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# State and Local Governmental Responses to Increased Financial Responsibility for Public Transit Systems

November 1983



On the cover is a photograph of Seattle,  
Washington's waterfront streetcar. The  
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Transit Budget Administrator for the  
Municipality of Metropolitan Seattle (Metro).



# **State and Local Governmental Responses to Increased Financial Responsibility for Public Transit Systems**

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16. Abstract The original objective of the present research was to examine and assess the responses of selected state and local financial structures which support public transit and of the associated public transit systems to the phased withdrawal of federal operating assistance. While a phased withdrawal did not occur, the passage of the Surface Transportation Assistance Act of 1982 (STAA) did place caps upon the amount of federal transit assistance which could be used for operating subsidies and altered the method of disbursement of federal transit capital assistance funds. However, the full impacts of these changes in the federal transit assistance program have not been realized by all the respondents examined. Additionally, the impacts of the changes in the federal program are interwoven with effects of economic recession, tight state and local budgets and a variety of local phenomena which exist independently of a changing federal transit program. The report addresses the impacts of the STAA in all cases where those impacts have been examined by the respondent. STAA induced changes are separated from changes which derive from other causes. Every effort has been made to associate particular alterations in the financial structures and in the other factors examined with a particular causative process. This report examines by in-depth personal interview, the particulars of the financial structures supporting public transit in five states and the circumstances of six public transit providers located in those states. The perspective taken in the study is that of a financial manager confronting a set of laws, rules and regulations which direct and confine the tasks of financing a public transit system.			
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## EXECUTIVE SUMMARY

### INTRODUCTION

The original objective of the present research was to examine and assess the responses of selected state and local financial structures which support public transit and of the associated public transit systems to the phased withdrawal of federal transit operating assistance. While a phased withdrawal did not occur, the passage of the Surface Transportation Assistance Act of 1982 (STAA) did place caps upon the amount of federal transit assistance which could be used for operating subsidies and altered the method of disbursement of federal transit capital assistance funds.

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### STUDY OBJECTIVES

The study addresses four broad objectives of information provision and analysis:

1. Examine the legal and organizational structures which direct financial support to the case study systems;
2. Address transit financial managerial activities within the parameters of those structures;
3. Ascertain the objectives and goals of those structures and evaluate the success of the structures in goal attainment; and,
4. Identify information of use to transit managers, state and local governmental decision makers and federal policy makers.

A more detailed set of study objectives served as a guideline for the development of the case study interview questions. These detailed objectives are:

1. Examine alterations in the institutional framework within which decision making occurs;
2. Examine proposed, planned or realized changes in the funding structure for operations and for capital expenditures, and assess the stability and reliability of the altered funding structure;
3. Explore the impacts of dedicated funding sources vs. general revenue sources upon system expenditure patterns, planning activities and management styles;
4. Examine proposed, planned or realized alterations in service levels, methods and structure; and,
5. Examine the potential or realized utilization of para-transit in general, and private sector para-transit, especially taxi services, in particular.

#### CASE STUDY SYSTEMS

The case study systems and states examined in this study are: Alameda-Contra Costa Transit District (AC Transit), Oakland, CA; Capital Area Transit (CAT), Raleigh, NC; Metropolitan Atlanta Rapid Transit Authority (MARTA), Atlanta, GA; Municipality of Metropolitan Seattle (METRO), Seattle, WA; New Jersey Transit Corporation, (NJ Transit), Newark, NJ; San Francisco Municipal Railway (MUNI), San Francisco, CA.

#### SUMMARY OF MAJOR FINDINGS

The presentation of the major findings summary is divided into three parts to facilitate review. The first part summarizes findings with respect to the detailed study objectives noted above. The second part presents findings specific to particular respondents with respect to changes in the federal transit program made by the Surface Transportation Assistance Act of 1982 (STAA). The third part presents respondent specific and general findings of the study not covered previously.

#### Detailed Objectives Findings

1. No meaningful changes in the institutional frameworks for decision making at the state or local governmental levels or at the system level were observed.
2. Several proposed or examined changes in funding structures were found, but there is a general absence of realized changes and what changes have occurred have not been in response to changed federal policy or to additional funding needs.

## Other Findings

1. NJ Transit has a continuing difficulty in financing operations due, in large measure, to the absence of a stable and reliable state funding source/program.
2. As a cost containment and efficiency improvement move, MARTA has initiated its first use of part-time operators. Prior to starting this program, state legislation was needed to give MARTA the right to hire part-time operators.
3. Temporary deferral of parts of METRO's 1990 Plan capital program have occurred in response to a temporary downward trend in local demand.
4. A planned usage of capital funds to improve long term operating efficiencies and reduce long term operating costs was observed at AC Transit and NJ Transit where past capital planning has been weak. Additionally, AC Transit is using capital funds to improve long term managerial efficiencies and information flows.
5. Only limited use or exploration of innovative financing techniques was found. METRO is examining a possible improvement district (special tax district) in association with a major downtown capital project. MUNI has levied a downtown development fee but the matter is under litigation and revenues collected are being held in escrow pending the court's decision. NJ Transit has made limited use of joint development projects in connection with Conrail commuter stations.
6. In Atlanta, the city's planning department developed and the city established Special Public Interest (SPI) zoning districts around selected MARTA rail stations. The move changes existing regulations to permit higher densities in the SPI's, thereby, increasing potential MARTA rail ridership. Special taxing or other financial use of the SPI's was not part of the discussion of nor rationale for the districts.
7. With the exception of Washington and California, the funding structures revealed by the case studies show only limited ability to increase the amount of funds generated without important changes in the funding structure itself. For the Washington State structure, the local share of the MVET revenues could be increased without requiring other changes in state law. For the California structure, the appropriation levels for the STA and the TCI programs could be increased without changes in law unless a major increase in STA funding is involved, in which case the appropriations cap would have to be raised or eliminated. Conceptually, the structure supporting CAT could generate additional funds without meaningful structural changes. In practice, however, that is not realistic as changes in the financing of other city programs would probably be required. Thus, increased funds for CAT would probably require the identification of a new source of funds.

8. In general, complete phase out of federal transit operating assistance would require major changes in the state and the local funding structures of the case study sites if present levels of service are to be maintained with current service delivery methods. One possible exception is California in that the presently unfunded but legally established UTF program could be activated. The above makes no assumption that sufficient additional funds could, in fact, be found. Rather it indicates that present structures are not viewed as being capable of generating those funds without major revisions or major fare increases.
9. The development of local level funding structure is often limited by state laws specifying the types of taxes and rates which may be levied by local governments. In such cases, the development of an expanded local support structure for transit would probably require enabling legislation from the state, depending upon the specifics of the structure under consideration.
10. The MTC fare coordination policy, required by state law, for AC Transit, BART and MUNI interlocks the three operators' fare structures and results in the fare revenue needs of the highest cost operator being the driving force behind fare increases for the other operators. This results in inter-operator friction and lessens an individual operator's ability to pursue local goals and objectives. However, such a program of coordination does move the region towards a more fully integrated and user friendly regional transit system.
11. Transit interests need to be better organized and more attentive with respect to political processes, especially at the state level of government. Transit interests seem to be more astute with respect to political activities at the local and federal levels of government than they are at the state level. In the view of the respondents, transit can make a compelling case for state funds. Thus, lobbying activities are viewed as being predominately educational in approach. However, a good case is not particularly useful if no organized presentation is made. Even in California with its well developed transit financial structure, a better developed transit lobby at the state level is necessary if strong state funding levels are to continue.
12. Even in localities and states where political support for transit is well developed, there appears to be upper limits to the amount of funds and/or the tax rate which it is politically feasible to devote to transit services. This seems to be especially true with respect to innovative financial approaches which involve increased taxation.



## Recommendations

The results of the present research indicate a number of areas of present federal policy and of state, local and transit system activities which should be examined with an eye towards modification and/or new directions of effort.

- 1) Section 9 improved the distribution of federal funds by adding a stable and reliable element to the federal program. The block grant approach could be improved if it were a true block grant without the present usage restrictions. Federal officials have been reluctant to take a true block grant approach because of the concern that some systems would devote all funds to operating expenses with consequent negative long-run impacts upon system viability. Two approaches to this concern are suggested by the various financial structures examined in this report. However, both approaches deviate from a "pure" block grant concept but they do permit more managerial flexibility than the present Section 9 structure. One approach is to modify the true block grant approach by requiring that some minimal level of total federal funds be used for capital purposes, e.g. 25%, unless demonstrated to UMTA that a lower level of capital expenditure is all that is required for proper system development and maintenance.

Another approach is to retain a true block grant concept while modifying the local and/or state matching requirement from its present role to a concept of demonstrating strong state and/or local commitment, e.g. \$1 local/state for \$2 - \$3 federal, with no usage distinctions made. The idea is that a stronger local/state interest in transit operations and planning which would deter long-term system deterioration.

- 2) Section 3 is a useful program, however, the case study results indicated that a higher level of Section 3 funding should occur if a presently developing trend toward higher level of politicalization of transit capital funding is to be avoided. There is a clear trend among the larger more politically astute systems to obtain Congressional earmarking of discretionary capital funds rather than risk delays in major projects due to insufficient Section 3 allocations. The expansion of this trend would add to the political nature of an already fairly political process. This trend is not viewed as desirable in the long-term.
- 3) Transit, as an industry, should improve its political skills in general and at the state level of government in particular. Transit, as an industry, appears well versed in making a case for financial support at the federal level of government and at the local level but it appears to be failing at the state level of government.
- 4) If transit as a whole is to obtain the benefits of sound long-term planning and management, then transit needs more reliable and stable funding structures at the state and local levels of government. However, such structures must not completely isolate transit management from the state and/or local political arena, to do so would lose public accountability for public funds.

- 5) If farebox recovery rates are to be mandated, the recovery rate must be based upon some meaningful economic and financial criteria and the criteria must allow for system social objectives (i.e., substantial discounts for particular segments of the population, for a general level of low fares, etc.). In short, a mandated recovery rate must be an integral part of a planned financial structure and not just an exercise in political public relations.
- 6) Mandated farebox recovery rates become counterproductive when they arbitrarily elevate fares to the point where instability in ridership levels occur. Recovery rates not based upon economic and financial criteria which are integral to the system's overall financial structure are more likely to produce counterproductive results in the long-run.
- 7) To integrate farebox recovery ratios into the system's overall financial structure requires basing the recovery objective upon some specified set of operating costs, i.e., set fares, so as to recover some specified percentage of wages and sales rather than of total operating costs.
- 8) Mandated farebox recovery rates, per se, do not increase operating efficiency or system productivity. Rather, the overall tightness of total funding is the primary cause for the increased attention to and accomplishment of productivity and efficiency improvements. When the level of farebox recovery is tied to payment of a particular set of operating expenses or specified share thereof, farebox recovery assumes an efficiency incentive absent when expressed as a percentage of total operating expenses.
- 9) Increased private sector financial participation in transit funding is desirable but must be approached with caution especially when new or increased taxes are involved. A clear benefit-receipt tax payment relationship must be demonstrated. If transit systems were permitted to behave more like private sector organizations, an intensified relationship with private sector firms would be more probable.
- 10) Following from the above, a greater level of research effort and public information dispersion should be undertaken regarding private sector benefits flowing from public transit, otherwise, the private sector can be expected to resist any such taxation attempt.
- 11) The use of private non-profit corporations which sell tax-exempt bonds, purchase transit capital stock and, in turn, lease that capital stock to the transit system should be explored by the larger transit systems as well as by smaller systems joined in pooled arrangements.
- 12) Transit systems seeking to improve their financial support structures should examine the institutional options and innovative arrangements examined in these case studies.

- 13) Productivity improvements should be rewarded by state and/or federal financial support structures, however, great care must be taken in the design of such structures that high productivity systems are not penalized for having already improved productivity while systems with low productivity are rewarded for not having improved their performance in the past.
- 14) Research in the area of transit financing tends to be too narrowly focused, a general absence of systematic structural approaches to transit financing makes the development of integrated financial structures, especially those which utilize new or innovative sources of funds, unduly difficult. More attention should be devoted to the particulars of institutional interactions. Additionally, the potential for high levels of private sector financing, present in a limited number of transit systems, should be examined.
- 15) These and other case studies of transit financing should be catalogued along with some notation of the criteria parameters of the studies and distributed to appropriate state, local and federal decision-makers and interested others. As the roles of the traditional support sources for public transit change, the decision-maker's need for relevant information increases as does the federal government's obligation to provide that information.
- 16) Related to the above, the federal government needs to provide more technical assistance to state and local governments and to transit managers to aid them in efforts to become more innovative in their approach to transit financing and to increase their knowledge of institutional options available for the support of public transit activities.



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## PREFACE

The material in the report derives from site-visit case studies, documents and reports provided by respondents. These research activities occurred during December 1982 - March 1983, with some sections updated to September 1983, where possible and necessary. The results reported herein are as accurate and complete as possible as of the above time period. Transit financing is a rapidly changing area and the time frame of this study should be kept in mind while reviewing this report.



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## I: THE STUDY: OVERVIEW, METHODOLOGY AND LITERATURE REVIEW

### INTRODUCTION

The original objective of the present research was to examine and assess the responses of selected state and local financial structures which support public transit and of the associated public transit systems to the phased withdrawal of federal transit operating assistance. While a phased withdrawal did not occur, the passage of the Surface Transportation Assistance Act of 1982 (STAA) did place caps upon the amount of federal transit assistance which could be used for operating subsidies and altered the method of disbursement of federal transit capital assistance funds.

However, the full impacts of these changes in the federal transit assistance program have not been realized by all the respondents examined in this study. Additionally, the impacts of changes in the federal program are interwoven with effects of economic recession, tight state and local budgets and a variety of local phenomena which exist independently of a changing federal transit program.

The report addresses the impacts of the STAA in all cases where those impacts have been examined by the respondent. STAA induced changes are separated from changes which derive from other causes. Every effort has been made to associate particular alterations in the financial structures and in the other factors examined with a particular causative process.

This report, then, examines the particulars of the financial structures supporting public transit in five states and the circumstances of six public transit providers\* located in those states. Where regional activities have important impacts upon the financial structures supporting public transit, then the regional activities are examined in detail, otherwise they are omitted. While the case study examinations follow a uniform theme, they vary notably in the detail of topics examined and, thus, reflect the diversity of concerns and activities found among the respondents.

The perspective taken in the study is that of a financial manager confronting a set of laws, rules and regulations which direct and confine the tasks of financing a public transit system. A high degree of attention is focused upon the state and local financial structures supporting public transit and the managerial parameters established by those structures.

It is important to remember that the results from a case study methodology can not be generalized to the total universe of public transit providers. Strictly speaking the results only apply to the systems studied. With caution, inferences can be made to similarly positioned systems with respect to some aspects of the study. The more important of the viable inferences are noted

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\*Alameda-Contra Costa Transit District (AC Transit), Oakland, CA; Capital Area Transit (CAT), Raleigh, NC; Metropolitan Atlanta Rapid Transit Authority (MARTA), Atlanta, GA; Municipality of Metropolitan Seattle (METRO), Seattle, WA; New Jersey Transit Corporation, (NJ Transit), Newark, NJ; San Francisco Municipal Railway (MUNI), San Francisco, CA.

under the Summary of Major Findings and the Recommendations sections of this report.

#### FOCUS OF THE STUDY

As explained in greater detail under the discussion of the research methodology of the study, the present study examines six transit systems and their associated state and local financial support structures. The sites were examined with special attention devoted to changes in funding structures, service provision and managerial decision-making.

The study addresses four broad objectives of information provision and analysis:

1. Examine the legal and organizational structures which direct financial support to the case study systems;
2. Address transit financial managerial activities within the parameters of those structures;
3. Ascertain the objectives and goals of those structures and evaluate the success of the structures in goal attainment; and,
4. Identify information of use to transit managers, state and local governmental decision-makers and federal policy makers.

The above broad objectives are very ambitious for a single study. Therefore, the case study reports emphasize the first two of the broad objectives, while the remaining broad objectives are addressed in the evaluation and summary chapters which conclude this report.

A more detailed set of study objectives served as a guideline for the development of the case study interview questions. These detailed objectives are:

1. Examine alterations in the institutional framework\* within which decision-making occurs;
2. Examine proposed, planned or realized changes in the funding structure for operations and for capital expenditures, and assess the stability and reliability of the altered funding structure;

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\*Institutional framework embraces internal organizational structure, mechanisms for the interface of organizations, legally imposed requirements and restrictions and the constructs which financially support public transit. The last two of the above are consistently examined in the study, while the first two are examined where appropriate.

3. Explore the impacts of dedicated funding sources vs. general revenue sources upon system expenditure patterns, planning activities and management styles; and,
4. Examine proposed, planned or realized alterations in service levels, methods and structure.

#### SUMMARY OF MAJOR FINDINGS

The presentation of the major findings summary is divided into three parts to facilitate review. The first part summarizes findings with respect to the detailed study objectives noted above. The second part presents findings specific to particular respondents with respect to changes in the federal transit program made by the Surface Transportation Assistance Act of 1982 (STAA). The third part presents respondent specific and general findings of the study not covered previously.

#### Detailed Objectives Findings

1. No meaningful changes in the institutional frameworks for decision making at the state or local governmental levels or at the system level were observed.
2. Several proposed or examined changes in funding structures were found, but there is a general absence of realized changes and what changes have occurred have not been in response to changed federal policy or to additional funding needs.
3. Major changes in the financial structure supporting at least one system are possible because of changes in federal policy.
4. Dedicated funding arrangements do lead to improved planning and a general absence of management by crisis; however, no variation in expenditure patterns by funding structure was observed.
5. Changes in service levels or in the type of service provided, which were observed, related to changes in local demand conditions. No changes in these factors caused by changes in federal transit assistance programs were observed.
6. No discussion of para-transit service in lieu of conventional transit service for the general public was reported nor had any consideration been given to altering the basic mode (i.e., bus, trolley, rail) or service provision for the general public.
7. Changes in capital programs were observed in some of the respondent systems but no clear trends are presently observable across systems.

## Impacts of the STAA

1. MARTA. No meaningful impacts upon operations funding at MARTA because of an off-setting growth in local sales tax revenues; however, a major negative impact on the rail construction project's construction and planning is expected unless Section 3 discretionary grants are higher than that expected at the time of the site visit (January 1983).
2. AC Transit and MUNI. Because of the regional allocation process and a generally strong state and local funding structure, the direct impacts on AC Transit and MUNI from the STAA on operating and capital activities have been moderate and overshadowed by regional activities and regulations. The major impact on the California respondents was found in the changing funding level of the State Transit Assistance Program.
3. NJ Transit. The impacts upon NJ Transit have been favorable in that the STAA provided that system with its first source of stable and reliable funding.
4. CAT. The STAA cap on operating funds threatens to cause a major revision in the funding structure supporting CAT in that there is an upper limit to the total amount of local tax revenues available to the system, thus, fares can be anticipated to grow more rapidly than inflation and/or the system will no longer expand service as the city expands. Because of Section 5 carry-over funds, the funds shortage will not occur until Fiscal Year 1986. Meanwhile, the system has an excess of Section 9 capital funds.
5. METRO. The increased reliability of federal assistance under the provisions of the STAA established Section 9 is viewed as a beneficial change by METRO which already enjoys very stable and reliable state and local funding sources.

## Other Findings

1. NJ Transit has a continuing difficulty in financing operations due, in large measure, to the absence of a stable and reliable state funding source/program.
2. As a cost containment and efficiency improvement move, MARTA has initiated its first use of part-time operators. Prior to starting this program, state legislation was needed to give MARTA the right to hire part-time operators.
3. Temporary deferral of parts of METRO's 1990 Plan capital program have occurred in response to a temporary downward trend in local demand.

4. A planned usage of capital funds to improve long term operating efficiencies and reduce long term operating costs was observed at AC Transit and NJ Transit where past capital planning has been weak. Additionally, AC Transit is using capital funds to improve long term managerial efficiencies and information flows.
5. Only limited use or exploration of new innovative financing techniques was found. The systems examined which would benefit from such activities have been innovators in the past. What innovations were found represent new approaches to changing environments and/or new financial needs. Thus, systems which have been innovative in the past seem to be prone to continued innovation but, because of past actions, the range for innovation is narrower. METRO is examining a possible improvement district (special tax district) in association with a major downtown capital project. MUNI has levied a downtown development fee, but the matter is under litigation and revenues collected are being held in escrow pending the court's decision. NJ Transit has made limited use of joint development projects in connection with Conrail commuter stations.
6. In Atlanta, the city's planning department developed and the city established Special Public Interest (SPI) zoning districts around selected MARTA rail stations. The move changes existing regulations to permit higher densities in the SPI's, thereby, increasing potential MARTA rail ridership. Special taxing or other financial use of the SPI's was not part of the discussion of nor rationale for the districts.
7. With the exception of Washington and California, the funding structures revealed by the case studies show only limited ability to increase the amount of funds generated without important changes in the funding structure itself. For the Washington State structure, the local share of the MVET revenues could be increased without requiring other changes in state law. For the California structure, the appropriation levels for the STA and the TCI programs could be increased without changes in law unless a major increase in STA funding is involved, in which case the appropriations cap would have to be raised or eliminated. Conceptually, the structure supporting CAT could generate additional funds without meaningful structural changes. In practice, however, that is not realistic as changes in the financing of other city programs would probably be required. Thus, increased funds for CAT would probably require the identification of a new source of funds.

8. In general, complete phase out of federal transit operating assistance would require major changes in the state and the local funding structures of the case study sites if present levels of service are to be maintained with current service delivery methods. One possible exception is California in that the presently unfunded but legally established UTF program could be activated. The above makes no assumption that sufficient additional funds could, in fact, be found. Rather it indicates that present structures are not viewed as being capable of generating those funds without major revisions or major fare increases.
9. The development of local level funding structures is often limited by state laws specifying the types of taxes and rates which may be levied by local governments. In such cases, the development of an expanded local support structure for transit would probably require enabling legislation from the state, depending upon the specifics of the structure under consideration.
10. Federal matching requirements impact upon state and local financial structures. Existing structures accommodate pre-STAA requirements. In some cases the changes in matching requirements made by the STAA will produce changes in those structures if the structures are to continue to accomplish their original objectives. In the present study, this concern is illustrated by the State of Georgia's matching provisions which permit state funding of 10% of the capital grant application as opposed to 50% of the local matching requirement.
11. Financial structures supporting public transit are essentially developed from the top, i.e. highest level of government, down. The decisions at the top and middle levels reduce the options of the lower levels of government, such that local governments and transit systems or authorities often have only a relatively narrow range of alternate financial support mechanisms from which they may select.
12. The MTC fare coordination policy, required by state law, for AC Transit, BART and MUNI interlocks the three operator's fare structures and results in the fare revenue needs of the highest cost operator being the driving force behind fare increases for the other operators. This results in inter-operator friction and lessens an individual operator's ability to pursue local goals and objectives. However, such a program of coordination does move the region towards a more fully integrated and user friendly regional transit system.
13. Transit interests need to be better organized and more attentive with respect to political processes, especially at the state level of government. Transit interests seem to be more astute with respect to political activities at the local and federal levels of government than they are at the state level. In the



view of the respondents, transit can make a compelling case for state funds. Thus, lobbying activities are viewed as being predominately educational in approach. However, a good case is not particularly useful if no organized presentation is made. Even in California with its well developed transit financial structure, a better developed transit lobby at the state level is necessary if strong state funding levels are to continue.

14. Even in localities and states where political support for transit is well developed, there appears to be upper limits to the amount of funds and/or the tax rate which it is politically feasible to devote to transit services. This seems to be especially true with respect to innovative financial approach which involve increased taxation.

### Recommendations

The results of the present research indicate a number of areas of present federal policy and of state, local and transit system activities which should be examined with an eye towards modification and/or new directions of effort.

- 1) Section 9 improved the distribution of federal funds by adding a stable and reliable element to the federal program. The block grant approach could be improved if it were a true block grant without the present usage restrictions. Federal officials have been reluctant to take a true block grant approach because of the concern that some systems would devote all funds to operating expenses with consequent negative long-run impacts upon system viability. Two approaches to this concern are suggested by the various financial structures examined in this report. However, both approaches deviate from a "pure" block grant concept but they do permit more managerial flexibility than the present Section 9 structure. One approach is to modify the true block grant approach by requiring that some minimal level of total federal funds be used for capital purposes, e.g. 25%, unless demonstrated to UMTA that a lower level of capital expenditure is all that is required for proper system development and maintenance.

Another approach is to retain a true block grant concept while modifying the local and/or state matching requirement from its present role to a concept of demonstrating strong state and/or local commitment, e.g. \$1 local/state for \$2 - \$3 federal, with no usage distinctions made. The idea is that a stronger local/state interest in transit operations and planning which would deter long-term system deterioration.

- 2) Section 3 is a useful program, however, the case study results indicated that a higher level of Section 3 funding should occur if a presently developing trend toward higher level of politicalization of transit capital funding is to be avoided. There is a clear trend among the larger more politically astute systems to obtain Congressional earmarking of discretionary capital funds rather than risk delays in major projects due to insufficient Section 3 allocations. The expansion of this trend would add to the political nature of an already fairly political process. This trend is not viewed as desirable in the long-term.

- 3) Transit, as an industry, should improve its political skills in general and at the state level of government in particular. Transit, as an industry, appears well versed in making a case for financial support at the federal level of government and at the local level but it appears to be failing at the state level of government.
- 4) If transit as a whole is to obtain the benefits of sound long-term planning and management, then transit needs more reliable and stable funding structures at the state and local levels of government. However, such structures must not completely isolate transit management from the state and/or local political arena, to do so would lose public accountability for public funds.
- 5) If farebox recovery rates are to be mandated, the recovery rate must be based upon some meaningful economic and financial criteria and the criteria must allow for system social objectives (i.e., substantial discounts for particular segments of the population, for a general level of low fares, etc.). In short, a mandated recovery rate must be an integral part of a planned financial structure and not just an exercise in political public relations.
- 6) Mandated farebox recovery rates become counterproductive when they arbitrarily elevate fares to the point where instability in ridership levels occur. Recovery rates not based upon economic and financial criteria which are integral to the system's overall financial structure are more likely to produce counterproductive results in the long-run.
- 7) To integrate farebox recovery ratios into the system's overall financial structure requires basing the recovery objective upon some specified set of operating costs, i.e., set fares, so as to recover some specified percentage of wages and salaries rather than of total operating costs.
- 8) Mandated farebox recovery rates, per se, do not increase operating efficiency or system productivity. Rather, the overall tightness of total funding is the primary cause for the increased attention to and accomplishment of productivity and efficiency improvements. When the level of farebox recovery is tied to payment of a particular set of operating expenses or specified share thereof, farebox recovery assumes an efficiency incentive absent when expressed as a percentage of total operating expenses.
- 9) Increased private sector financial participation in transit funding is desirable but must be approached with caution especially when new or increased taxes are involved. A clear benefit-receipt tax payment relationship must be demonstrated. If transit systems were permitted to behave more like private sector organizations, an intensified relationship with private sector firms would be more probable.
- 10) Following from the above, a greater level of research effort and public information dispersion should be undertaken regarding private sector benefits flowing from public transit, otherwise, the private sector can be expected to resist any such taxation attempt.



- 11) The use of private non-profit corporations which sell tax-exempt bonds, purchase transit capital stock and, in turn, lease that capital stock to the transit system should be explored by the larger transit systems as well as by smaller systems joined in pooled arrangements.
- 12) Transit systems seeking to improve their financial support structures should examine the institutional options and innovative arrangements examined in these case studies.
- 13) Productivity improvements should be rewarded by state and/or federal financial support structures, however, great care must be taken in the design of such structures that high productivity systems are not penalized for having already improved productivity while systems with low productivity are rewarded for not having improved their performance in the past.
- 14) Research in the area of transit financing tends to be too narrowly focused, a general absence of systematic structural approaches to transit financing makes the development of integrated financial structures, especially those which utilize new or innovative sources of funds, unduly difficult. More attention should be devoted to the particulars of institutional interactions. Additionally, the potential for high levels of private sector financing, present in a limited number of transit systems, should be examined.
- 15) These and other case studies of transit financing should be catalogued along with some notation of the criteria parameters of the studies and distributed to appropriate state, local and federal decision-makers and interested others. As the roles of the traditional support sources for public transit change, the decision-makers need for relevant information increases as does the federal government's obligation to provide that information.
- 16) Related to the above, the federal government needs to provide more technical assistance to state and local governments and to transit managers to aid them in efforts to become more innovative in their approach to transit financing and to increase their knowledge of institutional options available for the support of public transit activities.

## ORGANIZATION OF THE STUDY

The present chapter has provided background and commentary upon the focus and objectives of the study, as well as a summary of major findings. The following sections of this chapter provide a discussion of the research methodology and a review of the relevant literature. Subsequent chapters provide the case study results, summary of results for selected topics, commentary and review of the financial structures provided, as well as general comments and specific suggestions appropriate to federal policy and future research directions.

The case study results are presented by state with all systems and organizations examined within a particular state included in one chapter. This presentational approach was adopted because the results are best understood within the context of the environment created by the legal and financial structures enveloping the respondents. Dividing state and local level activities into separate chapters would, it is felt, break the readers sense of and, hopefully, appreciation of the context of the action. Thus, Chapters 2 thru 6 present the findings of the state, local and, where appropriate, regional levels of government by state of respondents. An exception to this is NJ Transit where state and local activities are housed in one organization.

Chapter 7 presents a summary of and commentary upon the financial structures reviewed, while Chapter 8 presents a summary of case study findings on selected topics of interest, policy recommendations and concluding comments.

## METHODOLOGY OF THE RESEARCH

The present study is a set of in-depth case studies of six transit systems in five states and their associated state programs and, where relevant, regional coordinating bodies. The case studies were conducted through personal interviews with various officials of the transit systems and state departments of transportation. Additionally, officials of regional coordinating agencies, state legislative committees and private consultants and lobbyists were interviewed as appropriate to the circumstances of each case study system.

The interviews followed an open-ended semi-structured format. A set of questions (Appendix A) was provided the respondents in advance and answers to the questions were obtained during the interviews. These responses, in turn, led to other questions and topics and to a fuller discussion of the relevant circumstances of the respondent's situation. Naturally, the concerns and issues varied by respondent. Thus, the responses to the pre-set questions provide the uniform framework within which the particulars of the respondents' environments are developed.

Respondent systems were selected so that comparisons to the results of the earlier study\* of state and local financial arrangements could be made. The

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\*"State and Local Financing of Public Transit Systems", Final Report, Urban Mass Transportation Administration, U.S. Department of Transportation, Report No. A&T-TI-49-RR-82, June, 1983.

earlier study embraced five systems in four states. In order to increase the diversity of environments among the respondents, a sixth system in a fifth state (METRO; Seattle, Washington) was added to this study. The systems and notable reasons for their selection are noted below.

The systems examined in the earlier study are: AC Transit, Oakland, CA; Capital Area Transit (CAT), Raleigh, NC; Metropolitan Atlanta Rapid Transit Authority (MARTA), Atlanta, GA; San Francisco Municipal Railway (MUNI), San Francisco, CA and New Jersey Transit Corporation (NJ Transit), Newark, NJ. METRO, Seattle, WA was added to this array.

The systems included in the study offer an array of financial structures and funding environments:

- CAT and NJ Transit rely entirely upon discretionary allocations from state and/or local governments, while AC Transit, MARTA, MUNI and METRO can call upon various types of dedicated sources of funds;

- AC Transit and MUNI are part of a strong regional organization with coordination requirements mandated by state law which often run counter to system organizational objectives;

- AC Transit and NJ Transit are both involved in major capital programs whose objective is to reduce long-term operating costs;

- MARTA is in the process of constructing a major rapid rail system and is prevented from receiving state funds by the terms of the local option sales tax legislation;

- METRO doubled its dedicated sales tax rate in an election (1980) dominated by conservative politics.

This listing of system characteristics indicates some of the diversity among the study's respondents and indicates some of the reasons for their inclusion in the study.

As to the inclusion of the various state programs examined, the reasons are similar:

- California provides a complex and varied set of funding programs for public transit;

- Washington State utilizes a system which can be described as a true block grant;

- North Carolina provides only limited funds and is similar to other states desiring only limited financial involvement with public transit;

- Georgia provides limited funds, as does North Carolina, but allows for a local option sales tax which, if elected, ends the flow of state funds;

- New Jersey recently (1979) created NJ Transit to oversee and improve public transit state-wide but does not provide state funds with any reliability or stability and local funds do not exist for public transit.

Thus, the study captures a variety of state funding structures and attitudes toward public transit. While the state financial structures reviewed are by no means exhaustive of those found across the nation, they do include examples of the major approaches to transit funding at the state level.

There are two anomalies in the case study presentations. The first occurs in the Georgia study where an additional system is included by means of an appendix to the report (Appendix B). This study, Macon-Bibb County Transit Authority, was conducted by telephone and is included here as an additional example of a local financial structure depending almost entirely upon local funds.

The second anomaly is in the discussion of Seattle METRO, where a separate financial review of METRO's para-transit programs is provided. This information is included in the present report to add additional depth to the METRO study and to illustrate the often over-looked financial relationship of specialized transportation services to the operating budget of conventional transit systems.

Thus, the systems selected provide a diversity of environments and financial structures. It must be remembered that the results of a case study analysis can not be generalized to the universe of all public transit systems. However, with caution and care, implications for similarly positioned systems can be made.

## REVIEW OF THE LITERATURE

Since the early 1970's, a sizable and respectable body of literature addressing the broad questions of transit financing has emerged both in the United States and in other economically developed nations, particularly in Western Europe. The bulk of this literature focuses upon a relatively narrow range of topics: should there be transit subsidies; if so, what is the proper level of subsidy; who should provide the subsidy; and, what type of subsidy should be provided. Growing out of this strong concern over subsidy issues is another broad group of research efforts in subsidy related issues: economic efficiency in funding subsidy programs; economic aspects of fare and tax policies related to funding transit deficits; and distributional and incentive impacts of government subsidy policies. The research perspective of these lines of inquiry have been the position of the government decision-maker.

Increased attention must be paid to the impact of various financing arrangements, taken as a package, upon the financial management process of the transit system. This is especially important in the present funding environment where a decreased federal presence does not appear likely to be replaced by an increased state and local presence. The situation requires an examination of system financing as a structured package. Unfortunately for the transit manager or the state and local government official charged with re-evaluating present financial mixes, the existing literature provides very little information relevant to their needs.

## Mainstream Literature

A wide variety of materials have been published in the transit financing field. They range from site-specific studies (Workshop Report...1976; Metropolitan Planning Commission, 1977) to catalogs of alternative financing techniques (Gladstone Associates, 1978; Institute of Public Administration, 1979, to cite but a few). The Rice Center (1982) provides a comprehensive guide to innovative financing mechanisms including examples of local application. They identified factors such as organizational structure, legal status, financial independence as appropriate criteria upon which to evaluate the mechanisms usefulness. Often handbooks on transit management include sections dealing with transit financing (e.g. Institute for Urban Transportation, 1980). Other financing works have examined the distributional impacts of financing arrangements upon various jurisdictions (McHugh and Puryear, 1979), or methods of fairly allocating costs across multijurisdictions (Kidder, 1980).

Also represented among the works in transit financing are analysis and reporting of expenditure trends (U. S. Congress, 1978 and Pucher, 1980, to cite but two examples). APTA maintains an annual updating of transit financing sources derived from data supplied by member systems (from Section 15 required documents).

Many works examine the effects of subsidy policies on financing structures. One such study, which examined these impacts in several areas of transportation was Porter, et.al (1979), prepared for the Office of the Secretary of the U. S. Department of Transportation. Barnum and Gleason (1979) examined subsidy effects upon efficiency and ridership. They found efficiency effects to be insignificant while ridership effects were significant and positive.

According to Mass Transit (November 1983), recent research presented at the International Union of Public Transportation Congress shows that subsidies to public transit are giving far better value than previously believed. The cited study refutes many conclusions on the inefficient effects of subsidies. The General Accounting Office (1979) study predicted that public subsidies from all levels of government would rise from \$2.2 billion in 1978 to \$6 billion by 1985 unless greater efficiency in operations was realized.

While the majority of works, such as the ones cited above, examine funding for conventional transit systems, other researchers (e.g. Oram, 1981) are questioning the viability of conventional transit as currently practiced and the incentives in current subsidy policies. Additionally, there is an extensive body of literature on financing para-transit and specialized transit for the elderly and handicapped (e.g. Charles River Associates, 1980).

Recent research has reviewed the current financial difficulties of public transit systems from a broad general perspective (Bonnell, 1981) or from site-specific perspectives of case study systems (Peat, Marwick, Mitchell and Co., 1980a, 1980b). Other recent work has examined state and local financing packages in a system's context for site-specific case study systems (Walther, 1983a).

Some of the above cited works, and the literature of which they are representative, investigate the tax incidence and tax impacts of alternative financing methods (e.g. Institute of Public Administration, 1979; Rock, 1981). However, most works on transit financing include only passing mention of regressiveness concerns. Cervero (1983) does address the regressiveness concern and concludes that the federal government should be a significant funding participant of transit



services on equity grounds while beneficiary principles can occur through state and local excise taxes. Even fewer (e.g. Walther, 1983a) examine transit financing in an institutional environment.

### Managerial Prospective Literature

Relatively little attention has been devoted to transit financing from the perspective of the transit system's financial manager; the individual(s) who must keep the system financially functioning within the constraints of various subsidy arrangements developed by government decision-makers.

Even given the relative lack of attention paid to the financial aspects of this level of decision-making, it is surprising to note how few works exist. Several works have examined this aspect of the problem, however, not from the transit system's perspective. Bonnell (1981), Brown and O'Rourke (1980), and Institute of Public Administration (1979) all conclude that the definition of transit as a public service or as a public utility is a key element in devising and/or evaluating transit financial arrangements. A related point is made by Forkenbrock (1980) who concludes that local governments may be too cautious in seeking dedicated tax support for transit. This study found that when dedicated taxes are clearly tied to the provision of transit services the public is relatively willing to approve the taxes due to the known "price" and the known "good" received for that "price". The Urban Consortium (1982) sees earmarked or dedicated taxes as causing a problem if funds generated are inadequate since the state or local government may then be limited from providing additional funds.

Work by Kidder (1980) is among the relatively scarce literature which directly addresses the impacts upon transit management which derive from the particulars of funding arrangements. Included in this work is, again, the issue of the definition of the role of transit. Kidder observes that systems which have decided to provide transit as a clear public service tend to have dedicated funding sources, lower fares and higher deficits than do systems which view transit more as a public utility to be financed more by users and less by the public sector.

Walther (1983a) examines five case study systems in-depth with respect to the particulars of their financial arrangements and funding structures. This study indicates that financial arrangements must be tailored to the unique economic and political environments facing particular transit systems. Again the definition of the role of transit is an important element. Additionally, the study provides insights into structuring financial mixes which are transferable to other systems for evaluating and/or designing financial arrangements. Spies et al (1982) examined the local funding options available to transit systems in one state. They concluded that the options should be carefully analyzed in light of local transit system characteristics and local goals and objectives.

Additional work by Walther (1983b) suggests avenues for categorizing stable and reliable funding arrangements, including the various types of dedicated funding agreements, into a limited number of basic types with a series of detailed specifics which may or may not be included depending upon the environment in which the transit system exists.

Thus, transit system managers seeking to address the difficulties posed by the present financial environment and by changes in federal operating and capital programs, can be expected to turn to the available literature for guidance. The literature, however, does not adequately address the present situation. While the works noted above and others, in the same vein, provide useful insights into alternative directions in transit financing, they do not provide guidance for restructuring existing financial mixes, especially given the realities of competing interests which interplay in producing actual financial arrangements.

#### CONCLUDING COMMENTS

The present study adds to a relatively limited body of literature which views the financing of public transit systems from a structural and managerial perspective. The study reports upon changes which have occurred in a variety of factors of interest in a diverse set of case study respondents since an earlier study was conducted in late 1981 and early 1982.

The Summary of Major Findings indicates both benefits and difficulties which are arising from changes in the federal transit assistance programs made by the Surface Transportation Assistance Act of 1982. Additionally, numerous activities of interest stemming from non-federal policy factors were also noted. A set of recommendations based upon the case study findings are presented for consideration and as a spring board for discussion.

Detailed reports of the case studies are contained in Chapters 2 thru 6. Analysis and commentary are found in Chapters 7 and 8 of this report.





## II. THE RESULTS OF THE NEW JERSEY CASE STUDY

### INTRODUCTION

New Jersey Transit Corporation (NJ Transit) was created by the New Jersey Public Transportation Act of 1979 to provide public transportation services in the State of New Jersey.\* The corporation is empowered to acquire, own and operate public transportation services as well as to contract for such services. In April of 1982, NJ Transit merged its two bus operations (Transport of New Jersey and Maplewood Equipment Company) into NJ Transit Bus Operations, Inc. At the same time, a rail division was formed: NJ Transit Rail Operations, Inc. When NJ Transit assumed direct operation of Conrail passenger service on January 1, 1983, this division's name was changed to NJ Transit Rail, Inc.

### BUS SERVICE

The Bus Operations subsidiary both directly operates and subsidizes private bus companies. The relationship with private sector bus companies has been one of NJ Transit providing operating subsidies and capital equipment (buses) purchases for sixteen carriers. In 1983, NJ Transit began to move away from subsidizing companies by designating particular routes to be put out to bid with successful bidders providing service under contract. By subsidizing service rather than companies, NJ Transit anticipates both cost savings and operational improvements.

### RAIL SERVICE

Until the end of 1982, the Rail Operators subsidiary provided NJ Transit oversight of the operating contract with Conrail for rail commuter service. The 1981 passage of the Northeast Rail Service Act ended Conrail's passenger service on December 31, 1982. After exploring several options during the Spring of 1982, NJ Transit elected to begin direct operation of commuter rail services beginning January 1, 1983. The NJ Transit Rail, Inc. division now directly operates this service.

### ADVISORY COMMITTEES

The New Jersey Public Transportation Act, which established NJ Transit, mandated the formation of Transit Advisory Committees which must include members of the riding public. The North Jersey Transit

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\*NJ Transit differs from the other systems examined in this study in that its responsibilities are statewide.

Advisory Committee and the South Jersey Transit Advisory Committee were formed by action of NJ Transit's Board of Directors in May 1980. These committees are active participants in the review and modification of NJ Transit policy. In addition, extensive use of public hearings, announcement flyers on buses and rail cars and media spot announcements are made as part of NJ Transit's continuing efforts to communicate with riders and with the non-riding public. These activities are also useful in developing political support for state transit funding.

NJ Transit's management has a "Three-Point Program aimed at increasing revenues, reducing costs and improving service."\* During its first three years of operation, NJ Transit has made considerable progress in fulfilling two of the programs three points. The Task of increasing funding remains the elusive point. The term "increasing revenues" is used somewhat imprecisely. What is meant is increasing funds available to the system, not limited to increasing fares and non-fare, system generated revenues.

