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Transportation  
Office of the Secretary  
of Transportation

# Inflation-Responsive Transit Financing

June 1982

An Urban Consortium Information Bulletin



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# Urban Consortium for Technology Initiatives

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The Urban Consortium for Technology Initiatives was formed to pursue technological solutions to pressing urban problems. The Urban Consortium is a coalition of 37 major urban governments, 28 cities and 9 counties, with populations over 500,000. These 37 governments represent over 20% of the nation's population and have a combined purchasing power of over \$25 billion.

Formed in 1974, the Urban Consortium represents a unified local government market for new technologies. The Consortium is organized to encourage public and private investment to develop new products or systems which will improve delivery of local public services and provide cost-effective solutions to urban problems. The Consortium also serves as a clearinghouse in the coordination and application of existing technology and information.

To achieve its goal, the Urban Consortium identifies the common needs of its members, establishes priorities, stimulates investment from Federal, private and other sources and then provides on-site technical assistance to assure that solutions will be applied. The work of the Consortium is focused through 10 task forces: Community and Economic Development; Criminal Justice; Environmental Services; Energy; Fire Safety and Disaster Preparedness; Health; Human Resources; Management, Finance and Personnel; Public Works and Public Utilities; and Transportation.

Public Technology, Inc. is the applied science and technology organization of the National League of Cities and the International City Management Association. It is a nonprofit, tax-exempt, public interest organization established in December 1971 by local governments and their public interest groups. Its purpose is to help local governments improve services and cut costs through practical use of applied science and technology. PTI sponsors the nation's local government cooperative research development, and technology transfer program.

PTI's Board of Directors consists of the executive directors of the International City Management Association and the National League of Cities, plus managers and elected officials from across the United States.



# **Inflation-Responsive Transit Financing**

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Prepared by  
**PUBLIC TECHNOLOGY, INC.**  
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Washington, D.C. 20004

Secretariat to the  
**URBAN CONSORTIUM  
FOR TECHNOLOGY  
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## PREFACE

This is one of ten bulletins in the fifth series of Information Bulletins produced by the Transportation Task Force of the Urban Consortium for Technology Initiatives. Each bulletin in this series addresses a priority transportation need identified by member jurisdictions of the Urban Consortium. The bulletins are prepared for the Transportation Task Force by the staff of Public Technology, Inc. and its consultants.

Ten newly identified transportation needs are covered in this fifth series of Information Bulletins. In priority order they are:

- Growth Management and Transportation
- Intercepting Downtown-Bound Traffic
- Inflation Responsive Transit Financing
- Impact of Traffic on Residential Areas
- Coordination of Parking with Public Transportation and Ridesharing
- Improved Railroad Grade Crossings
- Flexible Federal Design Standards for Highway Improvements
- Traffic Signal Maintenance
- Inflation Responsive Financing for Streets and Highways
- Flexible Parking Requirements

The needs highlighted by Information Bulletins are selected in an annual process of needs identification used by the Urban Consortium. By focusing on the priority needs of member jurisdictions, the Consortium assures that resultant research and development efforts are responsive to local government problems.

Each bulletin provides a nontechnical overview, from the local government perspective, of issues and problems associated with each need. Current research efforts and approaches to the problem are identified. The bulletins are not an in-depth review of the state-of-the-art or the state-of-the-practice. Rather, they serve to identify and raise issues and as an information base from which the Transportation Task Force selects topics that require a more substantial research effort.

The Information Bulletins are also useful to those, such as elected officials, for whom transportation is but one of many areas of concern.

The needs selection process used by the Urban Consortium is effective. Priority needs selections have been addressed by subsequent Transportation Task Force projects:

- To facilitate the provision of transportation services for elderly and handicapped people, five products have been developed: Elderly and Handicapped Transportation: Chief Executive's Summary, Elderly and Handicapped Transportation: Planning Checklist, Elderly and Handicapped Transportation: Information Sourcebook, Elderly and Handicapped Transportation: Eight Case Studies.
- To help improve center city circulation (with the objectives of downtown revitalization and economic development) several projects have been completed. A summary report on Center City Environment and Transportation: Local Government Solutions shows how 7 cities use transportation and pedestrian improvements as tools in downtown revitalization. A report titled Center City Environment and Transportation: Transportation Innovations in Five European Cities discusses exemplary approaches to resolving traffic management problems common to cities with large numbers of automobiles. Another project, addressing the coordination of public transportation investment with real estate development, has culminated in two major national conferences--the Joint Development Marketplaces I and II. The second Marketplace, held in Washington, DC, in July 1980, was attended by a total of over 500 people, including exhibitors from 32 cities and counties and representatives of private development and financial organizations.
- A series of documents relating to the need for Transportation Planning and Impact Forecasting Tools has been prepared: (1) a management-level document for local officials describing manual and computer transportation planning tools available from the U.S. Department of Transportation, (2) a series of case studies of local government and transit agency applications of these tools, and (3) a guide describing ways local governments can gain access to these tools.
- To meet the need to promote the use of Transportation System Management (TSM) measures, a series of five regional meetings was held in 1980 to provide local, State, and Federal officials, and representatives of transit agencies and the business community with the opportunity to exchange information about low-cost TSM projects to improve existing transportation systems.
- To facilitate the dissemination of information on local experiences in Parking Management, a technical report describing the state-of-the-art has been prepared.

- To address the need for information on transit productivity, a seminar on International Transit Performance Measurement was held in September 1980. The seminar included presentations on the state-of-the-art in France, Germany, and the United States. The seminar was co-sponsored by the German Marshall Fund of the United States.
- To encourage improved design in transportation facilities, PTI organized Design for Moving People, the first national conference to bring together leading design professionals--architects, artists, arts administrators--and those responsible for operating and managing many of the nation's largest public mass transportation systems. The meeting was held in May 1981 in New York. Cosponsored by the American Public Transit Association (APTA), the New York Chapter of the American Institute of Architects, AMTRAK, and the Municipal Art Society of New York, the two day conference featured keynote addresses by two of the country's leading architects, case studies, and practical workshops on topics such as financing design excellence, promoting better collaboration between architects and artists, and materials selection--vandalism and maintenance.
- To address the issue of adequate financing for transit and the difficult policy decisions facing operating authorities regarding fare setting and the role fares should play in meeting financial needs, the Urban Mass Transportation Administration (UMTA) and the American Public Transit Association (APTA) sponsored a fare policy seminar, with the help of PTI, for general managers and board members in Region III. The seminar was held in Washington, D.C. in September 1981, at APTA's offices. Consulting experts presented the results of relevant research sponsored by UMTA's Office of Service and Methods Demonstrations.
- To test the effectiveness of the video teleconference as a means of communicating information to local officials quickly and efficiently and to address the need to find less costly alternatives to fixed route transit, PTI organized and staffed a successful teleconference under UMTA sponsorship in 1982. Entitled "Adjusting to Reduced Transportation Budgets: Operational Strategies," the teleconference provided local officials in five cities with information about alternative transportation services suitable for areas where conventional transit service is either impractical or unduly expensive.

Task Force information dissemination and technology sharing concerns are currently addressed by three products--SMD Briefs, Transit Actions and Transit Technology Briefs. SMD Briefs are short reports that provide up-to-date information about specific aspects of on-going projects of UMTA's Office of Service and Methods Demonstrations (SMD). In addition, the SMD HOST Program allows transportation officials from selected jurisdictions to visit one of these projects for on-site training. Transit

Actions cover the on-going projects of UMTA's Office of Transportation Management. Each Action provides timely information that will be especially useful to transit managers concerned with improving their transit systems' efficiency and effectiveness. Transit Technology Briefs report on projects sponsored by UMTA's Office of Technology Development and Deployment. These timely documents provide information that should be of direct benefit in the improvement and productivity of transit system operations.

Additional Technology Sharing occurs through the National Cooperative Transit Research Program (NCTRP) which was organized jointly by Public Technology, Inc., the American Public Transit Association, the Urban Mass Transportation Administration, and the Transportation Research Board to address problems relating to public transportation identified by local and State government and transit administrators.

The support of the U.S. Department of Transportation's Technology Sharing Division in the Office of the Secretary, Federal Highway Administration, National Highway Traffic Safety Administration, and Urban Mass Transportation Administration has been invaluable in the work of the Transportation Task Force of the Urban Consortium and the Public Technology, Inc. staff. The guidance offered by the Task Force members will continue to ensure that the work of the staff will meet the urgent needs identified by members of the Urban Consortium for Technology Initiatives.



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## Chapter 1

### ISSUES AND PROBLEMS

#### INTRODUCTION

How to pay for public transit is a critical issue for local government. Fueled by inflation, transit costs are increasing faster than both revenue from the farebox and public subsidies. As a result, deficits are growing, and there is the threat in many localities of major service cut-backs and shut downs. Increasingly, large and small cities, suburban counties, and towns are grappling with how to meet rising transit costs. Even localities that once had adequate and reliable revenue to support transit find their income cannot keep up with escalating expenses. Where will the additional money come from--the farebox, new local taxes, or State and Federal sources?

