of 1974, starting in January 1975. Portions of Los Angeles County never before served by bus service were provided new routes.

The third major development was the introduction and eventual passage of AB 1246 which established various county transportation commissions in Los Angeles and other neighboring counties. This legislation was largely the work of Assemblyman Walter Ingalls. Its importance to the funding and administrative relationships in transit in the county was as follows:

1. The Los Angeles County Transportation Commission was established consisting of 11 members each appointed by various local bodies including the County Board of Supervisors, City of Los Angeles, City of Long Beach and County - City selection committees.

2. The Commission essentially was sandwiched in between the transit operating agencies and SCAG in the funding distribution process.

3. SCAG was still responsible for administration of TDA funds on a region-wide basis for all counties under its jurisdiction, however, the new county commissions were responsible for the apportionment of TDA funds in their counties to the individual transit operating agencies.

4. Sole mileage formulation was repealed as the basis for funding distribution. A flat 15% of available funds for transit in Los Angeles County was to be given to the seven eligible municipal carriers before the claims of the RTD could be funded. A 5% discretionary funding mechanism was established to fund community level transit programs such as dial-a-ride concepts. These funds also would be allotted from the total available for transit after the muni deduction and before the satisfaction of the RTD claim if so determined by the Commission.

5. The Commission was held responsible for operation in compliance with and development of short range transit development programs for the County. SCAG retained its authority in overseeing the long term region-wide planning role.

6. The SCRTD was stripped of its power to levy taxes with voter approval and was specifically denied a representative on the Commission by the prohibition that no RTD Board member could be a Commissioner.

The Commission was to report to the State Legislature through progress reports on the institutional status of transit operations in the County and make any suggestions and recommendations for changes. It could also authorize imposition of up to 1/2¢ sales tax increase with voter approval to fund transit operations and capital improvements.

The Commission also was responsible for adjudicating disputes between the various transit operating agencies in the County. Article 3 Section 130250 of AB 1246 states: "the Commission shall coordinate the operation of all public transportation services within the County so as to achieve efficient operation thereof and shall resolve all jurisdictional disputes between public transit operations."[4] The Commissioners in

effect were given major powers in regulating inter-agency relationships between transit properties. As will be noted later on in this report, their decisions in this area could have an influence on large numbers of transit riders.

The Commission commenced operation January 1, 1977. It has, however, been only in recent months that any operating administrative staff has been hired to support the Commission's activities. Under the administration of Executive Director Jerome C. Premo, a staff of roughly 16 people is attempting to chart a course of action that will firmly establish the agency's role in the complex transit situation in Los Angeles County. Exhibit A in the appendix of this report shows a diagram of the funding distribution as it now exists for TDA funds in Los Angeles County. As shown, the Commission occupies a critical position in that fund distribution procedure. The chart emphasizes the TDA funding allocations. It must be remembered that the Commission also is responsible for the coordination of most highway and road projects in the County, as well as transit programs.

The current administrative practices that have recently developed within this outline are as follows:

1. SCAG received funds from all sources including TDA for transit purposes for distribution within its jurisdiction.

2. SCAG disburses funds to the Commissions for their apportionment in their counties.

3. Transit operators submit budget estimates to Commissions.

4. Commissioners make decisions which administrative staff is asked to formulate in detail in conformance with applicable laws and approved transit plans for County. This includes funds from estimates of County Auditor for the fiscal year.

5. Commissioners approve disbursements of all funds and make discretionary decisions on use of surplus or excess TDA funds.

6. Complete program returned to SCAG for concurrence with areawide long range planning and SCAG criteria and objectives for total Southern California area.

Critique and Summary

The distribution of Transportation Development Funds in Los Angeles County has been developing into a complex political and administrative procedure. The creation of the Commission has added a further level of government through which these funds must pass before reaching the agencies who make use of them. The Commission has shown itself to be very political in nature by some of its initial decisions. The fact that SCRTD does not have a representative on the Commission when several cities with municipal transit systems do is a further problem in dealing with any equity questions that face the Commission.