#### EQUITABLE FARES: THE FAIR FARE PROGRAM

NJ Transit inherited a complex and inequitable set of fare policies when it took over the operations of various private bus companies. A major effort during 1982 was the development of a uniform fare policy for bus and rail patrons. The policy, known as the Fair Fare, establishes zones of uniform distance (4 miles wide) and a consistent fare based on zones of travel.

In June 1983, the NJ Transit-Rail passenger (inter- and intra-state) pays a \$ .75 fare for the first zone of travel, an additional \$ .50 per zone for zones 2 through 7 and an additional \$ .10 per zone for zone 8 and beyond. A 30% discount is available by purchasing a monthly commutation ticket. Intrastate bus passengers pay a first zone fare of \$ .75 plus \$ .20 for each additional zone. Interstate bus passengers pay a \$ .90 first zone fare and \$ .35 for each additional zone.

#### LOCAL PARTICIPATION

In the late spring of 1983, NJ Transit was in the process of developing "standards" of service. The "standards" would be input into the development of a rational model for determining the routing and frequency of public transit service which NJ Transit would provide each county in the state. Should a county government desire more service, it would be required to contribute funds to support the additional service. Policies to determine the level of county contribution are only in the concept stage.

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\*NJ Transit Annual Report FY 1981-82, p. 5.

## CONTRACT SERVICE

As has been noted, NJ Transit has been subsidizing the operating costs of sixteen privately owned bus companies. Recently (Spring 1983), NJ Transit has decided to move towards placing service on particular routes up for bids. Successful bidders would provide public transit services under contract. This shift from subsidizing companies to subsidizing service is expected to produce improved service while also producing cost savings to NJ Transit. The details of this move to contract service had not been established at the Time of this study (April 1983).

## COST REDUCTIONS

NJ Transit has undertaken numerous activities aimed at reducing operating costs. The most notable involve service rationalizations and the use of capital funds to modernize rolling stock and fixed capital to lower long term maintenance costs.

Parts of the bus route system taken over by NJ Transit had not been changed since World War II. During the intervening years, major changes occurred in residence and commercial locations and, thus, trip patterns. One of the early and still continuing tasks facing NJ Transit is to bring service provision into closer alignment with trip needs. By developing a set of criteria for judging bus routes (a process which still continues) and by studying current demand patterns, NJ Transit has altered bus schedules and routes and train schedules to effect improved service and lower costs. During FY83, the system was proposing bus route realignments or eliminations effecting 20% of bus route miles but only 3% of the bus ridership. Train schedules were also revised and some trains eliminated while additional cars were added to other trains operating in the same corridor. These service revisions have sometimes produced personnel layoffs.\*

Capital funds have been used to centralize maintenance facilities, to reduce personal and inventory costs, to build new bus storage facilities, to reduce deadheading on particular routes, to re-electrify rail routes, to reduce route operating costs as well as to purchase new buses, new rail locomotives and new rail cars to improve system efficiency and rider comfort. The use of capital funds to reduce long term operating costs is not unique to NJ Transit. The above cost reduction techniques are well known to transit operators. Two other cost saving methods are noted below not because they are particularly unique but because they are illustrative of the often sizable cost savings which can derive from good financial management or relatively minor changes in programs.

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\*During FY81, approximately 227 positions were eliminated for an annual savings in personnel costs of approximately \$6.2 million. FY81-82 Annual Report, p. 7.

Cost savings arising from good financial management are illustrated by the October 1981 consolidation of the insurance programs of NJ Transit and its two, then existing, subsidiaries (Transport of New Jersey and Maplewood Equipment Company.) By combining the three insurance programs, better coverage was obtained while saving \$1.4 million annually. An estimated annual savings of \$110,000 was obtained by a January 1982 program change in the elderly and handicapped Reduced Fare Program. Prior to this date, NJ Transit issued identification cards to elderly and handicapped citizens. Beginning in January, Medicare cards were accepted as valid identification for the Reduced Fare Program. Relative to total system needs, \$110,000 is hardly enough money to warrant extensive comment. However, it does represent a method by which rider convenience may be improved while reducing program operating costs.

## OPERATING FUNDS

### Overview

NJ Transit derives funds for operations from four sources. These sources are:

- (1) existing federal UMTA programs;
- (2) discretionary allocations from the state including reimbursement allocations for state mandated 1/2 fare programs (elderly and students);
- (3) farebox revenues; and
- (4) various nonfare revenue sources.

The UMTA funds account for approximately 13% of the FY82 operating budget. These funds have been reduced approximately 20% over previous years funding levels. The projections for FY83 indicate that UMTA funds will comprise approximately 9% of the operating budget.

The state funds are discretionary allocations. This situation would have changed had the proposed Transportation Improvement Fund, discussed below, received legislative approval. State funds have not increased sufficiently to offset inflation induced cost increases much less to replace already realized reductions in federal UMTA funds. For FY82, state funds provided 27% of operating funds. This percentage is projected to rise to 30% in FY83.

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\*The properties involved were acquired under the federal Regional Rail Reorganization Act of 1973's "900 Day Option." Rental income is projected to range from \$600,000 to \$1 million annually once the ownership transfer from Conrail to NJ Transit is complete.

Fares were increased 18% on July 1, 1982. Farebox revenues provided 55% of operating funds in FY82. Current projections call for 61% of operating funds to be derived from farebox revenues in FY83.

The various non-fare revenue sources are, at best, marginal revenue producers. These revenues stem from NJ Transit's property management unit.\* NJ Transit currently leases various rights-of-way to utility companies for power lines. These activities generate approximately \$1 million annually. To increase these revenues, NJ Transit may lease vacant rail stations to the private sector for retail development in the future. Even if exploited aggressively, NJ Transit does not have the potential for generating meaningful levels of non-fare revenues. NJ Transit believes that new systems are in a much more favorable position to generate such revenues.

In 1983, NJ Transit changed its policy concerning advertising aboard buses to increase advertising revenues. Bus vehicle generated advertising will supplement advertising revenues already generated from billboards in rail stations and bus terminals.

#### Non-Fare Revenues and Conflicts in Public Policy

NJ Transit's Rail Operations subsidiary owns a considerable number of desirable properties, mostly in the form of rail stations, which hold the potential for revenue generating non-transit development. However, should the full potential of these non-fare revenue sources be aggressively exploited, conflict with the private sector appears to be inevitable. Already some critics have suggested that the profitable bus routes operated by NJ Transit be turned over to private sector firms. This line of criticism would only increase should NJ Transit develop the revenue potential contained in its owned, but underutilized, rail stations.

Thus, transit systems may find themselves caught in a most unenviable "Catch 22" position. On the one hand the federal government appears to be suggesting that public sector organizations should function more like private sector firms, especially with respect to such topics as managerial activities, cost control and non-government revenue sources; user charges and non-fare revenues for example.

However, should public sector transit properties undertake activities which fall within the above suggested approach, they must compete with private sector firms. Such competition is not presently encouraged. Indeed, in some instances, such as charter services, it is actively discouraged.

Thus, current public policy is producing a mixed and contradictory set of signals. Many transit systems, though not all by any means, have the ability to increase non-fare revenues. However,

to do so requires that the transit system compete directly and sometimes vigorously with private sector firms in non-transit activities. Such competition is not presently viable either due to legal prohibitions or political restrictions. Additionally, many potential non-fare non-transit revenue generators would require capital investment funds. At present no sources of capital funds for non-transit activities appear to be available.

### Farebox Revenues

Currently NJ Transit is recovering approximately 61% of its combined bus and rail operating costs from farebox revenues. While the system has no mandated farebox recovery requirement, the South Jersey Transit Advisory Committee recommended, in January 1982, that riders pay 60% of operating costs. In December 1981, the North Jersey Transit Advisory Committee recommended a 50% farebox recovery rate. However, the actual recovery rate in any particular year is more a reflection of available non-fare funds than it is a matter of system policy.

There is a growing resistance to fare increases on the part of NJ Transit management because of the larger than average ridership declines which have followed the more recent increases. For example, a 25% fare increase was scheduled to take effect on December 15, 1982. However, in early December, the NJ Transit Board decided to temporarily postpone the increase because the board believed that the increase would severely reduce ridership. This decision was made even though NJ Transit expected to be without operating funds by May of 1983, unless the state acted to provide additional funding. If the state failed to act, fare increase would have been imposed. The state did make available \$19.5 million in additional funds which allowed NJ Transit to complete the 1983 Fiscal Year without a fare increase and without a contemplated 20% reduction in service. The system's Board of Directors had taken the position that it would prefer to close down the system rather than increase fares. This action by the state government and changes in federal subsidy programs, discussed below, will permit NJ Transit to hold fare increases to the rate of inflation.

### State Funding

All transit funding in New Jersey is by discretionary allocations. There have been proposals to establish dedicated transportation funds, as discussed later in this report, but none have been enacted into law. One such proposal, the Transportation Improvement Fund, was proposed as part of an effort to balance New Jersey's FY83 budget and involved a 5% surtax on motor fuels. This proposal passed the State Assembly but failed by one vote in the State Senate. One factor in the proposals failure was the then possibility,



later reality, of a five-cent increase in the federal motor fuels gallonage tax. Other factors were the general low level of economic activity and the absence of popular support for the measure.

The legislature eventually compromised by increasing income taxes on incomes above \$50,000 and adding 1% to the state's sales tax rate. This compromise generated the \$19.5 million in addition funds for NJ Transit which were noted above.

### Federal Funds

The Surface Transportation Assistance Act of 1982 stabilized federal operating funds at \$44.3 million per year through FY86. This is \$10.4 million below the FY82 level. Even with the reduced level of funding, NJ Transit views the stability in federal operating assistance to be a major improvement. For the first time, NJ Transit can project its long-term operating needs and operating resources." The federal legislation eliminates the constant insecurity NJ Transit faced year after year when trying to balance the budget. NJ Transit now knows what it has to work with, and will be able to make business-like decisions about what services it can provide, given its financial resources."\* This theme that reliability of funding levels over time is more important than the absolute level of funds is stated by other case study systems examined in this study.

The Surface Transportation Assistance Act of 1982 permits a \$3-for-\$2 trade of capital funds for operating funds during FY83 and FY84. This provision of the Act would generate an additional \$10.4 million in federal operating assistance during each of the two fiscal years. Making such a funds trade would permit NJ Transit to replace the federal operating funds lost because of the cap placed on operating assistance by the Act. The funds trade would require the foregoing of \$31 million in block grant (Section 9A/9) funds. Additionally, the intent of Congress and of UMTA is to give the lowest priority with respect to discretionary funds to systems making such funds trades. Because of these factors, NJ Transit has decided that making a capital-for-operating funds trade is not a viable option.

### CAPITAL FUNDS

Capital funds available to NJ Transit derive from Urban Mass Transportation Administration (UMTA) funds, some remaining state bonding capacity (1979 State Transportation Bonds) and TRANSPAC II, an arrangement with the Port Authority of New York and New Jersey. No

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\*Personal communication, April 22, 1983, Arthur Guzzetti and Stanley Rosenblum, NJ Transit.

state discretionary allocations are normally available for capital purposes. TRANSPAC II and state bond issue funds are used for UMTA matching purposes. However, state bond funds will soon reach the authorized capacity and NJ Transit will have to seek alternative sources of funds.

#### Federal UMTA Funds

The passage of the Surface Transportation Assistance Act of 1982 and its creation of UMTA Section 9A/9 Block Grant funds will result in an increased level of capital funds for NJ Transit and provide an important element of stability to its long range capital program.

Beginning in FY84, NJ Transit expects to reach \$127 million in annual block grant funds. As has been noted above, NJ Transit will not trade capital funds for operating funds during the allowable exchange period. The new stability in UMTA funds is viewed as an important improvement which will greatly assist the long-term capital budgeting process.

#### State Bond Funds

State funds for transit capital purposes derive from the 1979 State Transportation Bond Issue. This voter approved bond issue originally earmarked \$150 million in bonds for transit capital. By 1981, only \$60 million in bonding capacity remained for transit purposes. In 1983, NJ Transit had nearly exhausted the available bonding capacity and had begun general consideration of alternative sources of replacement funds. The major alternatives are seeking new taxes or seeking new bonding authority. A third approach of a major reduction in the capital program could still be undertaken but is made less probably by changes in the federal capital grants program.

#### TRANSPAC I & II

TRANSPAC I\* was a unique arrangement between New York and New Jersey with the concurrence of UMTA. The Port Authority of New York and New Jersey wanted to increase its bridge and tunnel tolls. Such increases may occur only with the approval of the governors of both states. To obtain the required approval, the Port Authority agreed to provide each state with approximately \$220 million in capital funds for public transportation. The Port Authority will spend the funds and retain title to the vehicles purchased, as required by their statutes. The New Jersey share of these funds will be spent on buses

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\*The discussion of TRANSPAC I is drawn from: State and Local Financing of Public Transit Systems, Final Report; June 1983; UMTA Grant #NC-11-0009-Project 1, pp. 121-122.



and bus facilities. The facilities must be located within the Port Authority District, i.e., a 25-mile radius from the Statue of Liberty. The buses may be operated only within the Port Authority Service Area, a 75-mile radius from the Statue of Liberty.

UMTA agreed to accept the buses as the 20% matching share of a program grant. The program grant includes \$600 million for various bus and rail capital projects, of which \$100 million is accounted for by the TRANSPAC I buses. It is important to note that the buses were accepted as a local match on a program grant, i.e., a set of diverse capital projects, rather than as a match on a project grant.

A second arrangement, known as TRANSPAC II, has been concluded with the Port Authority. Under TRANSPAC II, NJ Transit received \$100 million in Port Authority funds which were used as local matching funds for UMTA Section 5 and Section 3 capital grants.

It should be noted that TRANSPAC II provided the matching funds for federal grants already obtained. It did not permit the generation of additional federal funds.

As was the case with TRANSPAC I, TRANSPAC II must be viewed as a one-time arrangement since there is no commitment to a TRANSPAC III. However, a third arrangement with the Port Authority is not precluded.

### Safe Harbor Leasing

NJ Transit has been one of the more aggressive transit systems in the nation in the use of the Safe Harbor Leasing provisions of the Economic Recovery Tax Act of 1981. Between December 1981 and April 1983, NJ Transit concluded four Safe Harbor Leases which generated slightly over \$4 million in new funds for the system. Funds from three of the transactions were utilized for capital projects related to rolling stock rehabilitation and upgrading rolling stock maintenance facilities. The funds generated by the fourth transaction (\$511,735) were earmarked for funding of the system's FY83 budget.

### TRANSPORTATION IMPROVEMENT FUND

The Governor of New Jersey proposed the creation of a Transportation Improvement Fund (TIF) in order to provide a dedicated source of "stable funding" for transportation. The TIF would generate approximately \$400 million the first year for use by all forms of transportation in the state. The allocation among alternative transportation usages of the revenues generated by the fund would be accomplished by the state legislature. Thus, the fund is dedicated to transportation in general but not to any one form of transportation in particular.

The TIF would receive its funds from two sources. First, revenues from the \$ .08 per gallon excise tax on motor fuels (motor

fuels are exempt from the state's sales tax) would be divided between the TIF and the state's General Fund. The TIF would receive 5/8's or \$ .05 per gallon of the revenues while the remaining 3/8's or \$ .03 per gallon would continue to go into the state's General Fund. The second revenue source involved a new tax on motor fuels. The proposal called for the imposition of a surtax on each gallon of motor fuel. The surtax would be equal to the percentage rate of the state's sales tax expressed in cents per gallon.\* Thus, the rate for the proposed surtax (which is not a sales tax) is pegged to the sales tax rate. The current sales tax rate is 5%. The proposal specified that the initial surtax shall be \$ .05 per gallon.

As has been noted, the proposal anticipated the generation of approximately \$400 million during the first year of imposition. These revenues are dedicated to transportation in general. Allocation among alternative forms of transportation (ports, highways, aviation, transit, etc.) would have been accomplished through legislative budgetary process. The proposal did limit the allocation process to the extent that not less than 10% of the revenues of the fund must be allocated to meet the transportation needs of counties and municipalities.

Of the \$400 million in revenues, NJ Transit anticipated receiving approximately \$100 million. This is approximately the level of state funds currently received by NJ Transit. Thus, the proposal would not necessarily have increased the level of state funding available to transit.

The passage of the proposed Transportation Improvement Fund would have freed the current state allocations to transportation (all modes). These allocations presently amount to approximately \$300 million. This presently expended \$300 million may or may not be allocated to transportation in the future. The TIF proposal sought to establish a stable and reliable source of transportation funding. The proposal was silent with respect to the future funds presently allocated to transportation. This was a meaningful silence as some dedicated funding sources established elsewhere in the nation explicitly require the foregoing of future discretionary funds allocation.

The funds from the TIF would have gone into the NJ Department of Transportation's "operating budget". Funds from the "operating budget" are used for both operations and capital expenses. NJ Transit anticipated utilizing its allocation from the proposed TIF for operating expenses.

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\*An effort to directly extend the sales tax to gasoline was abandoned due to technical legal difficulties. proposal was silent with respect to the future funds presently allocated to transportation. This was a meaningful silence as some dedicated funding sources established elsewhere in the nation explicitly require the foregoing of future discretionary funds allocation.

The Transportation Improvement Fund was not an attempt to replace the potential phase-out that federal transit operating subsidies. Rather, it was a recognition of present levels of transportation funding (all modes) are inadequate for present needs even when federal funds are included. The TIF would not have been funded at a rate adequate to replace existing federal funds.

The purposes of the TIF may be summarized as follows:

- (1) to generate a stable level of funding so that planning may be improved;
- (2) to generate a stable level of funding so that planned projects will not be halted after the letting of contracts due to inadequate funding;
- (3) to generate additional funds for all forms of transportation;
- (4) to maintain the existing transportation infrastructure (past levels of funds have been inadequate for this purpose);
- (5) to anticipate potential future problems by generating a funding source adequate to provide local matching for future federal grants;
- (6) to reflect the belief in user contributions to the maintenance of the transportation system;
- (7)\* to allow management to devote a greater portion of its attention to the operational and developmental problems of improving the public transportation system in New Jersey, instead of devoting such a great percentage of its focus on budgetary and financial problems, and over the politics of fare increases;
- (8)\* to take full advantage of available federal funding, particularly in light of the recent increases in such funding;
- (9)\* to insure and to maximize continued operation of the system after these capital investments are complete.

From the perspective of transit services, if the TIF proposal had been approved and if federal operating assistance remains at current levels (which represents reductions over previous years), then the TIF would have permitted NJ Transit to hold future fare increases to the

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\*Purposes 7-9 are somewhat repetitive of some of the earlier purposes. However in the personal communication of April 27, 1983 noted before, it was suggested that they be added to the list for further emphasis.

rate of cost inflation in operations. However, if the TIF proposal had been approved and federal operating assistance were withdrawn, the TIF would permit NJ Transit to hold fare increases to an estimated 33%. This latter scenario would slowly kill the transit system.

The Transportation Improvement Fund passed the State Assembly but failed to pass the State Senate. The Senate vote was a 20-20 tie vote (June 30, 1982).

#### INFRASTRUCTURE BANK

A proposal separate from the stable funding proposal (TIF) discussed above, is the creation of the New Jersey Infrastructure Bank independent of state government. The bank would have bonding authority of its own. For Infrastructure Bank Bonds, voter approval would not be required as it is for state bond issues. Additionally, the bank would have the authority to issue currently authorized but not issued state bonds. The initial funding for the bank would derive from the pooling of some existing federal water and sewer grant monies. The bank would also be authorized to accept contributions from the private sector.

The legislation which would create the New Jersey Infrastructure Bank does not restrict NJ Transit from taking advantage of the bank or to otherwise incur debt. However, NJ Transit is not empowered by its statute to borrow money. The infrastructure bank is geared primarily to projects which have revenue flow to repay the debt (e.g. sewage and water authorities, etc.), and would find it easier to borrow from the state than from the private market.

Cities would be authorized to borrow from the bank to meet infrastructure capital needs. The primary infrastructure needs anticipated for bank funding are in the areas of water and sewer and streets and highways. However, cities' borrowing for transit capital purposes are not precluded from funding by the proposal. Indeed, the Commissioner of Transportation is included in the proposal as an ex officio member of the Bank's Board.

#### CASINO REVENUE FUND

The law permitting the establishment of gambling casinos in Atlantic City, levied a tax upon casino revenues. The proceeds of this tax are dedicated to senior citizens programs. In November 1981, a statewide referendum to permit usage of these revenues by transit received voter approval. To date, NJ Transit has not received any funds from this source. This is due to the importance of the competing usages of these funds. Currently, the funds are primarily devoted to property tax relief and housing for senior citizens.

However, mobility needs are well established as a concern of elderly Americans. The legitimacy of transit as a senior citizens concern was reinforced by New Jersey voters as noted above. Thus, NJ

Transit has produced a proposal\* for the usage of Casino Revenue Tax funds for increasing the mobility of elderly citizens.

Under this proposal approximately \$20 million a year would be earmarked for transit programs in the first year. While 20% of the tax revenues would be earmarked for the program in future years. Under the program 3/4's of the funds would go to the counties to meet local mobility needs of senior citizens. Expected usages of these funds at the local level include paratransit programs, subsidizing the 1/2 fare program or possibly developing a free-fare program for the elderly. The remaining 1/4 of the funds would be utilized by NJ Transit to improve system accessibility. The improvements envisioned are capital programs to increase rail station accessibility and increase the number of accessible buses in use.

The Governor prioritizes the alternative uses for the Casino Revenue Fund monies. As of April 1983, the Governor has not supported the use of funds for public transportation.

#### CONCLUDING COMMENTS

At NJ Transit, the management is presently addressing a crisis in operating funds which is quite independent of any changes in federal UMTA operating subsidies. The changes in the UMTA program established by the Surface Transportation Assistance Act of 1982 are, in fact, providing a needed source of stability to NJ Transit's financial management tasks.

Several proposals at the state level which would have improved the stability and reliability of the funds management task did not receive legislative approval. The future of NJ Transit will be strongly influenced by actions at the federal level of government when the current block grant program (Section 9A/9) comes up for extension. However, the decisive decisions may well be the ones made at the state and local levels of government. Increased levels of stable and reliable funding from the non-federal governments is required. The alternatives imply a declining transit system transporting a decreasing number of persons. A federal role as a stable and reliable source of funds is still necessary, even if the level of support is below present amounts. To this continuing federal presence must be added an increased state and local commitment to public transit. It seems fair to observe that the existing funding arrangements demand a considerable amount of managerial resources. It can be argued that these managerial resources could be more productively employed by increasing their allocation to other areas such as improving operating efficiencies and long-term planning for both operations and capital budgeting. The state can play a vital role in this process by enacting stable and reliable funding mechanism at the state level.

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\*Developed by the Special Transportation Services Citizens Advisory Committee, an independent citizens group created to advise NJ Transit.



### III: THE RESULTS OF THE NORTH CAROLINA CASE STUDY

#### STATE-LEVEL ACTIVITIES

##### INTRODUCTION

At present, mass transit financial support at the state level in North Carolina is limited to providing funds for the one-half of the local matching share requirement of UMTA capital grants, for some demonstration project funding, and for ridesharing programs. The Public Transportation Division of NCDOT and the Governor's Blue Ribbon Commission have recommended increased levels of state involvement in public transit. The state has an ongoing policy to coordinate public transit with private sector transportation firms, where possible. Under the present financial environment, there is little likelihood that financial resources will be available for an expanded state role in mass transit in North Carolina.

North Carolina uses General Fund revenues to provide the state's share of matching funds for capital grants, and where appropriate, for demonstration projects. For capital and planning grants, the state's share is 10%, one-half of the 20% local match requirement.

To determine the mass transit budget proposal for a given funding period (fiscal year, July 1 to June 30), the Public Transportation Division of NCDOT surveys the transit systems in the state with respect to their needs for matching funds for the coming fiscal year. Individual system needs are determined by that system's grant application plans. State-wide needs are the sum of individual system needs.

The Public Transportation Division provides technical assistance to local systems for the forecasting of revenues, expenses, ridership, etc. A key element in the assistance provided is a route schedule analysis of boardings and lightings which is conducted at the request of individual systems. Data from this analysis provides the basis for revenue projections by route segment. The study results are then included as part of the planning process which projects two-years of the five-year Transportation Development Plan.

The North Carolina Department of Transportation encourages the development of ridesharing programs at the local and regional levels. Currently six major ridesharing programs are receiving federal funds and Department technical support. North Carolina had the third largest ridesharing demonstration project in the nation. Federal funds are no longer available and the project has been terminated.

##### OPERATIONS FUNDING

No state operating assistance is provided in North Carolina. A limited exception to this rule is the state's provision of the local share of UMTA operating grants on selected routes under the state's Park-and-Ride or demonstration project programs. Operating funds are viewed as a local concern but there is discussion of a state operating assistance program as a long-term



possibility.\*

The short-term approach to operations funding is to increase the number of revenue generation options available to local government. It needs to be stated at this point that the issue of transit operating assistance is tied to the larger issue of highway needs. At present North Carolina is anticipating difficulty in generating sufficient matching funds for federal highway grants arising from the additional federal motor fuels tax. The movement towards increased transit funding is part of an overall transportation approach which is dominated by current highway needs. Thus, many of the options under consideration work to increase the total funding for transportation and would make transit an allowable usage of current and expanded tax revenues from the examined sources.

The process of option generation can be viewed as having occurred in two independent but related stages. In 1981, the Governor's Blue Ribbon Commission on Transportation Needs and Financing reported a series of recommendations for increased local government flexibility in transportation (transit and streets and highways) financing and for replenishing the depleted State Highway fund. The transit related recommendations have not received legislative action.

In late 1982 and early 1983, a continuing group within the North Carolina League of Municipalities (the Committee on Public Transit System Needs) reported a series of similar recommendations for the 1983 legislative session. The recommendations of this group are divided into short-term and long-term recommendations. The Public Transportation Division of the North Carolina Department of Transportation was a participant in the League discussions and supports the recommendations.

Before examining the options recommended, it is useful to note once again that public transit is viewed as one component of the total transportation system. Thus, the recommended actions tend to be transportation oriented with transit as an allowable use rather than transit dedicated.

#### Short-Term Recommendations

Of the alternatives considered, two "packages" were developed but only parts of the "packages" are being actively pursued in the state legislature. The state's budget situation is such that proposals requiring additional state funds are not likely candidates for passage. Additionally, the political determination was made to focus upon a limited array of options.

The first "package" is composed of permissive local option enabling legislation for three tax or fee changes. The actual decision to increase the taxes or fees would be left to the local governments. The monies generated could be used for any local purpose. Transit would be an allowable usage. The philosophy is one of creating as much local flexibility as possible and leaving the expenditure decision to local governments. It is worthwhile to note that the funds generated are not dedicated to any purpose whatsoever. Of these options, only the sales tax increase is being actively promoted.

1. Sales tax increase: City and counties would be permitted to add an

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\*The details of this proposal were discussed in the previous report.



additional one cent to the sales tax. Currently, the state levies a three cent sales tax with counties (but not cities) having the local option of an additional one cent. All but one county has exercised this option. This proposal would permit a fifth cent to be levied at the local option.\*

Independent of the above League recommendation, two bills have been introduced which would increase the state sales tax from three cents to four cents. The monies raised would be used for a variety of purposes at the state level. One of the uses is the provision of matching funds for federal highway grants. Thus, there are a number of competitors for this source of future revenue.

2. Local option payroll tax: Cities and counties would be authorized to impose a flat-rate tax on employer payrolls or on employee earnings. No such tax is currently permitted in North Carolina. No particular tax rate was suggested. This possibility is not being actively pursued at present as it is judged politically unfeasible.

3. Blanket authority for \$10 auto tags: Cities would be allowed to raise their city motor vehicle license tag fee to a maximum of \$10 per year. Currently, the fee is one dollar per year unless the city has received special enabling legislation to permit a higher fee. Many cities have obtained such legislation. The tag fee is imposed or removed by action of the city council. Funds generated by the fee would be for general purposes. This option is not being actively pursued as it may compete with the promotion of the sales tax option. Further, cities can request this increase via the local bill approach.\*\*

The second "package" proposes the creation of a State Operating Program. This recommendation is a reaction to the proposed withdrawal of federal operating assistance funds. The recommendation was also made by the Blue Ribbon Commission in 1981. Originally, this was viewed as a short-term or near-term need. However, since the state is in generally satisfactory condition with respect to operating funds until around FY86, and the state budget is already overly tight because of low revenue growth due to the recession, this proposal has become a long-term consideration.

The proposal envisions a fund of approximately \$3 million the first year. Systems would receive rewards (more dollars) or penalties (fewer dollars)

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\*In July of 1983, the legislature passed enabling legislation permitting counties and cities to enact a local option 1/2 cent sales tax. However, the additional revenues are primarily targeted for school capital expenses for counties and water and sewer capital expenses for municipalities. Other lawful expenditures may be made with these revenues once the targeted programs funding distribution requirement (40% for first five years, 30% second five years) have been met. Public transportation is a lawful purpose, but the legislation was not enacted with public transportation in mind.

\*\*Legislation was introduced independent on the League's package to provide blanket authority for a \$5 automobile tag fee. This proposal was approved by the legislature.

depending upon the behavior of their farebox recovery rate. A 40% standard is under consideration as the determining rate.\*

#### Long-Term Recommendation

The long-term recommendation is the creation of a State Transportation fund. The state would make funds available to local governments for a wide range of transportations uses including urban and rural transit and/or paratransit programs. This program would be funded by a new tax, the nature of which is presently unspecified. The fund might absorb the existing State Highway Fund or it might exist separate from the Highway fund. The method of distributing funds to local governments is also unspecified as yet.

The proposal is largely unspecified in its details because it has no chance at legislative action during the current session. Thus, the recommendation is not being pursued but has been noted with an eye on future sessions and better funded state budgets.

The entire approach outlined above centers on increasing local governments' (cities and counties) flexibility in raising revenues for a wide range of uses. No attempt has been made to require that the funds be used for transit. North Carolina makes very limited use of dedicated funding and the concept has very limited political support.

#### CAPITAL FUNDS

The state provides one-half of the 20% local match for UMTA capital grants. These funds are general revenue funds appropriated by the state legislature as part of the Department of Transportation biennial budget. The required amount of funds is based on system provided grant application plans.\*\* As discussed in the following section, North Carolina has sufficient capital funds for most systems. Thus, capital funding is not presently an issue as is operating funding.

#### SECTION 9 FUNDING

The changes made by the Surface Transportation Assistance Act are viewed as useful but not a big deal. The dedicated funding is helpful in that it means that some operating assistance will continue, however, the caps on that assistance are harmful. Meanwhile, the capital funds available are in excess of most system needs.

The view is that if the law was a true block grant the states would have the ability to shift funds between operating and capital uses at need and without penalty. The new law does give the state more flexibility to shift funds among systems in urban areas up to 300,000 in population. However, the system with the greatest current needs is in Charlotte which exceeds 300,000

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\*This process is described in detail in the previous report.

\*\*This process is described in detail in the previous report.

in population. Because of the population restriction, the state cannot shift available funds to the Charlotte system.\*

Thus, North Carolina is in an interesting position. Total federal funding available to all systems in the state is adequate to current needs. However, limitations in the law prevent the funds being distributed to the uses (operating) and the systems (Charlotte currently) which have inadequate funding. Naturally, this situation calls into question the ability of the block grant program, as it was actually enacted, to fulfill its stated objectives. With respect to the administration of the new law, the Public Transportation Division is watching developments to see how the administrative process will evolve. This is not an expression of uncertainty, rather a general caution appropriate to any new law in its early stages of implementation.

#### IMPACT OF CAPS ON OPERATING FUNDS

When the phase-out of UMTA operating assist was proposed, North Carolina's transit systems began searching for methods of reducing operating costs. The systems, in general, are tending to cut back service or postpone expansions, raise fares and explore other operating economics. Table 3.1 shows the projected impacts of the withdrawal of UMTA operating funds on seven of the state's 13 transit systems.

With the continued existence of federal operating subsidies, the systems are relatively better-off than if no federal monies were available. However, as cost inflation increases operating expenses, the caps will serve to increase the amount of local funding and/or farebox revenues needed to maintain existing levels of service. Thus, even with a continued federal presence, local resources will have to absorb all cost increases for current service and for any expanded service. This circumstance is expected to be felt during the next two to three fiscal years. The systems have relatively short lead time to plan system and/or financial changes.

#### ELDERLY AND HANDICAPPED PROGRAMS

North Carolina has a growing network of specialized elderly and handicapped transportation service. Under the Section 16 (b) (2) program the state is receiving approximately \$650,000 annually in federal assistance. However, current needs are substantially in excess of that amount. The state is encouraging, to the extent funding permits, the consolidation and coordination of services under a lead agency with multiple client groups utilizing the same vehicle. These activities increase efficiency and increase the total level of service which will be provided with present Section 16 (b) (2) funding. However, existing needs will still go unfulfilled.

The state would like authority to shift some Section 18 and Section 5 funds to specialized service usage, especially in non-urban areas. This proposal is

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\*The situation described held at the time of the case study in March 1983. By July, the situation was in limbo in that, there appears to be some flexibility in the state's ability to shift these funds. UMTA is currently reviewing the situation and a ruling is expected shortly.

TABLE 3.1  
 PROJECTED N.C. TRANSIT OPERATIONS AND FUNDING  
 NEEDS FY 82 - FY 85 \* +

As of 8/13/82

<u>City</u>	<u>Net Local Share-FY 82</u>	<u>Net Local Share-FY 85</u>	<u>% Change</u>	<u>Bus-Miles FY 82</u>	<u>Bus-Miles FY 85</u>	<u>% Change</u>	<u>Ridership FY 82</u>	<u>Ridership FY 85</u>	<u>% Change</u>
Asheville	\$ 479,383	\$	+ 41.5	698,140	601,680	- 13.8	1,393,534	898,751	- 35.5
Charlotte	3,411,371	6,541,196	+ 91.7	3,833,000	3,570,800	- 6.8	10,000,000	9,000,000	- 10.0
Gastonia	99,341	111,497	+ 12.25	247,789	210,989	- 14.9	419,871	354,135	- 15.7
Salisbury	81,000	337,310	+316.4	187,621	255,000	+ 35.9	267,315	306,778	+ 14.8
Wilmington	276,865	672,182	+142.7	508,415	391,957	- 22.9	767,361	620,869	- 19.1
Winston-Salem	900,000	1,600,000	+ 77.8	-	-	-	-	-	-
Raleigh	678,979	2,092,946	+208.3	1,540,988	1,699,376	+ 10.3	2,463,489	2,530,851	+ 2.7

\* Assumes phase-out of UMTA operating assistance in FY85

+ Data for seven of the state's 13 transit systems

Source: North Carolina Department of Transportation, Public  
 Transportation Division

currently being explored with UMTA. If the transfer is approved, presently excess capital funds can be utilized and no increase in the total amount of federal funds coming into the state would be involved.

#### SECTION 18 CHANGES

The transfer of the administration of Section 18 from the Federal Highway Administration (FHWA) to UMTA, planned for October, 1983, is not viewed as an improvement. FHWA has an office in the state capitol, a very effective computerized billing system, and a well established relationship with the appropriate state and local offices. The UMTA regional office is in Atlanta, Georgia, the computerized system does not exist, and UMTA does not have the same level of personnel available for Section 18 administration. It is anticipated that the transfer will mean the creation of a two-month lag time in billing procedures. Increased efficiencies or other operational improvements arising from this transfer cannot be foreseen.\*

#### CONCLUDING COMMENTS

The transit funding situation in North Carolina is a mixed set of circumstances. In response to the proposed withdrawal of UMTA operating assistance, local systems began seeking economies in service provision and increased funds from non-federal sources. Additionally, the North Carolina League of Municipalities in conjunction with the Public Transportation Division of the State Department of Transportation began exploring alternative sources of increased revenues for general purposes for local governments and explored possibilities of a State Operating Assistance Fund.

With the continuance of federal operating subsidies, these activities have become less immediate in their importance. However, the existence of caps on federal operating assistance means that the search for non-federal funds will continue and become critical before FY85 or FY86.

In the years between FY83 and FY85, the total amount of UMTA funds from all sections is adequate for existing needs. However, there is a notable imbalance across programs due to limitations on fund transfers by the state. Thus, most systems have excess capital funds while other systems and specialized service providers have excess capital needs. Similarly, many systems with excess capital funds have inadequate operating funds. In this particular situation, the current UMTA funding programs are inefficient and result in lower levels of service reaching the public than could be provided if the state had greater flexibility to transfer federal funds in response to system needs.

The prospect for a state funded operating assistance program are dim. Currently, state budgetary needs exceed projected revenues and the state is

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\*Between March and July 1983, UMTA and the FHWA solicited extensive state level input to the transition planning. While some of the problems noted above are still anticipated, they are not expected to be as sizable. A major factor in this reassessment is that the program will apparently be basically a block grant program.

prohibited from running a deficit. The state legislature does not believe in bending that requirement.

Further, the state has inadequate funds to match federal highway capital grants. Any new revenues devoted to transportation at the state level will first go to meet highway needs.

## CAPITAL AREA TRANSIT\* (CAT): RALEIGH, NORTH CAROLINA

### INTRODUCTION

Capital Area Transit (CAT) is the city-owned bus system in Raleigh, North Carolina. The city government purchased the system from City Coach Lines, Inc., in 1975. City Coach Lines conducts the day-to-day operations of the system under contract to the city. This arrangement is necessary due to UMTA 13 (c) requirements and the North Carolina law prohibiting the union membership of public employees. Planning, marketing, and financial matters are conducted by the Raleigh Transportation Director's Office.

The Raleigh City Council views public transit as a public service which the local government should provide. The policy-making body for CAT is the Raleigh Transit Authority (RTA). RTA members, all unpaid volunteer citizens, are appointed by the city council for two-year terms. The RTA has the broad authority to establish fares, initiate or terminate routes and related activities. The city council retains financial control, in that actions by the RTA which would require additional city funds must be approved by the council. Actions which do not require additional city funds do not need council approval. The city relies upon the staff of the Raleigh Transportation Director for planning and marketing activities. There is some input into the planning process by the management firm (City Coach Lines).

### OPERATIONS FUNDING

No state funds are available for operating expenses, except as noted below. Operating expenses are funded primarily from three sources: UMTA Section 5 funds, farebox revenues, and city council allocations.

The city council allocations derive from property tax receipts, no sales tax funds are used. City council funds are not dedicated funds. However, the city council is strongly supportive of public transit.

The CAT system recovers 40% of its operating costs from the farebox (\$1.2 million in FY82). The operating deficit (\$1.8 million in FY82) is funded by UMTA Section 5 subsidies (50%) and a combination of city council allocations and profits from charter services. For service provided the Cary and Garner communities, the state provides the local matching funds as part of its Park-and-Ride program. Otherwise, there are no state funds available for operating expenses.

Until FY86 sufficient federal funds exist to subsidize current levels of service. During the three fiscal years prior to FY86, CAT will be able to access the state level Section 5 reserves.\*\* The reserve funds may be transferred among systems at the discretion of the Governor. To date, the

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\*For reasons unknown, Raleigh, the state capitol, refers to herself as "The Capital City". Thus, the transit system use the same spelling of the term.

\*\*Two privately owned transit systems in North Carolina (Durham and Greensboro) are the primary source of the reserve funds.



state has been very cooperative in such transfers and sufficient Section 5 funds are expected to be available during the three year period for which these monies can be reserved by the state.

Beginning in FY86, a funding shortfall of \$322,000 is expected. Figure 3.1\* illustrates the situation with respect to federal operating assistance for FY82 through FY86. The figure assumes that present levels of service will be continued, that cost inflation will occur, and that no unusual fare\*\* increases will occur.

As the figure indicates, the cap placed on federal operating assistance by the Surface Transportation Act of 1982 will not be felt by CAT until FY86. At that time, the effects of the cap become a serious concern. At the time of the case study (March, 1983), the topic was pending before the city council. The basic question is what type of system does the city want. Historically, the city government has viewed transit as a necessary public service. The issue which the city government must now face is nothing less than a fundamental re-evaluation of that position. Raleigh is a rapidly growing community. In the past transit service has grown as the city grew. The city must now decide if the past growth in transit service will continue or if the system will become a predominantly core city service. Combining the projected shortfall in federal funds with the normal growth in the city's share of operating costs, by FY86 the city will be faced with funding approximately \$600,000 more than its FY82 funding level for operations.

In April of 1983, the city council adopted a policy statement which addresses this issue. The policy statement (shown in Appendix B) formally establishes the 49% farebox recovery ratio as a system objective, commits the city council to fund 50% of the operating deficit of existing service, and specifies the limits to city council funding of the operating deficit of any expanded service. With respect to expanded service, the percentage increase in the city's share of the operating deficit can increase no more than the percentage increase in property tax valuation during the preceding fiscal year.

The policy statement assumes that sufficient federal funds will be available to provide 50% of the operating deficit. However, should federal funds equal an amount less than 50% of the deficit, the city council will provide funds equal to two-thirds of the decline in federal funds and CAT must provide the remaining one-third of the shortfall either by reduced service or by increased fares.