These hard questions need answers, because transit's current financial problems are likely to intensify. The causes underlying the growing deficits include the facts that:

- Transit costs, in particular labor and fuel, have consistently risen faster than the national rate of inflation and will probably continue to do so.
- The public continues to demand improved service or, at least, the maintenance of existing transit service, although this may increase deficits.
- The demand for transit is very sensitive to changes in fares. A fare increase may decrease ridership to the extent that total revenue falls.
- Revenue from taxes used to support transit has not increased at the same rate as inflation.
- The rising costs of other public services, such as schools, health care, police protection, and roads, have increased the competition for the local and State tax dollar.
- The Federal government is reducing the funds available to subsidize the operating costs of local public transit.

Although local officials can not control many of the causes of transit's rising deficits, they have to make up the losses or watch transit service deteriorate. This Information Bulletin responds to the needs of local officials for more information on revenue alternatives, particularly those that are responsive to inflation. It does not purport to supply solutions, only to help local officials evaluate options. Beginning with a review of the history and current state of transit finance, this Information Bulletin catalogues conventional financing techniques and introduces some that are new or innovative, including examples of where these approaches are used and contacts in those communities.

## BACKGROUND OF TRANSIT'S FINANCIAL PROBLEMS

After expanding service and carrying record numbers of riders during the World War II, local transit systems, which were usually privately owned, began a period of steady decline. Ridership fell when private cars and gasoline were once again available, and families and industries left the cities and moved out to the suburbs, beyond the bus routes. The Federal Highway Trust Fund, established in the early 1950s, poured millions into highway construction, encouraging this dispersed pattern of development.

Uncomfortable and increasingly expensive to operate, the aging buses typical of most fleets were not able to compete with the automobile in the suburban setting. With ridership slipping and costs increasing, transit, which had a history of supporting itself from the farebox, began to run in the red. To keep the buses running, the Federal government and some State and local governments subsidized the public acquisition of many of the ailing private systems. Federal and local governments began providing operating subsidies to help hold down fares and pay for the expanded service that was demanded as a result of the oil embargo and gasoline shortage in the mid-1970s.

The current high rate of inflation has magnified the difficulty of financing transit by boosting labor and fuel costs dramatically. To compound the problem, many transit employee union contracts include generous fringe benefits and automatic cost-of-living increases. Since wages and benefits account for approximately 80% of transit's operating costs, these increases have had a profound impact on transit budgets and have been a major factor contributing to current deficits. In addition, diesel fuel, which cost 12¢ per gallon in 1971, is now well over a dollar a gallon.

Because of these rising costs, transit expenses have been increasing almost twice as fast as the annual rate of inflation. On the revenue side, income from fares and taxes has not kept pace with these inflated costs. Between 1972 and 1978, for example, the cost of existing transit service (discounting new service) increased an estimated 90%, but farebox revenue grew by only 30%.

Capital costs also have increased because of inflation and high interest rates. Although the Federal government usually finances up to 80% of capital costs, many agencies cannot afford the local share. Inflation also has contributed to the the present political climate in which new taxes are difficult to levy, and existing tax-financed subsidies are threatened.

## SOURCES OF RECENT FINANCIAL SUPPORT

Between 1970 and 1980 most local transit systems became increasingly dependent on governmental subsidies. Table 1 shows that agency earnings covered 84% of operating expenses in 1970 but only 43% in 1980, with public subsidies paying an increasing share of the costs. The bulk of transit revenue still comes directly from local pockets, however. The farebox plus local subsidies accounted for 70% of operating costs in 1980.

Table 1  
SOURCES OF TRANSIT OPERATING FUNDS  
1970 AND 1980

SOURCE	1970 % OF TOTAL	1980 % OF TOTAL
Farebox and other revenue	84	43
Local Assistance	16	27
State Assistance	0	13
Federal Assistance	0	17
	<u>100</u>	<u>100</u>

Source: American Public Transit Association and Urban Mass Transportation Administration.

#### The Federal Share

In 1980, the Federal government allocated \$3.9 billion to local mass transit systems through grant-in-aid programs administered by the Urban Mass Transportation Administration (UMTA).

The Urban Mass Transportation Act of 1964, as amended, provides two major sources of capital and operating funds.

- Section 3--Provides capital grants to assist State and local public bodies purchase or improve facilities and equipment. These grants, which cover up to 80% of project costs, were originally used to modernize bus fleets and for the acquisition of private bus companies by public agencies. The emphasis changed in the 1970's, and the largest share of the grant money has recently gone to the construction and rehabilitation of fixed-rail transit.

Amended in 1978 by the Surface Transportation Assistance Act, the current grant program authorized \$7.5 billion for the 5-year period 1979-1983. In 1980, \$2.8 billion was allocated to local systems.

- Section 5--Provides grants to State and local public bodies by a formula based primarily on population size and density. These funds may be used for capital expenditures, but the vast majority have gone for operating assistance. The funds are subject to matching requirements--20% minimum for capital and 50% minimum for operating costs. Between 1975 and 1980, annual Federal operating assistance increased from \$.3 to \$1.1 billion. The current administration is seeking to reduce funds available under Section 5.

### The State Share

Currently, at least 35 States budget funds for local transit. These funds totaled nearly two billion dollars in 1982, an increase of \$300 million over the 1981 amount. In 1980, State sources provided 13% of transit's operating revenue. Of the nation's 90 largest transit systems, two-thirds receive State funds. Support varies widely with some States, such as California, funding a major share of local transit costs, while other States cover only a nominal 1 or 2% of the costs.

Although details of the subsidy programs differ, State support comes mainly in one of three forms. States in the northeast generally appropriate transit subsidies from the general fund. Other States either earmark taxes, usually sales or highway-user levies, for transit use or give localities the authority to tax themselves to support transit. Twenty States utilize some motor fuel tax revenues to aid transit systems. Some States combine approaches. Michigan, for example, subsidizes local transit with State gas tax revenues and also allows local jurisdictions to impose other taxes. Maryland is noteworthy, because it funds local public transit from a Consolidated Transportation Trust Fund, financed by highway-user taxes, a portion of the State corporate income tax, and several other sources.

In addition to transit subsidies for regular service, some States provide assistance for special transportation services for elderly and handicapped persons.

States differ on how they decide on the amount of aid and its distribution. A common procedure has been for the State to split evenly with the local government the portion of the operating deficit not covered by Federal subsidies. The amount of State support going to large metropolitan transit systems is usually negotiated by the legislature. For example, Philadelphia and Pittsburgh bargain in the legislature for their State assistance packages.

### The Local Share

The Farebox. The farebox, plus county, regional, and local taxes, paid 70% of mass transit's operating expenses in 1980. Currently, transit agencies are raising fares in an effort to increase revenues, although the higher fares may reduce ridership to some extent. According to a 1980 survey by the United States Conference of Mayors (USCM), 81 out of 106 transit systems raised fares between 1979 and September 1980. The American Public Transit Association reported that in February, 1981, the average base fare was 45¢, up 18% over 1980.



Table 2 shows the 1981 fares charged by a dozen major transit systems.

Table 2

1981 TRANSIT FARES IN MAJOR U.S. CITIES

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New York	.75
Washington	.60 minimum
Chicago	.80
Philadelphia	.55-.65
Baltimore	.50
Atlanta	.50
Pittsburgh	.75
San Francisco	.50 minimum
St. Louis	.50
Los Angeles	.65
Detroit	.60
Houston	.40

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Source: Boston Globe. July 8, 1981.

Local Taxes. Localities paid an average of 27% of transit's 1980 operating costs with regional, county, or municipal taxes. The USCM reports that 62% of the communities it surveyed subsidized their local transit systems with general fund revenue or specialized taxes.

To meet the need for long-range, reliable support, some localities are dedicating or earmarking specific taxes for transit. Out of 101 cities that responded to a USCM survey question on sources of revenue, 46 reported they had earmarked taxes. Table 3 summarizes the results of this question. Half of those without an earmarked transit tax said they had plans to propose such a tax within the next two years. Taking a step further toward financial independence, some transit systems, usually regional ones, have taxing or other fiscal authority. The USCM study reported 25 systems, one-fourth of those responding, had authority to levy either a property, sales, payroll, or occupancy tax.