The Commission support staff is rather new. As mentioned earlier in this report, it has only been in recent months that a working complement has been created to supply the Commission with data to support its decisions. The staff

funds would be curtailed. This is turn could threaten their federal dollars for as Article 4 Section 99269 states in referring to maintenance of local support as: "No money shall be allocated from the fund nor expended by any operator which evidences a reduction in money made available and expended for public transportation systems from all local sources, except from fares and from funds allocated from the State and Local Government Fiscal Assistance Trust Fund, below the average of such funding for the two preceding fiscal years."[5]

Conversely, the District has been responding to its role as the major regional carrier by expanding its service to reach all portions of the County from which it receives its financial support. The District's outlook on service is through a broader base because of a larger more diverse area that it serves throughout the County. Service levels, types of service, and fares are all more complex with an agency as large as RTD. Equitable solutions are, therefore, difficult to achieve which are fair to all parties involved. Two examples of the Commission's power should serve to illustrate this situation.

As documented in Joe Misner's financial analysis, the Commission is faced with surplus funds from several sources. Federal operating monies and TDA funds are the major portion

of this money. In the case of TDA funds, the amount exceeds 9 million dollars. The RTD has the most pressing need for these funds to meet its current year fiscal budget to avoid further service reductions. Nevertheless, the distribution of these funds could remedy a current problem while creating new ones for the future. Under the "maintenance of effort" requirement both part of federal, as well as TDA requirements, future year funding eligibility could be compromised by lack of local matching funds to maintain the same level of current service. In short a near term financial remedy with existing surpluses could in the long term affect future funding levels. As Joe Misner points out in his report, "if surplus TDA funds are used, future state and local funding requirements to meet the federal "maintenance of effort" requirement for Section 5 eligibility will be increased. Thus, while sufficient funds are available to cover current needs (based on existing SRTP estimates), any scheme for funding these deficits will have some adverse repercussions on future year options. The Commission must decide which of these possibilities has the most acceptable future implications."[6]

The Commission thus has substantiated authority to both influence service levels and fares under current conditions, as well as future developments. In the case of SCRTD, this is particularly critical due to its large operating budget and the different service needs of the vast area that it

services. Decisions based on political rather than substantiated factual research can effect the needed transit services for thousands of people. Since the Commission can also raise money through a 1/2¢ sales tax with voter approval, its potential control over any and all financial resources available to transit in the County makes it bear a heavy responsibility in weighing any and all matters brought before it. Recently, the Commission's attitude was tested in a severe jurisdictional dispute between RTD and the Santa Monica Municipal Bus Lines.

The District had lifted a restriction on local passenger riding on one of its bus routes that operates over a portion of one of the Santa Monica Municipal Bus Lines' heavily used routes. The restriction had prohibited the District from receiving passengers on westbound buses west of Wilshire and Federal Boulevards to the end of its Line 83 and in the opposite direction from the end of the line to Federal discharging passengers. The lifting of the restriction allowed potential riders to use either RTD buses or Santa Monica buses in this area.

In the jurisdictional dispute that ensued, the Commission was asked to rule on which transit system was correct in interpreting its rights to transport passengers along Wilshire Boulevard in West Los Angeles. The RTD maintained

that lifting the restriction provided for greater mobility for patrons in the area particularly those who purchase District monthly passes and furthermore, due to the difference in basic fares, RTD - 40¢ and Santa Monica - 25¢, that Santa Monica was not being adversely affected by the lifting of the restriction. Santa Monica argued that they had an exclusive right to offer passenger service in the area and cited this fact dating back to 1929. They maintained that District policy was taking potential passengers away from them and that this could be only the beginning of District encroachment on other muni routes.

The Commission ruled in favor of Santa Monica. The Commission's decision was not greeted with enthusiasm at RTD and due to the lack of direct RTD representation on that body, leaves a question of complete fairness and impartial consideration of the facts in the final ruling. As many as four of the municipal carriers are indirectly represented on the Commission through the appointment of their city officials to that body.

Does equity exist in Commission action? Are TDA funds distributed in a fair way? The answer is a shaky yes. With the limited time that the Commission has been functioning, it is probably fair to say that within the provisions of

AB 1246 the RTD and the municipal carriers are being funded in an equitable way. The problem, however, remains that the Commission is still a political body. It appears to be more heavily influenced by narrow provincial concerns on transit matters than issues benefiting the region as a whole. Its potential power is enormous both in distribution of surplus funds, raising of more revenue, and prioritizing projects to be implemented. Within all of these areas, the newly formed administrative staff can perform an invaluable service not just as a resource base for the Commission politicians, but having a definite position to recommend for policy implementation by the Commissioners. In this all important area, the staff could formulate a role of creative programs rather than just solidifying its role as a resource base for Commission decisions.