#### CAPITAL FUNDING

The capital situation is impacted by the uncertainties over the future levels of operating funds. In general, CAT's capital stock is relatively new

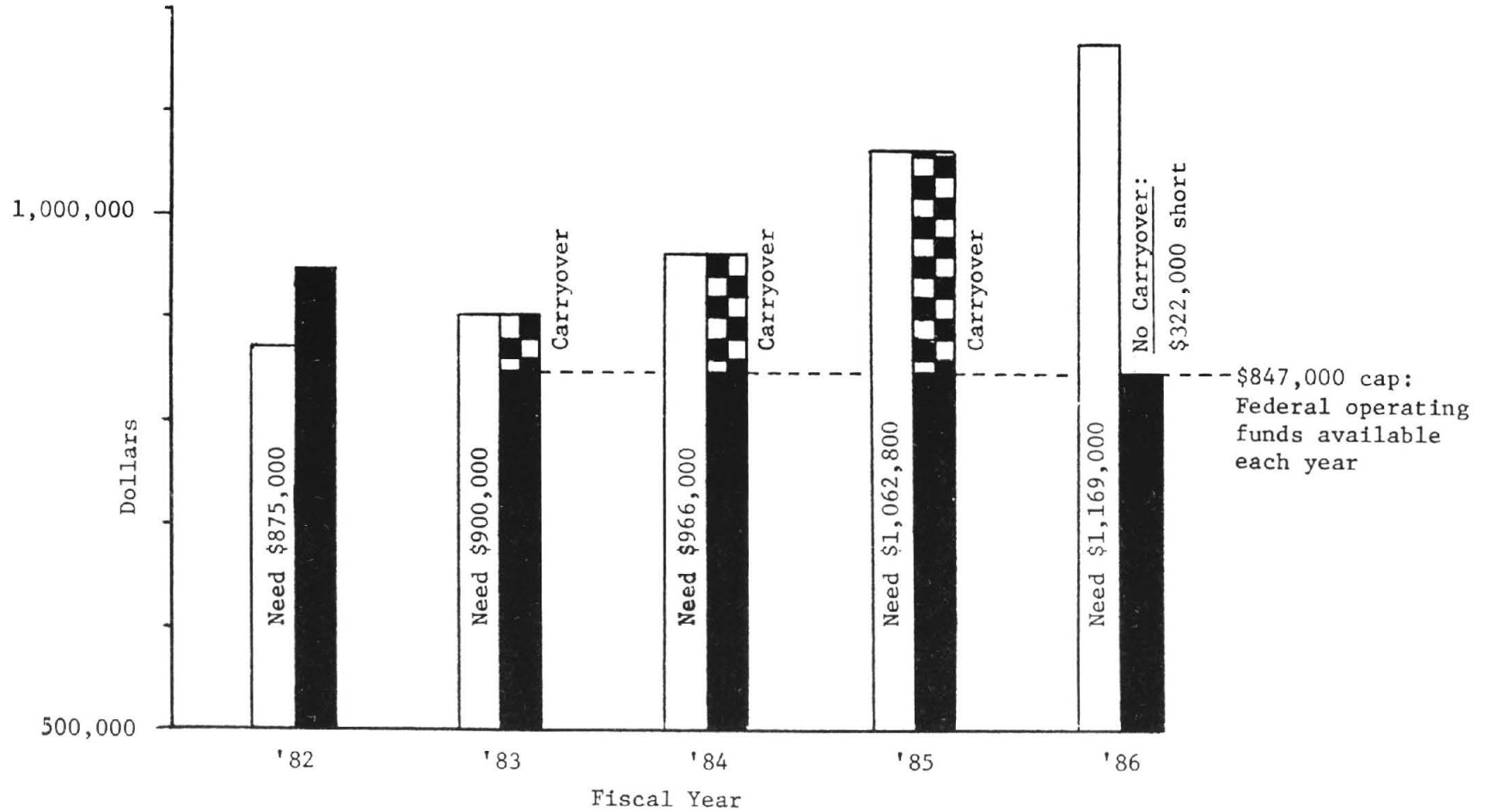
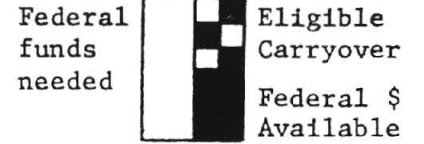
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\*The carryover shown in Figure 3.1, is UMTA Section 5 monies allocated to North Carolina but not utilized by the designated city as indicated above.

\*\*This comment is explained later in the case study. In short, CAT maintains a farebox recovery of approximately 40 percent regardless of the availability of other funds. An unusual fare increase would be one in excess of the predetermined recovery rate.

Figure 3.1

FEDERAL OPERATING ASSISTANCE



Source: City of Raleigh Department of Transportation

with the next bus replacement purchases scheduled for FY88 - FY90. In FY84 approximately \$1 million will be spent on a downtown bus transfer facility. Some additional shelters will be purchased in FY83. Beyond these items no major capital purchases are needed unless an expansion of the system occurs. No system expansion can occur until and unless sufficient funds for operations can be identified.

Table 3.2 indicates the level of Section 9 funds authorized for Raleigh by FY86. By way of comparison, federal capital funds for FY82 totaled approximately \$400,000. Thus, CAT has more than sufficient federal capital funding to meet present needs.

However, capital needs might increase if sufficient federal operating assistance could be projected, starting in FY86, to permit the system to expand in line with the city's growth pattern. Thus, CAT is in an interesting position. Sufficient federal capital monies can be identified to allow the system to continue its historic growth pattern. But adequate funds to operate the existing system, much less an expanded system, cannot be projected beyond FY85. In this case, the federal funding incentives are contradictory.

If capital funds could be transferred to operating uses (starting with FY86), then some of expanded services could be provided within the total identifiable funding limits. One existing possibility, which works within those limits, is to increase peak-hour headways and extend the length of the routes. This would provide additional service area at approximately the same cost level. But the service level would be lower when measured by schedule frequencies. This approach would not decrease the currently projected FY86 operating funds shortfall.

#### FAREBOX RECOVERY

The City of Raleigh has a policy that 40% of operating costs should be recovered from transit users via the farebox. The actual recovery rate has varied from above 40% to a low of 32%. In April 1982 the fare increased from \$.40 to \$.50. On January 1, 1983, the fare structure changed to include a peak-off-peak differential. The off-peak fare is \$.50 while the peak fare is \$.60.

The 40% recovery guideline holds regardless of the availability of other funds. The city believes that riders should pay their fair share of operating costs. The remaining costs (deficit) are split between the city's taxpayers (general fund revenues) and the federal government; each paying approximately 30% of total operating costs.

As total operating costs increase through time, fares can be expected to increase in line with the 40% recovery rate guideline. If federal operating assistance should increase, the above would still hold true. In terms of the projected FY86 federal funds shortfall, the discussion of ways to replace those funds has not yet included increased fares. This is consistent with the philosophy which underlies the fare policy.

#### PLANNING IMPACTS

The Transportation Development Plan (TDP) for Raleigh was developed based

TABLE 3.2

FEDERAL FUNDING - CAPITAL ONLY  
Section 9

FY 83	\$1,018,000
FY 84	\$1,385,000
FY 85	\$1,547,000
FY 86	\$1,628,000

Source: City of Raleigh, Department of Transportation

on the historic expansion in line with city growth philosophy noted above. With the reduction in available federal operating assistance beginning in FY86, the TDP must be re-examined. Any such re-examination is directly tied to city council decisions regarding the future levels of local funds which may be available for transit operations. Fortunately, under the Surface Transportation Assistance Act, Raleigh has an ample supply of federal planning monies available for this activity.

#### MANAGEMENT CONTRACT

While the City of Raleigh owns CAT, it cannot directly operate the system. State law prohibits public employees from union membership and UMTA 13 (C) requirements prohibit damage to union positions. As the transit operators were unionized when Raleigh purchased the system, a management firm was the logical approach. Drivers are employees of the management firm.

The city is quite satisfied with the conduct of the management firm and its cost-effectiveness. Presently no part-time drivers are utilized. This has not been expected to become an issue.

#### AUTO LICENSE FEES

In the Fall of 1982, the Raleigh City Council raised the fee for the city automobile license tag from one dollar per year to five dollars per year effective for 1983 tags. The council resolution establishing the fee increase indicated that transportation needs, including transit, would be the primary recipients of the additional funds. These revenues are viewed as additional funds for transportation uses, not as a replacement for currently allocated general fund monies.

Consistent with local governmental philosophy, the funds are not dedicated to any particular usage. Rather they go into the city's general fund to be appropriated at the council's discretion. It is informally understood that transportation needs will have first claim on the additional auto tag fee revenues.

Should UMTA operating subsidies be withdrawn, the informal understanding might become more formal. At present the city wishes to preserve its traditional flexibility with respect to fund usage.

Before the city could increase the tag fee above one dollar per year, enabling legislation was required from the state. This presented no difficulties, since several cities in North Carolina preceded Raleigh in this matter.

#### POLITICAL ENVIRONMENT

The political environment in Raleigh is very supportive of public transit. Transit is viewed as a necessary public service which the city should provide its citizens, much like water and sewer service. It is realized that transit cannot be self-supporting but it is felt that there are limits as to how many tax dollars can go to transit. Therefore, the system is expected to be operated efficiently and not be allowed to run unnecessarily high deficits.

The 40% farebox recovery rate represents a general philosophy that the city wants to support transit but that the support is not open-ended. The

city wants its share of the operating deficit held to approximately \$.03 on the property tax rate. This generates approximately \$900,000 annually. With a growing tax base, the total funds generated within this guideline will continue to increase. The 40% farebox recovery ratio has been formally noted in City Council Resolution (1983) 251, while the \$.03 on the property tax rate is an informal policy. These policies provide the parameter within which the route system is planned.

The city does not use dedicated funding.\* It is felt that the city council should keep control over all aspects of the city's spending and that the council should decide where the city's tax revenues are used. Thus, the funding system facing CAT may best be described as a non-dedicated but stable and reliable funding structure.

It is worth noting that the Raleigh Transit Authority, CAT's governing board, is composed of volunteer citizens and is one of the most popular boards on which to serve. Most members are business persons and expect the system to be run in an efficient businesslike manner.

#### CONCLUDING COMMENTS

The funding mix in Raleigh is relatively simple and straight forward. The Raleigh City Council also has a clear philosophy of what transit should be and this view is incorporated into the funding structure. This fact is a strong asset of the transit system.

The recent changes in federal transit funding policies will not really be felt by CAT until FY86 when available federal operating subsidy funds will be insufficient for system needs. At the same time, federal capital funds will be in excess of system needs. However, if more operating assistance were available, the system's normal expansion in-line with city growth would occur and much of the current excess funds could be effectively utilized.

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\*Some property tax revenues are dedicated to the city parks system, but this is the only exception.





## IV. THE RESULTS OF THE GEORGIA CASE STUDY

### STATE-LEVEL ACTIVITIES

#### INTRODUCTION

The State of Georgia permits two separate approaches to public transit financial support. Local areas may, at the voters option, elect to impose an additional 1% on the state's 3% sales tax with the additional revenues being dedicated to a local transit system. To date only Fulton and DeKalb Counties (Atlanta) have undertaken this option. The selection of the local option tax, however, ends the transit system's eligibility for state transit assistance funds.

The second approach to state transit support is the provision of 10% of the application amount for UMTA capital grants and the provisions of a share of the costs of transit marketing programs. Transit systems not receiving local option sales tax funds are eligible for these state funds. Both approaches to transit support are described in greater detail in subsequent sections of this chapter.

#### STATE FUNDING

The State of Georgia allows local governments to pass local option sales taxes, the proceeds of which may be dedicated to local transit. So far this option has been exercised only in the Atlanta Metropolitan area. The state can provide no more than 10% of capital costs, i.e., one half of the state and local matching share for UMTA Section 5, Section 9 and Section 16(b)2 capital grants. The revised Section 3 grants require a 25% local match. The state's share for such grants is still limited by law to 10% of project costs. However, Section 3 funds are not presently utilized in Georgia with one exception. That exception is MARTA which receives no state funds. With respect to Section 8 planning funds, the state will provide 10% of the transit portion of each MPO's Unified Planning Work Program. All state funds are derived from general revenue sources and allocated to the Georgia DOT through the legislative process.

Additionally, the state will provide funds equal to 50% of the local share of any transit marketing program. Some transit systems utilize funds from the state's share of the marketing program as part of the required UMTA local matching funds for grant applications.

The state funds for MARTA (Metropolitan Atlanta Rapid Transit Authority) operations derive from the 1% state sales tax levied in Fulton and DeKalb Counties.

Georgia DOT expects to undertake the same role with respect to Section 9A and Section 9 funds which it has played with respect to Section 5 funds. However, the caps on the amount of UMTA operating

funds available during upcoming fiscal years, may require a re-examination of the historic financing role of the state.

#### LOCAL CEILINGS

The smaller Georgia transit systems are heavily dependent upon federal operating subsidies.\* When the possible phase-out of UMTA operating subsidies was announced, local governments faced the possibility of absorbing the entire operating deficit of their transit systems. Such an absorption was not fiscally possible. This led to a re-examination of the transit system's operations. In some cases, local governments established ceilings on the amount of local tax revenues which could be used to fund operating deficits. In all cases, route revisions and reductions in service (as measured by route-miles and vehicle-miles) occurred.

Even with serious efforts at cost reduction, primarily through service reductions, the smaller systems anticipate difficulties in generating the required local matching funds (50% of deficit). No state assistance is available for operating purposes. Thus, in the absence of additional federal monies for operations, these systems are expected to contract as cost inflation interacts with relatively fixed total funding, including currently projected UMTA funding.

This assumes that state funding for operating purposes is not forthcoming. At present, it seems extremely unlikely that state funds for this purpose will become available.

No set of federal incentives which would increase state and local funding for transit could be suggested by Georgia DOT. This implies that the federal government's role must be a direct one as a funds provider, rather than an indirect one as an incentive provider.

#### FUNDS ALLOCATION

The 15 rural systems in Georgia utilize UMTA Section 18 funding. This funding is distributed by formula. Of the total amount of Section 18 funds received, 15% goes to Georgia DOT for administrative expenses. Of the 85% remaining, 70% is distributed to congressional districts by population. The other 30% is distributed by the Georgia DOT on the basis of system needs.

All other UMTA funding involving allowable state matching funds (i.e., for capital expenses) are allocated on the basis of approved Transportation Improvement Plans (TIP) requests. The transit systems

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\*This is not true of the Macon system which utilizes no federal funds.

develop the UMTA grant application to be submitted by the state. The properties request the appropriate state matching funds (10%) from the Georgia DOT through a resolution.

#### EFFICIENCY STANDARDS

The state does not currently impose efficiency or productivity standards on transit properties. All transit properties, including MARTA, submit quarterly reports on operations, ridership, farebox revenues and the like to the Georgia DOT as part of the Department's Management Information System. This information is then fed back to the transit system management via informal personal contacts from the Public Transportation Bureau personnel and formal annual transit fact books. The Georgia DOT conducts annual on-board rider surveys as part of its Management Information System program. In general, the overall tightness of funding provides the necessary incentives for operational efficiencies.

#### CONCLUDING COMMENTS ON STATE ACTIVITIES

In summary, all Georgia state funding for local transit is from general revenue sources; there are no dedicated state funds for this purpose. The state has not provided operating assistance, but does provide 10% of capital acquisition costs. Additionally, 50% of any transit marketing program can be supported by state funds (25% if federal share exists).

For FY 1982-1983, the Public Transportation Bureau's budget was \$1,653,793. Of this amount, \$705,340 was used for matching funds.

The Georgia DOT is the designated recipient for UMTA Section 5 and Section 9 funds, both operating and capital assistance, for systems in urbanized areas between 50,000 and 200,000 population. The systems involved are Albany, Athens, Macon, Rome and Savannah. These funds are distributed on an formula basis, which includes a portion of the funding to be distributed on a discretionary basis using a system need criterion. The Columbus, Augusta and Atlanta systems deal directly with UMTA since the urbanized areas served exceed 200,000 population. The fifteen rural systems utilize Section 18 funding.

## THE METROPOLITAN ATLANTA RAPID TRANSIT (MARTA): ATLANTA, GEORGIA

### INTRODUCTION

The present Metropolitan Atlanta Rapid Transit Authority (MARTA) is the product of special enabling legislation passed by the Georgia legislature, which authorized a 1% local option sales tax dedicated to transit services. In 1971, the voters of Fulton and DeKalb Counties and the City of Atlanta approved the local option 1% sales tax, the first in the State of Georgia, to be dedicated to MARTA.

Prior to the 1971 sales tax referendum, a proposal to fund MARTA by property taxes was put before the voters of the four-county area, in 1969, and was overwhelmingly rejected. This prompted the exploration of alternative forms of dedicated funding. With the property tax no longer a viable contender, three alternative tax sources received primary attention: a value-added tax, an earnings or payroll tax, and a sales tax. In a 1970 report, the sales tax emerged as the most practical alternative. Concern over the regressive nature of a sales tax, in combination with the concern for low-income transit dependent riders, led to the seven-year, \$ .15 fare arrangement as a means of reducing the regressiveness of the sales tax.

### THE SALES TAX REFERENDUM

MARTA was originally established in 1965 to provide transit service to five counties (Fulton, DeKalb, Cobb, Clayton and Gwinnett) in the Atlanta region. Of the five counties that voted on the 1971 referendum, only the voters in Fulton and DeKalb counties (which includes the City of Atlanta) approved the local option sales tax. Voters in Clayton and Gwinnett elected to join MARTA but not to impose the sales tax. Thus, these two counties are represented on the MARTA Board of Directors. Cobb County voters rejected both MARTA membership and the sales tax.

Currently, MARTA only operates in Fulton and DeKalb Counties\*. Long-range MARTA planning envisions expansion of service to other counties in the Atlanta region as additional counties approve the sales tax and, thus, make funding available.

As an inducement to the voters, especially low-income transit-dependent voters, MARTA agreed to maintain a \$ .15 fare with free transfers for seven years if the sales tax were approved. The \$ .15 fare was below the then current \$ .40 plus \$ .05 transfer fare. Following the expiration of the seven-year period, fares were raised

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\*This statement is not absolute in that some service from other counties into Atlanta is provided, but at a higher fare. For example, the fare from Clayton County into downtown Atlanta is \$ .30 higher than bus fare within Fulton or DeKalb Counties.

to \$ .25. In July, 1980, fares were raised to \$ .50, and in July of 1981 to \$ .60. There continues to be no charge for transfers.\* Low-income transit-dependent riders are a continuing concern of MARTA management.

The availability of local sales tax funding is critical to the existence of MARTA service. The enabling legislation explicitly precludes any state funding for MARTA operations or capital purchases. Thus MARTA expenses are funded from three primary sources: local sales tax revenues, farebox revenues and federal (UMTA) funds. Investment income is an important source of funds which is discussed in detail below. As will be noted later, some additional revenues are derived from other non-fare sources, but the dollar amounts are very small.

#### SALES TAX REVENUES

The original legislation establishing the MARTA local option sales tax set the tax rate at 1% for 10 years, with the rate falling to 1/2% thereafter. In 1979, the state legislature extended the life of the 1% rate for an additional 15 years. On March 29, 1983, the state legislature extended the 1% rate for an additional 15 years. With this new extension the 1% rate will be in effect until June 30, 2012, falling to 1/2% thereafter.

The legislation further specified that no more than 50% of the sales tax revenues could be used for operating expenses.

Additionally, operating deficits may not be planned. However, should an operating deficit occur due to unforeseen circumstances, such as union wage increases, the amount of the deficit may be "borrowed" from the sales tax revenues dedicated to capital expenditures. Any such borrowings must be repaid to the capital account within three years.\*\*

The sales tax as a funding source has the advantage of being directly related to inflation. It has the disadvantage of a direct relationship to the business cycle. Thus, MARTA sales tax revenues tend to rise with inflation and with positive economic growth, and to

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\*Again there are certain exceptions; for example, a passenger using the bus from Clayton County into downtown Atlanta would pay \$ .05 for a transfer, if the passenger transferred to another bus once reaching downtown Atlanta.

\*\*For the year ending June 30, 1980, MARTA "borrowed" \$1,581,000 from the capital account. Of this amount, \$121,000 remains to be repaid before June 30, 1983.

fall under recessionary economic conditions. The impact upon revenues under conditions of simultaneous recession and inflation would depend upon the depth of the economic downturn and the strength of the inflation rate.

#### FAREBOX RECOVERY

Fares are initially established so as to recover 35% of the previous year's operating costs as required by law. Projections are made of current year's operating costs, UMTA operating assistance and that portion of the sales tax revenues usable for operating expenses (50% of total sales tax revenues). Should the funds projected to be available from these sources be inadequate to meet expected operating expenses, then fares will be adjusted upward in order to generate the necessary additional revenues.

At this point the amounts of available funds from the various sources have been projected and what may be viewed as a minimum fare (that which fulfills the farebox recovery rate requirement) is known. To this amount can be added the available UMTA operating subsidy funds. The difference between projected total operating costs and available UMTA funds plus farebox revenues generated by the 'minimum' fare is funded from sales tax revenues up to the 50% maximum.

The role of sales tax revenue in funding operating expenses is a point worthy of additional note. The enabling legislation permits the usage of up to 50% of the sales tax revenues to subsidize operating expenses. If less than that amount is utilized for operations, the remaining funds may be invested at interest or used for capital projects.

Thus, MARTA utilizes allowable UMTA funds first, as these funds cannot be retained and invested. Then sales tax revenues are utilized and any remaining sales tax funds are invested at interest. The interest earnings can, in turn, be used for other systems needs or, because of a recent change in state law, used to subsidize future operating expenses. This is a useful long-term financial policy as current events are proving. When the Atlanta economy is strong, sales tax revenues can exceed their need as operating subsidy funds. However, when the local economy is in a downturn, the sales tax revenues may need their own form of subsidy which becomes possible from investment earnings or investment liquidations. This topic is more fully discussed below.

In Atlanta, there is tremendous community pressure for low fares. The fare limitations stated above, combined with the community pressure for low fares, create pressure to keep operating costs low through good management and operating practices.



## INVESTMENT INCOME

Currently MARTA is earning \$20 million a year from investments. Of this amount \$1.8 million can be used for operations with the remaining \$18.2 million being restricted to capital uses. These funds derive from three sources: capital bond proceeds, accumulated sales tax revenues and two self-insurance reserves.

The funds presently available for operating uses derive from the two self-insurance reserves. In the future, interest earnings on accumulated sales tax revenues can be utilized for operations purposes.

The two self-insurance reserves yield \$1.8 million per year in interest earnings. The larger of the two funds is a \$10 million self-insurance reserve to cover liabilities arising from MARTA's operation. The other reserve is the Railroad Trust which guarantees the purchase of insurance to cover any liability which may arise from private rail operations which are conducted in close proximity to MARTA's rapid rail operations. This fund of \$6.185 million indemnifies the railroad for any damages its operations may do to MARTA property or passengers.

The two funds were established from accumulated sales tax revenues in prior years. Interest earnings from the Railroad Trust which are not used to purchase insurance are available for operating uses.

The proceeds from bonds sold to support MARTA rail construction are invested until such time as the funds are required. The source currently generates \$18.2 million annually. These interest earnings are restricted to capital uses.

Accumulated sales tax revenues not yet used for capital or operating purposes may be invested at interest until needed. In the past the earnings on these investments could only be used for capital purposes. Following a recent change in the MARTA Act, MARTA can now reserve the portion of the 50% of the sales tax not used for operating subsidy as a separate pool of investment funds. The earnings and principle may be used for future operating needs. Presently MARTA has not established this separate investment fund but anticipates doing so within one-to-two years. This new financial flexibility has not been utilized as operating usable sales tax revenues are not currently in excess of operating subsidy needs.

## CAPITAL FUNDING

### UMTA Capital Funding

Major alterations are occurring in MARTA'S capital acquisition program. As of January 1983, the level of effort in subsequent fiscal



years was expected to fall from over one-quarter-of-a-billion dollars per year to approximately \$30 million per year. As a result, the planning horizon for rail projects is lengthening as projects scheduled for completion within the next five years are pushed back into the 1990's or beyond. Several factors bear upon this emerging condition and at least one partial remedy is possible. These factors are discussed below.

For FY83, MARTA expects to receive between \$27 million and \$67 million in UMTA funding. Of these amounts \$7.8 million derives from Section 9A funds and \$20 million from the Secretary of Transportation's discretionary funds per Congressional instruction. As of January 1983, a strong possibility existed that MARTA would receive an additional \$40 million from the Secretary's discretionary funds.

By late May the capital funding situation was somewhat changed. At that time, MARTA was receiving \$45.1 million rather than the expected \$67.8 million. The \$20 million in Congressionally mandated funds is included in that \$45.1 million. With respect to the \$7.8 million in Section 9A funds expected by MARTA, UMTA's calculation of the formula allots only \$5.1 million to MARTA. MARTA and UMTA are presently engaged in discussions concerning the \$2.7 million difference.

In the Spring of 1983, Congress passed legislation which permitted UMTA to reprogram up to \$40 million in bus capital funds to transit agencies for the purpose of retiring Letters of No-Prejudice which expire in 1983. MARTA appears to be the only transit agency in the nation with Letters of No-Prejudice expiring in 1983. Thus, MARTA's anticipated receipt of the full \$40 million. However, UMTA decided to reprogram only \$20 million of the permissible \$40 million. MARTA will receive the reprogrammed \$20 million. The non-reprogrammed \$20 million is a matter of discussion between MARTA and UMTA.

The most interesting of the above UMTA funds is the \$20 million Congressionally mandated discretionary allocation. The Congressional Conference Report of the Department of Transportation Appropriations Bill specifies that \$20 million be allotted to Atlanta for new rail and rail extentions. Eight other cities\* also received funds in this manner. To obtain this funding, MARTA directly lobbied the Georgia Congressional delegation to specify an allocation for Atlanta in the law.

In light of declining amounts of UMTA formula allocated grants, access to the Secretary's discretionary funds become increasingly important to systems with sizable capital funds requirements. The

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\*Baltimore, Buffalo, Miami, Detroit, Los Angeles, Santa Clara, Portland and Seattle.

impact of the above is a growing importance of Congressional lobbying efforts. It is MARTA's view that Congressionally mandated allocations of discretionary funds is the key to future federal funding adequacy. While UMTA will remain highly important, Congressional relations have acquired a new level of importance. Should this new Congressional role in funds allocation continue, future discretionary allocations may tend to favor politically astute and influential transit systems. Such an occurrence would introduce new and potentially disturbing elements into the federal transit financing program.

### Local Capital Funding

The local option sales tax enabling legislation specifies the funds usage split between operating and capital expenses. Fifty percent of the sales tax revenues are devoted to capital expenses. Sales tax revenues allocated to capital costs have been pledged to support the principle and interest costs of rail construction bonds. The available revenues through 1997 have been pledged in support of currently outstanding bond issues. The revenues from these bonds support the construction of Phase B-1 and B-2 of the MARTA rail system. Thus, the \$550 million Phase B-1 and B-2 construction costs will be funded entirely from local sources with the exception of \$131 million in UMTA funds utilized for Phase B-1.

MARTA is requesting that UMTA reimburse MARTA for 80% of the remaining Phase B-1 and B-2 construction costs. Should the request be granted, MARTA would receive \$335.2 million. Such an event would permit initial Phase C construction projects to continue as scheduled.

An important feature of the reimbursement request is that it would generate sizable amounts of funds without a matching funds requirement. The reimbursed funds would have been already matched by the 20% (\$83.8 million) not reimbursed. This is a very important point. With the capital portion of the sales tax revenues through 1997 pledged to the support of outstanding bonds, MARTA'S ability to generate matching funds for capital grants is extremely limited. With extreme effort, an estimated \$4-\$5 million in capital matching funds could probably be generated.

Funds available for Phase C construction costs are limited to the requested \$335.2 million reimbursement and \$100 + million in Interstate Transfer Funds from the Southeast Expressway. There are two additional possible sources for Phase C construction expenses, however, these possibilities are considered to be remote. The first possibility is the imposition of a special head tax at the Atlanta International Airport. Revenues from such a head tax would be devoted to the completion of the rail system to the airport.

The second possibility is the extension of the 1% sales tax to the Atlanta airport. The airport is owned by the City of Atlanta. The

old airport was located in Fulton County and generated approximately one and a half million in annual sales tax revenues for MARTA. However, the new airport is located in Clayton County which has not passed the local option 1% sales tax. In recognition of this revenue loss, the Georgia Legislature passed enabling legislation permitting the Clayton County Commission to establish a special tax district at the airport. This would permit MARTA to once again receive the approximate one and a half million dollars in annual revenues. These revenues would support \$10 million in bonds. However, the Clayton County Commission has refused to establish the special tax district. The reasons are contained in regional politics.

Two very remote possibilities for additional construction funds exist. One is the possibility of state general revenue funds for construction expenses. This possibility is practically non-existent. The enabling legislation for the 1% local option sales tax explicitly states that once the optional sales tax receives voter approval, the system affected will no longer receive state funds. Thus, state government funds are not viewed as a realistic possibility.

The second possibility is the addition of a second 1% to the sales tax on a temporary basis. The necessary enabling legislation would probably be forthcoming from the Legislature, if requested. However, voter approval is doubtful. Fulton County recently added 1% to the 4% sales tax for its own usage. Thus, the present situation does not appear conducive to another sales tax increment.

### Planning Impacts

The expected absence of adequate capital funding is having severe impacts upon the long-term planning process for MARTA rail construction. Due to an absence of adequate funds, no detailed engineering studies are being done beyond Brookhaven on the North line and East Point on the South line of the rail system. General engineering studies by MARTA staff are possible and are being undertaken.

The net result of this situation is a down-scaling of the capital budget to realistic values. This means that intermediate range goals (5 years) become long-range goals (10-15 years). For example, under present funding conditions completion of Phase C, Doraville to the Airport, which is currently scheduled for a 1988 completion, will not be completed until 1992 or, in a worst case view, the year 2000. Naturally, delays of such a magnitude also work to increase total costs as inflation elevates construction prices.

### OPERATIONS FUNDING

For the past several years UMTA operating funds have grown annually at a rate which tended to compensate for cost increases.

Thus, local funds did not bear the full impact of cost increases. This situation has changed with the imposition of a cap on the amounts of UMTA funds usable for operating expenses. For MARTA, the cap is 80% of FY82 Section 5 operating funds or approximately \$7 million. This represents a loss of approximately \$1.5 million for FY83. During the fiscal year the sales tax is expected to generate approximately \$3 million in additional funds, 50% of which is usable for operating expenses. Thus, in the absence of unforeseen cost increases, the additional sales tax revenues will offset the decline in UMTA operating assistance. This situation permits the maintenance of the existing fare structure. Present budgeting assumes the continuance of the \$ .60 fare.

Should cost increases occur, upward pressure on fares would be inevitable. The addition of \$ .05 to the fare increases revenues by approximately \$2 million. Revenue gains from fare increases are subject to diminishing returns as ridership declines in response to higher fares. Should all UMTA operating assistance be withdrawn and all costs remain unchanged, fares would rise a minimum of \$ .20. MARTA's FY83 operating budget includes \$7.4 million in UMTA operating assistance.

MARTA's operating budget for FY83 is \$97.2 million. Of this amount \$7.4 million derives from UMTA operating assistance (7.6%), \$54.7 million from sales tax revenues (56.3%) and \$35.1 million from farebox revenues (36.1%). MARTA is required by state law to recover 35% of the prior year's total operating costs from farebox revenues.

The above figures indicate that MARTA is not particularly dependent upon federal operating assistance. Only about 8% of the cost of riding MARTA is subsidized from federal sources. Approximately 92% of the funds derive from local sources and user charges. However, if that 8% subsidy were withdrawn, fares would increase approximately 33%. Thus, the relatively small federal subsidy produces an important benefit to the system's users.

#### SAFE HARBOR LEASING

As of late May 1983, MARTA had concluded two Safe Harbor Leasing agreements. The first agreement included 16 rail cars purchased entirely with local funds. MARTA sold 100% of the tax benefits deriving from these cars for somewhat over \$2 million.

The second agreement involved 46 articulated buses purchased with UMTA assistance. In this case MARTA sold 20% of the tax benefits (the local funds portion of the total purchase) for approximately \$285,000. MARTA is pleased with the Safe Harbor Leasing arrangements and is interested in future leasing agreements.

## LABOR FACTORS

A long standing concern of MARTA's is labor relations and union wage agreements. Presently wages and fringe benefits represent 73% of the operating budget. This represents a decline from 76% in 1981. The decline is the result of increased rail operations which are less labor intensive than bus operations. During the 1978-1981 period, operator wages rose a total of \$2.91 per hour.

In the past, the annual increases in federal operating assistance have offset wage increases. However, with the 20% cut in operating assistance relative to FY82 levels, any wage increase must be farebox funded. Thus, future upward movement in fares is expected to occur in response to future wage increases.

### Part-Time Operators

Previously MARTA's union contract prohibited the use of part-time operators. In March 1982, the Georgia Legislature passed House Bill 55 which, among other things, stated that MARTA has the right to hire part-time operators. MARTA currently (January 1983) has ten part-time operators in training out of a planned force of fifty part-time operators. Part-time operators will be paid \$7.53 per hour as opposed to the \$10.34 per hour average wage of full-time operators. Further, part-time operators will receive Social Security and workers compensation insurance fringe benefits but they will not receive the pension or medical insurance fringe benefits. The employees will work a maximum of 25 hours per week.

### Union Contract

MARTA has been operating without a union contract since June 1981. Negotiations surrounding a new contract went to binding arbitration; however, MARTA withdrew from the process shortly before the arbitrators decision was to be announced. The union challenged the legality of the pull-out in the courts. In July 1982, the Fulton County Superior Court ruled that the pull-out was legal. Later that July, the U. S. Supreme Court used the Fulton County Superior Court's ruling as precedent in a 13(c) ruling. The Fulton Court's decision was appealed to the Georgia Court of Appeals. This Court ruled that the matter was not within its jurisdiction. The matter was then appealed to the Georgia Supreme Court which upheld the Superior Court's ruling. As of late May 1983, no further legal action had been taken. However, the union still has the option of an appeal to the United States Supreme Court.

Should the union appeal to the U. S. Supreme Court, MARTA's union contract status would still rest with the judicial system. If the union appeals and wins the court contest, MARTA will have to negotiate the arbitration ruling. The existing ruling would cost MARTA between \$19 million and \$21 million over a three year period. Should the

union decline to appeal the ruling or lose the appeal, then the contract negotiation process would start over from square one.

Related to the arbitration process is Georgia House Bill 55, mentioned above in another context. This bill is in response to a MARTA initiative. The bill provides that, in future arbitrations, the neutral arbitrator must be from Fulton or DeKalb Counties. Additionally, the process must include the impact of any wage settlement upon fares and upon MARTA's ability to pay the wage increase. This legislation fulfills a MARTA objective of establishing the wage rate - fare rate connection as an explicit part of the arbitrators decision process.

#### CONCESSION SALES

After considerable thought, MARTA has adopted a policy which permits concessionaires to operate inside a limited number of MARTA rail stations (For example: Five Points, Hightower and Peachtree Center). The amount of revenue generated, however, will be small.

#### PROPERTY DISPOSITION

In July of 1982 MARTA adopted a policy (Appendix C) guiding the disposition of property acquired for the rail project. Some of the excess property will be sold, however, most property will be leased including the leasing of air rights. Any such sales or leases must be consistent with the "...safe and efficient construction, operation, and maintenance of the rapid transit system..."

This policy is not expected to produce important amounts of revenue in the near term. However, MARTA owns property at some prime locations such as the Civic Center, Arts Center and Lenox Square. Thus in about 5 years, the lease policy is expected to generate between \$5 and \$10 million in annual revenues. Additionally, the leased property will be subject to city and county property taxes.

#### SPECIAL PUBLIC INTEREST DISTRICT (SPI's)

In December 1980 the Atlanta City Council adopted and the Mayor signed into law a zoning ordinance effective January 1, 1982. The new ordinance, among other changes, created Special Public Interest Districts applicable "...where substantial public investments have been made and thus certain public functions and amenities need to be retained or provided for when new development takes place."

The intent of the SPI zoning is to create higher density, multipurpose uses surrounding downtown MARTA stations. An important objective is to increase the number of people within easy access to



MARTA rail. In this way zoning changes have to be utilized to increase MARTA rail ridership potential.

The relationship between SPI's and MARTA rail stations is best illustrated by the statements of intent from the SPI's already approved. For example, the Statement of Intent for SPI-2 North Avenue District states:

- (1) Preserve and protect the North Ave. MARTA Station area for office retail, hotel, high-density housing, entertainment and cultural functions appropriate for this important transportation facility. (Chapter 18B, Section 16-18B.002)

The statements of intent for SPI-1 through SPI-4 are reproduced in Appendix D. No consideration was given to special development taxes or fees within the SPI's for MARTA usage. In the future there is the possibility of a special tax for street and pedestrian improvements and additional street and sidewalk maintenance within these districts. This tax is currently in the discussion stage only and is unrelated to MARTA.

#### FEDERAL INCENTIVES

MARTA cannot envision any incentives which the federal government could offer state and local governments to generate additional revenues for transit. At present state and local governments are experiencing funding reductions, therefore, the additional funds are not available even if an incentive structure could be devised.

The question can be raised as to what incentives the federal government can offer except more generous match terms. Such an incentive would seem to run counter to present federal transit funding policy.

When viewed from a somewhat different perspective, several federal incentives can be envisioned. However, these incentives take the form of tax arrangements predominately in the area of leasing and lease-back arrangements. The extension of Safe Harbor Leasing and more liberal sale-lease-back rules would permit transit agencies to generate revenues through the sale to private sector firms of the tax benefits of transit capital stock. Such actions would not call forth additional state and/or local government funds but would permit transit systems to obtain additional financial resources from existing or future capital stock. Such tax policies would not involve additional UMTA funds but would reduce private sector federal tax liabilities thereby reducing total federal revenues.



## POLITICAL ENVIRONMENT

The political climate in the Atlanta metropolitan area is very supportive of MARTA. The city has a long history as a major transportation center and the importance of a good transportation system is well established and widely recognized.

Both the business community and the leaders of local governments are strongly supporting the completion of the MARTA rail system, especially the North-South line which will serve the airport. This climate is viewed as a very helpful one. The economic and political leadership is expected to lobby their Congressional delegation and the U. S. Department of Transportation to insure that there is a sufficient federal commitment to the rail system.

The Atlanta leadership has not raised the question as to why finish the rail system. The answer is well understood. With the completion of MARTA rail and various planned improvements to the expressway system, Atlanta will have one of the best transportation networks of any major city. Such a network is considered vital to Atlanta's continued economic growth and development.

## CONCLUDING COMMENTS

MARTA derives (FY83) approximately 92% of its operating budget from local sources: farebox revenues and local sales tax revenues. For capital projects approximately 90% (FY83) of the expenditures derive from bond revenues which are supported by sales tax revenues and by the 50% share of sales tax revenues which must be devoted to the capital account. Thus, the system is heavily supported by local sources of funds. However, the federal role in the capital program is of much greater importance than the FY83 budget percentages indicate.

MARTA bonding capacity has reached its upper limits for all practical purposes and the sales tax revenues which can be devoted to capital expenses (approximately \$54 million in FY83) are inadequate to support the planned new construction. If the MARTA rail system were fully in place, the system's capital needs would be much lower and federal capital funds, while important, would not be critical.

The changes in the distinction of UMTA funds following the new Section 9A program has resulted in a major scale-back in MARTA's construction schedule. The expanded time horizon for completion of Phase C of the rail project has caused considerable concern among Atlanta's business and political leadership.

These events have lead to an increased level of importance being placed upon direct lobbying of the area's Congressional delegation.

This occurrence, found in other parts of the nation as well, is an important and major shift in the relative importance of the federal institutions which make transit funding decisions and increases the political nature of an already partially political process.

The local political environment is highly supportive of the transit system. However, the environment at the state level is not notably pro-transit and cannot be relied upon to make state funds available to replace or augment federal funds.

Locally generated funds will grow as the economy improves and ridership and sales increase. These sources are not capable of generating sufficient revenues to replace all federal funds. With a fare increase of approximately \$ .20, federal operating assistance could be replaced but not federal capital assistance. However, such a fare increase would be in direct contradiction with the community's desire to maintain relatively low fares (subject to the 35% farebox recovery mandated by state law).

Labor relations have been a continuing source of difficulty for MARTA management as well as a causal force in fare increases. Currently MARTA is operating without a labor contract and the recent arbitration process has been appealed through the state court system by the union. Whether or not the union will appeal the case to the U. S. Supreme Court remains to be seen.

Recent modifications in state law established MARTA's right to hire part-time operators. Such operators are in training (January 1983).

The leasing of air rights by MARTA is expected to generate \$5-\$10 million a year beginning in approximately five years. This future source of revenue will be useful but does not impact upon current budgetary needs, especially capital needs.

The financial situation facing MARTA is a mixed one. In terms of operating funds, the system is in a generally healthy condition provided it does not lose its current litigation with its unions. In terms of its capital budget, Phase C of the rail program cannot be completed on schedule given the present levels of federal commitment.

What ability the system does possess to generate additional revenues cannot generate revenues sufficient to keeping the capital program on target. Those revenues will be needed to fund increased wages if the union further appeals and wins the court case. The only major source of system generated revenues is the farebox, and farebox revenue potential is limited by community and system commitment to low fares. Strong economic growth and consequent large increases in sales tax revenues could reduce the potential wage generated upward pressure on fares. However, sales tax revenue levels are beyond the control of the transit system.

## REGIONAL-LEVEL ACTIVITIES

The Atlanta Regional Commission (ARC) is the designated regional planning organization (MPO) for the seven-county Atlanta metropolitan area. The ARC coordinates all regional transportation planning--transit and highway--by means of the Atlanta Regional Transportation Planning Process (ARTPP). All transportation planning is under the aegis of the ARC even though some technical activities are conducted by MARTA or Georgia DOT staff.

Beginning in 1973, a consultant assisted ARC in the development of an economic base study of the Atlanta Region. ARC also used computer models to allocate future households and employment to small areas in order to forecast transportation (transit and highway) needs to the year 2000. This model is updated regularly as part of the ARTPP and to fulfill the UMTA regional planning requirements. The Atlanta Regional Commission Staff provides assistance and technical support for MARTA staff. ARC also conducts the UMTA Transit Impact Monitoring Program in the Atlanta Region with assistance from MARTA staff.

MARTA is the designated recipient of UMTA Section 5 monies for the Atlanta Region. The monies received are allocated by ARC according to a formula whereby MARTA receives the majority of the funds. The remaining amount is available to five other counties in the region on the basis of population and population density criteria. Currently these five counties have no transit operations. The funds are, in part, an inducement to the counties to undertake transit activities. Up to four years worth of fund allocations are reserved for eligible transit projects in these counties. Funds unspent after three years are reprogrammed for MARTA's use in the next year. The long-range plan for the Atlanta Region envisions MARTA service to all seven counties in the region.

ARC's participation in the ARTPP is financed by a variety of federal and non-federal resources. It receives UMTA and, sometimes, FAA funds directly from the federal government. FHWA funds flow through Georgia DOT. Until recently, Georgia DOT matched the FHWA funds flowing through to ARC with state funds and also used state funds to finance a planning unit within Georgia DOT which works exclusively on ARTPP projects. ARC's non-federal resources include its regional appropriations mandated by state law (\$.30 per capita plus \$2,000 each for the City of Atlanta and seven counties), a small state general fund appropriation for ARC and Georgia's 17 other Area Planning and Development Commissions and, for the ARTPP, in-kind services provided by MARTA.



## V. THE RESULTS OF THE CALIFORNIA CASE STUDY

### STATE-LEVEL ACTIVITIES

#### INTRODUCTION

The philosophical approach to transit funding in California is that the issue is predominately a local level concern. With this in mind, the state has attempted to develop a self-regulating system which provides adequate transit funding without forcing the state into the position of providing an open checkbook for local transit operations. The operative result of this attitude is a relatively complex set of laws.

#### TRANSPORTATION DEVELOPMENT ACT (TDA)\*

The Transportation Development Act (TDA) is the basic statute which specifies the California transit financing programs. The TDA provides for three transit funding programs, only two of which currently dispense funds. The first fund is the Local Transportation Fund (LTF) which began operations in 1972. The LTF involves the return of 1/4% of the state sales tax to the county of origin for use in transportation programs. LTF revenues are also referred to as the 1/4% sales tax funds.