Table 3

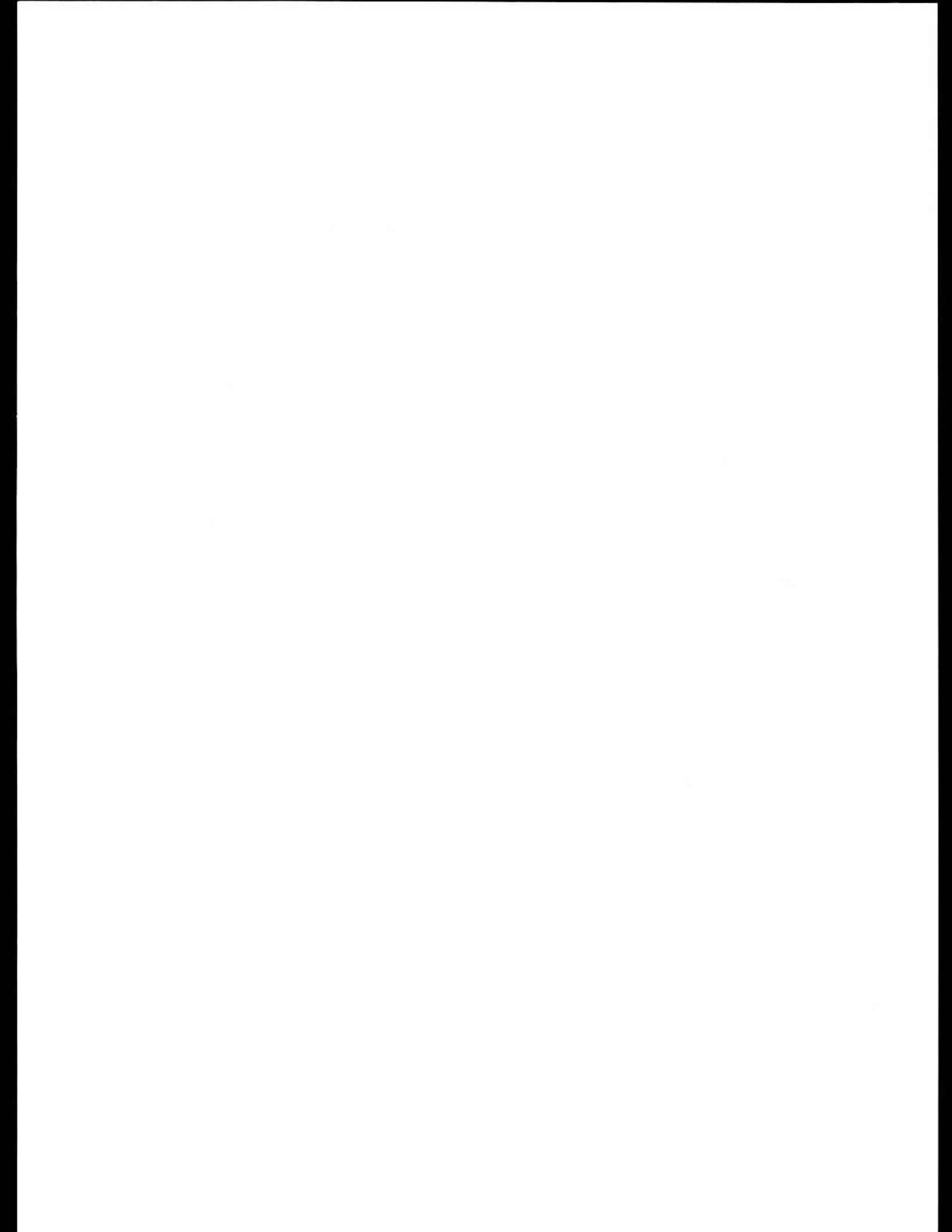
1980 DEDICATED TRANSIT TAXES IN JURISDICTIONS  
SURVEYED BY USCM

JURISDICTION	TYPE OF TAX	RATE	TAXING AUTHORITY
California			
Fresno	Sales Tax	1/4¢	State
Long Beach	Sales Tax	1/4¢	State
Los Angeles	Sales Tax	1/4¢	State
	Sales Tax	1/2¢	RTD Service Area
Oakland	Sales Tax	1/4¢	State
Riverside	Sales Tax	1/4¢	State
Sacramento	Sales Tax	1/4¢	State
San Diego	Sales Tax	1/4¢	State
San Francisco	Sales Tax	1/4¢	State
	Sales Tax	1/2¢	BART Counties
San Jose	Sales Tax	1/4¢	State
Santa Barbara	Sales Tax	1/4¢	State
Stockton	Sales Tax	1/4¢	State
Florida			
Tampa	Property Tax	1/2 mill*	County
Georgia			
Atlanta	Sales Tax	1¢	2 Counties
Illinois			
Chicago	Sales Tax	1¢	Cook County 1/4¢ in collar counties
Decatur	Sales Tax	1/32 of 1¢	State
Peoria	Sales Tax	1/32 of 1¢	State
Rockford	Sales Tax	1/32 of 1¢	State
Indiana			
Fort Wayne	Property Tax	97 mills	City
Gary	Gas Tax	1%	State
Indianapolis	Property Tax	65 mills	City
South Bend	Gas Tax	1%	State
Iowa			
Cedar Rapids	Property Tax	38 mills	City
Dubuque	Property Tax	2 mills	City
Kentucky			
Louisville	Earnings Tax	0.2%	County

Massachusetts Boston	Gas Tax	1.5% of whole- sale price	City
Michigan			
Detroit	Gas Tax	1.1¢/gallon	State
Flint	Gas Tax	1.1¢/gallon	State
Grand Rapids	Gas Tax	1.1¢/gallon	State
Lansing	Gas Tax	1.1¢/gallon	State
Minnesota			
Minneapolis	Property Tax	1.7 mills	Region
St. Paul	Property Tax	1.7 mills	Region
Missouri			
St. Louis	Sales Tax	1/2¢	City-County
Montana			
Billings	Property Tax	10 mills	City
Nebraska			
Lincoln	Gas Tax	1.2¢/gallon	State
New York			
New York City		2% oil company profits	State
North Carolina			
High Point	Property Tax	25 mills	City
Ohio			
Canton	Property Tax	1.5 mills	City
Cincinnati	Property Tax	0.3%	City
Cleveland	Sales Tax	1/2¢	City
Dayton	Sales Tax	1/2¢	City
Oregon			
Portland	Payroll Tax	0.6%	City
Salem	Property Tax		City
Texas			
Houston	Sales Tax	1¢	County
San Antonio	Sales Tax	1/2¢	City-County
Washington			
Seattle	Sales Tax	3/10¢	County
	Motor Vehicle Tax	1% value	State
Spokane	Motor Vehicle Tax	1% value	State
	Household Tax	\$1 month/ household	City

\*mill = 1¢ per \$1000 assessed valuation.

Source: United States Conference of Mayors, The Transit Financing Agenda for the 1980s. Washington, D.C. 1981.



## Chapter 2

### ALTERNATIVE FINANCING TECHNIQUES

This chapter catalogues techniques used by localities to finance public transit. The options are listed in Table 4. Many are conventional taxes that are used frequently; other techniques are less traditional. Some approaches, borrowed from other industries, currently are being tested by transit systems for the first time.

Table 4

#### TRANSIT FINANCING TECHNIQUES

---

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1. Broad-based Taxes and Revenue Sources
    - Retail Sales Tax
    - Property Tax
    - Payroll Tax
    - Income Tax
    - Occupancy and other Taxes
    - Lottery
  2. Charges on Motor Vehicle Users
    - Motor Fuels Tax
    - Motor Vehicle Tax
    - Bridge and Tunnel Tolls
    - Commercial Parking Tax
  3. Charges on Property Benefitting from Transit
    - Service Charges
    - Special Benefit Assessment
    - Tax Increments Dedicated to Transit
  4. Borrowing Strategies
    - Conventional Bonds
    - Equipment Trust Certificates
    - Tax-Exempt Industrial Revenue Bonds
    - Safe Harbor Leasing
    - Grant Anticipation Notes
  5. Joint Ventures With the Private Sector
    - Leasing Air-rights
    - Leasing Property Adjacent to Transit Facilities
    - Participation in Land Development
-

## BROAD-BASED TAXES AND REVENUE SOURCES

Currently, local funds for public transit subsidy most commonly come from retail sales and property taxes. These two broad-based taxes, in essence, charge the entire community for the benefits of transit. Although less used, income and mortgage taxes and a lottery also tap community-wide resources.

### Retail Sales Tax

The majority of the States (46) levy a retail sales tax and/or give the authority to levy such a tax to local jurisdictions. During the last decade, the sales tax has become the second largest source of local revenue, behind the property tax. Most rates fall in a range between 2 and 6%. Table 3 shows that of the 46 localities in the USCM survey that had dedicated transit taxes, 24 levied a sales tax. In California, State and local sales taxes are the primary sources of local transit subsidies.

#### Advantages:

The sales tax is capable of producing large amounts of revenue, and it responds more quickly than most taxes to income changes and inflation. Surveys have shown it is more politically acceptable than other levies, such as property and income taxes. Administration is not usually a problem, unless there are a large number of exemptions.

#### Disadvantages:

The sales tax is regressive, falling hardest on the low-income groups. However, exemptions can lessen this impact. Although responsive to inflation, sales tax revenue also falls when consumer buying declines. This can be a problem for transit systems, because their costs are usually constant or increasing. A shortfall can occur, as it recently did in Chicago, when revenue from a regional sales tax fell below projections.

### Property Tax

Nationwide, the property tax is the chief source of local revenue and local assistance to many transit systems. The tax revenue may be either earmarked for transit or appropriated from the general fund, which is fed primarily by property taxes. The taxes may be levied by the locality or by a special transportation authority. Rates vary, but, as Table 3 shows, in the communities surveyed by USCM the tax rates did not exceed 1% of assessed values. For example, the Twin Cities have a 1.7 mill regional property tax dedicated to transit.

#### Advantages:

The property tax is broad-based, and it has high yield potential. Theoretically, if assessments are made accurately and frequently, property tax revenue should increase with inflation. Many jurisdictions have used this tax to support transit, and it is considered mildly progressive.

### Disadvantages:

The equity of the tax is undermined by imperfect assessment procedures, which often result in underassessment of property in areas with few or no recent sales. Because of infrequent reassessments, revenues can fall when adjusted for inflation.