Finally this report has only touched on a portion of the Commission's responsibilities for funding distribution in the transit field. There are other transit systems in the County receiving funds from local and federal sources through the Commission but are ineligible for SB 325 funds. One such system is that of the City of Norwalk which has expanded to substantial proportions in recent years. Faced with the fiscal and planning challenges of the next few years, it will be interesting to see how the Commission responds to the funding needs of transit operators in Los Angeles County.

FOOTNOTES

1. Mills, James R. and others, Transportation Development Act, 1971. p.8

2. Mills, James R. and others, Transportation Development Act, 1971. p. 14

3. Mills, James R. and others, Transportation Development Act, 1971. p. 17

4. Ingalls, Walter and others, Assembly Bill 1246. p. 3

5. Transportation Development Act, Statutes and Administrative Code for 1978. California Department of Transportation, February 1978. p. 38

6. Misner, Joseph, Options for Allocating Transit Operating Funds in Fiscal Year 1977-78, Report to the Los Angeles County Transportation Commission, February 1978. p. 5

BIBLIOGRAPHY

1. Coverdale and Colpitts Consulting Engineers, The Crisis in Public Transportation 1971 Year of Decision, Southern California Rapid Transit District, 1971.

2. Ingalls, Walter and others, Assembly Bill No. 1246, 1975

3. Mills, James R. and others, Senate Bill No. 325, approved November 4, 1971.

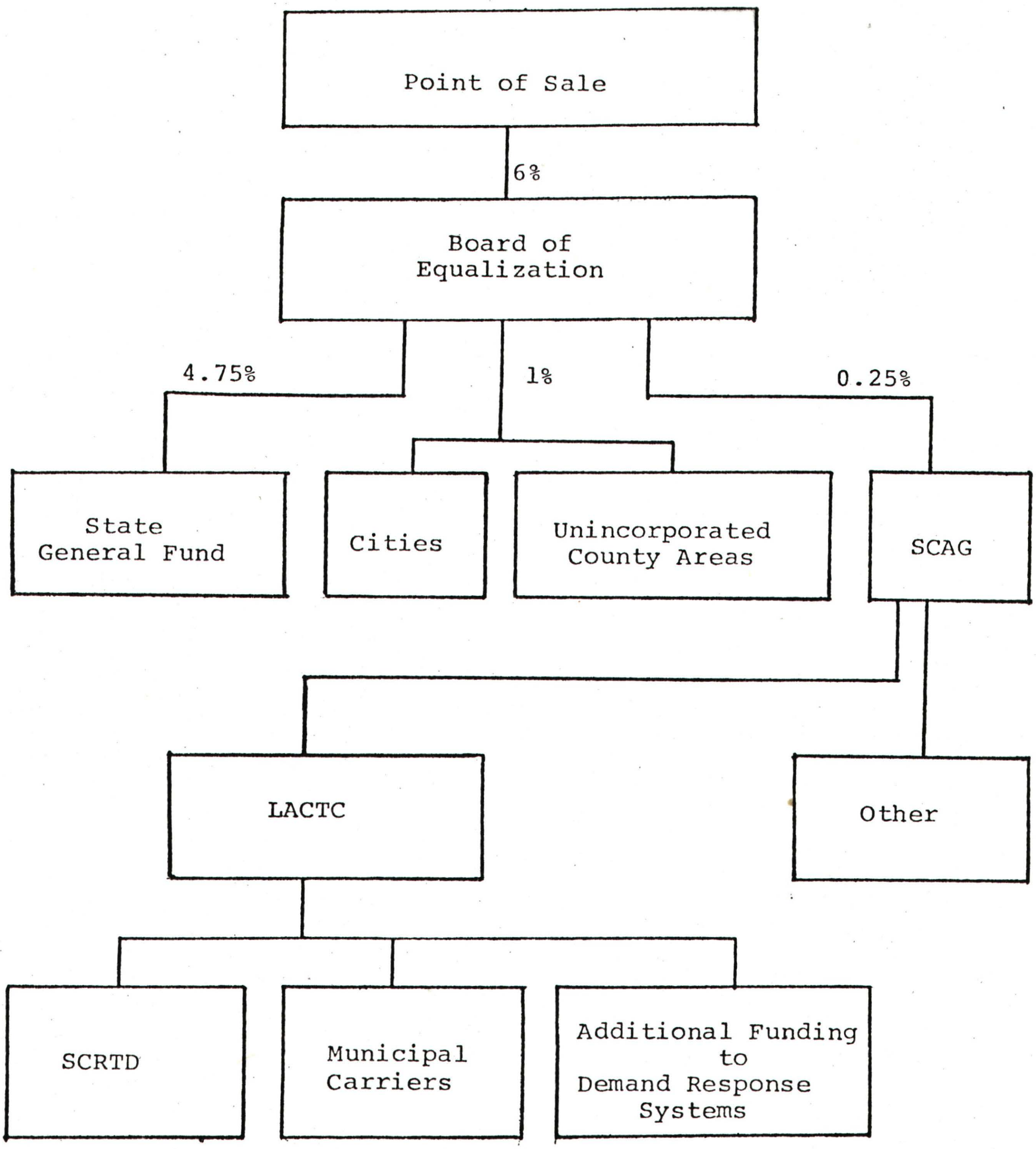
4. Misner, Joseph, Options for Allocating Transit Operating Funds in Fiscal Year 1977-78, Report to the Los Angeles County Transportation Commission, February 1978.