The second program, begun in 1980, is the State Transit Assistance Fund (STAF or STA). This fund provides revenues from the state's share of the sales tax on gasoline (spillover funds) to regional transportation planning agencies for distribution to local transportation providers.

The third program was established in law in 1981, however, as of mid-1983, no funds had been appropriated into this account. This program is the Unified Transportation Fund (UTF) and is intended to provide state fund, also from the gasoline spillover revenues, for regional transportation uses.

#### The Local Transportation Fund (LTF)

The LTF returns to each county 1/4% of the state's 6% sales tax. Each county receives only those funds collected within its boundaries. The county auditor authorizes payments from the LTF in accordance with

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\*In addition to the case study interviews, the following discussion derives from: Transportation Development Act: Statutes and Administrative Code, 1982; CALTRANS, August 1982.

the county's transportation planning agency (TPA)\*. Allocations from the LTF must be apportioned within a county by population and no recipient of LTF funds may receive more than that area's apportionment. For counties with a transit district, separate apportionments are made to the district and to areas outside the district. In counties where no transit district exists, apportionments are made to the incorporated area of each city in the county and to the unincorporated area of the county.

The apportionment process is simply the first step in the distribution of LTF revenues. Apportionment divides the available funds by area of the county based on population. Allocations, the second step in the process, is a discretionary act of the county TPA. The allocation process involves the TPA's specifying of amounts of funds to be paid to a specific recipient for a specific purpose. The allocation statement also provides the county auditor with instructions for payment, the third step in the process. Payment may be as a lump-sum, in installments or on an as funds become available basis.

Funds may be allocated before apportionment to the county auditor and to the TPA for costs related to administering the Act. LTF funds may not be allocated prior to apportionment for planning purposes except in sixteen counties including the nine county San Francisco Bay Area.\*\*

The TPA has the option of reserving LTF funds prior to apportionment for two other purposes. Up to 2% of total LTF revenues may be reserved for exclusive pedestrian and bicycle facilities within the county, usage is not restricted by apportionment. Similarly, up to 5% of the remaining funds may be allocated to "community transit services" under Article 4.5 of the Act. These services are predominantly para-transit services for the elderly and handicapped populations who "cannot use conventional transit services." Again,

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\*In four counties (Los Angeles, Orange, San Bernadino and Riverside), LTF allocations must be approved by the county transportation commissions prior to allocation by the regional TPA (Southern California Association of Governments). In San Diego County allocations must be approved by the San Diego Metropolitan Transit Development Board (MTDB) as well as by the San Diego Association of Governments, the local TPA. Collectively these organizations are known as the regional entities.

\*\*The nine county San Francisco Bay Area (Metropolitan Transportation Commission), the four Southern California counties with county transportation commissions, the two California Tahoe Regional Planning Agency counties and the MTDB area of San Diego County.

these funds are not restricted by apportionment criteria.\*

These "off-the-top" allocations are made in a serial fashion. First, costs of administering the Act are allocated from total LTF funds available to the county. Of the remaining funds, 2% may be allocated for pedestrian and bicycle facilities. Of the funds remaining after the 2% allocation, 5% may be allocated for community transit services. After these three possible deductions from total LTF revenues, the balance is apportioned as described.

The apportioned LTF revenues can be allocated for allowable usages under two sections of the Act: Article 4 and Article 8. Article 4 of the Act specifies fund recipients as public transit operators\*\* whose systems serve the general public.\*\*\* Under Article 8, funds may be used for transit under contract to cities or counties and/or for local streets and roads purposes. LTF revenues may only be used for streets and roads under Article 8 (not under Article 4) and only after the TPA has determined that no unmet transit needs exist in the recipient's jurisdiction which can reasonably be met with LTF revenues.

With respect to Article 4 and Article 8 usages, an apportionment restriction applies which serves to clarify the allowable uses. All operators in counties of over 500,000 population\*\*\*\*, according to the 1970 census\*\*\*\*\* of the population, are restricted to Article 4 uses. The chief difference being that Article 4 does not permit LTF revenues to be used for streets and roads.

In counties not subject to the apportionment restriction, funds may be allocated for Article 4 or Article 8 usages. As has been noted, before funds may be used for local streets and roads under

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\*With respect to the case studies in this report, the Metropolitan Transportation Commission (MTC) does utilize the 5% option for para-transit services.

\*\*Generally, the operator must be a city, a county or a transit district, i.e. publicly owned.

\*\*\*Service cannot be restricted to elderly and handicapped populations.

\*\*\*\*Except San Bernadino. Applies to San Diego, Orange, Alameda, Santa Clara, San Francisco, Contra Costa and San Mateo Counties; Los Angeles County and the Regional Transit District in Sacramento County.

\*\*\*\*\*The law specifies the 1970 U. S. Census of the Population.



Article 8, the TPA must determine that there are no unmet transit needs within the recipient's jurisdiction which can be reasonably met with LTF revenues.

The LTF generates sizable amounts of statewide revenues. During fiscal year 1981-1982, the LTF produced \$392 million in revenues. Estimates for fiscal years 1982-1983 and 1983-1984 are \$425 million and \$403 million respectively.

#### The Transportation Planning and Development Account (TPDA)

The Transportation Planning and Development Account (TPDA) derives its funds from the sales tax on gasoline. When the state extended the sales tax to gasoline, a provision was made that revenues which exceed the amount the state would have received in the absence of the extension of the sales tax to gasoline would go into the Transportation Planning and Development Account. These sales tax revenues are known as spillover funds.\* In 1979, the legislature created a so-called Tier I category and placed a cap of \$110 million plus annual inflation adjustments on the amount of these spillover funds which would go to the Tier I category of the TPDA.

The Tier I of the TPDA is composed of three programs. The first is the State Transit Assistance Fund (STAF or STA). The STA accounts for 60% of Tier I of the TPDA. The second is the Transit Capital Improvements Fund (TCI). The third program is the commuter rail subsidy program directed by CALTRANS.\*\* The rail program and their associated administrative costs, and the TCI and their associated administrative cost account for 40% of the TPDA. Important changes were made in the TPDA during the 1982 legislative session and these changes are reflected in this discussion. The 1983-1984 budget allocates \$162 million to the TPDA. Of this amount, \$88 million goes to the STA fund while the remaining \$74 million goes to CALTRANS to support its mass transit programs. The TCI receives \$40 million from the CALTRANS allocation. The \$34 million retained by CALTRANS supports the administrative costs and other transit activities of the mass transit division; such as, the joint Amtrak-CALTRANS rail subsidy program and the CALTRANS subsidy for the San Francisco Peninsula Commuter Rail service.

The Tier II category created by the legislature is a statutory transfer of funds to the state's general fund. Tier II consists of the remaining spillover funds and is the UTF program discussed below.

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\*This procedure is described in detail in State and Local Financing of Public Transit Systems, Final Report, June 1983, p. 88.

\*\*The California Department of Transportation.



## State Transit Assistance Fund (STA)

The STA represents 60% of Tier I of the Transportation Planning and Development Account (TPDA). The STA funds derive from statewide sales tax collections. The funds are appropriated to the State's Secretary of Business, Transportation and Housing for subsequent allocation by specified formula to the TPA's including the regional entities. Once allocated, the STA funds are not apportioned within regions by population. The bulk of the STA funds are used for operating purposes.

The appropriation process follows two tracks. Thirty percent of the STA funds are allocated to regions based on the total operator revenue of the region. The remaining 70% is allocated on the basis of regional population.

The revenue based allocation procedure for STA funds described below is a major change in the program which became law in 1982. The change is an effort to increase user fees and local finance support for transit. This reflects the growing belief in the legislature that transit must move more towards a market environment where increased emphasis is placed upon designing service to meet the needs of the users.

The revenue based allocation process described next also reflects the realization that population based allocation criteria makes good political sense but has very little relation to service. Thus, the addition of a revenue based allocation component to the STA program is an effort to bring the service aspects of transit into the allocation process.

The allocation of the 30% of STA funds which is based on operator revenue is a two-stage process. Total operator revenues for all operators in the state is computed along with total operator revenues for each region (each TPA and the regional entities). Each region receives that proportion of the 30% STA funds as its total operator revenues bear to the statewide total of operator revenues. For example, if the total operator revenue generated with a given TPA equals 10% of all operator revenues generated statewide, then that TPA would receive 10% of the 30% share of all STA funds.

The second stage of the process is simply a repeat of the first stage at the local level. Within a region, an individual operator\* receives that proportion of the region's STA funds, allocated based on operator revenues, which its revenues bear to the total operator revenues generated within the region. To illustrate, if an individual

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\*For the purposes of this allocation, MUNI, AC Transit and BART are considered to be one operator.

operator generates 40% of all the operators revenue within a TPA, then that operator receives 40% of the TPA's allocation of the STA funds allocated by operator revenue.

The results produced by the two stage process is equivalent to allocating to an individual operator that proportion of the 30% of the STA funds which its operator revenues bears to the statewide total of operator revenues. The TPA serves only as a pass-through organization.\* The structure of the State Transit Assistance Fund has been one of state allocations to regions followed by regional allocations to operators. The two-stage process preserves that structural relationship while permitting the STA fund to reward operators which increase their level of operator revenues relative to other operators. Thus, an existing structure has been modified to carry a new financial incentive program. The funds allocated under this part of the STA are usable for Article 4 purposes only.\*\*

The remaining 70% of the STA funds are allocated on the basis of regional population. For those counties over 500,000 in population as of the 1970 census (the apportionment restriction counties for LTF revenues), the population allocated STA funds may only be used for Article 4 purposes. For the portions of Los Angeles and Sacramento counties not covered by the apportionment restriction, these STA funds may only be used for Article 4 and Article 8 transit purposes (i.e., no street or road uses allowed). For all other counties, this portion of the STA funds may be used for transit or streets and roads where no unmet transit needs exist.\*\*\*

STA funds (either allocation technique) may not be used for costs of administering the Act, for planning or for Article 4.5 (community transit services) purposes. In contrast, LTF revenues may be used for all three purposes.

STA funds are not intended to replace other local funds. Until 1982, no STA recipient could receive STA funds for transit purposes unless that recipient was receiving at least the same amount of LTF funds for transit as it received in the prior fiscal year. In 1982, AB 2422 dropped this requirement for counties with populations below 500,000 persons. For the apportionment restricted counties, the previously existing requirement that all of an STA recipient's LTF

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\*Even though these funds may not be shifted to another operator, the receipt of the funds can be denied if the operator loses its eligibility to receive STA funds.

\*\*As will be noted below, no STA funds can be used for Article 4.5 (community transit services) purposes.

\*\*\*Prior to the 1982 passage of AB 2551, STA funds could not be used for streets and roads by any recipient. It is estimated that approximately 10% of the STA funds will be used for streets and roads.

apportionment must be allocated before STA funds may be received remains unchanged.\*

An important term in the STA allocation process is operator revenue. The law defines "revenue" to be "...fare revenues, any other funds used by the operator for its transit operation except federal and state funds which may only be used for transportation purposes and funds allocated..." from LTF revenues (Article 6.5, Section 99314(b)), (added in 1982 by AB 2551). Thus, operator revenues may include discretionary allocations from local governments and revenues from a local sales tax dedicated to transit. This is consistent with the state's view that local support includes fare revenues and local tax revenues provided for transit.

### CALTRANS

The remaining 40% of Tier I TPDA funds are appropriated to CALTRANS for four purposes: The Transit Capital Improvements (TCI) program, commuter and intercity rail subsidy programs and costs of the Department's mass transit program including planning. The rail programs are discussed in this section while the TCI is addressed in the following section.

CALTRANS and Amtrak jointly subsidize the operating deficits of two intercity rail services (Section 403(b) of the Amtrak Act). The San Joaquin Valley rail service and the Los Angeles-San Diego service (the San Diegans) are the two services jointly subsidized. By October 1983, CALTRANS must subsidize 65% of the avoidable loss on these railroad services.

The San Joaquin Valley rail service is under re-evaluation and has been extended for one year. Currently the service is recovering 46%-47% of its operating costs from fare revenues. The law states that intercity rail service must recover 55% of its operating cost if it is to be continued. The one year extension is intended to provide the service with a specified period in which to meet the required

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\*Now that the structure of the STA has been reviewed, it is worth noting differences between the language used above and the language used in the law, in case anyone reads the law itself.

The above discussion indicates that 30% of the STA is allocated based on operator revenues while 70% is allocated based on regional population. The law (Article 6.5, Section 99312) indicates that 18% of TPDA funds are allocated based on operator revenues and 42% of TPDA are allocated based on regional population. The STA is 60% of the TPDA, thus 18% of the TPDA is equal to 30% of the STA while 42% of the TPDA is equal to 70% of the STA. This allocation procedure became law in 1982 after passage of AB 2551.

farebox recovery rate. The 55% recovery rate reflects a general movement to increased user charges for state services. The movement is a result of a period of tightening state budgets.

Additionally, CALTRANS subsidizes 50% of the operating deficit of the San Francisco Peninsula commuter service operated by Southern Pacific Railroad (Caltrain/Southern Pacific). Commuter rail service must recovery 40% of its operating costs from fare revenues. The remaining 50% of the operating deficit is subsidized by the county governments served by the route: San Francisco, San Mateo, and Santa Clara. Each county's share of the deficit is computed by CALTRANS based on rail mileage. Thus, the 50% of the total deficit not paid by CALTRANS is distributed: 5% San Francisco, 47.5% San Mateo and 47.5% Santa Clara. In 1982-1983, the total deficit equaled \$11,248,000.

### Transit Capital Improvements (TCI)

The TCI is a new consolidated program within the TPDA. It represents a merger of several previously existing TPDA programs which, prior to 1982 (AB 2551), were funded by separate appropriations. The TCI does not represent any change in the thrust of the TPDA's capital program. The TCI is approximately 25% of total TPDA funds.

The TCI funds a variety of programs including bus rehabilitation, acquisition of abandoned railroad rights-of-way to be used for transit purposes, grade separations for passenger trains and transit guideway and rolling stock purchases. The California Transportation Commission (CTC) allocates one-half of the transit capital funds (TCI and SHA\* as one pool of funds) at its discretion. Allocations for fixed guideways are subject to certain restrictions described below along with the allocation process.

TCI funds for fixed guideways are only available to the ten Proposition 5 counties\*\* and the two counties comprising the California Tahoe Regional Planning Agency.\*\*\* The fixed guideways program is discussed separately later in this report.

TCI funds for railroad grade separations may only be used for rail lines which have four or more daily passenger trains in operation. Additionally, the railroad involved must contribute 5% of the project's cost.

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\*State Highway Account, see discussion on pages 77 and 78.

\*\*Alameda, Contra Costa, Los Angeles, Marin, Orange, Sacramento, San Diego, San Francisco, San Mateo and Santa Clara.

\*\*\*Unincorporated areas of El Dorado and Placer Counties.

Prior to 1982, the entity requesting TPDA capital funds was required to provide 5% of the total cost as a local contribution, but only for guideways projects. In 1982, the law was changed to require a 10% local contribution on all capital projects. The 10% is applied to the amount requested from the state rather than to the total costs of the project.

Most of the 1983-1984 TCI appropriation of \$40 million will go to fixed guideways projects. Several intermodal facilities projects and one bus rehabilitation will be funded from the TCI in addition to the fixed guideways projects.

#### The Unified Transportation Fund (UTF)

The Unified Transportation Fund was created in 1981 as an additional source of funds for regional transportation activities. The UTF will draw its funds from the gasoline sales tax spillover funds and represents 50% of Tier III of the TPDA. The remaining 50% of the Tier III category is assigned to the State Highway Account (SHA) for highway purposes.

The UTF revenues, when and if funded, will be apportioned to the TPA's according to population. The TPA's, in turn, will allocate the funds to transit operators and to cities and counties for "...street and highway and public transportation purposes" (Article 6.5, Section 993199(a)). The split between transit and streets and highways is at the discretion of the TPA. There is no unmet transit needs criteria for the UTF. The law indicates the UTF funds will be subject to the same requirements as the LTF allocations. When the UTF might be funded is subject to the level of spillover funds available rather than to an optional funding action of the legislature. Presently, no funds are projected for the next five years.

#### Local Sales Tax\*

Any California county may request authorization for the legislature to add any given amount to the statewide sales tax rate for transit purposes. Before the additional sales tax amount can be imposed, an affirmative vote must be obtained in a countywide

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\*California Transactions and Use Tax Law, Part 1.6, Division 2: Revenue and Taxation Code, commencing with Section 9251. This is a separate law from the Transportation Development Act (TDA). This program is also known as AB 1107 funds or simply, 1107 funds. AB 1107, passed in 1977, extended the optional tax authorization indefinitely.

referendum in most, but not all, cases a two-thirds affirmative vote is required. The two-thirds requirement was imposed by Proposition 13, Article XIII A of the California Constitution. Historically, 1/2% has been the additional increase requested, however, there is no legal requirement limiting the requested increase to 1/2% and other percentage rates have been considered by particular counties.\*

For the three counties (San Francisco, Alameda and Contra Costa) comprising the Bay Area Rapid Transit District (BARTD), the state legislature mandated a 1/2% sales tax. At the same time, the legislature specified that 75% of the revenues from the 1/2% sales tax were to be allocated to BART while the remaining 25% of the revenues were to be allocated by the Metropolitan Transportation Commission (MTC) among MUNI, AC Transit and BART as the Commission sees fit.

The local sales tax revenues must be used within the county of origin for public transit, otherwise there are no usage restrictions on these funds. Funds from this source count as operator revenues for STA allocation purposes and as local contribution for farebox and local support ratio purposes. This source of funds is discussed in greater detail in the section of this report dealing with regional activities in the San Francisco Bay Area.

#### FAREBOX RECOVERY AND LOCAL SUPPORT REQUIREMENTS

California views local transit support as being comprised of two components: farebox revenues and any local tax revenues provided for transit including toll revenues. The position is that the local areas can decide how they wish to pay for transit services. If a locality elects higher fares and lower taxes or lower fares and higher taxes, it is still local support from the state's perspective. Thus, while local support is required, its distribution among fares, tolls and local taxes is left up to the local decision makers. Federal transit funds, LTF revenues and STA funds are not allowable for computing local support. In the San Francisco Bay Area, for example, revenues from the 1/2% local sales tax, property taxes allocated to transit by local governments and bridge tolls are all counted as sources of local support by the appropriate transit operators.

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\*In 1979, Los Angeles County received a simple majority affirmative vote rather than the 2/3's affirmative vote. The Los Angeles County Transportation Commission (LACTC) moved to impose the tax and the matter went to the court system. The court ruled that the 2/3's requirement does not apply if the taxing agency does not have property taxing authority. As the LACTC has no such authority, a simple majority vote was all that was required in this case.



To qualify for LTF or STA funds, an operator must maintain a farebox recovery ratio at least equal to 20% if in an urbanized area, or at least equal to 10% if in a nonurbanized area. These requirements hold for operators serving the general public. A separate requirement holds for services which serve only the elderly and handicapped populations. Service operated under contract in nonurbanized counties must meet performance criteria, including farebox recovery, which are established by TPA. Thus, these services can recover less than 10% if the TPA permits (SB 573 and AB 1111 statements of 1982).

Additionally, an operator must maintain a farebox recovery plus local support ratio equal to or greater than its 1978-1979 ratio if that ratio was greater than 20% for service in an urbanized area, or greater than 10% if the service is in a nonurbanized area. Again, these ratios apply to systems serving the general public.\*

For operators under Article 4 which began service prior to July 1, 1974, an alternative to the above requirements may be selected at the operator's option. This option is known as the 50% expenditure limitation. Under this limitation an operator may not receive more than 50% of its total costs less federal grants and STA receipts from LTF revenues.\*\*

For elderly and handicapped service, a farebox recovery ratio of 10% of operating costs or the recovery ratio for 1978-1979, whichever is greater, is required. This requirement took effect with the 1980-1981 fiscal year. During 1982, two laws (AB 2422 and SB 573) were passed which provide alternatives to the above two alternatives.

AB 2422 provides that an operator which provides both regularly scheduled public transportation services and services exclusively for the elderly and handicapped qualifies as having met the required recovery ratio for the exclusive elderly and handicapped service if the combined services (regular and elderly and handicapped taken as one service) meet the required ratio for the regularly scheduled public transportation service. Thus, an operator which provides an elderly and handicapped service recovering less than 10% of its operating cost may subsidize the special services recovery ratio by obtaining more than the required ratio from the regular scheduled service's farebox. So that, together the two services meet the

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\*AB 2422, passed in 1982, requires systems serving areas whose population exceeded 500,000 persons after the 1970 U. S. Census of the population to meet the 20% recovery ratio. However, the system's RTA may give the system until July 1, 1985 to meet the requirement.

\*\*The law permits several exceptions to the 50% limitation, thus it may not apply to all activities of any given funds recipient.

requirement for the regular service. This option only applies to elderly and handicapped services which are provided by an operator which also provides regular public transportation services.

Alternatively, SB 573 provides that the RTA's may determine the funding eligibility of providers of exclusive elderly and handicapped transportation services by specifying regional, county-wide or county sub-area performance criteria, local match requirements or farebox recovery ratios which the services must meet.\*

Thus, an elderly and handicapped transportation service provider has a possible choice of four alternative rules under which eligibility for LTF or STA funds may be established. The two laws passed in 1982 are too recent for their impact to be known. But, it appears that an elderly and handicapped service provider with a friendly RTA would never have to be faced with a situation of non-compliance. It is also too early to know if this array of seemingly inconsistent legal footwork really makes any operational sense or difference.

Any operator may claim an exemption from the above ratios for service to new areas or along new routes. The exemption applies only for the first two fiscal years of the new operations.

Should an operator fail to meet the required ratios in a given year, the subsequent years' required ratio is adjusted upward by formula.\*\* This adjustment is not made for the first ever failure to meet the required ratios.

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\*For the purposes of this study it is important to note that the MTC has required a 10% recovery rate for elderly and handicapped transportation service providers in the San Francisco Bay Area. The RTA has full discretion as to what criteria to establish and, apparently, may establish criteria which apply only to a single operator.

\*\*The formula is: 
$$R_2 = \frac{R_1 (C_1 + C_2) - F_1}{C_2}$$

where:  $R_2$  = the new required ratio

$R_1$  = the prior required ratio

$C_1$  = operating costs during the fiscal year for which required ratio was not met

$C_2$  = operating costs during the following fiscal year

$F_1$  = fare revenues or fare revenues plus local support for the fiscal year during which required ratio was not met.

(California Administration Code, Title 21, Chapter 3, Subchapter 2, Article 4, Section 6633.9)



For the purposes of determining the above required ratios, the MTC treats AC Transit, MUNI and BART as a single operator. For receipt of the 1/2% local sales tax revenues, the three systems taken as one operator must recover 33% of operating costs from farebox revenues, exclusive of any local support funds, provided no single operator varies from the 33% ratio by more than 5%.

#### FIXED GUIDEWAYS PROGRAM

There are two fixed guideways programs in California. One is part of the State Highway Account (SHA) while the other is part of the TCI of the TPDA. However, for allocative purposes, the two programs are treated as a single fund.

The funds for the guideways program within the TCI are a part of the legislative appropriation to the TPDA. The SHA is funded from the state's gasoline gallonage tax (\$ .09 per gallon as of January 1, 1983) and from motor vehicle registration fees. The SHA guideways program draws its funds from these sources.

To qualify for guideways funds, from either program, a county must have an agency to administer the program, a plan approved by CALTRANS and the California Transportation Commission (CTC), and the voters of the county must have passed Proposition 5 which indicates the voters agreement with using gasoline taxes for fixed guideways purposes. These counties are known as Article XIX counties. Article XIX refers to the section of the state constitution which authorizes the use of SHA funds for fixed guideways. Proposition 5 was the number of the proposed amendment to Article XIX when it was originally placed before the state's voters. Proposition 5 amended Section 1 of Article XIX to include fixed guideways as an allowable use of motor fuel tax revenues and added Section 4 to Article XIX requiring voter approval of funds usage for fixed guideways.

Becoming a Propostion 5 county, by a popular vote, indicates that the county is willing to transfer some portion of the county's streets and highways allocation from the SHA to the fixed guideways program. The amount transfered is determined by local officials acting through their RTA's, the CTC and the legislature on a project allocation basis. Ten counties are Propostion 5 counties.\*

The law permits receipt of guideways funds in the absence of being a Propostion 5 county by "...public entities in nonurbanized areas within the jurisdiction of a statutorily created transportation

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\*Alameda, Contra Costa, Los Angeles, Marin, Orange, Sacramento, San Diego, San Francisco, San Mateo and Santa Clara. Santa Barbara and Santa Cruz are considering becoming Propostion 5 counties.

planning agency having jurisdiction over portions of two counties, for public mass transit guideways and rolling stock" (TDA, Article 6.5, Section 99317.6). In other words, the California Tahoe Regional Planning Agency\* which includes non-urbanized portions of Placer and El Dorado Counties. References to the Proposition 5 counties in this report will include the Tahoe region as well unless otherwise indicated.

The guideways funds (both SHA and TCI) are allocated by the California Transportation Commission (CTC). The eligible counties submit projects to the CTC thru CALTRANS which, in turn, arrays the projects in a priority listing. The projects are allocated funds in order of priority up to the amount appropriated to CALTRANS by the legislature. However, the law specifies that 50% of the guideways funds (from both SHA and TCI) must be allocated by population while the remaining 50% is allocated at the CTC's discretion. Thus, the funding of the priority project listing is subject to the 50% distribution by population requirement. This requirement, in effect, establishes a minimum amount of guideways dollars which each eligible county must receive.

In practice, this requirement means that the CTC funds the priority projects, then checks to be sure each county has received the required minimum level of funding. If not, funds are shifted to meet the requirement. The minimum requirement, however, is subject to a needs criterion. Each county must submit to the CTC financial plans showing that these funds are, in fact, needed. If the need is not substantiated to the CTC's satisfaction, the minimum allocation does not have to be made.

The 1983-1984 budget includes \$61 million in SHA fixed guideways funds. Most of the \$40 million in TCI funds will go to the fixed guideways program. Thus, total fixed guideways funding for 1983-1984 is approximately \$100 million. These funds do have some usage limitations. The guideways funds (both SHA and TCI) are for capital uses only, operating expenses are not allowable. Funds from the TCI account may be used for rolling stock or fixed capital facilities. Funds from the SHA may only be used for fixed capital facilities.

#### STA RESPONSES TO FEDERAL CHANGES IN UMTA FUNDING

For 1983-1984, the STA was funded at \$88 million. Over the course of the legislative session, the proposed STA funding level

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\*As of the 1983-1984 budget, the California Tahoe Regional Planning Agency has never requested or received fixed guideways funds. The agency is not expected to make such a request in the immediate future.

varied from \$103 million to \$43 million to \$75 million before finally reaching the appropriated \$88 million.

When the federal government appeared to be phasing out UMTA operating grants, the legislature was considering the \$103 million figure as a response to the federal proposal. When the Surface Transportation Assistance Act passed, the discussed level of appropriation fell to \$43 million. Then, when the FY84 federal budget was proposed with notable cuts in Section 9 funding, the proposed appropriation levels once more elevated. The newly elected Republican governor was recommending an STA funding level of \$75 million in March, 1983. Ultimately, the legislature appropriated \$88 million for this program.

#### REAUTHORIZATION OF THE STA

These movements in proposed STA funding were occurring within the context of an overall state budgetary deficit and the need to reauthorize the STA program itself. In order to obtain the necessary votes\* to reauthorize the STA program, the program was changed to permit STA funds to be used for street and highways as noted previously. The expansion of the STA to include streets and highways was more than a vote getting move. Legislative analysis staff of the legislature recommended that the program be abolished because the original justification for the program no longer existed.

The STA became law in 1979 and was intended to address increased transit needs arising from the 1979 energy crisis. (Indeed, the program was made possible by the sizable increase in gasoline sales tax revenues which resulted from the rapid increase in gasoline prices.) With the energy emergency in the past, the program was modified to enable it to better address existing transportation needs.

The overall budgetary deficit was also a factor influencing the amount of dollars appropriated to the STA. State law is so constructed that the STA would have been funded at \$103 million for FY1983-1984. However, the legislature can divert STA revenues to the General Fund at its discretion. For FY1983-1984, the legislature diverted \$15 million in STA statutorily permitted funding to the General Fund in order to reduce the budgetary deficit.

#### SAFE HARBOR LEASING

CALTRANS has expressed some interest in undertaking a Safe Harbor Lease on the state's share of \$37 million in rolling stock purchased

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\*From rural areas.

for the San Francisco Peninsula Commuter Rail service. However the federal legislation requires a 5% debt financing component. However, there are no provisions in state law that allow CALTRANS to meet this federal requirement. As of August 1983, no change has occurred in the state law. CALTRANS is not presently pursuing safe harbor leasing but it has not abandoned the idea either.

#### UMTA MATCHING FUNDS

The matching funds requirement for UMTA operating and capital grants is met by local authorities from any of the available revenue sources. The state provides no particular source of funds for this purpose. Local authorities may utilize LTF, STA, TGI, system revenues and/or other local revenues for matching purposes.

#### VALUE CAPTURE

There is a growing interest in the use of value capture as a means of generating additional transit funds. In most, but not all cases, before a value capture approach can be used for transit, the legislature must pass special enabling legislation.

The California Transportation Commission (CTC) feels that the private sector should pay for part of the benefits derived from fixed guideways systems. This view seems to have relatively wide support. California already uses development fees to finance highway interchange projects. Thus the concept has a precedent in the area of transportation. However, one difficulty in applying development fees to transit as opposed to highways is the reality that most of the development is already in place when the transit service is initiated.

The question of value capture will continue to be an issue in California. In general, interest in the concept is increasing on the part of state officials and transit agencies. In particular, value capture is seen as a method of obtaining additional funds for the Los Angeles rapid rail project.\*

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\*On September 22, 1983, the CTC adopted a policy (revised somewhat on October 21, 1983) which requires counties or transit districts to implement "a private sector financing program that the Commission considers adequate" in order to receive discretionary fixed guideways funds, i.e. the 50% of total fixed guideways funds allocated to Proposition 5 counties at the discretion of the CTC. Unfortunately, this policy was developed too late to receive full consideration in this report. However, it appears, initially, that San Francisco MUNI is the only Proposition 5 system to have a sufficiently developed private sector financing approach to meet the CTC requirements. Clearly, this matter bears watching.

## OVERVIEW OF OTHER ASPECTS OF THE STATE PROGRAM

Since 1979, the state has made several changes in the laws affecting transit operations which were intended to increase transit productivity. One change directly impacts operating flexibility while the other new procedures are intended to identify areas for productivity improvements and to measure the efficiency of operations.

In 1979, the TDA was amended so that no operator could receive TDA funds if that operator were precluded by union contract from using part-time drivers or from contracting with common carriers of persons for transportation services. This requirement for funding eligibility greatly increases the transit managers ability to provide sufficient peak-hour service with a cost effective wage bill. The law also protected the rights of existing workers.

The legislature also mandated the formation of a Productivity Advisory Committee by each TPA. The committee is composed of representatives of labor, management and the riding public. All operators are included. The Committee's function is to identify areas in each system's operations where productivity improvements could be realized. Then to work with the operator in developing and implementing a plan to realize the potential productivity increases.

The third change made by the legislature is the requirement, beginning in 1980, of a tri-annual efficiency audit (also termed a performance audit). This audit is to provide information to the legislature via CALTRANS on each operator's performance on five efficiency measures.\* Failure to file this audit can result in a cut-off of all TDA funds. The TPA's are the enforcement agencies in this regard. The audit information is envisioned as a source of information on transit performance primarily for the TPA's.

## POLITICAL ENVIRONMENT

The political climate in California is generally supportive of transit. The only serious short-run threat to the state's transit funding programs is from the overall budgetary situation. Even in a period of very tight state budgets the transit programs have held their own in the legislature. Some respondents held the view that if the budget deficits continue then the STA and TCI programs may find their funds diverted to the General Fund. If the situation should get "very bad", then the LTF may also be reclaimed by the state. Other

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\*1) operating costs per passenger; 2) operating costs per vehicle service hour; 3) passengers per vehicle service hour; 4) passengers per vehicle service mile; and, 5) vehicle service hours per employee.

respondents felt that the political support for the LTF is too strong to permit reclamation by the state. These respondents also felt that the STA and TCI programs are also firmly supported but that lower funding levels will occur in tight budget periods.

Other respondents addressed the long term future of California transit programs. These respondents felt that the future of transit depends on the extent that transit moves towards the market; meaning increased emphasis on designing service to meet user needs. These respondents note the general trend in California to increased user charges for a variety of public services and the recent STA changes which placed more emphasis on service oriented criteria. The increased user charges reflect the tight state budgets in recent years and the apparent user preference to pay more rather than have lower levels of service.

In terms of systems lobbying for funds, the emphasis is on lobbying the state government rather than the federal government. While the largest systems in the state do lobby their Congressional delegations, the view that the federal government is not the general funding source of the future appears to be widespread.

The lobbying efforts directed toward the state legislature are heavily oriented to educational efforts. The view is that transit can make a very legitimate case for state funds and that this case is a most persuasive argument.

Lobbying of the legislature has historically been conducted by the transit system's general manager. In recent years, transit boards of directors have become more involved in legislature lobbying efforts. This reflects a tendency of more board members to take more of an activist role in transit funding concerns.

From time-to-time, transit must compete with other special interest groups for state funds. The primary competitor is the education lobby. In sharp contrast to numerous other states, the highway interests and the transit interests do not view each other as competitors and tend to work together for broad based transportation objectives.

The above factors reflect a broadening base of public support for transit. Transit is becoming established as a necessary and appropriate public service which should be provided by the public sector.

The growing political influence of the transit industry as a whole is indicated by the recent gubernatorial campaign. During the campaign, fund raising from transit equipment suppliers was undertaken in a formal, organized manner.



In sum, the California political climate remains supportive of transit with several indications that the strength of that support is actually increasing. The current period of tight state budgets, however, tends to cloud the picture. The extent of the political support can be observed in the current budget where transit receives sizable financial resources even though the overall budget is in deficit.

#### FURTHER NOTE ON LOCAL SUPPORT

Even though this aspect of the California system has been noted before, it is worth repeating in the present context. From the state's perspective, operator revenues include farebox revenues and local tax support. The view is that both revenue sources derive from local resources and that local decision makers are the appropriate decision-makers to determine how total local funding needs are to be distributed among fares and a variety of local taxes. The recent trend in local requests to the legislature has been for authority to increase and/or expand local taxing authority to support transit. A current example is Orange County's interest in authority to levy a 1% sales tax to support transportation.

#### CONCLUDING COMMENTS

The preceding discussion attempts to present, in a straight forward manner, the structure, current funding levels and present trends existing in support of public transit in California. Unfortunately, a number of details have been omitted.

The California funding structure places a strong emphasis on local decision making. The LTF is a local source of funds as is the local sales tax. The state administered programs (STA, TCI, UTF) are distributed at the regional level. This procedure emphasizes regional planning and system coordination. The combination of local and regional decision making reflects the political belief in sub-state level responsibility for transit and recognizes the diversity in transportation needs across California.

This relatively straightforward concept has, over the years, developed into a near nightmare of local exceptions and special provisions in laws otherwise applicable statewide. It can be argued that such arrangements are needed to properly meet local needs. On the other hand, structurally simpler techniques exist for accommodating diversity. Regardless of one's view of the structural complexity of California's transit financing mechanisms, it does provide sizable amounts of funds and it does appear to work, albeit with a bit of controversy from time-to-time.



REGIONAL LEVEL ACTIVITIES:  
THE SAN FRANCISCO BAY AREA

INTRODUCTION

The Metropolitan Transportation Commission (MTC) was created by state statute in 1970 and charged with overseeing transportation planning and development in the nine-county\* San Francisco Bay Area. The mandate of the MTC embraces a wide spectrum of transportation modes. Not only does the MTC address mass transit issues, but it also oversees highway, airport and seaport activities in the Bay Area. These duties involve seven major transit operators,\*\* twenty-three local transit services, thirty-five MTC funded paratransit operators, three commercial airports, fourteen public general aviation airports, and six public seaports, plus over 18,500 miles of state highways and local streets and roads.

OVERVIEW OF MTC ACTIVITIES

The MTC is required to review and approve operator grant applications for state transit funds (TPDA) and UMTA (capital and operating) funds. The MTC is responsible for allocating State Transit Assistance (STA) funds, UMTA operating grants and bridge toll revenues in the Bay Area. Additionally, the Commission must oversee operator compliance with various state mandated programs including the performance audit and the productivity improvement program. Capital investment priorities for transit and for highways within the region are established by the MTC.

The MTC is governed by an 18-member Commission. The five most populous counties in the region\*\*\* have two representatives each on the Commission, the remaining four counties have one representative each. Additionally, the Association of Bay Area Governments, the San Francisco Bay Conservation and Development Commission (both are regional land use planning organizations), CALTRANS and the U. S. Department of Transportation have one representative each on the

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\*Alameda, Contra Costa, Marin, Napa, San Francisco, San Mateo, Santa Clara, Solano, and Sonoma Counties.

\*\*AC Transit, BART, Golden Gate Transit, SamTrans, San Francisco MUNI, Santa Clara County Transit, and CALTRANS/Southern Pacific Commuter Rail (the San Francisco Peninsula Commuter Rail Service discussed earlier.)

\*\*\*Alameda, Contra Costa, San Francisco, San Mateo and Santa Clara Counties.

Commission. The policy formulation activities of the Commission are assisted by four standing committees and several advisory groups. The advisory groups include representatives of the agencies overseen, labor, users and various special interest organizations as appropriate to the group's task.

In general, the MTC has relatively broad powers to allocate state and federal funds among the Bay Area transit providers. Allocations of some particular sources of funds however, are restricted in whole or in part by law. In such cases, the MTC serves as a pass-through organization and an oversight organization.

For most allocative purposes, the three largest transit providers (AC Transit, BART and MUNI) are treated as a single system. For purposes of allocating the 1/2% local sales tax funds\*, 75% of the funds are designated for BART with the MTC allocating the remaining 25% of the funds among AC Transit, BART and MUNI. With respect to STA funds, the MTC serves as a pass-through organization for the 30% of the STA distribution to the regions based on operator revenues but as the allocative body for the 70% of the STA distributed to regions on the basis of population. Prior to the caps on federal operating assistance, none of the region's STA funds were used for operating expenses. Now all of the 30% funds go to operating expenses with the exceptions of BART which uses the funds for capital purposes. All of the 70% funds are used for capital grant matching funds.

#### REACTIONS TO UMTA SECTION 9A/9

With the establishment of UMTA Section 9 and 9A block grants has come a shift to increased levels of congressional lobbying with respect to capital projects. MTC anticipates more emphasis will be placed on the discretionary allocative roles of the Secretary of Transportation and the Congressional appropriations and authorization committees. For the region this means bringing the various transit operators together to agree on a regional capital program as has been done for the past several years; then getting the region's Congressional delegation to work for the total regional package rather than just that portion which is in a particular representative's district. The region is expected to benefit from the increased incentive to coordinate capital projects and from the advance planning needed to prepare and lobby for a regional capital program.

#### REGIONAL COORDINATION

Generally the region is already well coordinated concerning capital projects and priorities. Since 1980 the region has explicitly developed a set of capital programs and priorities. When federal

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\*These revenues are usually referred to as 1107 funds after the bill number which extended the tax indefinitely for the BARTD counties.

officials shifted the emphasis of the UMTA capital program to accent block grants, the MTC already had the necessary projects planned and ready. Thus, when Section 9 became law, the MTC filed a block grant application on February 23, 1983, one of the first in the country.

#### COORDINATED FARES

A major undertaking of the MTC is the development of a coordinated fare policy for the three largest transit operators: AC Transit, BART and MUNI. The movement towards a coordinated fare was mandated by AB 842, which requires coordinated financial planning for the three largest Bay Area operators. A coordinated fare means that fares are principally based on distance subject to differentials for time of day, quality of service, and type of rider (elderly, students, etc.). In terms of the three operators, a coordinated fare means the same fare for the same service for similarly positioned individuals.

The MTC staff has taken the general guideline noted above and interpreted it as follows:\*

"We have interpreted the guidelines to mean that a coordinated fare structure should have:

1. a common base fare for full-fare passengers, good for travel within a single zone.
2. a common zone or mileage charge for AC and BART
3. a common transbay surcharge (if desired) for AC and BART
4. a common level of discount for youths, students, elderly and handicapped, as defined as eligible by the operators.
5. a common basis for pricing passes, translated into an equivalent number of full-fare trips."

Additionally, the MTC allocates regional funds under the assumption that a coordinated fare policy is, in fact, in place.

"Allocating under coordinated fares means that\*\*:

1. Each operator's fare revenue target is based on a coordinated fare structure.

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\*MTC Resolution No. 620 passed in 1978.

\*\*MTC 842 Project Staff Memorandum, April 15, 1982.

2. The revenue generated by the coordinated fare structure is sufficient to meet the expected deficits after allocation of anticipated regional subsidies.
3. Revenues under coordinated fares should be sufficient to carry the operators for two years, i.e., fare increases are expected no more than every two years.
4. If the operators cannot achieve a coordinated fare structure by the time allocations must be made, MTC will allocate on the basis of an assumed fare structure that is consistent with the 842 policy."

A major step in the coordinated fare process occurred on April 1, 1983, when BART began accepting MUNI's monthly Fast Pass for unlimited service within San Francisco. However MUNI's discount passes for youth, elderly and disabled riders are not accepted by BART.

The joint pass is the culmination of several years of negotiations. The agreement between the two operators specifies the techniques to be used to determine the share of Fast Pass revenues to be allocated to each operator, payment schedules and related activities. The MTC's ultimate objective is a pass accepted by all three of the major operators in the Bay Area.

A factor in the movement towards coordinated fares and a three operator pass has been the potential impacts on operator farebox revenues. AB 1107 (1/2% sales tax) requires the three operators, taken as one system, to recover 33% of operating costs from fare revenues. However, no single operator may vary from the 33% rule by more than 5%.\* MUNI has had long standing difficulties in meeting the 33% requirement and, at times, has been hard pressed to stay within the 5% allowable variation. Clearly, to the extent that one operator is below 33% another operator must recover more than 33% from its riders. Further, the coordinated fare principle requires the same fare for the same service. This position does not allow for differences in the cost of service provision. For transbay service provided by BART and AC Transit, this concept has produced marked disagreements among the parties concerned as AC Transit Transbay bus service is more expensive than BART's rapid rail service (MUNI does not provide transbay service). Needless-to-say, the movement to coordinated fares and a three operator pass is a slow and difficult one.

AB 1107 AND AB 842

The legal basis for the coordination actions discussed above are found in two important pieces of transportation law: AB 1107 passed

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\*Allowed by AB 842.

in September, 1977 and AB 842 passed in July, 1979. A brief examination of the major components of these laws will provide a useful framework to the preceding overview of MTC activities.