Property taxes are also more unpopular than most taxes with voters. The USCM study reported 65% of the responding mayors rated property tax increases the least politically desirable means of subsidizing local transit. Many States, most notably California and Massachusetts, have limited property taxing authority. Indiana has also had a freeze on local property tax rates since 1975.

### Payroll Tax

Only the State of Oregon has authorized local transit agencies to levy a payroll tax. Tri-County Metropolitan Transit District (Portland) imposes a .6% payroll tax, and the Lane County Mass Transit District (Eugene) puts a .54% tax on the total payroll paid by local businesses. A flat-rate tax on employers' payrolls within a taxing jurisdiction is the most discussed form of the tax and the easiest to administer. Whether the tax may be deducted from Federal income taxes as a business expense is unresolved.

### Advantages:

It is argued that the availability of public transit is a benefit to employers for which they should be taxed. A payroll tax can generate substantial revenue, and it is responsive to economic changes, increasing with the growth of jobs and wages.

### Disadvantages:

The fact that the employer already pays several employee-related expenses, including social security, unemployment, and pension benefits, is a disadvantage of a payroll tax. Also, like other broad-based taxes dedicated to specific services, a payroll tax tends to discriminate against those who do not benefit directly from the service, such as employers whose workers do not have convenient access to transit or employers who provide parking spaces for employees.

### Income Tax

An employee paid payroll or income tax has also been suggested as a revenue option for transit. Some form of income tax is imposed by 41 State and 4,000 local governments. However, Cincinnati, Ohio, is the only local jurisdiction that has earmarked a portion of its local income tax for transit support.

### Other Broad-Based Taxes or Revenue Sources

In Lafayette, Indiana, the transit district taxes bank assets. In Missouri, the Springfield City Utility Corporation operates the mass transit system and applies any profits from the gas and electric operations

to the transit deficit. New York State has a tax on mortgages on real property, a portion of which is remitted to local transit authorities. In Oklahoma City, the municipal parking supply and the transit system are under a single authority. Revenue from municipal parking lots is used to help pay the operating costs of the transit system.

### Lottery

As of 1977, 13 States operated lotteries. In Pennsylvania, lottery receipts are partially dedicated to transit to make up for the income lost by local agencies because of the reduced fares paid by senior citizens during off-peak hours. In 1981, the Arizona Legislature established the Local Transportation Assistance Fund, which is financed by a share of the State lottery proceeds.

## CHARGES ON MOTOR VEHICLE USERS

It can be argued that motor vehicle users benefit from the presence of public transit and, therefore, should be taxed to support the service.

### Motor Fuels Tax

A tax on motor fuels is considered benefit-related because a relationship can be shown between the tax and benefits to auto users. For example, auto users benefit from less congested streets because of transit, and they enjoy the stand-by service provided by transit in case of emergency. These taxes also increase driver cost, which theoretically reduces auto use and congestion.

A motor fuels tax is imposed by all State governments. It is usually a per gallon charge, based on the number of gallons sold - not the amount of the sale. In 1981, State rates ranged from 5¢ to 14¢ per gallon.

Interest is building for a more flexible motor fuels tax structure. Washington State, for example, has instituted a variable rate tax with a floor of 9¢ and a top of 12¢. The rate in any fiscal year depends on the State's assessment of its revenue needs. Some States have begun a move to change the motor fuel tax from a per gallon base to a sales base, which would make the tax more inflation responsive. A few States, Illinois, Florida, Tennessee, and Virginia, authorize local jurisdictions or regions to tax motor fuels and to earmark a portion of the revenue for transit.

#### Advantages:

Motor fuel taxes have been the most productive of the highway-user levies, and they are easy to collect.

#### Disadvantages:

The tax yield does not rise with inflation. The purchasing power of fuel tax revenue has eroded to the point that each 1979 dollar generated by motor fuel taxes is worth 38¢ in 1970 prices. To increase revenues, Legislatures must vote to raise the per gallon rate--never a popular move.



Revenue also decreases automatically with decreased gas consumption. In 1979, gas tax revenue declined in 31 States as a result of reduced sales.

### Motor Vehicle Taxes

Vehicle registration taxes provide a relatively small but stable income for most State treasuries. Some States, such as Virginia, allow municipalities to impose personal property taxes on vehicles. Washington State has a 2% tax on the the value of motor vehicles, a share of which is dedicated to transit.

### Bridge and Tunnel Tolls

New York, Philadelphia, and San Francisco have used tolls to help finance local transit. For example, the Triborough Bridge and Tunnel Authority annually contributes over a \$100 million to meet New York City's transit deficit.

#### Advantages:

Tolls can be substantial revenue producers. Over-head is low, since collection procedures are usually in place. In terms of equity, tolls are considered a legitimate charge to motorists entering congested areas that would be more crowded if transit were not available.

#### Disadvantages:

Only a few jurisdictions have toll facilities or the opportunity for them. There are often legal difficulties in using toll revenue to subsidize transit.

### Commercial Parking Taxes

Taxes on commercial parking are collected from parking operators and may be borne by either the parker or the operator, depending on the strength of the parking demand. In New York City, a 6% tax yields about \$12 million annually. It is maintained that the most equitable type of parking tax would be a charge on all long-term downtown parkers who use either private or public lots.

#### Advantages:

Increased parking charges may encourage auto drivers to use transit.

#### Disadvantages:

Parking taxes discriminate against drivers who are obliged to use commercial parking facilities and tend to encourage suburban shopping and job seeking, where parking is free.

## CHARGES ON PROPERTY BENEFITTING FROM TRANSIT

There is a growing interest among public officials in strategies that allow transit systems to share with the private owners the increases in land values that result from public transit improvements. To tap this source of revenue, a jurisdiction may levy a service charge or special assessment on the property or dedicate the additional tax revenue resulting from the property's increased value to transit.

### Service Charge

Under this technique, properties adjacent to transit stations are charged a fee for direct access to the facility. The fee may be paid annually or in a lump sum by the developer. These charges are comparable to payments made when an individual property is connected to a water or sewer system. The charges may be in the form of a capital item, such as a pedestrian walkway, or an annual contribution to operating costs, such as station maintenance.

Toronto requires connecting property owners to pay all capital costs of extending pedestrian ways to transit stations. In the United States, there are a few examples of public-private cost-sharing provided for in access agreements, such as in New York's Rockefeller Center and Citicorp Center. Although developers in the United States traditionally have resisted paying for transit access or sharing the cost of station construction or maintenance, this attitude may be changing as developers reassess the value of transit access. For example, several banks in Toledo, Ohio, are paying the maintenance costs of new downtown bus shelters, in which they are installing automatic teller machines. The Mobil Land Development Corporation is paying Arlington County, Virginia, a portion of the cost of a pedestrian tunnel connecting an office-residential complex with a subway station.

### Special Benefit Assessment

Under this concept, a jurisdiction levies a special charge or assessment on properties within a designated district that benefit directly from a specific public improvement. Assessments may be based on front footage, lot area, appraised value of land or a combination of factors. To finance the improvement, a locality usually issues bonds with the income from the special assessment pledged as security. Some issues also have the backing of the local general fund. When the bonds are retired, the special assessment is removed.

Special benefit assessments have been used most commonly to finance infrastructure for residential development, such as sewers, streets, curbing, and sidewalks. In addition, special benefit assessments have been a mechanism for financing downtown malls, such as Nicollet Mall in Minneapolis, Minnesota, and the State Street Mall in Madison, Wisconsin.

In California, local jurisdictions have the authority to create special districts adjacent to and along the route of a municipal transit system. The City of San Francisco recently passed an ordinance designating all downtown office space as a special assessment district and dedicating

the revenue to the local transit system. The tax rate and the district boundaries have not been set. The City also approved an ordinance to levy a one-time, \$5 per square foot transit fee on all new, enlarged, or converted office space in downtown. This ordinance has been challenged by developers, but no court decision has been made yet.

### Tax Increments Dedicated to Transit

Economists and other theoreticians see the potential for financing public transit capital and operating costs with value capture taxes, or special, new levies on properties that have increased in value because of public investments. But value capture taxes, which have no precedent in the United States, have two practical limitations for transit financing in most communities. First, value capture taxes are most appropriate for jurisdictions with fixed rail systems, where property value increases are concentrated. Second, it is very difficult, as a practical matter, to isolate transit induced values from other economic forces at work in an area. Identifying and defining the boundaries of such a district are also problems. In addition, since the amount of increased value cannot be accurately projected, it is an uncertain base for financial planning.

Despite the problems inherent in techniques based in value capture, the dedication of property tax increments, generally referred to as tax increment financing, may be a useful tool. The procedure involves freezing, as of a base date, the real estate tax base in a benefit area. Tax revenues at the preinvestment level continue to flow to the general fund, but the increased revenues, resulting from property values rising above the base, are earmarked for financing the improvements. The details of how the technique can work vary depending on State enabling legislation and local codes.

Tax increment financing, authorized in at least 12 States, has been used most frequently in California and Minnesota to provide funds for redevelopment projects. Between 1952 and 1978, over 200 redevelopment projects in California used the technique. Los Angeles has had 15 tax increment financed redevelopment projects, ranging from central business district projects to neighborhood revitalization. So far, however, the Embarcadero Station in San Francisco is the only transit project that has made use of the technique.

Tax increment revenues can be used in several ways to finance capital improvements.