5. SCAG Guide for Filing Transportation Development Act Claims, 1978-79, Southern California Association of Governments, February 1978.

6. Transportation Development Act, Statutes and Administrative Code for 1978, California Department of Transportation, Division of Mass Transit, February 1978.

EXHIBIT "A"

TRANSPORTATION DEVELOPMENT FUND
FLOW OF FUNDS
LOS ANGELES COUNTY



Source of Funds:

4.75% - State Sales Tax
1.00% - Local Uniform Sales Tax (Collected by State)
0.25% - Additional Local Sales Tax (Collected by State) for:
(1) Transit or (2) Road Purposes

STATE OF CALIFORNIA
SENATE
SACRAMENTO, CALIFORNIA 95814

JAMES R MILLS
PRESIDENT PRO TEMPORE

April 16, 1980

Mr. David R. Wilson
Southern California Rapid
Transit District
425 South Main Street
Los Angeles, California 90013

Dear Mr. Wilson:

In a letter of March 10, 1980, you posed several questions about the Transportation Development Act of 1971 and asked that I respond. You will find my answers below.

"Why was SB 325 needed in California in 1970-71?"

SB 325 was needed to finance improvements in public transportation, specifically to match available federal funds for transit capital investments and to provide a source of funding for transit fixed guideway construction.

"What has been its success and failures in accomplishing the original objectives for which it was enacted?"

The Transportation Development Act has provided over $1.5 billion in transportation improvements since 1971. Currently, statewide, about one-third of the costs of public transportation are paid by the revenues collected under this act. Proportionately, very few of these funds have been used for construction of fixed guideway facilities. Meanwhile, transit labor costs have risen at a high rate during the last ten years. Today the bulk of the funds from the Transportation Development Act go for maintaining, rather than for improving, transit service.

"How should it be changed beyond modifications already enacted?"

I have no major new ideas on TDA. If an initiative

removing the sales tax on gasoline is approved by the electorate this year however, I think TDA should be repealed, since it is this revenue source which has made the program possible. (See SB 1630, 1980, enclosed.)

"Considering the amount of money annually available to transit properties under the Act, how has this influenced local politics and the priority of funding transit needs?"

I don't know how TDA has influenced local funding for transit needs. The 50 percent requirement in the original legislation was designed to motivate local contricutions. Some counties passed local sales taxes for this purpose; others did not. The law no longer requires a local tax contribution.

I hope these remarks will be of some use to you in your analysis of transit finance in California.

Sincerely,

James R. Mills

JAMES R. MILLS

JRM/jdm
Enclosure