The 1/2% sales tax was originally imposed to provide funds for BART construction and carried a June 30, 1978 expiration date. AB 1107 extended the 1/2% sales tax indefinitely for the three BARTD counties. As part of the extension, the Act specified that the sales tax revenues be used for transit improvements beyond the level of service provided as of January 1, 1978. The revenues are to be allocated 75% to BART and 25% to AC Transit, BART and MUNI at the discretion of the MTC.

Additionally, the Act expressed the intent of the Legislature "...that fare revenues be stabilized at a constant percentage of operating costs..." (AB 1107, Section 1). The required percentage was specified as 33% of operating costs for each of three providers (AC Transit, MUNI and BART). Under this law, each operator must recover 33% of operating costs.\*

These requirements remained unchanged until the passage of Proposition 13 (Article XIII A of the California Constitution) which drastically reduced the property tax revenues available to AC Transit and MUNI. In reaction to this sudden fiscal crisis, the legislature enacted AB 842 in July, 1979. This Act altered several of the provisions of AB 1107 which have been noted above. AB 842 removed the AB 1107 imposed requirement that the 1/2% sales tax funds be used only for improvements to transit service. While the allocation of sales tax revenues remained unchanged, the funds could now be allocated for any transit service purpose as long as the allocation is in accordance with a regional financial plan. AB 842 required the MTC to develop a financial plan for the region which would "...continue the vital transit services..." of the three operators. The plan would specify criteria for local contributions, fare levels, coordinated service and other criteria the MTC may specify to "...encourage the provision of efficient and effective transit services." The regional coordination activities and the coordinated fare policy discussed above originate in this requirement.

The Act also modified the 33% farebox recovery requirement to permit any single operator\*\* to deviate from the 33% by up to 5% provided: (1) that all three operators taken as one system meet the

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\*The law specifies that the two special transit districts comprising the Alameda-Contra Costa Transit District (AC Transit) be considered as separate districts for purposes of determining compliance with the recovery requirement. One of the special districts is predominately urbanized while the other is predominately non-urbanized.

\*\*The two special districts served by AC Transit are treated as separate districts for determination of compliance. This is unchanged from AB 1107.

33% requirement and that 2) the deviating operator was meeting the 33% requirement on or after July 1, 1981. This farebox recovery requirement remains in force.

These laws apply only to the three BARTD counties and the MTC. In conjunction with the state programs discussed earlier, AB 1107 and AB 842 provide the framework within which the MTC and the Bay Area transit operators obtain and disperse transit funds and provide transit services.

#### CONCLUDING COMMENTS

The MTC provides a strong regional force in support of transit in the Bay Area. The unique composition of the Bay Area, large population dispersed across numerous jurisdictions served by a variety of operators often offering competing service, argues strongly for a powerful regional coordinating body. The nature of available funding structures are such that efficient funds allocation and efficient transit service provision would be extremely difficult, if not impossible, without a strong regional entity.

The continuing efforts to coordinate fares and services among the three major transit providers are necessary activities if efficient service in the major corridors is to be provided. The logical end result of this effort is a service provision merger, if not an organization merger, of the three operators into one system. The two Acts discussed above seem to intend a service provision structure equivalent to that usually associated with a single system.

The coordination effort has proved valuable in obtaining federal and state transit funds and in facilitating regional trips by transit. While the above has focused upon coordination among the three largest providers, coordinated service is also stressed for all area providers especially in terms of connecting service to the three largest systems.

The movement to a coordinated fare structure for the three largest providers (a separate question from coordinated service provision) has presented a number of difficulties relating to differences in costs of service as well as institutional resistance to relinquishing control over fare determination. In a very real sense, the farebox recovery requirements and the coordinated fare principle result in the fare structure being driven by the system with the highest costs and/or the lowest recovery ratio. This is probably not a desirable situation.



AC TRANSIT  
OAKLAND, CALIFORNIA

INTRODUCTION

AC Transit provides transit services within Alameda and Contra Costa Counties, which lie on the east side of San Francisco Bay and transbay service to downtown San Francisco. AC Transit's operating area is divided into two transit districts (often referred to as zones); one predominately urbanized and one predominately non-urbanized. All AC Transit service is within the Metropolitan Transportation Commission's (MTC) planning area.

Since 1980, AC Transit has been making an important transition from an operations-oriented company with relatively little capital planning to one with a highly developed capital component to its overall operating strategies.

MISSION OF AC TRANSIT

AC Transit provides a great deal of what it terms "life-line" service. This is service to locations no one else service and to populations with few, if any, alternatives to AC Transit service. For example, there has been a sizable reduction in school bus service in AC Transit's service area and AC Transit has expanded to serve this population segment. Additionally, AC Transit's late Night Owl service is heavily used by hospital employees who are transit dependent. Many of AC Transit's customers, especially those workers returning home at late night hours, are reluctant to walk long distances between the bus stop and their homes because of fear of crime. In order to serve this customer group's needs, AC Transit attempts to maintain more closely spaced stops than would otherwise be required.

All of these factors add to AC Transit's mission to provide transit services to market segments not adequately served by alternative transportation.\* To accomplish this mission, which is not unlike the mission of the other Bay Area transit providers, presents problems for AC Transit not faced by BART with its fixed rail system or MUNI which provides high service levels to a geographically small area of high population densities; the AC Transit service area is geographically larger with notable variances in population density.

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\*This would include private automobiles.



In short, AC Transit's mission and the particulars of its service area make the use of strict economic cost-efficiency criteria for evaluation of system performance inappropriate unless joined with other societal objectives criteria. This situation also makes it difficult to compare the operations of the three major providers in the Bay Area (AC Transit, BART, MUNI).<sup>\*</sup> During the discussion of the MTC, the controversy surrounding the coordinated fare policy was noted. Of the three systems involved, AC Transit is probably the least pleased with the policy. The system's objections are rooted in its view of its service mission and in the consequent efficiency constraints relative to the other two systems.

#### CAPITAL PROGRAM

The additional capital planning which has been required of AC Transit by California law and by UMTA is viewed as a very beneficial activity. The capital program begun by AC Transit in 1980 and 1981 is on schedule and should be completed by 1987 or 1988. The capital program has included new buses, but more importantly, it has focused on capital improvements which reduce operating costs and improve system (especially managerial) productivity.

An estimated \$2 million in annual operating costs have been saved by new transfer machines and by new fareboxes which accept dollar bills and count riders. The ridership counts now available will be utilized in service evaluation and planning as part of a new Management Information System (MIS). The MIS and associated computer hardware and software are key components of AC Transit's operations oriented capital program. The majority of future capital funds will be utilized for new maintenance facilities and a new training facility.

As of March 1983, the funding outlook for AC Transit's capital program was viewed as "comfortable". If the gasoline tax funds (Surface Transportation Assistance Act of 1982) are dispersed as then currently indicated, there will be adequate federal capital funds (UMTA Section 9A/9) for completion of the capital program.\*\*

AC Transit uses its State Transit Assistance (STA) funds and its share of the Bay Bridge tolls as local match for UMTA capital grants.

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\*It can be argued that each transit system is unique by some measure. While that is true, it is unusual for that uniqueness to flow so directly from a major organization objective.

\*\*However, had the originally proposed federal budget for FY84 been enacted, this would not have been the case.

These funds also appear to be adequate for current needs, however a major cut in STA funds\* would adversely affect matching capabilities and require the transfer of funds from other uses. LTF and AB 1107 funds\*\* are not presently used for UMTA capital grants match.

#### FAREBOX REVENUES AND OPERATING FUNDS

AC Transit raised fares in 1982 and faces the probability of another fare increase in 1984. In 1982 the base fare rose from \$ .50 to \$ .60 and the transbay fare rose from \$1.00 to \$1.25. Following the fare increase AC Transit lost 12% of its ridership. While some of the ridership has returned, the return to transit has been lower and slower than that following previous fare increases. There has also been an increase in the sale of student passes and elderly and handicapped passes.

AC Transit believes it is about at the point of "diminishing returns" with respect to fare increases. This is a particularly important view as the AB 842 process\*\*\* of coordinated fares requires AC Transit to increase fares on particular routes (especially on transbay service) in order to maintain a fare coordinated with BART.

Other than farebox revenues, AC Transit receives UMTA operating funds (Section 5/Section 9A/9), LTF, STA and AB 1107 funds by allocation of the MTC subject to various allocation restrictions.\*\*\*\* AC Transit's primary objective is to obtain a "fair share" of the STA and AB 1107 funds. This is mainly a competition between AC Transit and MUNI which is played-out at the MTC. As has been indicated, the coordinated fare issue lies at the heart of the allocation discussions with the MTC.

The MTC estimates the fare revenue which would be collected if AC Transit's fares were fully coordinated and allocates funds accordingly. Recently the MTC estimated AC Transit's fare revenues at \$34.9 million. However, AC Transit was actually realizing \$30.7 million in fare revenues, a \$4.2 million area of disagreement.

The STA funds provided by the state of California include a "dedicated" component based upon a system's operator generated

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\*Just prior to the case study interview, such a cut had been under consideration.

\*\*These programs are discussed in detail in the sections dealing with California State Level and MTC Regional Level activities respectively.

\*\*\*Discussed in greater detail in the MTC Regional Level activities section of this report.

\*\*\*\*Discussed under the California State Level and MTC Regional Level sections.

revenues.\* The MTC serves as a pass-through organization for these funds. Operationally, the MTC allocates the available funding as if no funds were available from this section of the STA. As "dedicated" STA funds are available, the MTC reduces the systems' \*\* AB 1107 allocation on a dollar-for-dollar basis.

For FY 1982-1983, AC Transit's operating costs of \$98 million were funded: 37% farebox revenues; 16% property tax revenues; 17% LTF funds; 14% AB 1107 funds; 2.5% STA funds; 6% UMTA operating grants and 7.5% unfunded deficit. To fund the unfunded deficit (as of March 1983), AC Transit has requested an additional allocation of AB 1107 funds from the MTC.

#### A PERIOD OF CHANGE

It is quite clear that AC Transit is in the middle of a period of major changes in the system. The new fareboxes and the MIS are providing ridership data with an accuracy and a timeliness previously unavailable to the system. With this new available data, AC Transit is undertaking a major review of its less productive routes. Through a process of internal review and public hearings, AC Transit is in an on-going process of route evaluation and revision.

Facilitating the above process is a new internal organization arrangement which provides better managerial coverage of all aspects of the system's operation. With better management coverage in place, AC Transit is beginning an organizational study of every aspect of the system's operation.

This intense process of organizational review and evaluation are made possible by the new computer based MIS program and facilitated by the new maintenance facilities which permit better coordination and supervision of activities. The MIS program will improve materials management, financial management, dispatching, scheduling and a variety of other activities of the system.

AC Transit is placing a new emphasis on preventative maintenance. With the new maintenance facility "heavy" repairs such as remanufacture of major parts will become possible.

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\*Discussed under the California State Level activities section.

\*\*In practice only AC Transit and MUNI of the three major providers are so impacted.

This rather wide scope of major changes in the operational structure of AC Transit is, in some measure, traceable to the passage of Proposition 13, which notably reduced available property tax revenues and to the passage of AB 842 which required regionally coordinated financial planning for the three major operators in the Bay Area.

AC Transit perceives the immediate future as a period of limited public resources for transit. The system had considerable first-hand experience with limited resources following Proposition 13. Following that period, AC Transit began a major, and continuing, revamping of its capital stock and its organizational structure with the clear objective of being able to "do more with less", i.e. reduce operating costs per unit of service. AC Transit's mission allows only limited opportunities for reducing service to cut costs and provides strong resistance to increasing fares to increase revenues. Thus, the system has opted for a sizable expenditure of capital funds to improve long-run operating and managerial efficiencies.

#### POLITICAL ENVIRONMENT

AC Transit feels that transit is in for a rough period but that some systems will be more negatively affected than others. The future difficulties do not stem from a lack of political support for transit per se, but from the overall financial difficulties being faced by state and local governments. A strong and sustained economic recovery would produce major changes in the currently bleak outlook.

#### CONCLUDING COMMENTS

AC Transit is clearly preparing for a future of limited public financial resources for transit. It is utilizing its capital program to reduce long term operating costs, improve managerial efficiencies and increase system productivity. The system has a well established view of its organizational mission and is attempting to protect that mission in the face of increased costs, tighter funding and fare increases which it does not prefer.

AC Transit believes that revenue generation by what is frequently termed innovative techniques is more appropriate for rail systems such as BART than they are for AC Transit. Thus, AC Transit is not exploring non-traditional sources of funds generation. If state and federal support for transit is not reduced from present levels, AC Transit will be able to complete its capital program on schedule.

Should the federal government decide to phase-out its transit operating subsidy programs, AC Transit believes it could absorb the funds withdrawal if the phase-out were a known percentage per year over a ten-year horizon. The key factor is whether or not any change

in federal funds is predictable. AC Transit is not particularly dependent on federal operating funds which account for approximately 6% of total operating costs.\* Because of AC Transit's position as part of a strong regional organization, the primary responsibility for replacing federal operating funds would fall to the MTC and not AC Transit. However, as federal funds are only approximately 10% of regional transit funds, AC Transit's observation probably would hold for the region as a whole. A review of the issue and of AC Transit's financial projections is included in Appendix F.

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\*AC Transit officials have been cited as indicating that a phase-out of federal operating funds would cause a 6% cut in service in the first year with additional cuts in subsequent years. (Urban Transportation, Vol. 11, No. 10, May 16, 1983, p. 73). Needless-to-say, service cuts are a possible response to a phase-out of federal funds; however, the possibility was not mentioned during the case study interview which occurred in March 1983.

## San Francisco Municipal Railway (MUNI)

### INTRODUCTION

The San Francisco Municipal Railway (MUNI) provides transit service to the City and County of San Francisco. Unlike other transit providers in the Bay Area which provide service into and out-of San Francisco, MUNI does not provide service beyond San Francisco.

MUNI provides a high level of service to an area with high population densities covering a relatively small geographic area. The system receives strong support from the government of the City and County of San Francisco (one governmental unit).

### FAREBOX REVENUES

To be eligible for AB 1107 funds and to be in accordance with AB 842 requirements, MUNI must recover 33% of its operating costs from farebox revenues. A credit of up to 5% may be given if MUNI is below the 33% level, as is frequently the case. The recovery ratio for FY81-82 was 31% and FY82-83 is expected to be between 31% and 32%. MUNI's fare structure is AB 842 driven, in that the city would prefer a lower fare than that permitted under the AB 842 farebox recovery requirements.

The city is strongly committed to MUNI and to low fares. The city would prefer to increase its subsidy rather than raise fares but MUNI is "locked-in" to a structure of future fare increases because of the AB 842 requirements. Under AB 842 requirements, general fund monies from the City and County of San Francisco do not count as operators revenues. If general fund revenues can be routed towards the 33% requirement, then the City could increase its subsidy thereby maintaining the lower fares which are preferred. The MTC does not plan to alter its present policy in this regard, as to do so would under cut the coordinated fare concept and introduce inequities as AC Transit and BART do not have access to similar sources of funds. There is some possibility that MUNI may seek legislation which would permit or require the counting of general fund revenues for farebox recovery purposes.

### OPERATIONS FUNDING

The regional allocations made by the MTC provided \$40 million (24.6% of operating costs) in LTF, STA and AB 1107 funds and approximately \$8.7 million (5.3%) in UMTA operating grant funds for FY82-83. The \$40 million may only be used for "basic and committed service" under the MTC financial plan developed under AB 842, new service is funded from the city's general fund. The city provided \$62 million (38.1%) to subsidize existing service and to fund expanded

service. The farebox provided the remaining source of funds which equalled \$52 million (31.9%) during the period. Minor amounts of revenues stem from charter service provisions.

MUNI has explored two additional sources of funds. These sources are: a downtown assessment fee which was abandoned due to political opposition and a downtown development fee which is under litigation. These fees are discussed in the next section.

#### TRANSIT DEVELOPMENT FEE AND TRANSIT ASSESSMENT DISTRICT\*

In the Spring of 1981, San Francisco was searching for a method to generate additional funding for future MUNI service to the Central Business District (CBD). Two proposals were placed before the Board of Supervisors (the governing body of the City and County), one called for a one time fee on new downtown office development (the Transit Development Fee) and another proposed the establishment of a Transit Assessment District in the CBD to collect annual fees to defray part of the cost of MUNI CBD service.

MUNI estimates that 51% of its average weekday ridership of 710,000 travel to and from the CBD. Of all San Francisco residents working in the CBD, 61% are estimated to use MUNI to travel to and from their workplace. New service to and from the CBD is being added at a more rapid rate than new service elsewhere in the city and MUNI vehicles serving the CBD have peak hour loads of 140% to 160% of seated capacity. MUNI estimates the demand for CBD service will grow by 23% between FY81-82 and FY85-86.

These and other data led the City to examine methods of assigning the costs of CBD service to the beneficiaries rather than to city residents as a whole. The two methods of development fee and assessment fee were viewed as most appropriate.

The Transit Development Fee is a one-time fee of \$5.00 per square foot on all new office developments within a specified area of the CBD.\*\* The fee is payable in installments over a 35 year period. This would amount to approximately \$ .60 per square foot per year or 2% of the estimated \$30 per square foot rental rate. The estimated cost of providing the new MUNI service associated with the additional demand arising from new office construction is estimated to be \$9.18 per square foot. This fee was approved by the Board of Supervisors

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\*This discussion draws from the case study interviews and a May 8, 1981 Briefing Package prepared by the Public Utilities Commission of the City and County of San Francisco.

\*\*An area "bounded roughly" by Van Ness, Broadway, Sansome, Embarcadero and Berry.



in 1981. However, the proposal was promptly challenged and is currently scheduled for a February 1983 trial. The fee is being collected but the funds lie in escrow pending the court's decision.

The same cost and usage data which supported the Transit Development Fee also argued for the creation of a Transit Assessment District in the CBD. The Assessment District would have levied an annual fee or assessment on CBD properties benefiting from MUNI's CBD service. The fee, under California law, must reflect a special benefit not received outside of the district and the fee cannot exceed either the value of the benefit or the cost of providing the benefit. The special benefit received by the CBD is a more intense level of MUNI peak hour service than that received by other areas of the city. The amount of the fee for any particular property in the CBD would be determined by formula as allowance must be made under state law for significant variations in the level of benefit received by various properties in the district. In April of 1981, the Board of Supervisors passed the necessary enabling legislation to establish the Assessment District. Following the enabling legislation, the Board was required to notify affected property owners and to hold hearings to determine the existence of a special benefit, the value of the benefit, significant variations in benefit levels received, costs of providing the benefit and related items. Additionally, a formula for computing the fee that any given property would be assessed, would also have to be developed. Because of strong political opposition, the matter was not pursued to its conclusion.

Revenues from the Transit Development Fee and the Transit Assessment District would have been utilized for operating and capital expenses associated with expanded MUNI service to the CBD. From the available data, it is reasonable to believe that the majority of the revenues generated would be devoted to operating costs.\* MUNI estimates capital expenditures for expanded CBD service to be \$49 million for the FY82-84 period out of total capital projects for the same period of \$174 million.

#### MUNI-BART FAST PASS

Beginning April 1, 1983, holders of MUNI's Fast Pass were able to show the pass and ride BART without paying an additional fare. This arrangement only holds for BART service within San Francisco

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\*For FY81-82, MUNI projected an operating deficit of \$97.7 million of which \$47.53 million was estimated as attributable to the core of the CBD (the C-3-0 area). Allowing for federal and state subsidies, the core's "share" of the FY81-82 deficit equaled "at least \$28.5 million". If the development fee had been in place in calendar 1980, \$35 million would have been generated from 7 million square feet of new office construction.

(Embarcadero to Balboa Park stations) and does not apply to MUNI's youth or elderly and handicapped passes which are heavily discounted.

The two-operator pass presents numerous advantages to the rider but its long term financial impacts must be judged as they occur. The process of developing the joint pass spread over several years and involved the development of some detailed formulas for revenue and cost sharing between BART and MUNI. Even though the agreement between the operators is well thought-out, there still exists a certain level of uncertainty as to the final cost and revenue impacts. The arrangement would not have been concluded when it was had not the MTC made \$1 million available to the joint venture. The two-operator pass was developed as part of the AB 842 coordinated fare process and is a first step towards a three operator pass (AC Transit, BART and MUNI) for the Bay Area.

#### CABLE CAR PROGRAM

MUNI is in the midst of a complete rehabilitation of its cable cars. The total cost of \$58.2 million was funded through a combination of regional funds, earmarked federal funds and an impressive program of private sector donations. The Save the Cable Car Committee, a private non-profit corporation, raised approximately \$10 million for use as local matching funds for the project.

#### THE AB 842 PROCESS

The AB 842 coordinated regional financial planning and coordinated fare process has been discussed earlier in this report. It is worth noting that MUNI is not experiencing the same level of difficulty with the coordinated fare process as is AC Transit.

MUNI notes that any process which attempts to coordinate three quasi-independent transit districts is going to be painful. However, the process is getting better as the operators become more familiar with each others' operations and as more experience with coordination is developed. MUNI also notes the benefits arising from financial coordination, particularly the MTC's ability to shift funds to areas of need.

#### CAPITAL PROGRAM\*

Internally MUNI develops an annual listing of proposed capital improvement projects. The projects are evaluated and ranked based on

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\*This discussion derives from the case study interviews and San Francisco Municipal Railway Capital Improvement Program FY1984-88, June 1983.

each project's contribution to MUNI's reliability, productivity and quality of service. This ranking provides a measure of the project's desirability. In developing the final set of internal priorities, each project's "state of readiness" is a critical factor. Top rankings go to projects with high levels of desirability which are also ready for quick start-up once funding is allocated. The prioritized projects are included in the annual update of MUNI's Five Year Transit Plan.

MUNI's ranked listing of capital improvement projects serves as input to the regional capital improvements priority listing developed by the MTC and the operators via the Transit Operators Coordinating Council (TOCC). The TOCC develops a prioritized listing of capital projects for the region as a whole. What might be best described as routine capital improvements are packaged by the MTC for funding under UMTA Section 9A/9. Other, less routine, projects request UMTA discretionary funding under Section 3. One difficulty with this division of projects between Section 9 and Section 3 funding is the reluctance of many operators to forego the certainty of block grant funds for the uncertainties of discretionary funds.

While regional coordination of capital projects has occurred for the past several years, the process has become more important since the establishment of the UMTA Section 9A/9 block grant program. Under the block grant, funds flow to the region as a whole with the MTC allocating the funds (capital and operating) at its discretion. This regional allocation process has created some friction as the block grant funds are not allocated within the region in concurrence with the service based elements used by UMTA to allocate the funds to the region. In short, funds which flowed to the region because of MUNI's high service levels are being allocated by the MTC to other operators with less service. Resolution of this difficulty remains for the future and is closely tied to the principal of regional coordination. Should the MTC allocate block grant funds under the same formula used by UMTA, then the MTC becomes nothing more than a pass-through organization, defeating the basic purpose of a regional coordinating body. However, systems whose service levels are instrumental in securing block grant funds can reasonably expect a "fair share" of those funds. The trick is in operationalizing that "fair share".

A related concern arises from the caps placed on Section 9 operating funds. With the cap more state funds are being used for operating purposes. This has increased the competition for federal capital funds as state funds otherwise usable for capital purposes are diverted to operating uses.

#### FY82-83 Program

Table 5.1 displays the amount of capital funding, by source of funds, for fiscal years 1980-1981 thru 1982-1983. As indicated by the

TABLE 5.1

SUMMARY OF CAPITAL FUNDING RECEIVED FY 1981-83  
(\\$000)

<u>SOURCE</u>	<u>80/81</u>	<u>81/82</u>	<u>82/83*</u>
UMTA Section 3	22,100	16,987	46,250
UMTA Section 5	0	2,880	5,432
UMTA Section 9A	NA**	NA**	4,992
FAUS <sup>1</sup>	4,910	4,779	0
State Guideway	25,071	16,117	10,300
Bridge Tolls	2,023	2,718	5,547
State Transit Assistance	775	2,709	6,161
AB 1107/TDA	0	720	4,802
SFMRIC <sup>2</sup> /General Fund/Private Sector <sup>3</sup>	<u>2,370</u>	<u>11,252</u>	<u>28,099</u>
Total Capital Revenues	57,250	58,162	111,583

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\* Based on estimates of funds to be received as of 5/1/83.

\*\* UMTA Section 9A was created in FY 1983.

<sup>1</sup>Federal Aid Urban Systems

<sup>2</sup>San Francisco Municipal Railway Improvement Corporation

<sup>3</sup>Save the Cable Car Committee

Source: San Francisco Municipal Railway Capital Improvement Program  
FY 1984-88, Table 1, p. 5, June 1983.

values displayed in the table, federal sources provided approximately 50% of MUNI's capital funds during this period. This represents a decline from an average of 80% federal funding during the 1970's. The decline of federal funds as a proportion of total capital funding reflects an increase in state funding beginning with the 1979 enactment of the State Transit Assistance Fund and MUNI's pursuit of innovative capital funding mechanisms. The sources of capital funds are reviewed below.

Table 5.2 displays the capital projects funded during 1982-1983 fiscal year. The funded projects reflect MUNI's emphasis upon increased reliability, improved productivity and rehabilitation of rolling stock and facilities.

#### FY84-88 Program

The Capital Improvement Program (CIP) for fiscal years 1984 thru 1988 emphasizes productivity improvements, rehabilitation of rolling stock and facilities, and peak service improvements designed to reduce overcrowding during peak periods (especially for central business district service). The CIP consists of 29 projects with an estimated cost of \$628 million. Of the 29 projects, 1 is funded by UMTA Section 3 (cable car reconstruction), 18 are expected to be funded from UMTA Section 9, 2 from Interstate Transfer funds (I-280), and 8 are presently unfunded.

Funds to support the five year CIP are expected to average \$80-90 million per year. Estimated funds by source and year are shown in Table 5.3. The high estimate of funding shown in Table 5.3 is more than twice the value of the low estimate. This relationship holds for both federal funds and for non-federal funds, although there is slightly more distance between the two estimates for non-federal funds. The estimates of total federal funds over the period indicate an expected increase in the proportion of total capital funding, deriving from federal sources relative to fiscal years 1980/1981 thru 1982/1983 (see Table 5.1).

#### CAPITAL FUNDING SOURCES\*

Many of the state and federal sources of funds utilized to support MUNI's capital program have been discussed elsewhere. They will be noted at this point while attention is focused on local sources of funds.

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\*This discussion derives from the case study interviews and San Francisco Municipal Railway Capital Improvement Program FY1984-88, June 1983.

TABLE 5.2

CAPITAL PROJECTS FUNDED IN FY 1982-83  
(\$000)

1983-87 CIP <sup>1</sup> <u>RANK</u>	<u>PROJECT</u>	<u>FY 82-83 AMOUNT</u>	<u>AMOUNT RECEIVED</u>
1	Cable Car System Reconstruction	15,700	18,500
2	Diesel Bus Replacement (180 STd/100 Artic)	29,744	60,312
3(a)	Trolley Overhead Reconstruction	2,000	3,140
(b)	Trolley Overhead Reroute Design/30- Stockton		111
4	Market Street Overhead Reconstruction	5,000	9,500
5	SFMRIC <sup>2</sup> Payment	4,300	4,200
6	General Equipment	2,000	2,100
7	Service Vehicles	200	*
8	New Bus Storage Facility	3,500	6,790
	Bus Facilities Rehabilitation		715
9	Prepaid Fare Collection Equipment	1,000	845
10	Maintenance System Development (MIS)	2,000	1,100
15	Cable Car Prepaid Areas	230	(see #9 above)
17	AMG Vehicle Window Replacement	180	180
20	Central Control Communication Improve- ments	2,100	2,100
24	Cable Car Vehicle Improvements	3,200	1,600
37	Trolley Window Replacement	750	350**

Page 2  
Table 5.2 continued

11***	Operator Restrooms	500	500
23***	Boeing Settlement	<u>2,000</u>	<u>775**</u>
	TOTAL	74,404	111,583

\* Funding combined with capital priority #6.

\*\* Full project funding required less than originally programmed.

\*\*\* Funded through revisions to previously approved UMTA projects.

<sup>1</sup>Capital Improvement Program

<sup>2</sup>San Francisco Municipal Railway Improvement Corporation

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Source: San Francisco Municipal Railway Capital Improvement Program  
FY 1984-88, Table 2, p. 6, June 1983.



TABLE 5.3  
MUNICIPAL RAILWAY  
CAPITAL IMPROVEMENT PROGRAM 1984-88  
REVENUE ESTIMATES BY SOURCE  
(millions)

Fund Sources	1984		1985		1986-88		Total 1984-88	
	High	Low	High	Low	High	Low	High	Low
<u>Federal</u>								
UMTA Section 9 (Formula Block Grant)	35	20	35	20	105	60	175	100
UMTA Section 3 Discretionary	10.2	10.2	15	0	45	0	70.2	10.2
Federal Aid Interstate (I-280)	5	0	5	5	50	20	50	25
Federal Aid Urban	1.5	1.5	1.5	1.5	4.5	4.5	7.5	6
UMTA Section 6 R&D	0.5	0	0.5	0	1.5	0	2.5	0
FEDERAL ASSISTANCE SUBTOTAL	55.2	31.7	57	26.5	196	83	305.2	141.2
<u>State</u>								
105 Transportation Planning and De- velopment, and Article XIX Guideway (SB 1331)	10	5	10	5	30	15	50	25
<u>Regional</u>								
State Transit Assistance (SB 1335) 70%	7	2	7	2	21	0	35	4
30%	5	0	5	0	15	0	25	0
Bridge Toll Revenues (AB 664)	3	2	3	2	9	6	15	10
<u>City and County</u>								
Hetch Hetchy	2	1	2	1	6	3	10	5
Ad Valorem (General Fund)	2	1	2	1	6	3	10	5
Transit Development Fee	6	0	6	0	18	0	30	0
Save the Cable Car Committee (Private)	2.5	2.5	0	0	0	0	2.5	2.5
San Francisco Municipal Railway Improvement Corporation	6	5	6	5	18	15	30	25
Safe Harbor Leases	3.5	2	3	2	3	0	9.5	4
TOTAL ALL SOURCES	99.2	52.2	101	44.5	322	125	522.2	221.7

Source: Capital Improvement Program FY 1984-88, San Francisco Municipal Railway, Table 7, page 78, June 1983

## Federal Funding

The primary federal sources of funds are UMTA Section 9 formula block grant and UMTA Section 3 discretionary grants. MUNI has also received UMTA Section 6 research and development grants for the testing of comparative trolley propulsion systems and for a modular LRV wheelchair lift. Federal funds of a highway origin have derived from the Interstate Transfer Program and Federal Aid Urban Systems (FAUS). In San Francisco, the FAUS funds are distributed: 55% to the Department of Public Works for street projects and 45% to MUNI for transit capital projects.

## State Funding

State funding, which flows directly to MUNI, is comprised of fixed guideways funds and the 30% STA funds. Between 1980 and 1983, MUNI received over \$50 million in fixed guideways funds. State funds, which flow through the MTC and which are used for capital purposes, are comprised of the 70% STA funds and Bay Bridge tolls.

## Local Funding

Local funding derives from the City and County of San Francisco and various innovative funding mechanisms. These sources will be noted in detail.

- Hetch Hetchy Revenues: The City owns a hydroelectric project, Hetch Hetchy, and derives revenues from the sale of electric power. Funds from this source are restricted to transit power projects (e.g. trolley electrification projects) and are allocated through the city budget. In the past these funds have been used as local match funds for eligible (i.e. transit power) capital projects.

- General Fund Revenues: General fund revenues deriving from ad valorem taxes are a major source of operating funds for MUNI but, until recently, could not be used for capital projects. Prior to 1982, the City Charter prohibited the use of ad valorem revenues for MUNI capital projects unless a 2/3 majority vote of the electorate was first obtained. In 1982, Proposition B removed this prohibition and in January 1983, the City approved \$21 million for the purchase of new diesel and trolley coaches.

- San Francisco Municipal Railway Improvement Corporation (SFMRIC): The SFMRIC was established in 1969 as a non-profit corporation to provide capital improvement funds. The SFMRIC sells tax-exempt bonds and uses the revenues to purchase rolling stock and facilities. These capital items are in turn leased to the city for an amount equal to the annual debt service costs.

Because of an increase in federal and state capital funds, SFMRIC have not been utilized as rapidly as previously envisioned. In 1982, the SFMRIC had unobligated funds of approximately \$25 million.

- Save the Cable Car Committee: The Committee is a private non-profit corporation established to generate private sector funds for use as local matching funds for the cable car rehabilitation program. This private sector initiative has raised approximately \$10 million.

- Safe Harbor Leases: MUNI has undertaken Safe Harbor Leases of the depreciation rights arising from the non-federally financed portion of rolling stock purchases. During the FY84-88 period, MUNI anticipates Safe Harbor Lease revenues of between \$4 million (low estimate) and \$9.5 million (high estimate).

- Development Fee: This source of funds has been discussed at length above. At this point it is only necessary to note that the development fee is intended to defray the costs (capital and operating) of providing the necessary peak service to the central business district. The fee is currently being collected but the revenues are being held in escrow pending the results of litigation. The related proposal of a transit assessment districted, also discussed above, was dropped because of strong political opposition.

The above, surprisingly lengthy, list of local funding sources includes a variety of approaches to funds generation. General fund revenues and Safe Harbor Leasing funds are relatively common sources of local funds for transit support.

The Save the Cable Car Committee is a unique approach to funds generation which can probably be successful in only a very limited set of circumstances. The key requirement, clearly, is a unique form of transit which creates considerable local pride.

Revenues from the Hetch Hetchy hydroelectric plant is again a relatively unique funding source, as few municipalities own electric generation plants. However, transit systems associated with municipalities, so positioned, should not overlook the potential advantages of a relationship between municipality owned electric power generation facilities and an electrified transit system.

The SFMRIC, however, does hold potential for funds generation in other locations. Transit systems with sufficient capital expenditures might be well advised to examine the possibilities of establishing similar non-profit organizations.

#### POLITICAL ENVIRONMENT

As has been noted the local political climate is very supportive of transit. Indeed, the city would prefer lower fares than farebox recovery requirements permit. The city contributes substantial

general fund revenues to MUNI, predominately to fund expanded service.\*

The state level trend of increased farebox recovery requirements runs counter to the city's desire for low fares. If the state continues to group fare revenues and local tax contributions together in computing local support, as seems most likely, then no real conflict in goals arises.\*\* However, should the state move towards higher user charges, irrespective of local tax contributions, then a conflict between the two objectives would arise.

#### CONCLUDING COMMENTS

MUNI is strongly supported by its associated city government and is located within a financially strong region with a well developed regional body (MTC) with allocative powers. The city has realized, however, that a continued level of service, which meets local needs, will require additional local funds. Rather than assess all city taxpayers, an attempt was made to generate a "fair share" of the needed new revenues from that portion of the city generating most of the transit demand: the CBD. These efforts, however, are stalled pending a court ruling on the legality of the development fee.

MUNI is in an interesting position in that it is part of a strong regional system with requirements (AB 842) which elevate fares and is owned by a city government quite willing to increase local subsidies in order to hold fares down. In the past there has been no resolution for this apparent dilemma. However, if the MTC does permit city funds to count as operator revenues for AB 842 purposes, then the conflict should resolve itself to the satisfaction of all concerned. Additionally, such a decision should remove the upward pressure on AC Transit fares which arises from MUNI's need to increase fares to meet the mandated farebox recovery requirements and AC Transit's need to meet coordinated fare requirements.

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\*Expanded relative to that service in place or committed when AB 842 was enacted.

\*\*Conflict would continue to exist if the MTC continues to disallow local tax funds as operator revenues for AB 842 purposes. But the conflict is with regional procedures rather than state law per se.

## VI: THE RESULTS OF THE WASHINGTON CASE STUDY

### STATE LEVEL ACTIVITIES

#### INTRODUCTION

Washington State provides a detailed yet simple system of financial support for local transit systems. The philosophy is one of local decision making with an emphasis upon local tax funding. The state has established a menu of organizational forms which a transit operation may assume. The five alternatives provide at least one option which is appropriate for each transit service situation in the state. Each alternative carries a somewhat different array of taxing options, voter approval requirements and service area requirements.

The state monies which are made available to transit are in the form of a give-back or foregoing of revenues generated by the annual Motor Vehicle Excise Tax (MVET). With the exception of some planning grants, the MVET funds are the only source of state funding available for public transit. However, the state can and does join the local governments and/or the federal government to jointly finance transit-benefitting highway facilities such as bus lanes and the like in conjunction with new or existing highway facilities. From 1973 through June 1981, \$55 million in state highway funds have been spent on transit facilities which reduce traffic congestion.

The planning monies, mentioned above, take the form of 100 percent loans for feasibility studies and comprehensive planning studies (two separate programs). The duration and the maximum amounts of the loans vary somewhat by the organizational nature of the loan recipient. As of December 1981, thirty loans (15 in each program) had been made since the programs' inception in 1975. During this period, the programs dispensed \$816,283 in loans.

#### TAX SOURCES AVAILABLE FOR PUBLIC TRANSIT

The state permits several tax sources to be used for public transit. The only usage limitation placed on these revenues is that the funds be used for transit. Only one of these sources (MVET) represents a foregoing of revenues otherwise received by the state.\* The others are local option taxes which generate new revenues. The tax options fall into three groups: motor vehicle excise taxes, sales and use tax, and household and business taxes.

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\*Technically the refund of state fuel taxes also falls into this category.

## Motor Vehicle Excise Tax (MVET)

The Motor Vehicle Excise Tax (MVET) rate is 2.2% and is an annual excise tax on the fair market value of motor vehicles. Of this 2.2% rate, .2% goes to the state ferry system. Any municipality\* may levy a 1% MVET. This is known as the municipal levy. Based on this important distinction, the state courts have ruled that the 1% MVET municipal levy is a local tax and not subject to appropriation by the state legislature.

There are two important restrictions on the amount of MVET revenues which an eligible municipality\*\* may receive. First, only those funds generated within the transit system's service area may be received. This ensures that only those taxpayers living within the service area (benefit area) contribute to the costs of service provision.

Second, the MVET fund must be matched, dollar-for-dollar, by revenues from another tax source levied within the service area only. This tax source may be general fund revenues, but more commonly, they derive from one of the local tax options discussed below.

Annually, the systems utilizing the MVET submit a budget to the Department of License (the administrator of the entire MVET fund) projecting local tax receipts for the upcoming calendar year. On April 15 of the following year, the systems submit the actual tax receipts. The Department of License compares the actual tax receipts with the MVET dollars disbursed and adjusts the system's current year's MVET funds upward or downward as the case may be. The MVET funds are collected by the state and disbursed quarterly with a six months lag.

Thus, an individual transit system utilizing MVET funds can receive only that amount collected within its service area and only up to the amount matched by another local tax source, also collected only within the service area. The only usage restriction is that the funds must be used for public transportation purposes. The split between capital and operating uses is left entirely to local decision-makers. Nor does the state specify any farebox recovery rates.

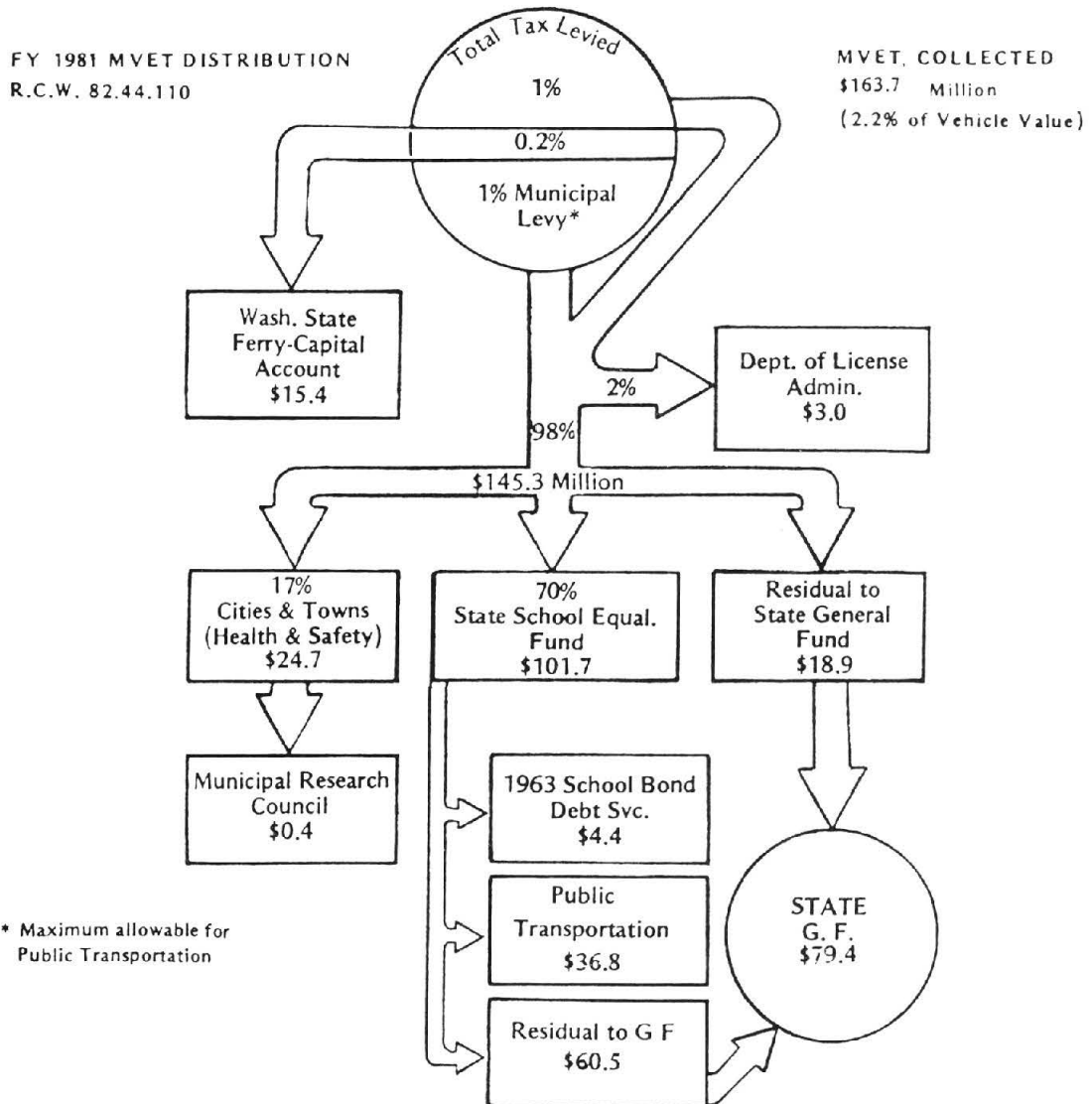
Figure 6.1 details the distribution of the total MVET revenues (2.2% rate) among alternative uses. It is immediately apparent that public transportation, as a group, does not receive the full amount

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\*Except cities or counties for unincorporated areas which levy a sales tax.