- Backing for general obligation bonds. A jurisdiction may issue bonds for a proposed improvement, financing them with the tax increment revenue anticipated from the project. But if revenue shortfalls occur, general funds must be used to pay the debt service.
- Backing for tax allocation bonds. A local government pledges increases in tax revenues as security for bonds. In addition, the public body has the option to levy a special assessment within the project area if the tax base does not increase as expected. In some States, tax allocation bonds are not subject to voter approval and municipal debt limits.

- Pay-as-you-go. A local jurisdiction can use increases in tax revenue to build up a fund to finance improvements on a pay-as-you-go basis. It may take years to accumulate enough funds to make the improvement.

Despite its successful use for redevelopment projects in California, this technique is controversial. Many point out that it is more popular with the theoreticians than with the politicians.

#### Advantages:

Improvements may be financed, at least, in part, from the increased revenues they generate and, thus, reduce the need to tap other revenue sources. Significant amounts of capital can be raised by borrowing on the basis of expected increased tax revenues.

#### Disadvantages:

The projected increases in value may not occur, and scarce general revenue funds may have to be used to finance the improvement. Since the tax base in the project area is frozen for general revenue purposes, schools and other public services are deprived of access to increased revenues. This impact can be lessened by permitting excess funds, over and above those needed to finance the improvement, to flow to existing taxing jurisdictions.

## BORROWING STRATEGIES

When transit was in private hands, capital expenditures were financed by floating bonds and selling stock. As deficits began to mount and transit systems were taken over by public agencies, these conventional sources of capital funds were closed off. The Federal and some State governments then stepped in and began to finance transit's capital needs with grants. Since the mid-1970s, these grants have financed most of transit's capital outlays.

Because capital costs are far outpacing Federal and State appropriations, local governments are likely to have to provide an increasing share of capital funds. To meet these needs, some localities are taking a new look at conventional as well as innovative types of bonds. Bonds will probably not be an appropriate finance tool for small transit authorities, but for those systems with large scale capital needs, bonds may serve a useful purpose.

### Conventional Revenue and General Obligation Bonds

To be saleable at favorable interest rates, transit system bonds must have strong financial backing. Currently, local areas are trying to accomplish this in the following ways:

- Pledging revenues of an earmarked tax. The Bay Area Rapid Transit District (BART) bonds are backed by both earmarked property and sales tax revenues.

- Pledging surplus revenues of other public enterprises. The Lindenwold rail connection between Philadelphia and New Jersey was financed by bonds backed by the Delaware River Port Authority. The BART tunnel under San Francisco Bay was financed by bonds guaranteed by the California Toll Bridge Authority.
- Pledging the full faith and credit of a State or local government to repay bonds, and guaranteeing that the interest and principal will be paid from general funds.
- Pledging that bonds issued by a transit district or authority will be guaranteed by participating local jurisdictions, according to a formula. Bonds sold by the Massachusetts Bay Transportation Authority (MBTA) are repaid in part by municipalities under an allocation formula set up by the State Legislature. The State is also liable for any MBTA unpaid debt service charges.

Although most governmental units can borrow for capital needs, the process is often complicated by State regulations. Some States limit general obligation bonds to a percentage of assessed taxable property. Others require bond issues to be approved in referendum. Sometimes limitations have been avoided by channelling bond sales through agencies free of debt restrictions. For example, the Embarcadero Station in San Francisco was financed by bonds sold by the San Francisco Redevelopment Authority.

In addition to conventional bonds, some innovative techniques for raising capital funds show promise for transit agencies.

#### Equipment Trust Certificates

The sale of equipment trust certificates is a technique used by railroads and airlines to finance large purchases of capital equipment. Southern California Rapid Transportation District (SCRTD) is the first transit agency to use this technique to raise local matching share funds for the purchase of new buses.

The feature distinguishing equipment trust certificates from other trust certificates and notes is that the certificates are secured, in part, by the equipment purchased with the certificate proceeds. The certificate trustees hold title to the equipment which they lease back to the user for an amount that equals debt service.

Provisions of the equipment trust certificate ordinarily require that the certificates be backed by a cash reserve fund. The reserve, plus the fair market value of the equipment, must at all times equal a specific percentage above the principal amount of the outstanding certificates. The title to the equipment reverts back to the borrower when the note is paid in full. If the certificate is issued by a public agency, it is tax-exempt.

Because equipment trust certificates have the advantage of providing a relatively low-risk investment, they can be sold at lower interest rates than more conventional securities marketed in the region.

## Tax-Exempt Industrial Revenue Bonds

The Economic Recovery Tax Act of 1981 has made several changes in the Federal tax law to facilitate the financing of mass transit equipment. Under new Section 103 (b) (4) (I) of the Internal Revenue Code, tax-exempt industrial revenue bonds may be issued to finance "qualified mass commuting vehicles" owned by a nontax-exempt person and leased to a governmental unit, such as a transit authority. A "qualified vehicle" is any bus, subway car, rail car, or similar equipment that is leased to a mass transit system wholly owned by one or more governmental units and used by the system to provide commuting services to the general public.

## Safe Harbor Leasing

Under the Economic Recovery Tax Act of 1981, a transit authority can issue tax-exempt obligations and lend the proceeds to a tax-paying entity that will acquire and then lease the transit vehicles back to the agency. The provision, called Safe Harbor Leasing, allows the tax-paying company or lessor to receive favorable tax benefits of ownership, including depreciation deductions allowed under the Accelerated Cost Recovery System provision of the Act. The new tax law also simplifies the transfer of interest payment deduction benefits from a transit authority to the lessor. In return for the tax benefits flowing from depreciation and interest deductions, the lessor finances a portion of the cost of the transit equipment. Currently, transit agencies can transfer tax benefits only from the equipment they finance with local funds.

To enjoy the tax benefits of ownership, a lessor must meet the following requirements.

- The lessor must invest at least 10% of the cost of the vehicles.
- The lessor and the transit authority must engage in a lease that is no longer than 90% of the useful life of the vehicles or 150% of the depreciable life of the equipment.

Under the Act, the transit authority is permitted to include in the leasing agreement a fixed price for which it can buy the vehicles at the end of the lease term. This lease arrangement effectively eliminates any uncertainty about the total cost of financing the vehicles. They may be sold to the transit agency for as little as \$1.00 each.

The Metropolitan Transportation Authority in New York City is taking advantage of these new tax law provisions and saving millions on the purchase of subway cars and buses by selling the depreciation tax-breaks to a private company.

Safe Harbor Leasing is highly controversial. Congress may revise the 1981 Economic Recovery Tax Act, and transit agencies may or may not continue to be eligible to take part in Safe Harbor Leasing.

## Grant Anticipation Notes

Grant Anticipation notes may be used by a transit system to provide working capital prior to the receipt of its Federal or State operating subsidies, thus avoiding mid-year cash deficit crises experienced by some agencies.

The Southeastern Pennsylvania Transportation Authority (SEPTA) recently authorized the sale of \$30 million in one-year, tax-exempt notes. SEPTA may borrow note proceeds only after it has received executed operating subsidy contracts from either the State or Federal governments. Payment is also guaranteed by a municipal bond guaranty insurance policy. Because grant anticipation notes are tax-exempt and can be sold at lower than normal interest rates, SEPTA officials expect that the income from the investment of the funds will offset the cost of borrowing.

## JOINT VENTURES WITH THE PRIVATE SECTOR

"Transit Means Business," a slogan of the American Public Transit Association, speaks to the inherent link between the private sector and transit. For some agencies, participating with private developers in commercial projects has been good business, resulting in increased income. Among the many forms of possible cooperation between public agencies and private developers are: leasing air-rights, leasing property adjacent to transit facilities, and direct participation in land development.

### Leasing Air-Rights Over Transit Facilities

The sale or lease of air-rights over a station or other transit facilities is the least complicated type of income-producing development. It does not require significant capital outlays or land acquisition. There are several instances where a transit agency has leased or is in the process of leasing the air-rights above a subway station or bus terminal to a private developer. The developer constructs and manages the building and pays the agency an annual rent, plus, in some cases, a percentage of the retail sales. Leasing is generally preferred over selling, because the agency retains control over the property and can enjoy its long term appreciation. Denver Regional Transportation District has recently leased the air-rights above a downtown transit center to a private developer for a high rise office building.

This technique is limited to the relatively few situations where air-rights projects are economically feasible. Typically, these sites are only in high value areas of major cities.

### Leasing Property Adjacent to Transit Facilities

Although there are problems associated with leasing excess transit-owned property, it can be a money-making strategy. Washington Metropolitan Area Transit Authority (WMATA) is leasing land adjacent to a suburban subway station to a commercial developer. Other agencies have land, once used for storage or maintenance facilities, that can be leased profitably for commercial development.

State and local laws regulate what a public body can do with supplemental property, and this may limit an agency's options. If the land was not acquired originally as supplemental property, there are fewer legal restrictions.

#### Participation in Land Development

There are no examples in the United States where a transit agency has provided capital investment funds and become an active participant in commercial land development projects. The administrative and legal problems would be complex. In addition to getting local statutory authority, a successful outcome would require knowledge and experience in the real estate market--skills most public authorities lack. But as times and philosophies change, this approach may become feasible.

#### Cost-Sharing

Some transit agencies are sharing capital and service costs with private entrepreneurs. The Toledo Area Regional Transit Authority has obtained private funds to support projects related to a new, downtown transit loop. In Des Moines, a private real estate firm and the transit system have shared the expenses of starting bus service to an outlying community.

### TRENDS AND FUTURE DIRECTIONS

Clearly, transit agencies are pursuing a variety of strategies to increase their income from non-farebox sources. Although each local situation is different, some industry trends are apparent. The number one financial goal of most systems is an assured source of revenue that is responsive to inflation and provides the agency with some degree of financial independence. As a result, most agencies prefer a dedicated tax to an annual general fund appropriation that varies from year to year and often comes with strings attached. On the other hand, the earmarked tax that generates inadequate revenue is seen as a disadvantage, because it may inhibit the State or local government from making other funds available. Localities with dedicated property taxes often find this a problem.

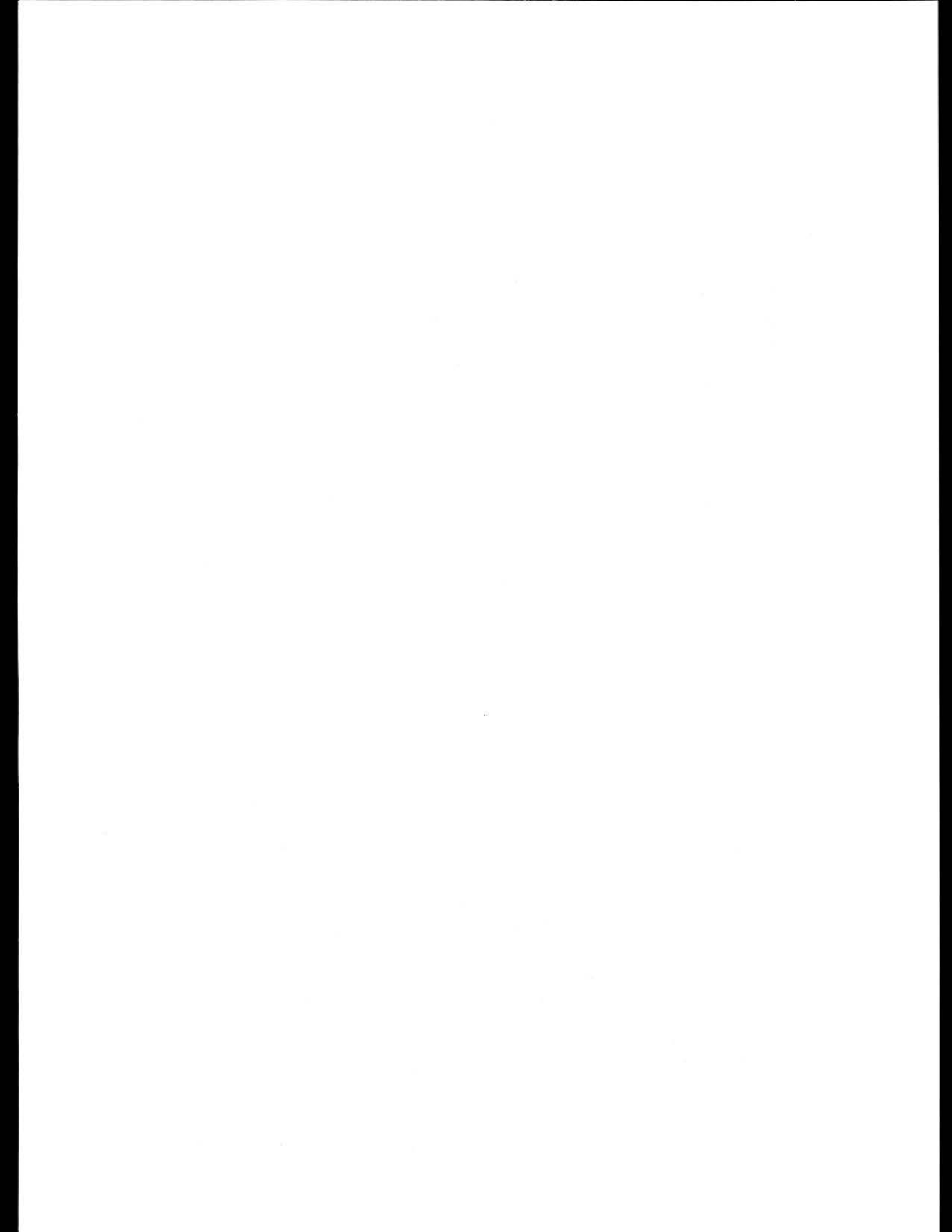
Some agencies are moving to switch, if they can, from traditional, flat rate, gas and property taxes to dedicated taxes based on retail sales or income, because these levies meet with less public resistance and are more sensitive to economic changes. The dedicated regional sales tax appears to be the tax of choice for many agencies because it has the potential to generate income adequate to support operations and to guarantee revenue bonds for capital improvements.

Agencies without an adequate single tax source often find it necessary or politically expedient to build a broad-based support package that draws revenue from several unrelated sources. Large cities, like New York and Chicago follow this strategy.

Finally, it is apparent that agencies are experimenting increasingly with complex borrowing and income producing techniques. A few systems are



using new borrowing mechanisms, such as equipment trust certificates and industrial development bonds, that are more attractive to the private sector than conventional bonds. Others are adopting tax strategies that tap the increased property values generated by the availability of transit service facilities. Also, agencies are looking at the potential of making money from leasing air-rights or excess property to private developers. Those agencies successfully taking these non-traditional approaches have had to develop expertise in a variety of financing techniques and the workings of the real estate market.



## Chapter 3

### CONTACTS AND CURRENT PROGRAMS

Information about transit financing can be obtained from the following Federal government offices and national organizations.

#### U.S. DEPARTMENT OF TRANSPORTATION

##### Urban Mass Transportation Administration

- Office of Transit Assistance. Administers capital and operating assistance programs.  
Contact: Robert McManus  
Associate Administrator for Grants  
Management, UGM-1  
Room 9306  
400 7th Street, S.W.  
Washington, D.C. 20590  
(202) 426-4020
- UMTA Field Offices (see Table 5).

#### U.S. ADVISORY COMMISSION ON INTERGOVERNMENTAL RELATIONS

This Federal Commission studies policies of Federal, State, and local governments, and how they affect each other.

Contact: Albert Davis  
Senior Analyst  
1111 20th Street, N.W.  
Washington, D.C.  
(202) 653-5548

#### AMERICAN PUBLIC TRANSIT ASSOCIATION

This professional organization represents transit operators.

Contact: Robert Stanley  
Director, Planning and Policy Analysis  
American Public Transit Association  
1225 Connecticut Avenue, N.W.  
Washington, D.C. 20036  
(202) 828-2872

#### UNITED STATES CONFERENCE OF MAYORS

This organization represents the mayors of cities in the United States with populations of over 30,000.

Table 5

UMTA FIELD OFFICES

Region I	Richard Doyle, Regional Director, Transportation Systems Center, Kendall Square, 55 Broadway, Suite 904 Cambridge, MA 02142, Tel: (617) 494-2055.
Region II	Alfred A. DelliBovi, Regional Director, Suite 14-130, 26 Federal Plaza, New York, NY 10007 Tel: (212) 264-8162.
Region III	Peter N. Stowell, Regional Director, Suite 1010, 434 Walnut Street, Philadelphia, PA 19106 Tel: (215) 597-8098.
Region IV	Carl B. Richardson, Regional Director, Suite 400, 1720 Peachtree Road, N.W., Atlanta, GA 30309, Tel: (404) 881-3948.
Region V	Joel Ettinger, Regional Director, Suite 1720, 300 South Wacker Drive, Chicago, IL 60606, Tel: (312) 353-2789.
Region VI	Glen Ford, Regional Director, Suite 9A32, 819 Taylor Street, Fort Worth, TX 76012, Tel: (817) 334-3787.
Region VII	Lee Waddleton, Regional Director, Suite 100, 6301 Rock Hill Road, Kansas City, MO 64131, Tel: (816) 926-5053.
Region VIII	Louis Mraz, Regional Director, Suite 1822, Prudential Plaza, 1050 17th Street, Denver, CO 80265, Tel: (303) 837-3242.
Region IX	Dee Jacobs, Regional Director, Suite 620, Two Embarcadero Center, San Francisco, CA 94111, Tel: (415) 556-2884.
Region X	Aubrey Davis, Regional Director, Suite 3142, Federal Building, 915 Second Avenue, Seattle, WA 98174, Tel: (206) 442-4210.

Contact: Leonard S. Simon  
Assistant Executive Director  
1620 I Street, N.W.  
Washington, D.C. 20006  
(202) 293-7330

## STATE PROGRAMS

These four programs illustrate different approaches toward State funding of local transit.

- California - Sales Tax Earmarked For Transit

Currently, 0.25% of the 6% State sales tax is returned to county treasuries for transit support. Once transit needs have been met, counties may use remaining funds for streets and roads. The sales tax revenue is the largest single source of local transit subsidy in California, generating \$361 million in 1980-81.

In 1979, the Legislature authorized the State to distribute, on a formula basis, an additional \$70 million in sales tax revenue to local areas for transit use only.