\*\*All municipalities are eligible except cities within a metropolitan municipal corporation, a public transportation benefit area, or a county transportation authority which already has the levy or which falls under the sales tax restriction noted above.

Figure 6.1



Source: Report: Public Transportation in Washington State, 1981 (Olympia: Washington State Department of Transportation, Public Transportation and Planning Division, December, 1981), p. 21.



of the 1% municipal levy. Before proceeding to examine the figure, it must be noted that this occurrence is not a matter of concern. Why this is so will be clear as Figure 6.1 is examined.

Of the revenues generated by the 1% municipal levy (\$74.15 million in FY81), 2%, off-the-top, goes to the Department of License for administrative services, 17% goes to the cities and towns for health and safety purposes, 70% to the State School Equalization Fund while the residual, 11% in FY81, goes to the state's General Fund.

Funds for public transportation flow from the State School Equalization Fund. This fund is expended in a preset order. First, the necessary funds are withdrawn to pay current obligations from the 1963 school bond issue. The bond debt will be fully retired in July 1983. At that time these revenues will be available to public transportation provided matching requirements are met, otherwise the revenues will flow to the general fund.

The next claimant upon these funds is public transportation. In FY81, \$36.8 million went to public transportation uses.\* The amount of funds allowable for this purpose is limited by: (1) the amount raised within a transit system's service area, and (2) by the amount of matching local tax revenues devoted to public transit, again raised in the service area. Thus, transit in general cannot utilize all of the MVET funds technically available.

Once the school bond debt payments have been made and all funds allowable for public transit have been disbursed, any remaining monies in the State School Equalization Fund flow into the state's General Fund. In FY81, \$60.5 million in residual funds from this account went to the General Fund. This data clearly indicates that under existing requirements public transit systems cannot utilize all the existing MVET revenues.

This observation implies that either MVET revenues are ample or the existing requirements are too stringent. Data presented elsewhere in the case study indicates that MVET funds are, in fact, ample for transit needs in the state. The one exception appears to be the Seattle Metro and this does not appear to be a particularly critical exception.

#### Sales and Use Tax

All five of the organizational forms available for transit can request a vote of the people to authorize the imposition of a .1%,

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\*This represents approximately one-half of the revenues raised by the 1% municipal levy.

.2%, or .3% sales tax. A metropolitan municipal corporation within a Class AA county may have up to a .6% sales tax. Currently, only King County (Seattle) falls into this category. The sales tax revenues must be dedicated to public transit. The sales tax revenues may be used as matching funds for MVET purposes except by cities (city only systems) or counties for unincorporated areas. The sales tax may only be imposed within the transit service area. As with MVET revenues, the only usage restriction is that the funds go to public transit. Currently, one system (King County) has a .6% rate, five have a .3% rate and one uses .2% rate. One system is exploring the possibility of lowering its current .3% rate to .2% once payment for a major maintenance facility is complete.

### Household and Business Taxes

Any of the five organizational forms may impose household or business taxes for the support of public transit. However, the imposition of a sales tax for public transportation supercedes any household or business tax in support of public transportation. That is, upon the approval of a sales tax any existing household or business taxes cease. These taxes may not be re-imposed for other uses. The taxes under this category are excise taxes.

The household tax may be no more than \$1.00 per household per month per year. The business and occupation tax is permitted under state privilege laws. The tax base may be business gross income, gross sales or the value of products. Again, the tax can only be levied within the transit service area. The utility tax is a version of the business tax and is the only business tax currently utilized. The other business tax options are considered too politically sensitive.

The utility tax is a flat percentage applied to the monthly bills of all utility customers (businesses and households). Any utility service regardless of service type or form of ownership may be taxed in this manner. The rate is set by local ordinance and may be of any amount. The most common rate is 2%. The tax may only be levied within the service area of the transit system. The revenues may be used for MVET match if the revenues are dedicated to transit. Two, small, city systems utilize the utility tax. The utility companies act as collection agencies for the tax recipient.

Of the household and business taxes, popular votes are required before imposition by County Transportation Authorities (CTA's) or by Public Transportation Benefit Areas (PTBA's). For the other organizational forms, a popular vote is not required.

### Other Revenue Sources

A city may also utilize general fund revenues appropriation to public transit as MVET matching funds. This may be in lieu of, but

not in addition to, the above tax revenue sources. Only revenues collected in the service area may be used.

All public and private passenger transport systems which operate motor vehicles or trackless trolleys with seating capacities of at least 15 persons are exempt for the state's motor fuel taxes. To qualify for exemption from the tax on diesel fuels, the system cannot operate more than 25 miles beyond the county limits. The exemption from the tax on gasoline fuel specifies operations no further than 15 miles from the city limits. In practice this rule is interpreted to mean miles beyond the defined service area.

#### ORGANIZATIONAL OPTIONS FOR PUBLIC TRANSIT

The state law provides five different organizational structures which may be utilized to provide public transportation services.\* Each is a legal entity which may contract with public or private entities to provide transportation services within its area of jurisdiction.

These entities are empowered to levy certain taxes subject to specified conditions. The types of taxes permitted each entity and the conditions surrounding their levy are discussed below. The tax options were discussed in detail in the preceding section.

#### Metropolitan Municipal Corporations

Known as metros, this form of organization is a separate legal entity established by a popular vote to conduct a particular set of duties. Another vote is required before additional duties may be undertaken by a metro. A metro must be county-wide.

The laws relevant to metros are extensive and contain limits as to the minimum number and class of cities which must be included as well as requirements as to the composition of the governing council or board. The only functioning metro currently in existence is the Seattle Metro which undertakes public transportation and water and sewer activities.\*\*

Metros may utilize a sales tax or the household and business taxes (but not both) to support public transit. These revenues qualify as MVET matching funds. The sales tax rate allowable within a

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\*For more information see: Report: Public Transportation In Washington State 1981, pp. 7-8.

\*\*A metro exists on paper in Snohomish County for planning purposes. However, the metro does not function and was never funded.

metro is .6% in lieu of an increase in the local option MVET. Originally, the sales tax rate limit available to metros was the same as that available to other organizational forms. After two years of lobbying efforts, the state legislature\* increased the allowable rate to .6%. Increases from existing rates to the new maximum requires voter approval. Funds generated by the tax options are usable as MVET matching funds.

#### County Transportation Authority (CTA)

CTA's provide county-wide public transportation services. Indeed, one of the two requirements for a CTA is that the service be county-wide. The second requirement specifies the composition of the six member governing board. The board must include the county commissioners (three per county), the mayor of the largest incorporated city, one mayor representing all cities of 5,000 population up to the population of the largest city and one mayor representing all cities under 5,000 population. The enabling legislation for CTA's was passed in 1974.

A CTA may utilize the local option sales tax (up to .3% rate) or any of the household and business taxes. A popular vote is required before any of these taxes may be levied. The revenue generated by these taxes is eligible for use as MVET matching funds.

The CTA is a separate legal entity which may be created by a vote of the county commissioners. A popular vote to establish a CTA is not required. Public transportation is the only function which a CTA may perform. Only one CTA currently exists. That is the Grays Harbor Transportation Authority established in Grays Harbor County in 1974.

#### Public Transportation Benefit Areas (PTBA's)

The enabling legislation for PTBA's was passed in 1975. Twelve PTBA's were in existence as of early 1983. Data on PTBA elections are shown in Appendix G.

A PTBA may be a full county, less than a full county or more than one county. Of the existing PTBA's, one offers service in two counties, while the remaining PTBA's serve parts of one county only.

The PTBA concept is a result of rural voters objecting to the establishment of countywide service. The PTBA permits those areas of a county desiring transit service to obtain it, while those areas not desiring such service are not required to pay for it.

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\*The opposition within the state legislature was a general opposition to a tax increase not an opposition to transit.

The process of establishing a PTBA includes several steps. The county commissioners must convene a public transportation conference which establishes the boundaries of the proposed service area. The conference also determines the composition of the governing board. The board may be composed of up to nine elected officials for a single county PTBA or 15 elected officials for a multi-county PTBA.

The PTBA must submit a public transportation plan to the Washington State Department of Transportation (WSDOT). The PTBA is not eligible for MVET funds until the plan has been approved by WSDOT.

No popular vote is required to establish a PTBA. However, the PTBA may levy no taxes without voter approval. Sales tax, up to a .3% rate, or household and business taxes may be utilized by PTBA's. These revenues may be utilized as MVET matching funds. A PTBA may only undertake public transportation services. A PTBA is a municipal corporation and, as such, has all the powers of a city or county including the rights of condemnation.

### City Systems

Cities and towns may establish public transportation systems with service up to 15 miles beyond their corporate limits.\* Such systems may levy a household tax or a utilities (business tax) by city ordinance; no popular vote is required. Revenues from these taxes may be used as MVET matching funds.

A sales tax, up to a .3% rate, may be levied by popular vote. However, revenues from the sales tax do not qualify for matching MVET funds. The reasoning supporting this restriction is quite simple. Rural residents shop in the urban area and, thus, pay the additional sales tax. But, these residents do not receive the benefits of the public transportation service. This restriction is believed to serve as an incentive to establishing regional transit systems.

There are six city systems in the state. Of these, three utilize sales tax revenues to support public transit, two use the utilities' tax and one system (Prosser) uses general fund revenues. Recently, a seventh city system expanded to become a PTBA.

### Unincorporated Areas of Counties

County Commissioners may establish public transportation systems in unincorporated areas of the counties. No popular vote is required

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\*Provided no certified common carrier operates in the areas beyond the corporate limits into which service is extended.

to establish such a system. Sales tax (up to a .3% rate) or household and business taxes may be levied to support transit services. The sales tax requires a popular vote before levy. The household and business taxes qualify for MVET match while the sales tax does not. The reasoning is the same as that for city systems.

Presently there are no public transportation systems organized under this option, nor are any expected. The reason for this is clear when an examination of the available revenue sources is undertaken. The unincorporated areas are, like most rural area, relatively scarce in population and businesses. Thus, the areas do not have adequate revenue generation potential to support a public transit system. Public transportation in these areas tends to take the form of paratransit services.

#### SUMMARY NOTE ON TAXES AND ORGANIZATIONAL FORMS

Table 6.1 summarizes the available organizational forms and the tax revenue sources available to each. As noted in the table, popular votes are required before any sales tax may be levied and before other taxes may be imposed by PTBA's or CTA's. For transit funding purposes, the sales tax displaces the other tax options.

The MVET funds are made available for public transportation only up to the amount collected in the system's service area and up to that amount matched by other local revenues also collected in the service area which are devoted to transit. For the other organizational forms, sales tax revenues cannot be used as MVET match.

#### PARATRANSIT SYSTEMS

There are approximately 30 paratransit services operating in Washington State. These systems are not funded by the same processes as are fixed route transit services. Funding is accomplished by UMTA Section 16(b)(2) funds, local sources and other (non-UMTA) federal sources. No state funds are utilized as the state constitution prohibits the funding of private non-profit organizations.

Until 1982, Section 18 operating assistance was available. The state utilized Section 18 funds on a decreasing scale basis. Table 6.2 shows the allowable federal and required local shares of the operating costs per year of operation.

This procedure was developed in order to accomplish two objectives: (1) to prevent reliance on federal operating assistance, and (2) to encourage secure local commitments to the operation of the system. Another factor was the Federal Highway Administration (FHWA) requirement that Section 18 funds were available so long as the system was progressing to a general public service transportation system.

TABLE 6.1

## ALTERNATIVES FOR PUBLIC TRANSPORTATION FUNDING

TRANSIT OPERATING AUTHORITY	VOTERS APPROVAL BEFORE CONDUCT OF BUSINESS	LOCAL FUNDING SOURCES AVAILABLE		STATE FUNDING
		HOUSEHOLD AND B & O	OR SALES TAX*	MOTOR VEHICLE EXCISE TAX (UP TO 1%)
Metro	YES	YES	*.1%, .2%, .3%, .4%, .5%, or .6% (AA county only)	YES
County-wide authority (CTA)	NO	*YES	*.1%, .2%, or .3%	YES
Public Transportation Benefit Area (PTBA)	NO	*YES	*.1%, .2%, or .3%	YES, after WSDOT approves plan
Cities	NO	YES	*.1%, .25, or .3%	YES for Household and B&O Tax NO Match for Sales Tax
Counties (Unincorporated)	NO	YES	*.1%, .2%, or .3%	YES for Household and B&O Tax NO Match for Sales Tax
*Requires voter approval				

Source: Report: Public Transportation in Washington State, 1981 (Olympia: Washington State Department of Transportation, Public Transportation and Planning Division, December, 1981), 1981), p. 11.



TABLE 6.2

FEDERAL AND LOCAL SHARES OF OPERATING COSTS  
Section 18 Funds

<u>Year of Operation</u>	<u>Federal Share</u>	<u>Local Share</u>
1	50%	50%
2	25%	75%
3	12.5%	87.5%
4	0	100%

WSDOT analyzed the operation of these systems and found that this goal had been accomplished. The systems were, in fact, behaving as fixed route transit systems.

When administrative responsibility for Section 18 shifts from FHWA to UMTA in October 1983, new regulations may be issued. Thus, the systems may, once again, become eligible for Section 18 funds.

Paratransit systems may still obtain federal funds for 50% of their operating deficit if they provide service under contract to a conventional transit system. In which case, the funds flow through the transit system contracting for the services.

Some of the paratransit systems may evolve fully into regular transit systems by reorganizing into one of the alternative organizational structures described above. At that point, the system(s) would become eligible for MVET funds and UMTA funds.

#### STATE FERRY SYSTEM

The state operates one of the most extensive ferry systems in the nation. In 1980, the system carried approximately eight million vehicles and 19 million persons. The ferry system's state subsidy for 1981-1983 equals 30% of operating costs. The state system has utilized Safe Harbor Leasing with its newly delivered ferries.

In addition to the state ferry systems, four counties (Pierce, Whatcom, Skagit and Wahkiakum) operate public ferries. Four private ferries are also in operation. The private operators carried approximately 1,029,861 passengers in 1980.

The State Highway Department operates a free ferry across the Columbia River on State Highway 21. This operation, which carried 62,873 vehicles in 1980, is in lieu of a bridge.

#### WSDOT SERVICES

The Washington State Department of Transportation (WSDOT) Public Transportation and Planning Division provides a variety of technical support services to local transit providers. The use of the offered support services is strictly voluntary. Two services of note are the generic on-board survey instrument and the performance review.

The WSDOT has developed a generic on-board survey instrument. At the request of a local system, WSDOT, in close conjunction with the system, will develop the generic instrument into one specifically tailored to the needs and concerns of the requesting system. The system administers the survey with technical assistance from WSDOT as desired. WSDOT then computerizes the responses and returns the data

to the system. As of May 1983, five surveys had been completed and two others were scheduled.

Surveys such as the on-board survey are not required by the state. It is a purely local decision with state technical assistance available if desired.

At the request of a local transit system, WSDOT will conduct a performance review of the system's operations. Following the review, WSDOT will provide suggestions for improving system performance. The process may be described as a "semi-planning" activity. Two such reviews have been completed with positive results and two more reviews have been requested.

The request for a WSDOT performance review is entirely at the discretion of the local system. The review activity is supported by UMTA funds available to WSDOT.

#### FUTURE FUNDS NEEDS

Table 6.3 shows projected funding shortfalls for public transit (20 systems) in the state of Washington. The projections assume that UMTA Sections 3 and 5 programs will continue at FY82 levels for 1983-84 but will be terminated beginning in 1985.

The calculations project a shortfall of \$396 million over the six-year period. The computations were done by the Washington State Transit Association, a private association of transit operators, suppliers and management professionals.

In many ways the projected funding shortfall is not particularly realistic. The projected needs are on the order of a wish list of future activities rather than a realistic assessment of actual system needs. For these reasons, the projected shortfall in available funds has not been taken seriously in many quarters. Concern over the projected shortfall was not found among the case study respondents.

#### LEGISLATIVE PROPOSALS

The Washington State Transit Association (WSTA) has recommended nine changes in the state laws affecting transit. Appendix B provides a summary of each recommendation.

The WSTA recommendations include several which would alter the earlier discussions of transit financing. One proposal is to permit all transit organizational forms to impose sales tax rates of up to .6%. Currently, only metropolitan municipal corporations in a Class AA county (Seattle Metro) can impose rates above .3%.

TABLE 6.3

## TOTAL STATEWIDE TRANSIT NEEDS

(in millions of \$)

	<u>1983/1984</u>		<u>1985/1986</u>		<u>1987/1988</u>		<u>Six-Year Total</u>
	<u>Funded</u>	<u>Shortfall</u>	<u>Funded</u>	<u>Shortfall</u>	<u>Funded</u>	<u>Shortfall</u>	<u>Shortfall</u>
Maintaining Current Service	485	(23)	535	( 31)	552	( 25)	( 79)
Essential Improvements*	<u>128</u>	<u>(73)</u>	<u>179</u>	<u>(131)</u>	<u>174</u>	<u>(113)</u>	<u>(317)</u>
Total	613	(96)	714	(162)	726	(138)	(396)

\* "...includes productivity enhancing projects that reduce operating costs and capacity building projects designed to meet projected ridership demands."

Source: Transit Needs Study: 1983-1988, Washington State Transit Association, Olympia, July 1982, p.3.

A second proposal is to increase the 1% municipal levy to 1.5% fully creditable against the 2.2% state MVET. The dollar-for-dollar matching requirement would still be maintained.

A related proposal would extend the MVET match to sales tax revenues dedicated to city systems. Currently, these funds are not eligible for MVET matching revenues. The proposal would permit the use of sales tax revenues as matching funds for cities over 40,000 population.

The WSTA also suggests that current restrictions on the pledging of MVET revenues for repayment of general obligation bonds be removed. The same recommendation would permit metropolitan municipal corporations to borrow funds and to issue short-term obligations. Much of this recommendation is in the nature of a restoration of previously existing capabilities.

Other financial related recommendations include disbursement of sales tax receipts on a monthly rather than bi-monthly basis and the exemption of elderly and handicapped transportation service provided by nonprofit corporations from the state's motor fuels tax. The current exemption applies only to vehicles with a minimum seating capacity of 15 persons.

Increasing the municipal levy to 1.5% of the MVET, a move strongly supported by Seattle Metro, was given a low probability of passage in light of the state's current restricted financial position. Extending the .6% sales tax option encountered a general reluctance to increase any taxes. None of the finance related proposals received legislative approval during the 1983 session.

#### POLITICAL ENVIRONMENT

The political environment in Washington State is generally favorable to public transit. Over the past four years, the environment has become increasingly favorable. Several factors impact upon this trend.

In 1977, the State Highway Department became the Department of Transportation. As a result the focus of the department became broader and education of local politicians with respect to transit programs occurred. Since 1978, the number of transit systems in the state (excluding paratransit) has grown from approximately a dozen to twenty in 1982. Additionally, the gasoline crisis in 1979 accentuated the importance of public transit.

Other factors also operate to continue political support of transit. Approximately 75% of the state's population has access to transit service. The Puget Sound area, a heavy utilizer of transit, accounts for approximately two-thirds of the state's population.

Additionally, the elderly and handicapped and the student populations are heavy users of transit and are also politically vocal.

Thus, the elected representatives in Washington receive regular pro-transit reinforcement from their constituents. Reflecting these realities, there has been no movement to reclaim state funds going to transit even though the current legislative session has been dominated by financial concerns. There was such an effort during the previous regular session and during the 1982 special session. However, neither effort developed a serious chance of success.

The state is currently in a very tight financial position. As long as this situation continues, the efforts at increasing transit funding, the increase in 1% municipal levy credit towards the MVET in particular, stand practically no chance of passage. However, this reflects the overall budget situation rather than any basic opposition to supporting public transportation.

#### STATE VIEW OF TRANSIT

From the state's perspective, transit is entirely a local matter. The state will forego a portion of the MVET, the 1% municipal levy, provided certain conditions are fulfilled. The conditions, discussed earlier, all serve to insure a positive local commitment to transit service. Additionally, the state will coordinate the expenditure of highway funds with local transit improvements such as park-and-ride lots, bus lanes and similar capital efforts. Technical support is available from WSDOT upon request of the local system.

The state actions are all in the form of facilitation and support. What a local transit system decides to do with the available funds, whether or not technical support is requested, is an entirely local determination. The state does not specify any farebox recovery requirement, nor does the state specify any capital-operating split in the utilization of funds. The only funding usage limitation imposed by the state is that the funds be expended on transit activities.

Many state governments declare that transit decisions should be locally made and then mandate a series of limitations on the decision-making ability of local authorities. Washington State has taken the same position on local decision-making but has actually left the decisions to the local officials. One immediately apparent benefit from such a straight-forward policy is the general absence of confusion over what can or cannot be done with the available funding.

#### CONCLUDING COMMENTS

Washington permits up to 1% of the state's 2.2% Motor Vehicle Excise Tax (MVET) to be returned to its area of origin to support transit services. This funding structure is very straight forward.

MVET (1% of the 2.2%) funds collected within the transit system's service area may be returned to the transit system. MVET revenues available to any particular transit system are limited by the 1% ceiling and by the amount of local matching tax revenues. These revenues must be expended on transit within the collection/service area. Beyond this requirement, there are no expenditure distribution requirements or farebox requirements established by the state. All decisions are the responsibility of local level decision makers.

The state has specified an array of organizational forms which transit organizations may assume. The five alternative organizational structures allow for all circumstances in which transit may be offered in the state. The types of local taxes and the maximum tax rates are keyed to the organizational form adopted and are designed to further particular state objectives. For example, a transit system which serves only a city, may not use local option sales tax funds to match MVET funds. The rationale is simple: persons not residing in the city, i.e., the transit service/benefit area, shop in the city and would pay taxes dedicated to a service not available to them. This requirement preserves the payment area/benefit area relationship and serves as an incentive to develop regional transit systems.

The structure developed in Washington State has the virtues of structural simplicity, accomplishes the goals of maximizing local decision making and provides sizable amounts of funds for public transit. Additionally, the structure explicitly preserves a relationship between the taxpayer group and the service area population. The structure has served to encourage the growth of transit services across the state. As this growth continues, the need for increased state origin funds may arise in systems other than Seattle METRO which already has expressed interest in receiving an increased percentage of MVET funds. The existing funding structure already contains the mechanism for making available increased MVET revenues (increase the municipal levy percentage) and, thus, avoids difficulties associated with development of new funding structures involving other sources of funds. This inherent ability of the structure to retain its identity while increasing the level of potential funding is a decided advantage over the long term.



## THE MUNICIPALITY OF METROPOLITAN SEATTLE (METRO): SEATTLE, WASHINGTON

### INTRODUCTION

The Municipality of Metropolitan Seattle was established in 1958 to provide metropolitan sewer service and treatment throughout King County. A major factor in the establishment of METRO was the need to counter a growing pollution problem in Lake Washington. In 1972, the voters of King County elected to add public transportation to the duties of the METRO. The vote was preceded by six months of public hearings, community meetings and extensive media attention.

Following the September vote, METRO undertook an ambitious 100-day program involving the purchase of the Seattle Transit System from the city and the privately-owned Metropolitan Transit Corporation which provided suburban service, intergrating the systems into one operational unit and commencing operations by January 1, 1973.

The first decade of METRO'S transit involvement followed a development plan presented to the voters prior to the September vote. The Comprehensive Plan for Public Transportation, commonly known as the 1980 Plan, called for major capital improvements to the transit system as well as intergrating the formerly separate urban and suburban transit systems into one comprehensive system. The Washington State Department of Transportation also participated in the 1980 Plan by providing express lanes and park-and-ride lots along Interstate and state highways.

Seattle METRO is currently working under the 1990 Plan. This Plan specifies capital improvements and operational expansions through the year 1990. A major element in this Plan is the development of a Central Business District (CBD) solution to projected congestion problems in downtown Seattle. Two major alternatives are under consideration. These alternatives are discussed later in this report.

The Seattle METRO's governing body is the Metropolitan Council. The Council has thirty-eight members including the Mayor and City Council of Seattle, the King County Executive and King County Council and two members representing the sewer districts served by the Metropolitan Municipal Corporation. The composition of the Metropolitan Council is specified by Washington State law. The Council is functionally divided into fewer committees dealing with transit services, water and sewer services, finance and personal rules.

### FUNDING ARRANGEMENTS

With the exception of UMTA grants, the funding received by Seattle METRO is not restricted by law as to allowable transit uses. Thus, the funding sources discussed below may be used for capital or operating purposes. With respect to sales tax revenues, METRO, on its

own volition, has decided that a specified portion would be devoted to capital needs, as detailed later in this report.

### Sales Tax Revenues

As a Metropolitan Municipal Corporation, METRO can request voter approval for a dedicated sales tax of up to .6%. At the time of the 1972 vote authorizing the Seattle METRO to undertake transit services, the voters also approved a .3% transit dedicated sales tax. Following changes in the state enabling law, voters approved an additional .3% sales tax in November, 1980. The additional tax was introduced in two phases: A .1% increase effective January 1, 1981 with the final .2% of the .6% rate to be reserved for capital expenses.

Sales tax revenues represent the largest single revenue source for Seattle METRO, 34% of the proposed 1984 budget. The 1983 METRO budget projected sales tax revenues of \$75.6 million or 39.1% of total revenues. However, lower than projected inflation rates and a continuing low level of economic activity has resulted in a lower estimate of \$70.5 million. In line with this experience, the 1984 budget projects sales tax revenues of \$70.2 million. Even with the lowered estimates, sales tax revenues have increased over the 1982 receipts of \$62.1 million.

### Motor Vehicle Excise Tax

The Motor Excise Tax (MVET) is a 2.2% state levied tax on the fair market value of motor vehicles. Under Washington law, local transit systems may receive 1% of the MVET revenues collected within their service areas.\* METRO estimates receipts of \$27.3 million in 1983 (15.8% of total revenues) from this source. The proposed 1984 budget projects receipts of \$29.3 million or 14% of total revenues deriving from MVET funds. MVET funds are viewed as both a stable and a reliable source of funds.

### Farebox Recovery

METRO has no mandated farebox recovery rate. However, there is an informal policy of maintaining a farebox recovery ratio of 1/3 of operating costs. Historically, operating income (predominately fare revenues) has approximated the desired ratio. The projected ratio for 1983 is 29% of operating costs. The 1984 budget proposal estimates a recovery ratio of approximately 27%. While these recovery ratios are below the historic target levels, it must be emphasized that these

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\*Discussed in greater detail in the section on state level activities.

are planned reductions.

In January and again in June, 1983, METRO reduced its level of service relative of the 1983 budget projections. The reductions were responses to lower than anticipated ridership.\* In September, 1983, METRO will undertake a 2.4% increase in service (relative to 1982 levels) and will continue the expanded service for at least one year. The service increase is planned in anticipation of a projected increase in ridership as employment in the area recovers from the recession. Combined with the service increase is a planned increase in the discount on the monthly passes to 25%. The increased discount is a direct competitive response to lower gasoline prices. These two factors, the increased service and the increased discount on monthly passes,\*\* will reduce the farebox recovery ratio temporarily.

### Safe Harbor Leasing

The 1981 Economic Recovery Tax Act (ERTA) permits private firms to sell tax benefits to other private firms. This process is commonly known as Safe Harbor Leasing but is technically termed Tax Benefit Transfer. Non-profit organizations are excluded from this process with the exception of public transit. Mass commuting vehicles, including ferries, owned by publicly owned mass transit organizations which were placed into service after December 31, 1980, are eligible under the ERTA law. In 1982 the sale of tax benefits authorized by ERTA was repealed for private firms but eligible transit organizations have through 1987 to conclude any such agreements. The process involves the sale and lease-back of that portion of eligible mass commuting vehicles purchased with non-federal funds. In brief, the transit system sells the non-federal portion of the vehicles to a private sector firm for an initial cash payment (usually 10%-15% of the initial purchase price) plus an agreement to pay annual installments on the balance plus interest. The transit system, in turn, agrees to pay an annual lease charge which equals the installments due from the purchasing firm. No cash changes hands except the initial payment. At the end of the lease, the transit system buys back the buses for a total price of \$1.00.

The net result is the generation of additional funds for the transit system and the acquiring of depreciation rights and interest payment tax deductions by the private sector firm. Nationally only about 30 transit organizations undertook Safe Harbor Lease agreements in 1981

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\*Ridership was below that projected because the recession has continued longer than expected.

\*\*The average fare in 1984 is projected to decline 3.8% because of the increased discount on monthly passes.

and 1982.\*

Seattle METRO is utilizing Safe Harbor Leasing with its newly delivered articulated buses. Two separate lease arrangements are involved. The first covers equipment worth slightly less than \$8 million and will gross \$956,708. After broker fees and legal expenses, this lease is expected to net METRO a little less than \$900,000. A second leasing agreement, involving \$2 million worth of equipment, is expected to gross approximately \$290,000 with a net return of between \$260,000 and \$270,000. The first lease has been signed and the second lease was expected to be signed in mid-July, 1983.

The two leases will net METRO somewhat more than \$1.1 million. When Safe Harbor Leasing was originally suggested by the METRO staff in July, 1982, a yield closer to \$1.5 million from the value of the eligible equipment was anticipated. The realized yield is lower because of the 1982 changes in the tax laws which placed various restrictions on the use of tax benefits from Safe Harbor Leases. The result of these changes was to segment the market for such leases into markets for leases on transitional equipment, which enjoy exceptions from the 1982 restrictions, and for all other eligible equipment. The METRO equipment did not meet all the requirements for transitional equipment and, thus, had to be leased in the weaker of the two markets. This resulted in a lower than originally projected yield on the transaction.

#### UMTA Operating Grants

METRO anticipates receiving \$6.19 million per year for fiscal years 1983 through 1986 from the UMTA Section 9A and Section 9 block grants program. The \$6.19 million represents the portion of the Section 9A and Section 9 funds which can be used for operating cost under the existing legislation. This is a decline from the \$9 million in UMTA operating grants received in 1982.

With respect to METRO's 1984 operating budget, UMTA assistance equals only 5.3% of total operating expenses. For 1982 the ratio was 8.6%.

UMTA operating assistance is viewed primarily as a benefit to the system's cash flow position. If the cash flow advantages were not present, METRO might not expand the effort to obtain UMTA operating assistance as the actual dollar amounts involved are rather low.

#### UMTA Capital Grants

Seattle METRO estimates that the system will receive approximately \$22 million in UMTA formula allocated capital funds each

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\*This estimate is found in the Washington State Transit Association's, WSTA Newsletter, July 1983, p.4.

year starting in fiscal year 1984. Discretionary Section 3 funds will be requested for major projects. METRO has also received Congressionally earmarked funds for major projects. In fiscal year 1983, METRO received \$1.5 million in Congressionally earmarked funds for preliminary engineering of the Central Business District solution.

Additionally, METRO is projecting its future capital needs with the assumption that at least 50% of the Central Business District (CBD) solution construction costs will be covered by UMTA new starts funding.

#### Overview: Capital Funding

Currently METRO utilizes three sources of capital funds. The .2% of the .6% dedicated sales tax, which the METRO Council has pledged to capital needs, generates approximately \$20 million per year. UMTA formula allocated capital grants are expected to provide approximately \$22 million annually. Additional capital needs would require UMTA discretionary allocations. No particular sources of local revenues are used for matching purposes.

There is discussion of a bond issue in 1984 or 1985 to raise approximately \$300 million. Of this amount an estimated 60% would be used for construction of the Central Business District solution with the remaining funds used for other capital needs. A primary objective of the bond issue would be meeting cash flow needs necessitated by the CBD project.

Some capital funds for park-and-ride lots and bus express lanes derive from WSDOT. These are primarily Federal Highway Administration funds.

#### Overview: Operations Funding

With the exception of UMTA grants, the sources of funds available to the Seattle METRO have no usage restrictions specified by law. Thus, METRO uses farebox revenues, up to .4% of the .6% sales tax revenues and MVET revenues for operating purposes. Local matching funds for UMTA operating grants are drawn from the above funds sources.

#### Deficit Distribution

METRO is required by state law to distribute its operating deficit in the same proportion as the generation of sales tax revenues. Currently, approximately 55% of METRO's service is in the city. The city also has higher levels of night and off-peak service than does the county. Thus, city service is more highly subsidized than is county service. With the growth of suburban shopping centers

in the 1970's, somewhat over 50% of the sales tax revenues are being generated in the county. METRO is making progress in bringing the revenue collection--deficit relationship back into line with statutory requirements. The regional and community transit centers discussed in connection with the capital program are part of this effort.

#### Summary Note on Funding

Seattle METRO has considerable flexibility in the usage of all of its non-federal funding. This flexibility presents advantages for the budgeting and financial planning tasks which the system undertakes. The above discussions present the major components of the system's financial mix. Other aspects of the financing program will be noted elsewhere in this report. These aspects do not alter the thrust of the preceding but reflect alternatives flowing from different scenarios in the capital planning process. These factors are considered as part of the 1990 Plan discussion and are closely related to the particulars of the CBD solution.

#### THE CAPITAL PROGRAM

The METRO capital program is currently in a state of planned uncertainty. The long-term program is specified in the 1990 Plan. This Plan was completed in 1981 and reflected the strong ridership growth of the late 1970's and early 1980's. With the decline in ridership during the economic recession, several components of the 1990 Plan were postponed into the future, where ridership is expected to reach the originally projected levels.

The 1982 capital expenditures reflect the postponement of portions of the base program and the community transit centers program because of reduced ridership and delays in the delivery of new articulated buses. Thus, 1982 capital expenditures were approximately \$33 million below projections. The continued slowdown in ridership has also affected the 1983 and 1984 capital budgets.

The base program is a set of bus storage and maintenance facilities strategically located within METRO's service area. The community transit centers are conveniently located at local transit stops which feed into a set of regional transit facilities where transfers among major origin-destination points may be made. The current plans maintain the number of and timetables for the regional centers (4) but reduces the number of community centers from 19 to 12 facilities.

The base program has been scaled back in-line with the reduction in the number of bus purchases planned for the 1982-1990 period. Planned bus purchases over the period have been reduced from 1045 to



759. These reductions have generated a net reduction in future capital costs.

### 1990 Plan

The central feature of the 1990 Plan is the CBD solution. By the mid-1980's, congestion in the central business district is expected to reach a level that the operations of the entire transit system will be adversely affected. The 1990 Plan calls for a two-stage approach to the problem. The first stage--the mid-range program--calls for some form of high speed transit in the CBD which will solve the congestion problem through 1995. Two alternative approaches are currently under consideration as an intermediate solution. The alternative selected must be compatible with a long range solution which will carry the system beyond the year 2000.

The long range approach involves the development of a satellite system analogous to the hub system used by airlines. The regional and community transit centers and the base system, noted above, are integral to the envisioned long term system. The nature of the long term CBD transit system is undecided at present. Various new technologies are being evaluated.

The mid-range CBD solution will be a transit mall with bus hubs/terminals at either end of the mall and with some form of high speed shuttle running the length of the mall. The mall is envisioned as an underground tunnel. Questions still to be resolved include the technology of the mall shuttle and the locations (close-in to or far-out from the CBD) of the bus terminals. The mid-range program will reduce the number of buses in the CBD and improve the air quality in the business district. The details of this solution must be compatible with the long range solution which is still in the planning process.\*

A major element of the long term process is the North Corridor Alternative Analysis. Currently six alternatives are under review. The alternative selected will meet projected travel demand in the North King County - South Snohonish County corridor through the year 2000. Currently, planning funds are being expanded on this project.

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\*Since this report was prepared, METRO and the City of Seattle agreed upon a dual-mode bus tunnel under Third Avenue and Pine Street. Diesel buses will switch to electric mode upon entering the tunnel which will be rail convertible.



### Possible Bonding

To provide a timely flow of funds\* for the CBD solution construction, METRO is considering the issue of short term bonds in 1984 or 1985. Bonding was also viewed as a response to the proposed phase-out of UMTA Section 5 funds. Bond revenue would have served to replace Section 5 funds. However, the slowdown in the capital program and the cap on, rather than phase out of, Section 5 funds has made the timing of the possible bond issue uncertain. The CBD solution will require some bond revenues for cash flow purposes. The withdrawal of Section 5 funds would have advanced the timing of the bond issue.

No transit bonds have been issued since 1972, when METRO purchased transit equipment from the city of Seattle. These bonds were retired in 1981 and were general obligation bonds backed by city-county revenues.

The proposed bond issue would probably be backed by sales tax revenues. METRO would like to have the authority to pledge MVET revenues to bond issue support. However, this would require modifications in state law, which the legislature has been unwilling to approve.

### Improvement District

METRO is exploring the possibility of establishing an Improvement District around the CBD solution project. Such a District might impose a tax on the cubic feet rather than the square feet of buildings within the District area. The revenues from the tax would be used to finance a portion of the capital costs of the project. State law requires that the tax terminate when the project to which the tax revenues are pledged is paid for. However, the tax can be continued if the original taxing agreement includes maintenance costs. As the merchants who would be within the District have expressed an interest in the up-keep of the facility, the continuation of the special tax to provide for maintaining the mall is considered to be a desirable action.

### Private Financing

The CBD solution is expected to create increased property values around the terminal points of the mall. METRO is considering two approaches to enlisting private sector financing. One approach is to obtain long term no-cost easement from private property owners. The

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\*UMTA discretionary funds do not flow as quickly as METRO would like, thus bond revenues are needed to provide timely cash flows for the downtown project.

terminals will be underground thus subsurface rights would be released. The second alternative is to purchase the necessary property and lease the air rights to the private sector.

#### SERVICE REVISIONS

Seattle METRO has an on-going program of productivity checks, and when needed, revisions in the existing route structures and service frequencies. When service cuts are made, the objective is to improve system productivity.

For evaluation purposes, routes are divided into four categories:

- 1 - City origin to CBD or University district destinations (the two major destination points);
- 2 - City origin to destinations other than CBD or University district;
- 3 - Suburban origin to CBD or University district destination;
- 4 - Suburban origin to destinations other than CBD or University district.

Within each category routes are ranked according to ridership data: passengers per hour and passengers per trip. The bottom 10% of the routes in each category are spotlighted for special examination. The 10% value is a guideline not a hard-and-fast rule. During difficult financial periods, the percentage increases, while at other times the percentage may move downward.

Routes singled out for in-depth examination by the 10% criteria, may be exempt from the detailed review process. Routes are considered exempt if:

- 1 - the route is less-than one year old;
- 2 - the route is a segment of a larger route system which is not yet fully in-place;
- 3 - the route has undergone a major schedule change during the last year.

Non-exempt routes falling in the bottom 10% of each route category are subject to additional data collection, careful scrutiny and appropriate revision.

An important recent change in the scheduling process has been the introduction of a short-term ridership forecasting model. Currently ridership is being forecast over an 18 month horizon. In the past,

METRO's service changes tended to lag behind ridership changes by approximately one year. This produced periods of overcrowded buses and periods of underutilized service. A natural result of such a situation was notable fluctuations in system productivity. Thus, the ridership forecasting model is permitting METRO to have service in-place ahead of anticipated ridership increases and to smooth-out the productivity fluctuations. The service increase scheduled for September 1984, which has been noted elsewhere in this study, is an example of this activity in practice.

#### POLITICAL ENVIRONMENT

With the current leveling of ridership and declining gasoline prices, transit has not been a political issue in the Seattle area. These events have not, however, eroded the political support for Seattle METRO. Thus, the state and local political climate continues to be favorable to transit but at a low-keyed level. The earlier discussion of the political environment at the state level is also applicable to the local situation.

With respect to Congressional relations, Seattle METRO continues to enjoy a strong relationship with the Washington Congressional delegation. In the past, METRO has received Congressionally earmarked funds for major projects such as the purchase of articulated buses and planning funds for the CBD solution. In the future, METRO expects to continue its practice of requesting the earmarking of funds for major projects. Recent changes in the UMTA funding programs have not produced any changes in METRO's Congressional lobbying efforts.

#### FUTURE FINANCIAL OPTIONS

During the 1983 session of the Washington State Legislature, METRO supported several bills proposing changes in the current state laws affecting transit funding. These finance related bills have been reviewed earlier in this study. As this juncture, two proposals are worth some additional comment.

METRO was particularly interested in increasing the 1% municipal levy of the 2.2% MVET to 1.5%. This proposal did not reach the floor of the House nor was a Senate bill filed. The state's budgetary situation is extremely tight and there is a general reluctance to forego revenues otherwise deriving to the state. Under better state financial conditions, the proposal would be expected to fare more favorably.

The second legislative proposal worthy of additional comment in the present context was the request for authority to pledge the MVET revenues generated by the municipal levy in support of the bond issues. This proposal was an effort to restore pledging authority

which expired on May 14, 1979. This proposal came relatively close to passage. In the present financial environment, the state legislature appears to be reluctant to permit a possible source of future state revenue to be "locked-up" by a bond issue.

METRO's interest in this legislative proposal was clearly related to the possible bond issue in 1984 or 1985 which has been noted earlier. As preferable interest rates can be obtained when dedicated revenue sources are pledged to bond support, the ability to pledge MVET revenues would have been particularly useful. However, METRO can pledge sales tax revenues as well as issue general obligation bonds.

#### CONCLUDING COMMENTS

The funding structure at Seattle METRO is a very desirable structure in that sizable amounts of funds flow on a dedicated and thus reliable basis. The availability of state and local funding sources and the level of funds generated by these sources have made the federal role in operations funding a relatively minor one. Federal transit funds assume importance in the capital budget.

A reliable funding mix has clearly been a major support to sound management processes. Extensive long range planning (the 1980 and 1990 plans) plus managerial flexibility to respond to short term changes are not always possible without reliable funding support from non-federal sources.

The system also enjoys strong political support at the state and local levels as well as strong support from the local Congressional delegation. The presence of such support not only reflects the past provision of efficient service but also enhances future prospects for an improving transit system.

The funding structure and the management process at Seattle METRO work. And they work without major crises common to system which do not enjoy a sound reliable financing structure, broad based popular approval and high levels of political support.

## SPECIALIZED TRANSPORTATION PROGRAMS

### INTRODUCTORY NOTE

The following discussion of specialized transportation services provided by Seattle METRO was developed in connection with an unfunded study of various financing arrangements for specialized transportation services. This discussion is included in the present study in order to provide an additional dimension to the METRO study. Unfortunately, similar studies were not made of specialized services offered by other systems examined in this report.

The information used in this discussion was obtained through telephone interviews with the program director and revised as per written comments from the program director and the Office of Customer Assistance. The material is viewed as accurate as of early October 1983. Proposed changes in UMTA regulations regarding the implementation of Section 504 were not, at that time, expected to significantly impact the specialized services provided by METRO.

### METRO PROGRAMS

Seattle METRO has two programs which provide specialized transportation services to the elderly and the handicapped. While the METRO bus and trolley fleet is 50% accessible, METRO does not directly provide specialized transportation services for the elderly and handicapped populations. Rather, METRO funds a taxi scrip program in the City of Seattle and King County and a Rural Area Van Program in the rural areas of King County where taxi service is limited. Both programs are purchased transportation programs.