Contact: David Brewer  
Chief, State Assistance Branch  
Division of Mass Transit  
California Department of Transportation  
Sacramento, California  
(916) 322-4836

- Maryland - Transportation Fund

Since 1971, local transit in Maryland has been subsidized by the Maryland Consolidated Transportation Fund, which is fed by a 9¢ per gallon gasoline tax, a 5% motor vehicle titling tax, license and registration fees, and a portion of the State corporate income tax. Funds are distributed to local transit agencies on a service-based formula. In 1980, \$256 million was allocated.

Contact: Carl Osterman  
Director of Finance  
Mass Transit Administration  
of Maryland  
109 East Redwood Street  
Baltimore, Maryland 21202  
(301) 383-6221

- Pennsylvania - Lottery

In 1972, the Pennsylvania Legislature authorized a statewide lottery to benefit senior adults. A portion of the lottery proceeds was dedicated to local transit agencies to compensate for losses in revenue incurred by giving free rides to elderly persons during off-peak hours. This is the principal form of State assistance to local transit in Pennsylvania. In 1980-81, \$21.5 million was distributed to local agencies in 50 Pennsylvania counties.

Contact: Susan Wolfinger  
Bureau of State Lottery  
2850 Turnpike Industrial Drive  
Harrisburg, Pennsylvania 17127  
(717) 787-1178

- Arizona - Lottery

In 1981, the Arizona Legislature established the Local Transportation Assistance (LTA) Fund. A portion of the State Lottery proceeds--up to a maximum of \$190 million over the next 10 years--is deposited in this fund. Any incorporated city or town may apply annually for its share of these monies to be used for any transportation purpose (highways, airports, rail, or transit). The Cities of Phoenix and Tucson will spend their 1981/82 allocations (estimated to be \$8.1 million and \$3.4 million, respectively) on transit-related projects.

Contact: Suzanne Sale  
Resource Management Group  
Arizona Department of Transportation  
206 S. 17th Avenue - Mail Drop No. 207B  
Phoenix, Arizona 85007  
(602) 261-7748

## LOCAL PROGRAMS

### Sales Tax Dedicated To Transit

- Atlanta, Georgia

Metropolitan Atlanta Rapid Transit Authority (MARTA) receives revenue from a 1% retail sales tax levied in Fulton and DeKalb Counties. The tax is collected by the State and returned to the Authority. No more than 50% of the revenue may be used for operating expenses, the rest is earmarked for capital projects.

The sales tax rate was scheduled to drop to 0.5% in 1980, but the State Legislature extended the 1% rate until 1997. MARTA is using this guaranteed source of revenue to finance the construction of a major portion of its subway system. The estimated sales tax revenue for 1982 is \$110 million.

Contact: Robert M. Brennan  
Director, Public Information  
Metropolitan Atlanta Rapid Transit Authority  
2200 Peachtree Summit  
401 West Peachtree Street, N.E.  
Atlanta, Georgia  
(404) 586-5000

- Houston, Texas

In 1978, Houston and parts of Harris and Montgomery Counties established the Metropolitan Transit Authority (MTA) and authorized it to levy a 1% regional sales tax to cover operating and capital costs. The tax revenue has increased 10 to 15% per year, and it is estimated that it will have accrued in excess of \$1.5 billion by

1988. In 1980, the tax generated approximately 70% of the system's revenue.

Contact: G. William Kern  
Finance Director  
Metropolitan Transit Authority  
401 Louisiana Avenue  
Houston, Texas 77208  
(713) 225-1151

● San Francisco, California

The San Francisco Bay Area Rapid Transit (BART) system receives 0.25% of the State sales tax collected in the three counties served by BART-Alameda, San Francisco and Contra Costa. An additional 0.5% sales tax is levied in the three counties, and three-quarters of the revenue goes directly to BART. The remaining one-fourth goes to the Metropolitan Transit Commission (MTC), which has the authority to allocate funds to local transit systems, provided that at least 35% of a system's total operating costs are recovered from farebox revenues. In 1979, sales tax revenues covered over 50% of BART's operating costs.

Contact: W.F. Goelz  
Director of Finance  
San Francisco Bay Area Rapid  
Transit District  
800 Madison Street  
Oakland, California 94607  
(415) 465-4100

● Columbus, Ohio

In 1980, the Central Ohio Transit Authority (COTA) switched its source of local tax subsidy from a dedicated property tax to a 0.5% regional retail sales tax. The sales tax is estimated to yield \$17.5 million in 1981, a dramatic increase over the revenue generated by the property tax. Other Ohio localities have switched from a property to a retail sales tax.

As part of the 1980 tax package approved by the voters, COTA has the authority to levy a sales tax for five years but is obligated to finance six years of service. Therefore, COTA must put aside revenue each of the five years to finance the sixth.

COTA also pledged to distribute the tax funds in the following manner:

- 50% to cover operating expenses
- 25% to acquire new buses
- 25% to go to other capital projects

Contact: Shirley Traser  
Finance Coordinator  
Central Ohio Transit Authority  
51 High Street  
Columbus, Ohio 43215  
(614) 275-5800

- Vancouver, Washington

Vancouver and Clark County have formed a Public Transportation Benefit Area (PTBA). Under legislation enacted by the Washington State legislature in 1975, any PTBA is authorized to levy a local sales tax up to 0.3% above the State tax with voter approval. A transit authority serving a PTBA, however, is eligible to have its local sales tax share matched by the State from the motor vehicle excise tax, dollar for dollar up to the level of the excise tax collected in the local area. In 1980, the Vancouver PTBA received sales tax revenues of \$2.7 million, plus excise tax revenues of \$2.3 million. PTBAs have been formed in many other urban areas and counties since enactment of the legislation.

Contact: Les White  
Executive Director  
C-TRAN  
1104 Main Street  
Vancouver, Washington 98660  
(202) 696-4494

#### Property Tax Dedicated to Transit

- Lafayette, Indiana

Transit in Lafayette, Indiana is operated by a public transportation corporation that has the authority to levy a property tax within the transportation service district. Since a 1975 freeze on property taxes in Indiana, the rate has remained 10¢ per \$100 of assessed valuation. The revenue from this tax covers approximately 70% of the local transit subsidy. The funds may be used for capital or operating expenses. Four other localities in Indiana have public transportation corporations; Fort Wayne, Gary, South Bend, and Indianapolis.

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- St. Paul-Minneapolis, Minnesota

The cities of St. Paul and Minneapolis and seven surrounding counties make up the Metropolitan Transit District (MTC). State legislation gives the District the authority to levy up to a \$1.7 mill tax (mill = 1¢ per \$1000) on all assessed property in the district. The tax, collected locally and transferred to the District, represents about 90% of the local operating subsidy. The State also gives the District the authority to levy an unlimited property tax to meet debt service costs on capital expenditures. In 1981, the capital levy was \$.17 mills.

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Budget Director  
Metropolitan Transit Commission  
801 American Center Building  
160 East Kellogg Boulevard  
St. Paul, Minnesota 55101  
(612) 221-0939



## Payroll Tax

- Portland, Oregon

When the Tri-County Metropolitan Transportation District consisting of Portland and the surrounding counties was established in 1970, it was also given power to levy up to a 0.6% employer-paid payroll tax on businesses operating within the District. Operating expenses must be paid first before any capital expenditures are made. In 1980, the tax generated \$35 million, or 55% of the system's operating budget. Revenue has increased annually, because of inflation and growth in employment.

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Director of Finance  
Tri-County Metropolitan Transportation  
District  
4012 E. 17th Avenue  
Portland, Oregon 97202  
(505) 238-4915

## Income Tax

- Cincinnati, Ohio

The City of Cincinnati levies a 0.3% earnings tax on the annual earned income of people who work in or live in the City. The revenue is dedicated to help cover transit's operating costs.

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Secretary Treasurer  
Southwest Ohio Regional Transit  
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(513) 651-3020 or 621-9450

- Newport, Kentucky

Since 1978, funds from an Occupations Tax have provided local assistance to the Transit Authority of Northern Kentucky, which serves a three county area around Newport. The tax, called a license fee, is based on the annual earnings of people working in the three-county area. In 1981, the rate was 0.4%, and the tax generated \$1.4 million.

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Accounting Supervisor  
Transit Authority of Northern  
Kentucky  
11th and Lowell Streets  
Newport, Kentucky 41071  
(606) 431-2734

## Household Taxes

- Tacoma and Spokane, Washington

Until 1980 Tacoma and Spokane, Washington, financed their local transit subsidies with a monthly tax on households; 75¢ in Tacoma and \$1 in Spokane. Both have recently formed Public Transportation Benefit Areas and have switched from the household tax to a local sales tax.

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Jerry Haight  
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S.T.A.R.T.  
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Spokane, Washington 99201  
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#### Professional Service Tax

o Chicago, Illinois

In 1981, the Chicago City Council imposed a 1% tax, dedicated to transit on the value of services provided by professionals within Chicago as well as those performed outside Chicago for city residents. The Chicago Bar Association has filed suit against the tax, claiming taxation of services performed outside the City violates the State constitution.

Contact: P.J. Kole  
General Finance Manager  
Chicago Transit Authority  
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Chicago, Illinois 60654  
(312) 664-4500

#### Motor Fuels Taxes

● Baltimore, Maryland

The Maryland Consolidated Transportation Fund, which finances public transit in Maryland, is made up of state-wide revenues from many sources, including a 9¢ per gallon gasoline tax and 5% motor vehicle excise tax.

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Mass Transit Administration of Maryland  
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(301) 383-6221

● Dade County, Florida

Motorists in Florida pay 8¢ per gallon in State gasoline tax. One cent is returned to the municipalities for general transportation needs. An additional 1¢ is returned to the counties and earmarked for transit. Metropolitan Dade County Transportation Administration received over \$5 million, 10% of its FY 1978-79 budget, from the gas tax.

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Comptroller  
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Miami, Florida 33152  
(305) 638-6127

### Motor Vehicle Excise Tax

- Seattle, Washington

Washington State imposes an annual 2.2% excise tax on the fair market value of motor vehicles. Seattle METRO is eligible to receive 45.45 percent of this tax (that is 1% of the 2.2%) to support transit if matched by locally-generated revenues for transit support. King County, which includes Seattle, meets this requirement by dedicating a local 0.6% sales tax to METRO. In 1981 when the sales tax was 0.4%, the excise tax generated \$25 million.

Contact: Michael Mulcahy  
Seattle METRO  
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Seattle, Washington 98104  
(206) 447-6653

### Motor Vehicle Registration Tax

- Detroit, Michigan

In 1979, a flat rate of \$2.50 for vehicle registration and \$6 for vehicle title transfer was charged by the three counties in the Southeastern Michigan Transportation Authority (SEMTA) district and dedicated to fund SEMTA's service in those counties. These taxes yielded \$13.5 million in 1979.

Contact: Richard Beattie  
Director, Finance and Administration  
Southeastern Michigan Transportation  
Authority  
660 Woodward Avenue  
Detroit, Michigan 48226  
(313) 256-8600

### Tolls

- San Francisco, California

Up to 50% of the surplus revenue from the Golden Gate Bridge may be used to subsidize the service of the Golden Gate Bridge, Highway and Transportation District Transit System. In 1979, 39% of the Transportation District's operating revenues came from bridge tolls.

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Transportation District  
Box 9000, Presidio Station  
San Francisco, California 94129  
(415) 921-5858

### Tax Increment Financing

- Los Angeles, California

Since the mid-1970s, California jurisdictions have had the authority to finance redevelopment with the tax increments generated by the projects. Los Angeles has used tax increments to finance 15 redevelopment projects, including several in the central business district and in residential neighborhoods. The tax increment funds

are used for a wide range of redevelopment costs, such as land acquisition and building rehabilitation.

Contact: John McGuire  
Director of Community Affairs  
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of the City of Los Angeles  
354 S. Spring St.  
Los Angeles, California 90013  
(213) 977-1660

### Special Benefit Assessment

- San Francisco, California

In 1981, San Francisco's Board of Supervisors passed enabling legislation authorizing a downtown special assessment district with proceeds dedicated to subsidizing the operating costs of the Municipal Railway (MUNI). The district boundaries and the assessment rate are in the process of being defined.

In addition, San Francisco has authority to charge developers a one-time \$5.00 per square foot transit fee on all new or converted commercial space in the downtown area. The proceeds go to MUNI to help offset the additional transit service required by the new developments. The ordinance has been challenged by developers on the grounds that the fee is actually a tax for which a 2/3 vote of the electorate is required under the provisions of Proposition 13.

Contact: Sue Chelone  
Planner  
MUNI  
949 Presido Avenue  
San Francisco, California 94115  
(415) 558-3214

- Madison, Wisconsin

The City of Madison financed a major portion of its local share of the \$7.8 million State Street Mall improvements with revenue from a special assessment district. The district extended 264 feet back from the building line along the mall and around the Capitol. The assessment rate varied within the district, according to how close the property was to the mall or Capitol Concourse.

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Madison, Wisconsin 53709  
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### Equipment Trust Certificates

- Los Angeles, California

In 1980, the Southern California Rapid Transit District (SCRTD) raised \$29 million, the local matching share, for the purchase of 1,000 new buses by selling 10-year, tax-free, equipment trust certificates to private investors. SCRTD is the first transit agency to use this technique. The trust certificates were secured by the

buses purchased with the certificate proceeds. The certificate trustees hold title to 20% or 200 of the new buses and lease them back to SCRTD for an annual amount equivalent to the principal and debt service on the certificates. The pay back funds came from SCRTD's share of State sales tax revenues. The certificates are also backed by a cash reserve fund. The reserve fund plus the fair market value of the buses must, at all times, equal 125% of the principal amount of the outstanding certificates. When the certificates are paid in full, the title to the buses will revert to SCRTD. To further reduce the investor risk, SCRTD purchased an insurance policy guaranteeing repayment of the certificates.

SCRTD's experiment with equipment trust certificates appears to be successful. Because of the low-risk features of the certificates, SCRTD raised a large amount of capital quickly and at favorable interest rates. By ordering a large number of buses, SCRTD also got a low unit price.

Contact: Joe Scatchard  
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Southern California Rapid  
Transit District  
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Los Angeles, California 90013  
(213) 972-6581

#### Industrial Revenue Bonds and Safe Harbor Leasing

o New York, New York

The New York City Metropolitan Transit Authority (MTA) is the nation's first transit system to take advantage of the provision of the Economic Recovery Act of 1981 that allows the sale of tax-exempt industrial revenue bonds to finance the purchase of mass transit equipment. The MTA is also benefitting from another provision of the Act, called Safe Harbor Leasing, that allows a tax-exempt transit agency to sell the depreciation rights of equipment to a tax-paying private company.

In October 1981, the MTA agreed to lend Metromedia, Inc. the proceeds from the sale of \$87 million in tax-exempt industrial development bonds. In exchange, Metromedia has agreed to contribute \$15.5 million toward the purchase of \$102 million worth of rail cars and buses, and then to lease them to the MTA for an amount equal to the bond payments. The MTA will have the use of the needed cars and buses at a \$15.5 million savings, and Metromedia will be entitled to depreciation deductions on the new vehicles. The lease agreement includes a debt note and lease purchase agreement with the MTA which offset each other. For tax purposes, the interest income from the lease purchase is offset by the interest deduction on the debt note. However, the principal on the lease purchase is considered taxable income and will be the means by which IRS will collect deferred taxes even though no cash changes hands during the taxable year.

A nominal purchase price of \$1 per vehicle may be charged by Metromedia at the end of the lease term. Although in theory the length of the vehicle lease may exceed the term of the bonded debt requirement, the debt note given the MTA by Metromedia will be retired at the time that the vehicle lease term expires.

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#### Leasing--Air-Rights

##### o Washington, D.C.

In 1975, the Washington Metropolitan Area Transit Authority (WMATA) leased a site above a downtown subway station to a private developer for 50 years. The developer constructed a 14-level retail and office complex, known as 1101 Connecticut Avenue. For the development rights the developer pays WMATA an annual ground rent of \$248,000 and 50% of the project's annual net cash flow. Although the ground rent is fixed, the net cash flow payments will grow when improved sales or inflation increase the revenue from the project.

This project demonstrates the benefits of a long-term, public-private sector relationship. The project has been successful for the developer, and WMATA is receiving a substantial annual income from the project with relatively little risk or capital outlay. WMATA has also leased the development rights above the Rosslyn Metro Station.

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Washington Metropolitan Area  
Transit Authority  
600 Fifth Street, N.W.  
Washington, D.C. 20001  
(202) 637-1234

##### o Denver, Colorado

The Denver Regional Transportation District (RTD) has a joint development project underway, in which it is leasing the air-rights above a civic center and transfer facility to a private developer. The site is at the north end of the RTD transitway mall, located across from the State Capitol in downtown Denver. The developer is planning to construct a 600,000 square foot office and retail complex.

This lease differs in some ways from the WMATA arrangement. The developer will pay RTD \$100,000 a year while the building is under construction, and upon completion he will pay \$200,000 the first year, \$300,000 the second, and \$400,000 the third year and every year thereafter for 65 years. RTD will also get all revenue from underground parking as well as 38% of the project's profits after the developer's equity investment has been recovered.

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Denver, Colorado 80222  
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#### Cost-Sharing with Private Developer

##### o Toledo, Ohio

The Toledo Area Regional Transit Authority has obtained private funds to support projects related to a new, downtown transit loop. The Owens-Illinois Company will pay the local share, \$200,000 or 20%, of the \$1 million cost of the tunnel connecting its headquarters with the bus station. Similarly, Toledo Trust and Toledo Edison will pay the local share of walkways connecting their buildings with other stations. Several local banks will pay the maintenance costs of new bus shelters in exchange for the privilege of locating an automated banking machine in the shelter.

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## Chapter 4

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United States Conference of Mayors. Transit Financing. Prepared for United States Department of Transportation, Office of the Secretary. Washington, D.C.: 1980.

Presents an overview of national transit financing and discusses innovative financing alternatives as well as conventional revenue sources.

Urban Land Institute, with Gladstone Associates. Joint Development: Making the Real Estate-Transit Connection. Washington, D.C.: 1979.

Explores the techniques for public-private cooperation needed to complete successful joint development projects. The book is structured around case studies of projects in Philadelphia, Washington, D.C., Montreal, Boston and Toronto.