### TAXI SCRIP PROGRAM

The taxi scrip program is a user side subsidy which began operations in December of 1978. Any type of trip may be taken under this program. Eligible persons are those persons 65 years of age or over with low incomes and any disabled persons, regardless of age, with low incomes. Low income is defined as incomes no more than 70% of the state median income.\* Once eligibility has been established it has lifetime validity even if eligibility criteria change (exception: temporary disabled participants).

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\*For 1983: single person households - below \$9,534 annual income  
two person households - below \$12,474 annual income  
three person households - below \$15,435 annual income  
These dollar thresholds are adjusted annually.

Eligible individuals may purchase a \$10.00 book of scrip for \$5.00 (50% subsidy). Books are available from METRO's main office in downtown Seattle and from seven community service centers (Table 6.4). Eligible riders pay for trips with the scrip which is, in turn, submitted to METRO by registered taxi companies on a monthly basis for payment of the face value.

Beginning in January 1982, METRO imposed a limit on the number of books of scrip which any eligible individual may purchase during a year. The limit is 25 books per year except for disabled individuals who require more expensive lift equipped taxi service. These latter individuals may purchase 30 books of scrip per year.

Service may be provided by any taxi company which is licensed by the city or county and which has signed an annual agreement with METRO. The agreement is a simple form specifying the method of receiving payment for scrip and the collection responsibilities of the taxi company. At the end of each agreement period, METRO automatically sends a renewal form to the participating firm. Normally between 20 and 25 firms participate in the program including all of the largest firms. Those not participating are small firms usually one cab companies which specialize in street-hail service. Seattle's taxi service is deregulated, thus, there are a sizable number of owner-operated single cab companies.

#### Source of Funds

In 1980, the taxi scrip program had a budget of \$233,000 and provided 50,000 one-way trips at a cost to METRO of \$3.36 per trip (represents an average total fare per trip of \$5.40). In 1982, the budget was unchanged, but, because of program changes discussed below, METRO provided 83,400 one-way trips at a cost to METRO of \$2.89 per trip (represents an average total fare per trip of \$5.78). The 1983 budget for the scrip program is \$321,000. The funds for the program flow from the general operating budget of METRO. No particular source of funds is reserved for this purpose.

The dollar amounts noted above represent funds expended to purchase transportation services. No administrative or overhead costs are included. Administrative and overhead costs are minimal and are not charged to the program. All administrative duties (accounting, customer assistance, keypunching, etc.) relating to the scrip program, except scrip printing, represent the equivalent of 1 1/2 full time positions.

#### Eligibility Changes

During 1981 several major changes occurred in METRO's taxi scrip program. In 1980, the subsidy level was 40% of the face value of the

TABLE 6.4

TAXI SCRIP OUTLETS<sup>1</sup>

<u>Outlets</u>	<u>Contact</u>	<u>Scrip Delivered By</u>
<u>Community Service Centers</u>		
*Ballard 2309 N.W. Market Seattle, WA 98107	Mr. Rob Matteson Paula Thomas 625-5035	Pass Sales Office
*University 4710 University Way Seattle, WA 98105	Ms. Patty Whisler 625-2048	Pass Sales Office
Mayor's Office for Senior Citizens (Jones Bldg.) 1331 Third Avenue Seattle, WA 98101	Mr. Jim Kirkland, Act. Dir. 625-4834	Cashier
Council House Retirement Home 1501 - 17th Ave.	323-0344	
Southwest Com. Svc. Cntr. 2801 SW Thistle	625-4081	
Wallingford Sr. Cntr. 4649 Sunnyside N.	447-7825	
South Park Com. Svc. Cntr. 8201 - 10th S	767-3650	

\*Ballard and University Community Service Centers get Taxi Scrip from the Pass Sales Office.

All other outlets get Scrip from the Mayor's Office.

<sup>1</sup>Can also be purchased by mail through METRO's Customer Assistance Office.

Source: Customer Assistance Office, Seattle METRO



scrip. In order to increase utilization of the program, the subsidy was increased to 60% on January 1, 1981. The response was so dramatic that the program was suddenly faced with a deficit equalling its original budget. In reaction to this situation, the subsidy was reduced to 50% beginning on September 1, 1981. At the same time, METRO imposed a 200 books of scrip per year per individual limitation. Additionally, the low income requirement was implemented for handicapped individuals (prior to September 1, only elderly participants were required to meet the low income criterion). Subsequent study of program participants revealed that a very small percentage of users (approximately 5%) were utilizing very large numbers of scrip books and that these individuals were not low income persons.\* METRO determined that the program's deficit problem could be solved and that 95% of the service demand could still be met if a much lower book per year limitation was imposed. Thus, the limit was set at the current 25 or 30 books per year per person. At approximately the same time, METRO changed its scrip distribution channels to the present system. The previous system included distribution through a local grocery store chain as well as the distribution points still utilized. The grocery store outlets left METRO minimal control over who purchased the scrip or over the amount of scrip purchased in a year. Thus, ineligible persons could be utilizing the service and eligible persons could be exceeding the annual book limitations, thereby increasing the program deficit without furthering the program objectives.

#### Satisfaction with Programs

METRO was asked to rate its satisfaction with the taxi scrip program on a five point scale ranging from 1, "extremely satisfied" to 5, "extremely dissatisfied." Without hesitation, the program was top rated: "extremely satisfied." The taxi scrip program is viewed as easy to administer for both METRO and the participating taxi firms and as giving rise to very few questions of whether or not eligibility requirements are met.

#### THE RURAL AREA VAN PROGRAM

The Rural Area Van Program began in April 1979. This was begun in order to provide specialized transportation services to elderly and handicapped persons residing in rural King County where taxi service is limited. In both 1980 and 1982, METRO expended \$100,000 to purchase transportation services under this program. The 1983 van program budget is \$110,000. The service provided 33,300 trips in 1980

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\*Recall that eligibility is life-time, thus, these individuals became eligible prior to the low income requirement for handicapped persons.

at a cost to METRO of \$2.00 per trip. In 1982, 28,200 trips were provided at cost to METRO of \$3.54 per trip. The number of trips declined over this period in response to a change in allowable trip types which is discussed below.

Eligibility requirements are the same as for the taxi scrip program. Riders are requested to make a donation ranging from \$ .25 to \$2.00 depending upon trip length.\* However, donations are voluntary and anonymous when made. The transportation provider retains the donations.

Presently two multi-service centers (the Northeast King County Multi-Service Center and the South King County Multi-Service Center) provide service under this program. Service providers are selected on the basis of competitive bids. However, the two current providers have been the only bidders to date. METRO encourages other bidders and a major taxi firm may bid at the next solicitation date.

The service provided is door-to-door demand responsive service with a 24-hour advance reservation requirement. Allowable trip purposes are general purpose trips such as shopping and medical trips. Trips to social service training centers or social service programs are not eligible. One social service organization's (Area Agency on Aging for Seattle/King County) transportation program is coordinated with METRO's rural van program. The METRO program is not intended as a replacement for social service program, but as a supplement.

Administratively, METRO contracts with the providers for a set amount of monthly service. The providers submit evidence that at least the minimum amount of monthly service has been provided at which point METRO pays the agreed rate. METRO pays 100% of the agreed rate which is believed to be approximately 65% of actual trip costs. The balance is paid to the provider from rider donations and other operating funds received by the multi-service centers including private donations and grants.\*

The exact subsidy level is a bit unclear. The contract with the providers is a joint contract with the Area Agency on Aging. The Area Agency pays for riders age 60 and over, while METRO's limitation is age 65 and over and the Area Agency pays for trip purposes not

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\*The relationship between trip length and amount of requested donation is not tightly defined.

\*In order to provide a competitive bid, the multi-service centers use other funds, as noted, to lower METRO's cost per trip. Because of these funds and rider donations, METRO believes it is paying approximately 65% of the total costs of each trip. However, no "hard" numbers have been generated.

eligible under the METRO program. Thus, the same provider pools riders whose fares are paid by different organizations with somewhat different eligibility and trip purpose requirements. The operational result is that it is not always clear who pays the full cost for whose travel to what destination. It was this particular difficulty which prompted METRO to change its trip purpose requirement in January, 1982. Prior to that time METRO paid 60% of the costs of all trips provided by the multi-service centers. As riders eligible under METRO requirements are pooled with riders eligible under the Area Agency requirements, it was not clear what was each agency's actual cost per trip. Therefore, METRO restricted eligible trips to general purpose trips and elected to pay 100% of only those costs. Thus, METRO now pays a contractually set amount of service. These changes have not completely solved the problem. But they have tightened the parameters of the problem.

For these administrative reasons, METRO's satisfaction with the rural van program received a middle rating of 3 on the 1-to-5 scale where 1 represents "extremely satisfied" and 5 represents "extremely dissatisfied."

#### METRO COMMITMENT TO THE PROGRAMS

The Seattle METRO is strongly committed to continuing the two elderly and handicapped special transportation programs as well as continuing to increase the accessibility (to 100% from the current 50%) of the regular bus and trolley fleets. In September 1981, when it appeared that UMTA Section 5 funds would be cut, METRO's governing board committed to continuing all of the programs and set a minimum funding level for the taxi scrip and the rural van programs of \$333,000 - the then current level. Since that time, METRO has increased the total funding of the two programs to \$431,000 in 1983.\*

#### DISCOUNT FARES ON CONVENTIONAL SERVICE

In addition to the two programs discussed above, elderly and handicapped individuals receive sizable discounts on service provided by the regular transit system. Table 6.5 displays the discount fares and the regular fares for transit services.

#### CONCLUDING COMMENTS

Seattle METRO has a strong and continuing commitment to transportation services for the elderly and the handicapped. The

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\*This value does not include costs associated with accessible bus services which are incurred as part of the system's operating and capital budgets.

TABLE 6.5  
Fares as of October 1, 1983

	Elderly and Handicapped		Regular Fares	
	<u>Per Trip</u>	<u>Monthly Pass</u>	<u>Per Trip</u>	<u>Monthly Pass</u>
1 Zone Peak	\$ .15	\$2.00	\$ .60	\$19.50
2 Zones Peak	all zones all day	all zones all day	.90	29.25
1 Zone Off-Peak			.50	16.25
2 Zones Off-Peak			.75	24.50

taxi scrip program and the Rural Area Van Program are both successful demand responsive systems which, when coupled with METRO's 50% accessible conventional transit system, provide a considerable level of elderly and handicapped transportation service. The taxi scrip program is cost efficient, easy for patrons to utilize and for METRO and the participating taxi firms to administer. The Rural Area Van Program, because of the pooling of METRO's eligible riders with social service agency eligible riders, presents difficult administrative problems. While program revisions have reduced administrative difficulties, they have not been eliminated. METRO is only moderately satisfied with the Rural Area Van Program, while it is extremely satisfied with the taxi scrip program.

METRO's continuing commitment to these programs is demonstrated by an increasing commitment of funds to the programs and by its efforts to revise rather than drop programs experiencing financial or administrative difficulties. METRO may fulfill the Section 504 requirements by either the level of accessibility of its conventional transit system or by the presence of its two specialized services. Under the proposed (September 8, 1983 Federal Register) regulations for Section 504, METRO expects to be in compliance based on its accessible bus system. In which case, it will continue to operate the two specialized services as additional services. Should the proposed regulations apply to the specialized services, then METRO expects to eliminate the services and rely upon the accessible bus fleet as the costs of bringing the specialized services into compliance with the proposed regulations would be prohibitive. At this point it is worth noting that METRO views its mission as the provisions of fixed route conventional transit services which will be 100% accessible. Thus, while the specialized services are worthwhile services, their provision should not be so expensive as to divert sizable amounts of funds from activities which directly further the mission of METRO.

VII. SUMMARY AND EVALUATION OF FINANCIAL STRUCTURE  
SUPPORTING PUBLIC TRANSIT AMONG THE CASE STUDY  
STATES AND LOCALITIES

INTRODUCTION

This chapter briefly reviews and then comments upon the funding structures developed to support public transit services in the case study states of California, Georgia, New Jersey, North Carolina and Washington. Both California and Washington have developed sophisticated funding structures which provide sizable amounts of funds in support of public transit. Only the state programs will be reviewed for California and Washington. Georgia and North Carolina provide only minimal support for transit. For these states, the state programs will be briefly noted while attention is focused on the local support structures developed by the systems serving Atlanta, GA; Macon, GA; and Raleigh, NC. New Jersey is a special case in that the state legislature created NJ Transit in 1979 to provide, either directly or through contract, for public transit throughout the state. Thus, NJ Transit's funding support structure is both a state and a local level support structure.

The descriptions of the support structures presented in this chapter are only brief reviews of structures developed in detail earlier in this report. However, the essential points are covered in the review.

Even though there is no one universally applicable transit funding structure, or even a set of such structures, there are elements presently contained in various structures which can prove instructive to transit systems, local governments and state governments reviewing established support structures or considering the establishment of a new transit support structure. Indeed, there are even elements in the various state and local actions which can provide useful insights to federal policy makers.

The discussion in this chapter makes no attempt to defend the importance of transit services to the public or even to define the appropriate role of transit in a modern economy. Rather it takes the point of view that transit exists, it serves a useful function, the parameters of that function are established by state and local decision-makers, it cannot be self supporting under present legal limitations and, hence, must be subsidized by the public sector. The discussion, then, focuses on methods of channeling those subsidies to transit systems and the relationship of public sector funds to system generated revenues. Thus, the primary focus of this discussion is descriptive and evaluative rather than proscriptive.

Terminology developed in an earlier work<sup>\*</sup> to describe stable and reliable funding structures is used during the funding structure reviews. That terminology segmented transit funding structures into three broad groupings: twice-dedicated structures where funds are not only dedicated to transit or transportation but also dedicated to a specific transit operator; once dedicated structures where funding is dedicated to transit or to transportation in general and discretionary allocations are made to specific recipients, in this case, transit operators; and semi-dedicated structures where formal funds dedication has not occurred but where the funding commitment is sufficiently strong that the structure functions more-or-less like a twice dedicated structure.

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\* Erskine S. Walther, "Reappraising Transit Financing: The Role of Dedicated Funding," presented to the Committee on Taxation, Finance and Pricing, Transportation Research Board, Washington, DC, January 17, 1983.

## STATE LEVEL SUPPORT STRUCTURES

### California

California has perhaps the most complete set of transit funding programs of any state in the union. Admitting to a large degree of over simplification, California's funding structure may be divided into three broad categories: local operator generated revenues, local transportation support and state transit funding for regional transportation.

Local operator revenues are composed of farebox revenues, local tax funding from city or county general fund revenues, local tax (AB 1107) revenues, bridge tolls and non-fare system generated revenues.

Closely related to this array of local support ratios, are farebox recovery requirements. The view from Sacramento is that local revenue sources must provide a pre-set minimum of operating costs.\*

The second category of local transportation support is the Local Transportation Fund (LTF) which is a return of 1/4% of the state's sales tax revenues to the county of origin. The LTF revenues form the earliest and most basic of the funding systems deriving from state action. The LTF is allocated by location of origin down to the sub-county level. This requirement will change the system recipient of LTF revenues when new systems are begun in counties already partially served by an established system.\*\* This funding source should be viewed as a once-dedicated source even though, in practice, it more closely approximates a twice-dedicated source.

The third category of state level programs for regional transportation is comprised of two main program: the State Transit Assistance (STA) fund and the Transit Capital Improvement (TCI) program. The revenues from these programs derive from state sales tax funds. The STA funds are distributed to regional transportation agencies (RTA) which, in turn, allocate the funds to individual transit systems.

The STA program has two funds distribution tracks. One includes 70% of the STA funds which are distributed by population formula to the RTA's and by discretion to individual transit system (a once-dedicated track). The second track involves 30% of total STA funds which are distributed via the RTA's, in accordance with an operator's generated revenue criteria.\*\*\* The RTA is a pass-through organization for this portion of the STA funds which is a twice-dedicated structure.

The Transit Capital Improvement (TCI) funds represent a new program which is a merger of several previously existing capital programs. The majority of the TCI's funds are currently being devoted to fixed guideways construction programs. The distribution methods for these funds are detailed in Chapter Six.

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\* Generally 20% of operating costs for services to the general public in urbanized areas.

\*\* This recently happened to AC Transit (Oakland, CA) when a new system was begun in a county within AC Transit's service area. Due to the sub-county distribution requirements of the LTF, revenues previously going to AC Transit had to be allocated to the new system.

\*\*\* Each system receives that portion of the 30% of the STA funds which its operator generated revenues bears to all such revenue generated by all systems in the state.



The LTF, STA and TCI programs comprise the non-local support programs available to California transit systems. This structure appears rather straight forward and simple. However, over the course of several years, the state legislature has modified the basic funding structure to accommodate various local differences and needs. This has produced an often confusing and, at times, apparently contradictory set of laws and regulations. For example, depending upon system specifics there are three to four different requirements for fare-box and/or local support. Operationally, the alternatives may not be important or even noticed by any given transit system. However, the funding structure which has developed is not uniform in its detail. It contains, quite simply, something for everyone. While it is not consistent, it may be equitable and it does make good political sense.

### Washington State

Washington permits up to 1% of the state's 2.2% Motor Vehicle Excise Tax (MVET) to be returned to its area of origin to support transit services. This twice-dedicated funding structure is very straight forward. MVET (1% of the 2.2%) funds collected within the transit system's service area may be returned to the transit system, provided that the total amount of MVET revenues available to any particular transit system does not exceed the 1% ceiling and that the MVET funds are matched dollar-for-dollar by local tax revenues. The revenues must be expended on transit and only within the collection/service area. Beyond this requirement, there are no expenditure distribution requirements established by the state. All decisions are the responsibility of local level decision makers.

The state has specified an array of organizational forms which transit organizations may assume. The five alternative organizational structures allow for all circumstances in which transit may be offered in the state. The types of local taxes and the maximum tax rates are keyed to the organizational form adopted and are designed to further particular state objectives. For example, a transit system, which serves only a city, may not use local option sales tax funds to match MVET funds. The rationale is simple: persons not residing in the city, i.e., the transit service/benefit area, shop in the city and would pay taxes dedicated to a service not available to them. This requirement preserves the payment area/benefit area relationship and serves as an incentive to develop regional transit systems.

### Georgia

In Georgia, state level transit financial support follows two tracks. Georgia permits counties to pass a local option sales tax dedicated to transit support, thereby creating a twice-dedicated funding structure. If this option is taken, the state will provide no state funds to the system. Additionally, the system must recover 35% of the previous year's operating costs from the farebox, no more than 50% of the sales tax revenues may be devoted to operating expenses and twice yearly the name, title and salary of employees earning \$20,000 or more per year must be published in the local newspaper. To date, only Fulton and DeKalb counties, which are served by the Metropolitan Atlanta Rapid Transit Authority (MARTA), have passed the local option sales tax.

The other track of state transit support is available to systems which do not receive funds from a local option dedicated sales tax. These systems are eligible

for state funds for 10% of UMTA capital grants,\* and up to 50% of the local match for transit marketing programs. No state funds are available for operating purposes. All transit systems in Georgia are eligible for this level of state support with the exception of MARTA. The Georgia Department of Transportation requests matching funds needs from the eligible systems and includes the necessary amounts in the Department's budget proposal to the legislature.

#### North Carolina

In North Carolina, the state role in transit financing is limited to providing one-half of the local match for UMTA capital grants. Some monies are made available from time-to-time for demonstration projects and for park-and-ride facilities. The state's role in transit funding is simply to facilitate the acquisition of federal funds. The North Carolina Department of Transportation obtains the matching fund needs from the state's transit systems and, in turn, requests the funds from the legislature as part of the Department's regular budgetary process. Various proposals have been ventured to expand the state's involvement, but none have obtained the necessary political support. In general, transit is not a political issue at the state level.

#### New Jersey

New Jersey Transit Corporation (NJ Transit) is unique among the systems examined in that it is a relatively new creation of the state legislature and is charged with operating and improving public transit state-wide. The funding structure which supports this effort is as old as political and governmental bodies: the discretionary allocation. Each year NJ Transit prepares a budget reflecting best estimates of farebox revenues, Federal operating assistance and miscellaneous revenues, then requests the rest from the state. Thus, state funding is on a "fill-the-gap" basis. However, the state does not always fully "fill-the-gap" and the level of state commitment is not predictable from year to year. NJ Transit suffers from a continuing case of budgetary anxiety. Total state revenues, especially in recent years, have been inadequate for total state needs making it difficult to obtain all of the funds needed by the system from the state. This has placed continual upward pressure on fares. And, as of 1983, the system had the highest farebox recovery ratio of the systems examined here; approximately 61% of operating costs which is also among the highest in the nation.

A major transportation financing proposal was recently placed before the state legislature. The proposal called for the creation of the Transportation Improvement Fund which would have been funded by an increase in the state's gallonage tax on motor fuels. The revenues of the Fund would have been dedicated to transportation in general with discretionary allocations to particular recipients. However, the proposed legislation did not preclude discretionary funding for transit. The Fund would have provided a stable and reliable state funding source for transportation (all modes).

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\*The state law specifies 10%, rather than one-half of the required local match. Thus, if UMTA increases its local match requirements, the state's role would remain unchanged.

When the proposed Transportation Improvement Fund was before the state legislature it was debated, not as a stable and reliable funding source for transportation, but as a technique for balancing the state's budget. The proposal passed the lower house and came within one vote of passing the state senate.

Thus, NJ Transit has no stable and reliable state funding source and must rely upon state discretionary allocations which are not viewed as particularly stable or reliable.

The funding structure at NJ Transit, then, relies upon fare revenues and federal subsidies for its "stable and reliable" element. The passage of the Surface Transportation Assistance Act of 1982 provided the first real stability for NJ Transit's funding picture in the form of the Section 9A/9 block grant.

#### LOCAL LEVEL SUPPORT STRUCTURES

##### Raleigh, North Carolina

In Raleigh, the city council views public transit as a necessary public service whose service area should grow along with the city. While the city council has been supportive of public transit, the council prefers that transit funding decisions, like all local government expenditures, remain in the public arena. Therefore, dedicated funding arrangements are not utilized. The city council is also aware that, unlike some public service, transit users can be identified and should be required to pay a fair share of operating costs. Thus, a three party arrangement supports the operating costs of the transit service; users, via the farebox are expected to contribute 40% of operating costs while the city's general fund and federal subsidies split the deficit. This structure has been termed a semi-dedicated structure because of its historical stability.

The city's general funds share (30% of operating costs or 50% of the operating deficit) is envisioned as representing approximately \$.03 on the property tax rate. With a growing tax base, this arrangement produces a growing level of total city funds.

The caps placed on operating assistance by the Surface Transportation Assistance Act threaten to unbalance this arrangement. Through time, federal operating funds will decline as a percentage of operating costs. This will place financial pressure upon the two other financial supports of the transit service. The city has decided that its share will remain approximately \$.03 on the property tax rate. Thus, through time either user charges will go up faster than inflation or service will be reduced, thereby, changing the basic philosophy of funding transit and its role in the city.

At the same time that contraction in operations is a possibility, there exists an excess of Section 9 capital funds. If the Section 9A/9 block grants were, in fact, true block grants, the system would have better flexibility in funds usage and could chart a course closer to its historic role while still approximating the current funding relationships.

## Atlanta, Georgia

The Metropolitan Atlanta Rapid Transit Authority (MARTA) is the only transit system in Georgia which receives funds under the local option sales tax enabling legislation. As has been noted above, systems receiving such funds are no longer eligible for state transit funds. Thus, MARTA relies upon farebox revenues, sales tax revenues, investment earnings and UMTA grants to fund its operating and capital programs. For fiscal year 1983, the operating budget is funded 56.3% from sales tax revenues, 36.1% from farebox revenues and 7.6% from UMTA operating grants. The cap placed on UMTA operating funds by the Surface Transportation Assistance Act reduced MARTA's federal operating subsidy funds by \$1.5 million in FY83. Fortunately, sales tax revenue growth was sufficient to off-set this decline in federal funds. Had there been no growth in sales tax revenues, the federal cap on operating assistance would have caused a fare increase of approximately \$.05 per one-way trip in FY83, an 8.3% increase.

MARTA's funding structure is sound and, in the absence of unusually large increases in operating needs, will be adequate to system needs. Currently, capital expenses are quite high because of the rapid rail construction and could not be funded without strong federal support. However, once the construction costs and the associated bond issues have been retired, the MARTA funding structure should yield sufficient revenues to maintain and operate the system.

However, for reasons, not completely clear, MARTA has had an on-going series of difficulties with its unionized drivers and operators. High wage demands have caused budget difficulties in recent years and have made the budgeting process more uncertain than would otherwise have been the case. This is the major weakness in an otherwise sound financial situation.

In sum, the funding structure faced by MARTA permits a high degree of certainty and provides strong credibility to the long-range budget process with respect to the operations budget. However, many of these advantages have been overcome by labor cost uncertainties. Thus, many of the budgetary and managerial advantages which arise from a stable and reliable funding structure can be negated by high levels of uncertainty in costs of operations. However, the presence of a stable and reliable funding source makes the managerial task of coping with cost uncertainties easier, in that, the amount of available resources usable for operations is a known quantity rather than being itself a source of uncertainty. Should the available resources be insufficient to meet system needs in MARTA's case, the only recourse would be fare increases or unlikely increases in federal operating subsidies.

## Macon-Bibb County, Georgia

The Macon-Bibb County Transit Authority (MBTA) is a relatively unique system in that it receives no federal funds. It receives state funds only on an irregular project specific basis for capital purchases. Otherwise, all operating and capital costs are funded from local sources. The decision not to seek federal funds reflects the view that transit is a local activity, serving local citizens and should be funded from local resources. Additionally, the presence of federal funds would not add ridership which is the MBTA's primary need. Beyond this, a desire to avoid

federal "red tape" which would have required the hiring of additional personnel and the city's legal inability to employ union members and anticipated difficulties with Section 13(c) of the Urban Mass Transportation Act provided very specific incentives to avoid federal funding.

From 1973 to 1982, the transit system served only the City of Macon and was funded entirely from city tax revenues and fares. Beginning on May 1, 1981, the Macon-Bibb County Transit Authority (MBTA) began operations under a three party agreement (MBTA, City of Macon, Bibb County) on funding and extended transit service into the county. Under the agreement, the city will provide 80.4% of the projected deficit while the county will provide 19.6% of the projected deficit. The agreement contains an upper limit on the total amount of dollars which will be provided by the two governments. The two governments will provide funds according to the percentage split up to an amount equal to 1 mill on the property tax rate. The millage rate increases annually, thereby, enlarging the total amount of available funds. This arrangement is best viewed as a strong semi-dedicated funding structure.

While there is no formal farebox recovery rate, an emphasis is placed upon user charges. The MBTA would like to regularly recover total salary and benefit expenses from the farebox; some months this goal is met. The system currently recovers 56% of operating costs from fare revenues.

Capital expenses are shared equally between the two governments. The MBTA has requested state funds for three capital purchases. The state provides the requested funds on a funds available basis. The split between local funds and state funds is negotiated on a request-by-request basis. Thus, some capital purchases have been entirely from local funds while three have received 25% or 50% state funding.

The MBTA arrangement is viewed as working satisfactorily and it does provide a stable and reliable funding structure with known upper limits on the total dollars available. The structure appears to provide indirect incentives for efficient operations, as shown by an approximate 50% reduction in the operating deficit between 1981 and 1983.\*

#### EVALUATION OF THE FUNDING STRUCTURES

Reviewing the particulars of the examined funding structures, especially in such a highly abbreviated form, is not particularly difficult. However, evaluating the alternative structures is a bit more elusive. An attempt has been made to impute objectives to the funding structures when formally stated objectives are unavailable or are overly vague.

From the funding government's perspective, the key question is whether or not the funding structure produces results which further the governmental unit's policy objectives. From the transit managers perspective, the key questions are funds adequacy and managerial flexibility.

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\* By restructuring its route system, eliminating unneeded service and reducing personnel through attrition, the deficit fell from approximately \$1 million in 1981 to just over \$1/2 million in 1983.



## State Structures

In Washington State the objective appears to be the provision of funding, provided that state funding is matched dollar-for-dollar by a local commitment. Beyond the requirements for local support, the funding structure insures that only those tax payers within the transit system's service area contribute to the system's tax revenues. These objectives combined with a desire to maximize local decision making responsibilities appear to be the goals of the state and these goals are effectively accomplished by the state funding structure.

The Washington State structure works well as long as no transit system requires large amounts of funds. As transit services grow in the state, especially as the large systems get larger, a review of the structure will be required and modification in the level of MVET funds available to local systems will probably be needed.

The objectives of the State of Georgia are harder to discern. It appears that the state desires a minimal involvement in providing financial support for public transit. For communities selecting the local option sales tax, the state's role becomes very clear: no state funds can be received by such systems. While no requirements are placed upon systems receiving state funds for federal capital grant matching purposes, several requirements which limit the range of managerial action are placed upon systems utilizing local options sales tax revenues. If limited financial and managerial involvement is indeed the state's objective, then it has been accomplished quite well.

The objectives of the California funding structure are more involved as the funding structure is more complex. The state desires to provide basic support for transit (LTF and STA) and support for particular transit projects (TCI). Additional objectives include the preservation of pre-LTF levels of local transit support and the requirement of user support (farebox recovery and local support requirements). In general, the funding structure is accomplishing these objectives.

Recently California has expanded the funding structure's objectives to include incentives for increased local support and improved transit system productivity. These objectives and the associated laws are too new to permit proper evaluation. Conceptually, the incentives in the new laws should produce the desired results while still preserving a high level of local decision making. If these new incentives are modified in the future to allow for local situations, as has much of the existing funding structure, then it is unclear that the new objectives will be realized.

The last observation leads to another peculiarity of the California funding structure. The basic structure is relatively straight forward, however, over time, numerous amendments to the basic law have been enacted to provide for particular local situations. It can be argued that such modifications enhance the flexibility of the funding structure. Alternatively viewed, the process has produced a confusing set of requirements. Because of this process of modification, it is becoming unclear as to whether the funding structure has management flexibility or political accommodation as an objective. Management flexibility, local decision making and adequate funding can be accomplished with a simpler funding structure

and rationalization of the laws would be desirable. But in a period of limited resources when a not particularly well organized transit sector has to compete with a well organized education lobby, for example, letting a sleeping dog lie makes a lot of sense.

The state program in North Carolina was developed mainly to take advantage of federal capital grants. There was no expectation or intent that the program would become anything other than a facilitator for the obtaining of federal funds and a source of technical assistance for local transit systems.

As transit systems have become better established and better regarded in the state's cities, a growing awareness of the value of transit and the benefits of a more aggressive state program can be observed. This awareness has produced a number of interesting proposals for state operating assistance and for private sector involvement, but in the absence of any major transit funding crisis the impetus to develop the necessary political coalitions to actualize the various proposals has not been present. Thus, the state's objectives of facilitating the flow of federal funds and the provision of technical assistance remain, basically, unchanged.

It is tempting to make comparisons between the state programs in Georgia and in North Carolina because the programs are similar. However, North Carolina has no situation analogous to Atlanta which made transit funding an issue for the Georgia state legislature. In North Carolina, transit funding is essentially a non-issue at the state level and is likely to remain so in the immediate future.

The New Jersey funding structure is difficult to evaluate as it is not a structure in the sense utilized so far in this discussion.<sup>\*</sup> The basic problem, in terms of evaluation, is that, with the exception of UMTA regulations, there really are no rules governing this structure. The state's portion of the funding structure provides funds on a "fill-the-gap" basis rather than on a planned basis. The state does not appear to have any particular set of philosophical objectives or any transit related world-view. Rather, state funding seems to be driven by the condition of the overall state budget. The proposed Transportation Improvement Fund was the first real attempt to provide any kind of rational and systematic structure for state transportation financing and it was debated as a budget balancing move, not as a transportation financing structure.

The federal block grant program (Section 9A/9) of the Surface Transportation Assistance Act has provided the first source of stable and reliable funding to NJ Transit's funding structure. There remains a clear need for a defined state role in this financing structure. Until such action is taken, NJ Transit will continue to be haunted by financial crises.

### Local Structures

The funding structure developed in Raleigh, North Carolina is very similar to structures developed in other medium sized cities around the country; notably Colorado Springs, Colorado. The funding structure rests on a fairly well developed view of the role of transit as a necessary public service which the city should



provide. However, like water and sewer services, users can be identified and charged. While transit service should grow along with the city and be supported by general tax revenues, the city does not have, nor will it attempt to have, an open checkbook approach to funding transit. In short, transit will receive public tax support up to a reasonable level (three party arrangement). Even though these objectives are only partially in written form, the city council has consistently operated to achieve these objectives. By retaining control over local funding by avoiding dedicated funding (in all areas, not just transit), the council has effectively retained the ability to carry out its policy objectives. By being consistently supportive of transit, the city has consistently made available the necessary funds to develop a modern efficient bus system. While Raleigh's funding structure has a clear philosophical underpinning and a straight forward manner of implementation, it is probably the most fragile of the arrangements reviewed. A major change in the level of funds provided by any one of the three "partners" places burdens upon the other "partners" which may not be affordable or practical. Additionally, it is vulnerable to periods of high inflation coupled with low economic growth. It is a funding structure with a lot of appeal for its fairness and its political feasibility, but it may not be able to absorb major shocks to any one of its three pillars of support.

The funding structure supporting MARTA service relies heavily upon locally generated revenues ( sales tax and farebox revenues) for operations and local sales tax funds and federal grants for capital expenses. The structure is fundamentally sound and, over the long-term, should provide MARTA users with the full benefits of a stable and reliable funding structure. The near-term, however, is marred by continuing labor difficulties on the operating side and a potential inadequacy of federal funds on the capital side of the budget.

Uncertainties in the capital budgeting and planning processes exist because of the expectation of lower levels of federal capital grants from the block grant program. If future federal capital grants are lower than historic standards, the rail system can be completed but at a much higher cost (because of inflation) and over a much longer time span (10-20 years longer) than currently planned.

This point is worth noting as the major managerial and operational efficiency benefits obtainable from MARTA's funding structure are predominately long-term benefits best associated with operating a system without major system construction costs. The real proof-of-the pudding for MARTA's financial structure will be its behavior in the early 21st century when all construction costs should have been paid.

The funding structure supporting the Macon-Bibb County Transit Authority (MBTA) is contained in a formal agreement among the city, the county and the authority. While there is no formal farebox recovery requirement, there is an expectation of strong user support for operations costs. The deficit is split between the two governments based on a specific percentage distribution with total funds subject to an upper limit expressed as a share of the local property tax rate.

The structure provides a stable and reliable source of funds to support transit and, barring any drastic increases in the operating deficit and any major destruction of the capital stock, should be able to sustain a moderately growing level of transit service for the foreseeable future.

The structure provides great managerial flexibility and accomplishes the local objectives of keeping the system locally controlled and of avoiding problems, delays and costs associated with the receipt of federal transit subsidies. Any decision to undertake a major increase in the level of transit services, unless accompanied by strong growth in local tax revenues, would probably require changes in the upper limit on local government funds available under the existing three party agreement. As this funding structure is only in its third year of operation, any attempts at structure evaluation must be somewhat tentative.

#### CONCLUDING COMMENTS

The array of funding structures reviewed here offer several directions for the development of financial support structures for public transit systems. States desiring little financial involvement with public transit and having few political incentives to take an active financial role may limit their involvement to providing a share of the required local match for UMTA grants. Alternatively states with little desire for financial involvement but the political need to provide some form of support in a limited number of jurisdictions may choose enabling legislation for local option taxes.

These two approaches are represented in this discussion by North Carolina and Georgia. North Carolina's program was inspired by the desire not to forego federal funds. Georgia's local option sales tax is clearly a response to political movements in Atlanta. However, it is somewhat unclear why the Georgia legislature included the expenditure and farebox requirements in the enabling legislation. They appear to be included as safeguards against future demands for state funds to "save" an overextended transit system.

The funding structure in North Carolina and that portion involving state funds in Georgia must be viewed as minor programs from a financial perspective. However, the technical assistance provided by both states may frequently be as valuable as funding.

For states desiring a more active financial involvement with public transit, the alternatives are a bit more confusing and conflicting goals may arise. The most basic goal conflict is between state level accountability for state funds and maximizing local decision making and managerial flexibility. A related difficulty is determining the optimal and/or most appropriate level and form of transit managerial accountability to state funding sources.

One approach to these questions is to return a portion of a locally collected tax to the areas of collection for support of local transit services. As a return of a local tax rather than an expenditure of state general fund revenues, managerial accountability and state imposed requirements can be very minimal without raising doubts as to the proper conduct of state oversight responsibilities for state funds.

The reviewed funding structures include two state approaches which follow this line of reasoning. Washington state returns a portion of the Motor Vehicle Excise Tax (MVET) to the areas of origin for support of public transit. As a return of local tax funds, local decision making is appropriate. Indeed, the portion returned is known as the Municipal Levy. While there are no usage restrictions on these funds, the state does require a dollar-for-dollar match from another local tax source as evidence of a strong local commitment to public transit and restricts the tax collection area for public transit revenues to the transit service area.

The LTF source of funds in California is similar in that it is a return to areas of origin of a portion of the state's sales tax revenues. Relatively few usage requirements accompany these funds. However, a number of other requirements are involved including farebox and local support ratios, various reporting requirements and allocation of funds to operators regulations.

State level funding structures become complicated when state general fund revenues are involved and when state policy develops particular directions and/or goals for all transit operators. In the context of the present discussion, this circumstance is best illustrated by California's State Transit Assistance (STA) and Transit Capital Improvement (TCI) funding programs.

The TCI directs state funds towards particular classes of transit capital projects of particular interest to state level policy makers: such as fixed guideways, intermodal facilities and commuter rail programs. The channels of distribution of STA funds reflect state objectives of regional coordination and increased operator generated revenues.

Attached to the LFT and/or STA programs are various reporting requirements, local coordinating requirements or incentives (often of narrow foci) and required activities intended to increase transit system productivity.

Local funding structures, on the other hand, tend to be driven by the nature and extent of the state program, the level of federal funds and the extent of local transit demand and political support. In some cases local funding structures are reactive to state and federal structures while localities with high transit demands and strong local political objectives tend to be more proactive in their local funding structures.

In Washington State, the alternative local funding structures are specified in state law. Systems with high transit demands are free to develop additional funding sources.

In California cities with a high level of transit demand, a variety of innovative local level sources of transit funds have been developed. Notable sources are San Francisco's downtown development fee\* and the San Francisco Municipal Railway Improvement Corporation, a private non-profit corporation. At this point, it is worth repeating that California also permits a local dedicated sales tax.

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\* Assuming it survives a court challenge.

In terms of local structures in states without strong state financing programs, three approaches have been reviewed. These approaches include entirely local funding from general revenues, predominately local funding for operations from a dedicated sales tax, and a sharing of responsibility among users, local property tax payers and federal revenues within a relatively well developed expenditure parameter.

The City of Macon and Bibb County Georgia provide transit service entirely from local property tax revenues and user charges with the exception of three major capital projects which received some state funds. This funding structure rests on two decisions: first that transit is a local concern which should be funded from local revenues and, second, that the restrictions and requirements which accompany federal funds are not off-set by the level of funds received and present an intrusion into local decision making responsibilities. Additionally, federal funds would not solve the system's ridership decline problem.

The local option financing track available in Georgia is illustrated by MARTA whose financial resource needs, combined with the limited state program, necessitated some form of locally derived dedicated funding. MARTA examined several alternatives, selected the sales tax approach (after voters rejected a property tax approach) and requested the necessary enabling legislation from the state. Thus, MARTA's local support structure is interesting in that it is both a reaction to the existing state structure and the catalyst which caused the development of the local option track of the current state program. Strong levels of local political support are required to pioneer such a financial structure.

In North Carolina, the state program is primarily designed to facilitate the flow of federal capital funds to local transit systems and local option dedicated taxes are not currently available. Thus, local systems must develop local support structures based upon user charges and local general fund revenues. For systems so positioned, especially those in medium and small urban areas, federal operating assistance assumes an importance not found in systems with either strong state programs or locally derived dedicated tax sources.

Raleigh's local structure is essentially a set of expected behaviors. When the behavior of one of the parties involved changes, as is the case with federal operating funds, changes are forced upon the other parties in the structure, in this case users and property tax payers. Depending upon the magnitude and direction of the shifts in the financial contributions of the systems support sources, an historically stable system could be forced to undertake major changes in its mission with respect to transit service provision. Thus, an attractive local support structure for medium sized cities may be rendered impractical by the caps on federal operating assistance.

The above discussion presents a review and basic evaluation of the major financial support structures for public transit developed in states and localities examined in this report. State and local decision makers may find this discussion of value when transit support structures are developed or existing structures reviewed. The discussion is also of value to federal policy makers who need to be aware of the nature and limitations of state and local transit support systems.



## VIII: SUMMARY OF SELECTED TOPICS AND CONCLUDING COMMENTS AND RECOMMENDATIONS

### INTRODUCTION

This chapter summarizes findings on topics of particular interest and presents recommendations and final commentary upon the results of the study. The previous chapter reviewed and evaluated the funding structures supporting public transit examined in this report. That review will not be repeated here.

### FAREBOX RECOVERY REQUIREMENTS

Of the case study systems, three have farebox recovery ratios mandated by state law; two have internally developed target recovery ratios; one has a rate initially developed informally, which was recently formalized, but not mandated by the city council; while the remaining system uses fares as a major source of operating funds with recovery rates dictated by revenue needs rather than predetermined policy or law.

MARTA is required by state law to recover 35% of the previous year's operating costs from the farebox. AC Transit and MUNI are required to recover 33% of current year's operating costs from fares with a permissible deviation of 5% provided that AC Transit, BART and MUNI taken as one operator recover 33% from fares. This recovery rate is mandated by state law and only applies to the three operators specified above.

The CAT system developed an informal target of recovering 40% of current operating expenses from fare revenues. In 1983, this policy became more formal but not mandated when the city council specified its role in funding operations in light of a future decline in federal operating subsidies.

Seattle METRO has an informal target of recovering one-third of current operating costs from fare revenues. However, METRO utilizes its fare policy as a technique for competing with other modes of transportation and will deviate from the informal target when necessary. The other system included in this report with an informal target is the MBTA. This system would like to recover salary and benefit expenses from fare revenues. This objective means an approximate 58% recovery rate. In some months, this rate is realized although the recent average has been a 56% recovery rate.

At NJ Transit, fare revenues are a major supporter of operating costs. In early 1983, the system-wide recovery rate was 61% of current operating expenses. The past trend at NJ Transit has been to raise fares to make up for short falls in other revenue sources, particularly in state funds. Thus, there is no numeric recovery target, either formal or informal, at NJ Transit. System survival is the major influence on the determination of any given fare structure.

### SAFE HARBOR LEASING

All the respondents except CAT and the MBTA reported utilizing Safe Harbor Leasing as a revenue generation technique. All users of Safe Harbor Leasing were very satisfied with the results and will conclude additional leases where possible.



NJ Transit has been the most aggressive user of the Safe Harbor Lease. It is also the system with the highest level of financial difficulty. The systems reporting not having utilized this approach are the smallest systems in the study and have relatively new rolling stock which was purchased prior to the availability of the Safe Harbor Lease. Respondents noted an interest in the extension of the availability of Safe Harbor Leases beyond the current expiration date.

#### INNOVATIVE TECHNIQUES

Several respondents reported the examination of what are frequently termed innovative approaches to revenue generation. These approaches have been discussed in detail in previous chapters and will be summarized here.

Both MUNI and METRO are examining special taxes in specified downtown areas with the revenues tied to the provision of particular services benefitting those downtown areas. METRO is examining a downtown assessment district to provide revenues for the construction and maintenance of the "downtown solution" envisioned in the 1990 Plan. San Francisco has imposed a square footage fee on new downtown development. This fee is under litigation (as of October, 1983) and the revenues are being held in escrow pending the outcome of the court challenge. San Francisco also considered a special benefit assessment tax on downtown businesses. However, this proposal was abandoned in the face of strong political opposition.

In Atlanta, the city has established Special Public Interest zoning districts around selected MARTA rail stations. While special taxation was not part of this action, it is worthy of notation as an innovative approach. The objective of these districts is to permit high density development around the rail stations and, thereby, place more people in close proximity to the rail service. Hopefully, this will increase ridership of the rail system, in turn, increasing fare revenues more than the increase in operating costs associated with higher ridership.

#### IMPACTS OF THE STAA

The Surface Transportation Assistance Act of 1982 (STAA) has had varied initial impacts upon the respondent systems. In general, the full impacts of the Act are not yet realized but some impacts have been realized and others have been projected.

At MARTA, the cap on federal operating funds has produced a decrease in federal funds of \$1.5 million in FY 1983. However, growth in sales tax revenues off-set the decline in federal operating funds. The major impact of the STAA at MARTA is expected to be felt in the capital program. The level of capital funding available through Section 9 represents a major reduction from previous levels. Unless Section 3 discretionary allocations are forthcoming, the rail construction program will be delayed relative to current completion dates by an estimated minimum of 10 years with maximum estimates ranging from 15 years to 20 years.

The impacts upon CAT are opposite those found at MARTA. CAT has relatively modest capital needs. The capital funds provided through Section 9 are in excess of projected needs, while the cap on operating funds threatens to unbalance the



funding structure supporting operations and to change the historic role of the system in the city. Because of the availability of Section 5 carry-over funds in North Carolina, CAT will not face this projected operating crisis until FY 1986.

At NJ Transit, the reliability of the block grant of Section 9 is viewed as a major improvement in the system's funding structure. The Section 9 block grants will provide the system with its first stable and reliable funding source. While the level of operating funds available from Section 9 is important, the reliability of the funds flow is viewed as more important than the dollar level involved.

METRO views the stable and reliable aspects of Section 9 as being positive qualities which enhance an already stable state and local funding structure. Section 9 capital funds will not be adequate for the major components of the 1990 Plan, but the receipt of sufficient Section 3 grant funds is viewed as probable. In contrast to MARTA, METRO's capital needs are lower, thus a lower level of Section 3 funding is needed to complete the capital program.

In the San Francisco Bay Area (AC Transit and MUNI in this study), the impacts of the STAA are overshadowed by the regional funds allocation process. AC Transit indicates that the current level of Section 9 funding is adequate to system needs when combined with the other regional funding programs. MUNI noted that its high level of service is instrumental in attracting Section 9 funds under the allocation formulas of the STAA. However, the funds come to the region and the regional process is not allocating the Section 9 funds, especially capital funds, in accordance with the same criteria. Thus, MUNI actually receives a lower level of Section 9 capital funds than the STAA formulas would suggest.

#### OTHER ITEMS OF NOTE

Seattle METRO is modifying its fare structure to be more competitive with the price of gasoline. In September, 1983, METRO reduced its fares in response to recent declines in gasoline pump prices. This is an unusual recognition and use of fares as a competitive tool.

AC Transit and NJ Transit have both undertaken long-term capital programs designed to reduce future operating expenses. Both systems have suffered from poor capital planning in the past.

AC Transit is directing its capital expenditures toward development of improved Management Information Systems. AC Transit management is now receiving better and more timely information on the System's operations and costs than in the past. This clearly permits better managerial decision making.

#### RECOMMENDATIONS AND CONCLUDING COMMENTS

This section presents some policy recommendations which flow from the results of the present study and some general concluding comments. The recommendations are presented in a more general form than the major findings of the study which the recommendations supplement.

## Recommendations

The results of the present research indicate a number of areas of present federal policy and of state, local and transit system activities which should be examined with an eye towards modification and/or new directions of effort.

- 1) Section 9 improved the distribution of federal funds by adding a stable and reliable element to the federal program. The block grant approach could be improved if it were a true block grant without the present usage restrictions. Federal officials have been reluctant to take a true block grant approach because of the concern that some systems would devote all funds to operating expenses with consequent negative long-run impacts upon system viability. Two approaches to this concern are suggested by the various financial structures examined in this report. However, both approaches deviate from a "pure" block grant concept but they do permit more managerial flexibility than the present Section 9 structure. One approach is to modify the true block grant approach by requiring that some minimal level of total federal funds be used for capital purposes, e.g. 25%, unless demonstrated to UMTA that a lower level of capital expenditure is all that is required for proper system development and maintenance.

Another approach is to retain a true block grant concept while modifying the local and/or state matching requirement from its present role to a concept of demonstrating strong state and/or local commitment, e.g. \$1 local/state for \$2 - \$3 federal, with no usage distinctions made. The idea is that a stronger local/state interest in transit operations and planning which would deter long-term system deterioration.

- 2) Section 3 is a useful program, however, the case study results indicated that a higher level of Section 3 funding should occur if a presently developing trend toward a higher level of politicalization of transit capital funding is to be avoided. There is a clear trend among the larger more politically astute systems to obtain Congressional earmarking of discretionary capital funds rather than risk delays in major projects due to insufficient Section 3 allocations. The expansion of this trend would add to the political nature of an already fairly political process. This trend is not viewed as desirable in the long-term.
- 3) Transit, as an industry, should improve its political skills in general and at the state level of government in particular. Transit, as an industry, appears well versed in making a case for financial support at the federal level of government and at the local level but it appears to be failing at the state level of government.
- 4) If transit as a whole is to obtain the benefits of sound long-term planning and management, then transit needs more reliable and stable funding structures at the state and local levels of government. However, such structures must not completely isolate transit management from the state and/or local political arena, to do so would lose public accountability for public funds.

- 5) If farebox recovery rates are to be mandated, the recovery rate must be based upon some meaningful economic and financial criteria and the criteria must allow for system social objectives (i.e., substantial discounts for particular segments of the population, for a general level of low fares, etc.). In short, a mandated recovery rate must be an integral part of a planned financial structure and not just an exercise in political public relations.
- 6) Mandated farebox recovery rates become counterproductive when they arbitrarily elevate fares to the point where instability in ridership levels occur. Recovery rates not based upon economic and financial criteria which are integral to the system's overall financial structure are more likely to produce counterproductive results in the long-run.
- 7) To integrate farebox recovery ratios into the system's overall financial structure requires basing the recovery objective upon some specified set of operating costs, i.e., set fares, so as to recover some specified percentage of wages and salaries rather than of total operating costs.
- 8) Mandated farebox recovery rates, per se, do not increase operating efficiency or system productivity. Rather, the overall tightness of total funding is the primary cause for the increased attention to and accomplishment of productivity and efficiency improvements. When the level of farebox recovery is tied to payment of a particular set of operating expenses or specified share thereof, farebox recovery assumes an efficiency incentive absent when expressed as a percentage of total operating expenses.
- 9) Increased private sector financial participation in transit funding is desirable but must be approached with caution especially when new or increased taxes are involved. A clear benefit-receipt tax payment relationship must be demonstrated. If transit systems were permitted to behave more like private sector organizations, an intensified relationship with private sector firms would be more probable.
- 10) Following from the above, a greater level of research effort and public information dispersion should be undertaken regarding private sector benefits flowing from public transit, otherwise, the private sector can be expected to resist any such taxation attempt.
- 11) The use of private non-profit corporations which sell tax-exempt bonds, purchase transit capital stock and, in turn, lease that capital stock to the transit system should be explored by the larger transit systems as well as by smaller systems joined in pooled arrangements.
- 12) Transit systems seeking to improve their financial support structures should examine the institutional options and innovative arrangements examined in these case studies.

- 13) Productivity improvements should be rewarded by state and/or federal financial support structures, however, great care must be taken in the design of such structures that high productivity systems are not penalized for having already improved productivity while systems with low productivity are rewarded for not having improved their performance in the past.
- 14) Research in the area of transit financing tends to be too narrowly focused, a general absence of systematic structural approaches to transit financing makes the development of integrated financial structures, especially those which utilize new or innovative sources of funds, unduly difficult. More attention should be devoted to the particulars of institutional interactions. Additionally, the potential for high levels of private sector financing, present in a limited number of transit systems, should be examined.
- 15) These and other case studies of transit financing should be catalogued along with some notation of the critical parameters of the studies and distributed to appropriate state, local and federal decision-makers and interested others. As the roles of the traditional support sources for public transit change, the decision-maker's need for relevant information increases as does the federal government's obligation to provide that information.
- 16) Related to the above, the federal government needs to provide more technical assistance to state and local governments and to transit managers to aid them in efforts to become more innovative in their approach to transit financing and to increase their knowledge of institutional options available for the support of public transit activities.

#### Concluding Comments

The present research has produced a detailed examination of a set of financial structures supporting public transit services at the state and local levels of government. In general, the examined structures are capable of generating increased levels of funding for public transit. However, with limited exceptions, the structures do not appear to be capable of generating sizable increases in funds without major changes in the intent and the specifics of the structures.

The cap on federal operating assistance has not yet fully impacted upon the systems examined. Of these systems, only CAT currently anticipates major negative impacts.

The change in the method of allocation of UMTA assistance to the block grant approach was generally viewed as a positive change. The presence of a predictable federal funding program (subject to the level of appropriations) appears to be of particular benefit to systems with limited and/or unreliable state funding programs.

The need for further research in transit financing which takes an integrated structural approach is indicated. In particular, greater understanding of the details of the structure and the objectives and causation of those particulars would be helpful to state and local decision makers and would increase the understanding of federal policy makers of the limitations and capabilities of transit financial structures. The involvement of the private sector should be examined in the context of integrating the private sector into the transit system's financial structure.



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## Appendix A

### Case Study Questionnaire

- Proposed, planned or realized changes in the institutional framework for decision-making, including changes in relationships with UMTA and UMTA regional offices;
- proposed, planned or realized changes in the capital acquisition program, especially deferrals or cancellations of acquisition plans;
- impacts upon long-term planning;
- proposed, planned or realized changes in the sources and levels of capital program funding from non-federal sources;
- changes in short-term and long-term forecasting models for both capital- and operations-related concerns;
- proposed, planned or realized changes in the sources and levels of operating funds from non-federal sources, including farebox revenues;
- proposed, planned or realized changes in labor contracts and labor relations including the use of part-time drivers/operators;
- proposed, planned or realized changes in service levels, headways, number of vehicles, route-miles, etc.;
- proposed, planned or realized changes in service delivery methods, types of capital equipment, coordination with private taxi firms, use of other para-transit techniques, etc.;
- the political climate surrounding public transit, any alterations in political approaches used by transit advocates, and any incentives which might be offered by the federal government to encourage additional state and local funding;
- proposed, planned or realized use of innovative revenue-enhancement techniques such as value capture, development fees, parking taxes, etc.;
- considerations of the redistributive impacts of potential revenue-enhancement sources and the socio-economic impacts of service mix and methods alterations.



Appendix B

RESOLUTION NO. (1983) 251

A RESOLUTION TO ESTABLISH CITY COUNCIL POLICY FOR FUNDING  
CAPITAL AREA TRANSIT

I. General

Capital Area Transit is a proprietary public service which shall be designed to provide public transit service to the citizens of Raleigh.

II. Fares

The various fares to ride Capital Area Transit shall be established and structured by the Transit Authority so as to collectively affect a ratio "Farebox Revenues" to "Operating Cost" no less than 0.40. Following the end of each October the Administration will determine the current annualized ratio of "Farebox Revenues" to "Operating Cost". If it is below 0.40, then the Authority shall adjust the fare structure and/or service to achieve a projected ratio of 0.40 for the subsequent fiscal year.

III. Municipal Funding

Local funding by the City of Raleigh for Capital Area Transit shall continue to be provided at a level necessary to match Federal funding as long as Federal funding is sufficient to subsidize one-half (1/2) of the operating deficit. City funding will be increased based on two criteria:

- A. Existing Service - the City will fund its 50% share of the increased operating deficit resulting from inflation for the currently funded system for any given fiscal year.
- B. Expanded Service - the percent increase in the City's share of the deficit for any proposed, expanded service will not exceed the percent increase in the total property, tax valuation experienced in the preceding fiscal year (excluding reevaluation), and the proposed service will not reduce the systemwide "Farebox Revenues" to "Operating Cost" Ratio below 0.40. Administration will project revenues based upon ridership expected six months after the service expansion.

IV. Federal Funding

Federal Funding is currently sufficient to subsidize one-half (1/2) of the operating deficit. In the event this level and proportion of Federal support decreases, reduction to the level of service and/or increases in transit fares will be made by the Transit Authority to absorb one-third (1/3) of the decrease in Federal funding. Two-thirds (2/3) of the decrease in Federal funding will be offset by increased Municipal funding.

V. Definitions

- A. Operating Cost (Section II) - the term identified as "eligible operating

expenses" in the Urban Mass Transportation Administration (UMTA) Project Budget. This includes all expenses eligible for Federal operating assistance.

B. Operating Deficit (Section III and IV) - the term identified as "net project cost" in the UMTA Project Budget. This is the eligible operating expenses less farebox revenues.

C. Revenue Cost Ratio (Section III-B) - the ratio of farebox revenues to the variable operating costs associated with a particular route.

April 1983

Adopted: 6/7/83

Distribution: City Council  
City Manager  
City Attorney  
Transit



Appendix C

PROPERTY DISPOSITION POLICY OF THE  
METROPOLITAN ATLANTA RAPID TRANSIT AUTHORITY

- I. It is the intention of this Property Disposition Policy to set forth policies, procedures, and guidelines which will enable Metropolitan Atlanta Rapid Transit Authority ("MARTA") to obtain the maximum economic benefit from its ownership of property and which will enable MARTA to do so in a manner that is consistent with the safe and efficient construction, operation, and maintenance of the MARTA rapid transit system.
- II. MARTA shall not dispose of any interest in any real property, including subsurface rights, surface rights, air rights, or any combination thereof (said interests in real property being hereinafter referred to as "Property Rights"), until the planning, design, or construction of the MARTA rapid transit system has been completed in all respects necessary to reasonably not endanger or interfere with the safe and efficient construction, operation, and maintenance of the MARTA rapid transit system.
- III. MARTA will dispose of Property Rights only (i) by those means authorized by the Metropolitan Atlanta Rapid Transit Authority Act of 1965, Ga. Laws 1965, pp. 2243, et seq., as amended (the "MARTA Act"), including, without limitation, sale, lease, or other disposition after competitive bidding and to the highest responsible bidder or (ii) by any other lawful means.
- IV. As a general guideline, MARTA favors disposition of Property Rights by lease rather than by sale. MARTA recognizes, however, that particular circumstances may support a sale of Property Rights, and MARTA may approve such a sale.
- V. If MARTA Property Rights are available for disposition, the General Manager or his designee shall present a Disposition Plan to the Board of Directors ("Board") for approval. A Disposition Plan shall include the following information:
  - (i) A description of the Property Rights;
  - (ii) The proposed method of disposition;

- (iii) A finding, with supporting facts, that (a) the Property Rights are no longer required for rapid transit system construction, operation, or maintenance or (b) use of the Property Rights by another will not interfere with MARTA's concurrent use;
  - (iv) A properly documented professional analysis of the highest and best use of the Property Rights;
  - (v) The appraised fair market value of the Property Rights and, where a lease disposition is proposed, the appraised fair rental value and the proposed term of the lease;
  - (vi) A description of applicable zoning regulations; and
  - (vii) A description of local government land use and development plans affecting future use of the Property Rights.
- VI. If the Board approves a Disposition Plan, the Board shall authorize the General Manager or his designee either (i) to advertise the Property Rights for sale, lease, or other disposition to the highest responsible and responsive bidder or (ii) if and as permitted by law, to request, receive, and evaluate proposals for the sale, lease, or other disposition of the Property Rights.
- VII. The General Manager shall submit to the Board his recommendations on the bids or proposals received for the Property Rights. The Board may:
- (i) Accept the bid of the highest responsible and responsive bidder for the sale, lease, or other disposition of MARTA Property Rights; or
  - (ii) Accept a proposal for the sale, lease, or other disposition of MARTA Property Rights; or
  - (iii) Reject any or all bids or proposals as necessary for the protection of the interests of MARTA and thereafter direct the General Manager to take such actions as are deemed appropriate by the Board.

- VIII. Any lease of Property Rights shall include, without limitation, the lessee's agreement to comply with the insurance and indemnification requirements of Section 19 of the MARTA Act.
- IX. In any disposition of Property Rights, MARTA shall retain sufficient control over the development of the Property Rights to reasonably ensure the safe and efficient construction, operation, and maintenance of the rapid transit system and to reasonably ensure that the development does not detract from the aesthetic, social, and economic well-being of the community.
- X. In the event that a proposed disposition involves Property Rights that may be needed in the future for rapid transit system purposes (including, without limitation, expansion of the system), MARTA shall retain such interest in and control over such Property Rights as are necessary to ensure that such Property Rights shall be available for MARTA's use when and as necessary for rapid transit system purposes.
- IX. The General Manager shall prepare appropriate administrative procedures to be followed by the MARTA staff in connection with the disposition of Property Rights by sale, lease, or other methods.



Appendix D

SPI DISTRICTS ZONING ORDINANCES

CHAPTER 18A

SPI-1 Central Core District  
Regulations

The intent of this chapter in establishing the SPI-1 Central Core District is as follows:

It is within the public interest to:

- (1) Preserve and protect the hub of the Atlanta Metropolitan Area for specific functions appropriate to the central core.
- (2) Encourage the development of major office uses within this district.
- (3) Encourage the maintenance and expansion of this area as the major retail center for the City of Atlanta and the Metropolitan Area.
- (4) Encourage the development of high-intensity housing within multiuse complexes or independent structures within this district.
- (5) Encourage the highest intensities of development in this area at the crossroads of the mass transit system.
- (6) Maximize the advantages of mass transit.
- (7) Facilitate safe and convenient pedestrian circulation and to minimize pedestrian/vehicular conflicts through the implementation of the pedestrian space plan within the Special Public Interest districts. (Ord. No. 1981-95A, Sec. 1, 12/19/80)

CHAPTER 18B

SPI-2 North Avenue District  
Regulations

The intent of this chapter is establishing the SPI-2 North Avenue District as follows:

It is within the public interest to:

- (1) Preserve and protect the North Avenue MARTA Station for office, retail, hotel, high-density housing, entertainment and cultural functions appropriate for this important transportation facility.

(2) Encourage the further concentration of major office structures, corporate headquarters and high-density housing in this area.

(3) Encourage the highest intensities of development within the Peachtree Corridor.

(4) Encourage opportunities for economic development, both residential and commercial, where there is a planned relationship between the transportation system and development.

(5) Encourage additional medically related facilities serving the Atlanta region.

(6) Facilitate safe and convenient pedestrian circulation and minimize pedestrian/vehicular conflicts through the implementation of the pedestrian space plan within the Special Public Interest Districts. (Ord. No. 1981-95A, Sec. 1, 12/18/80)

## CHAPTER 18C

### SPI-3 Midtown District Regulations

Section 16-18C.002

Statement of Intent

The intent of this chapter in establishing the SPI-3 Midtown District is as follows:

It is within the public interest to:

(1) Preserve and protect the Midtown MARTA station area for office, retail, hotel, high-density housing, entertainment and cultural functions appropriate as the central node of the Peachtree Corridor.

(2) Encourage the development of this district as the major community retail center serving the entire Peachtree Corridor area.

(3) Encourage the development of high-intensity housing within multiuse complexes or independent structures within this district.

(4) Encourage high intensities of development at this station area.

(5) Encourage opportunities for economic development, both residential and commercial, where there is a planned relationship between the transportation system and development.

(6) Facilitate safe and convenient pedestrian circulation and minimize pedestrian/vehicular conflicts through the implementation of the pedestrian space plan within the Special Public Interest districts. (Ord. No. 1981-95A, Sec. 1, 12/19/80)

CHAPTER 18D

SPI-4 Arts Center District  
Regulations

Section 16-18D.002

Statement of Intent

The intent of this chapter in establishing the SPI-4 Arts Center District is as follows:

It is within the public interest to:

(1) Preserve and protect the Art Center MARTA Station area for office, hotel, high-density housing, entertainment and cultural functions appropriate for this node at the northern area of the Peachtree Corridor.

(2) Encourage the further concentration of major office structures and corporate headquarters in this area.

(3) Encourage the development of high-intensity housing within multiuse complexes or independent structures within this district.

(4) Encourage the further concentration of development of major regional cultural/entertainment attractions at this station area.

(5) Encourage opportunities for economic development, both residential and commercial, where there is a planned relationship between the transportation system and development.

(6) Facilitate safe and convenient pedestrian circulation and minimize pedestrian/vehicular conflicts through the implementation of pedestrian space plan within the Special Public Interest districts.  
(Ord. No. 1981-95A, Sec. 1, 12/19/80)





## Appendix E

### MACON-BIBB COUNTY TRANSIT AUTHORITY -MBTA

The Macon-Bibb County (Georgia) Transit Authority (MBTA) was established on May 1, 1981, when transit services were expanded to include Bibb County as well as the City of Macon. From 1973 to this date, the transit system was owned and operated by the City of Macon and only provided services within the city.

The MBTA was created by an act of the Georgia legislature at the request of the local delegation. The transit authority's governing board is composed of three individuals appointed by the mayor and approved by the city council and two individuals appointed by the county commissioners. These individuals serve without salary and represent a broad cross section of the local population.

#### Federal and State Funds

The MBTA continues the practice established during the city's sole ownership of the system of not applying for state or federal transit subsidy funds.\* The state provides funds for UMTA capital grant matching purposes, for 50% of the costs of local marketing programs and for planning grant matching. Additionally, the state does reserve funds for MBTA use should they be requested. However, the decision not to request UMTA grant funds is considered to be the decision of primary importance.

Neither UMTA capital nor UMTA operating subsidies are requested. Multiple factors influenced the decision. The three primary factors\*\* are: 1) federal funds would not add passengers and ridership is the only problem faced by the MBTA; 2) the city's legal inability to recognize labor unions and anticipated difficulties arising from Section 13(c) requirements; and 3) a desire to avoid federal "red tape." Underlying these factors is the view that transit is a local concern, serving local citizens and that the citizens want it kept that way. This view implies a belief that federal monies diminish local control.

#### Local Funding: Operations

Thus, the MBTA funds its operations entirely from local sources. Funding derives from farebox revenues, city general funds and county general funds. The MBTA recovers 56% of its operating costs from the farebox. There is no farebox

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\*As noted below, the MBTA has received some state assistance for capital purchases on an infrequent basis. The system has also received some state funds through the state's marketing assistance program. However, the system does not regularly request state funds and no federal funds are requested by the system.

\*\*If federal funds were accepted, additional personnel would be required, thereby, increasing administrative costs. This was a secondary factor in the decision not to apply for federal funds.

recovery requirement. The deficit is divided between the city and the county according to the provisions of a formal Tripartite Agreement (MBTA, City of Macon, Bibb County). The original agreement was for two years and has been extended for two more years.

Under the terms of the agreement the city will provide 80.4% of the projected deficit while the county will provide 19.6% of the projected deficit. The total dollars either government will provide is limited to an amount equal to 1 mill on the property tax rate.\* The millage rate is increased annually, thus, the total funds available to meet the percentage commitments increase annually. The city and the county provide the MBTA with their respective shares of the projected deficit on a monthly basis.

The arrangement is viewed as very satisfactory in practice. The Tripartite Agreement was renewed, as noted, without difficulty. The division of the projected deficit between the two local governments reflects the division of service between city and county areas. Prior to the formation of the transit authority, all service was within the city and the city funded 100% of the deficit.

#### Deficit Reduction

For FY82-83 (May 1 - April 30), the operating deficit was \$565,953. This is approximately one-half of the FY81-82 deficit of almost \$1 million. The majority of the deficit reduction can be attributed to a major restructuring of the route system and the level of service provided. Following a study of the system, the MBTA realized it was providing excessive off-peak service. By reducing off-peak service by as much as 50% on some routes, considerable cost reductions were realized while ridership remained largely unaffected.

Additional cost reductions occurred through personnel attrition. The reduced levels of service frequency required fewer personnel, thus, as employees left the organization they were not replaced. From May 1981 to November 1983, the number of employees declined from 74 to 55 persons.

#### Fares

The standard fare is 50¢ per trip at all times. A student fare of 25¢ per trip is also offered. No handicapped or elderly discounts are offered. None of the system's 40 buses are lift equipped. Lift equipped service is offered by the local Older American Council, thereby meeting the need at less expense to public transit as capital costs are lower than if all buses were lift equipped.

#### Farebox Recovery

The MBTA has no mandated farebox recovery ratio nor is there any formal determination of what the recovery rate should be. Rather meeting two informal "goals" is desired but not required. The first of these informal goals is

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\*While a local sales tax (1% local, 3% state) does exist, no sales tax funds are used for the transit subsidies.

maintaining a recovery ratio above the national average, currently approximately 25% of operating costs. The second is a desire to cover salaries and benefits from fare revenues. The first goal is met consistently with the system recovering 56% of operating costs from fares. This is the highest recovery rate in the state. The second goal is met in some months and not in others. The approach utilized to meet the second goal with greater consistency is close monitoring of system costs, which is a continuing process at the MBTA anyway.

#### Local Funding: Capital

Capital expenses are split between the city and the county on a 50%-50% basis. All capital projects must be approved by the local governments as part of the funding process. No preset level of funds available for capital purposes has been specified as in the case of operating funds, rather projects are reviewed and funded on a case by case basis. Local funds utilized for capital purchases derive from the governments' general funds. As an authority under Georgia law, the MBTA may issue bonds. This option has not been utilized nor has it been seriously considered as there has been no need to do so.

On major capital projects\* state assistance is requested. The state does provide assistance on a funds available basis with the state's share negotiated on a project specific basis. Thus, on one project the state has contributed 25% of total costs while two other projects have seen a 50% state contribution. For projects with a state role, the local share is split equally between the two local governments. It should be emphasized that state assistance has only been requested on three major projects. All other capital purchases are funded entirely from local funds.

#### Marketing Program

Like many transit systems, the MBTA has experienced a decline in ridership. In the case of the MBTA, the decline has been since 1978 and is attributed to increased automobile usage. The system currently averages 6,000 riders per day.

In an effort to reverse this trend, the MBTA began its first ever marketing program on August 15, 1983. Between August 15th and 30th, the system's ridership increased by 5,000 passengers. As part of the marketing effort, the buses were painted a new color and the system adopted a new logo.

The primary competition for transportation service is, of course, the private automobile. In Macon on-street parking is free and off-street parking is available for 50¢ for all day. Competing with such low parking fees is a major difficulty in persuading individuals to switch from the private automobile to the transit system.

#### Concluding Comments

The above discussion provides an overview of a rather remarkable transit

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\*To date only three capital projects have requested state assistance: the original bus purchase, a 1982 purchase of 10 buses and a 1983 purchase of bus radios and associated communications equipment.

financing arrangement. The arrangement is relatively simple and straight forward. What the above discussion does not reveal is just why the funding system works so well. While such information would be quite valuable, it requires an in-depth, in-person examination which, regrettably, is beyond the abilities of the present study. But some insights into the dynamics of the process were obtained, and, while inadequate in and of themselves, these insights do provide a direction for further inquiry.

A major asset of the MBTA is that it and its service area are relatively small. Therefore, a high level of informal communication occurs which permits a superior information flow not only between the Authority and local officials but also between the MBTA management and its employees. This situation encourages the development and acceptance of organizational goals as individual goals for employees as well as a community identification with organizational goals. From the managerial perspective, this is a highly desirable situation. The fact that employees have ready access to the MBTA's top management and that their suggestions are acted upon, not only improves employee morale but also enhances organizational performance.

In order for the MBTA to meet its performance goals without causing strains in the three party financial agreement, tight cost control and strong employee productivity are needed. Strong employee as well as community identification with the organizational goals is required in order to accomplish the objective of cost effective delivery of high quality transit service. The organizational environment noted above is close to ideal for such purposes and is one of the strengths of the MBTA. A supportive local leadership, which is not unrelated to the above, and a straight forward funding structure are also major assets of the system.

Appendix F

ALAMEDA-CONTRA COSTA TRANSIT DISTRICT  
BACKGROUND INFORMATION RE: IMPACT OF ADMINISTRATION'S  
PROPOSED CUT-BACK IN FEDERAL OPERATING SUBSIDIES (BUDGET)

We had anticipated that the Surface Transportation Act, recently passed at the federal level, would (if fully funded) together with the State Transportation Assistance funds available through AB 2551, minimize our projected operating deficits. However, the Administration's budget would make drastic reductions in, and eventually phase-out, all operating subsidies.

A cut-back in federal operating subsidies as proposed in the Administration's budget would require AC Transit to reduce services by approximately 6% in the next fiscal year, with additional reductions in subsequent years. To minimize the loss in operating revenues, these reductions in service will most adversely affect service to the more transit-dependent persons, such as the lower income workers, the unemployed, students, youth, elderly and handicapped who are less likely to have an alternative means (car) of meeting their minimum essential transportation requirements.

Of all the operators in the Bay Area, AC Transit District would be most severely impacted by the Administration's proposed reduction, and eventual elimination, of federal operating subsidies. AC Transit District has to depend on allocations of federal and regional discretionary operating funds for approximately 55% of its operating expenses. This percentage is far more than any of the other operators due to circumstances over which the District has no control. These include Proposition 13, which limited the District's ability to use property taxes as a primary source of operating subsidies.

Prior to Proposition 13, approximately 40% of the District's operating expenses came from the property tax. This percentage has now been reduced to approximately 15%. Another substantial source of the District's operating revenues (1/4 cents Sales Tax) has also been reduced as a number of new operators became eligible for these tax revenues in the areas in which they now serve; such as, Union City, Livermore and Central Contra Costa Transit Authority. Other in-roads have been made on the 1/4 cents Sales Tax revenues as a result of legislation providing a portion of these funds to numerous cities and other agencies to assist in financing para-transit services.

The 1/2 cents Sales Tax in the BARTD Counties (AB 1107), which was intended to provide BARTD with a predictable source of operating revenue (similar to the operating base provided to AC Transit and SF Muni prior to the enactment of Proposition 13) has worked to the advantage of BARTD and to the disadvantage of AC Transit in that the law provides that BARTD gets 75% of the 1/2 cents Sales Tax directly, and AC Transit and SF Muni are limited to competing for only the

remaining 25%. Concurrent with BARTD being assured of a sustained base of operating revenues, as previously indicated, AC Transit and SF Muni's previously sustained base from property tax revenues has been severely eroded.

Despite the high rate of inflation, AC Transit has been reasonably successful in constraining its operating costs for the past five years when compared with other properties of a similar size providing similar services. For example, based on national average statistics as of the fiscal year ending June 30, 1980, AC Transit's per vehicle mile cost of \$2.30 compares very favorably with the national average cost of \$2.95. Our average net cost per passenger of \$ .66 is considerably better than the national average figure of \$ .84; and our average cost of \$ .19 per passenger mile compares favorably to the national average cost of \$ .21.

AC Transit's farebox recovery of approximately 35% is substantially more than the national average of similar size properties of 27.5%. However, this rate of farebox recovery has only been possible by imposing three fare increases in approximately five years. Since June of 1978, we have had to increase our fares for an adult passenger from \$ .25 to \$ .60 (a 140% increase) and in all probability, an additional fare increase will be necessary in July of next year.

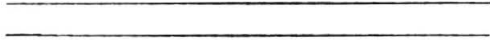
While some increase in fares was no doubt appropriate, particularly when considering the dramatic increase in other costs as a result of inflation, we are concerned (like other operators) that we have now reached a point of diminishing returns from future fare increases. As a result of the last fare increase in July of 1982, we experienced as approximate 12% loss in ridership. Other transit properties have had similar, and in some instances even more severe, loss in ridership from recent fare increases.



ALAMEDA-CONTRA COSTA TRANSIT DISTRICT  
 SOURCES OF OPERATING REVENUES  
 IMPACT OF ADMINISTRATIONS PROPOSED CUT-BACK  
 IN FEDERAL OPERATING SUBSIDIES

SAN FRANCISCO/OAKLAND URBANIZED AREA:

FY 1981-82 (Actual)	\$28.5 million Sec. 5
FY 1982-83 (Current estimate based on "a cap" of 80% of FY 1981-82)	\$22.8 million Sec. 5
FY 1983-84 (Estimate based on Surface Transportation Act)	\$22.8 million Sec. 9
FY 1983-84 (Estimate based on Admini- stration's Budget Proposal)	\$11.2 million Sec. 9



ALAMEDA-CONTRA COSTA TRANSIT DISTRICT:

FY 1981-82 (Actual)	\$ 9.7 million Sec. 5
FY 1982-83 (Estimated)	\$ 6.1 million Sec. 5
FY 1983-84 (Estimate based on Surface Transportation Act)	\$10.0 million Sec. 9
FY 1983-84 (Estimate based on Admini- stration's Budget Proposal)	\$ 4.4 million Sec. 9

NAG:gmd  
3/9/83

ALAMEDA-CONTRA COSTA TRANSIT DISTRICT

SOURCES OF OPERATING REVENUES  
(000)

<u>DISTRICT-WIDE TOTALS:</u>	<u>FY1981-82</u> (ACTUAL)	<u>FY1982-83</u> (BUDGET)	<u>FY1983-84</u> (Based on Surface Transport- ation Act)	<u>FY1983-84</u> (Based on Admini- stration Budget Proposal)
TOTAL OPERATING EXPENSES:	96,755	98,841	105,205	105,205
TOTAL OPERATING REVENUES:				
FAREBOX REVENUES	30,402	32,603	32,885	32,885
OTHER REVENUES (including Contract Services)	6,558	6,423	6,739	6,739
TDA (1/4 cents Sales Tax)	19,997	18,308	16,370	16,370
PROPERTY TAXES	14,999	15,079	16,503	16,503
1/2 cents Sales Tax (AB 1107/BARTD)	12,045	12,100	12,900	12,900
STATE TRANSIT ASSISTANCE (AB 2551)	-0-	2,300	1,700	1,700
FEDERAL OPERATING SUBSIDIES	<u>9,740</u>	<u>6,237</u>	<u>10,000</u>	<u>4,400</u>
<u>TOTAL OPERATING REVENUES:</u>	<u>93,741</u>	<u>93,050</u>	<u>97,097</u>	<u>91,497</u>
SURPLUS (DEFICIT)	(3,014)	(5,791)	(8,108)	(13,708)
PERCENTAGE OF FEDERAL OPERATING SUBSIDIES TO TOTAL OPERATING EXPENSES:	10.1%	6.3%	9.5%	4.2%

NAG:gmd  
3/9/83

## PTBA ELECTIONS

ENTITY	ELECTION DATE	BALLOT PROPOSITION	RESULTS	
			% Yes	% No
Snohomish Co. PTBA	June 1, 1976	0.3% Sales & Use Tax	79.1	20.9
Lewis County PTBA	Nov. 2, 1976	\$1/mo. Household Tax	58.3	41.7
Snohomish Co. PTBA	Sept. 20, 1976	Annex Monroe Area	65.0	35.0
Snohomish Co. PTBA	Sept. 20, 1976	Annex Lk. Stevens Area	65.0	35.0
Benton Co. PTBA	Apr. 4, 1978	0.3% Sales & Use Tax	26.3	73.7
Kitsap County PTBA	May 16, 1978	0.3% Sales & Use Tax	40.6	59.4
Lewis County PTBA	Sept. 18, 1979	0.3% Sales & Use Tax	43.9	56.1
Pierce County PTBA	Nov. 6, 1979	0.3% Sales & Use Tax	60.6	39.4
Pacific County PTBA	Nov. 6, 1979	0.3% Sales & Use Tax	60.7	39.3
Clallam County PTBA	Nov. 6, 1979	0.3% Sales & Use Tax	57.7	42.3
Skagit County PTBA	Nov. 6, 1979	0.3% Sales & Use Tax	49.9	50.1
Snohomish Co. PTBA	Nov. 6, 1979	Annex Stanwood Area	50.4	49.6
Snohomish Co. PTBA	Nov. 6, 1979	Annex Sultan Area	56.0	44.0
Snohomish Co. PTBA	Nov. 6, 1979	Annex Granite Falls Area	67.7	32.3
Snohomish Co. PTBA	Nov. 6, 1979	Annex Mukilteo Area	63.1	36.9
Snohomish Co. PTBA	Nov. 6, 1979	Annex Bothell Area (Inc. two precincts in Snohomish County)	67.4	32.6
Walla Walla Co. PTBA	Mar. 18, 1980	0.3% Sales & Use Tax	66.0	34.0
Snohomish Co. PTBA	May 20, 1980	Annex Arlington Area	94.3	5.6
Seattle METRO	Sept. 16, 1980	0.6% Sales & Use Tax	47.2	52.8
Skagit Co. PTBA	Sept. 16, 1980	0.3% Sales & Use Tax	39.1	60.9
Thurston Co. PTBA	Sept. 16, 1980	0.3% Sales & Use Tax	64.8	35.2
Lewis PTBA	Nov. 4, 1980	0.3% Sales & Use Tax	38.4	61.6
Lewis PTBA	Nov. 4, 1980	Annex County	27.1	72.9
Clark Co. PTBA	Nov. 4, 1980	0.3% Sales & Use Tax	55.3	44.7
Skagit Co. PTBA	Nov. 4, 1980	Dissolution	51.8	48.2
Island Co. PTBA	Nov. 4, 1980	0.3% Sales & Use Tax	36.0	64.0
Jefferson Co. PTBA	Nov. 4, 1980	0.3% Sales & Use Tax	53.2	46.8
Seattle METRO	Nov. 4, 1980	0.6% Sales & Use Tax	50.7	49.3
Pierce Co. PTBA	Nov. 4, 1980	Annex Buckley, South Hill, Key Pen., Univ. Place, Dupont, Gig Harbor	57.1	42.9
Spokane Co. PTBA	Mar. 10, 1981	0.3% Sales & Use Tax	71.2	28.8
Benton-Franklin Co. PTBA	May 19, 1981	0.3% Sales & Use Tax	65.8	34.2
Snohomish Co. PTBA	May 19, 1981	Annex Index Area	96.2	3.8
Snohomish Co. PTBA	May 19, 1981	Annex Gold Bar Area	91.7	8.3
Snohomish Co. PTBA	May 19, 1981	Annex Wallace Area	92.9	7.1
Snohomish Co. PTBA	Sept. 15, 1981	Annex eastern Marysville Area	76.7	23.3

Source: Report: Public Transportation in Washington State, 1981  
(Olympia: Washington State Department of Transportation, Public Transportation and Planning Division, December, 1981), p. 20.



WASHINGTON STATE TRANSIT ASSOCIATION  
Legislative Program, 1983

The following issues were adopted by WSTA on December 10, 1982 as their legislative program for the 1983 Legislative Session:

1. Equalization of Local Option Sales Tax to 0.6 Percent

Equalize the authority of municipalities to impose local sales tax for public transportation up to 0.6 percent. Currently the Municipality of Metropolitan Seattle (METRO) is the only transit agency authorized to seek voter approval of a sales tax for transit purposes above the 0.3 percent limit imposed upon other transit agencies. The demand for public transportation service is expanding rapidly as well as the cost of providing this service, and the opportunity for voters to increase the sales tax above 0.3 percent to meet these needs is critical.

2. Transit Authority Optional Designation of Treasurer and Auditor

Provide the option for the governing body of a transit authority to appoint by resolution, a treasurer and auditor for the authority other than the county treasurer. This appointed treasurer shall establish and maintain a "transportation fund" into which all authority funds shall be paid. Orders or vouchers approved by the governing body would be covered on warrants issued by the appointed treasurer. All interest earned on authority funds shall belong to the authority and be deposited to its credit in the proper authority funds. This bill provides the transit systems the option of handling and disbursing their own funds in an efficient and expeditious manner and allows them to earn and control the interest earned on its own funds.

3. Modified Procedures for Public Transportation Benefit Areas

Modify various provisions governing PTBAs as initially enacted in 1975, including annexation obligations and areas, composition of PTBA governing board to include citizen members, and requirements for periodic review of the authority's structure.

4. Authority to Pledge MVET Revenues

Restore the authority of transit agencies to pledge MVET for repayment of general obligation bonds. It also grants metropolitan municipal corporations the authority to borrow money and issue short-term obligations. It is important that transit agencies be able to secure the lowest possible interest rates on general obligation bonds. Current restrictions on pledging MVET revenues increase the cost of borrowing money, to the public's disadvantage.

5. 1.5 Percent MVET

Provide authority for public transit agencies to levy a 1.5 percent MVET which would be a credit against the basic 2 percent state MVET. Each dollar to MVET would require a matching dollar from some other local tax.

6. Enable City Systems with Sales Tax to Receive MVET

Remove limitations on city transit systems in cities over 40,000 population funded by sales tax that prevent receipt of MVET. Current statutes prohibit city transit systems from using sales tax revenues to match the MVET collected by the state. This statutory restriction prevents city systems from achieving full service potential. The denial of the MVET in these cases unfairly limits crucial public transportation services.

7. Excluding Vehicles Used for Elderly and Handicapped from the Motor Fuel Tax

Nonprofit corporations providing transit services to the elderly and handicapped would be exempt from paying the motor vehicle fuel tax used for these purposes.

8. Provide for Monthly Sales Tax Distribution to Transit System

At the present time the sales tax collected for transit purposes is distributed on a bimonthly basis. This proposal would distribute the collected sales tax on a monthly basis, improve the cash flow and permit transit systems to earn interest on this income through investment opportunities.

9. Passenger Misconduct on Buses

At the present time enforcement of local ordinances relating to passenger misconduct on buses is extremely difficult for systems operating through multiple jurisdictions. This proposal would provide uniform authority and establish defined passenger misconduct as a misdemeanor.

Source: Washington State Transit Association Newsletter, January, 1983, pp. 3-4.







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