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THE DEVELOPMENT AND IMPACT OF DEDICATED FUNDING ARRANGEMENTS FOR PUBLIC TRANSIT SYSTEMS

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FINAL REPORT

JUNE 1985

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16. Abstract
The objective of the present research is to examine the origination of financial support programs for public transit which support six systems in five states. The study concentrates attention upon the activities, predominately political, which led to the creation of the support structures. The study attempts to extract common and continuing themes which pervade those processes and isolate them for comment.

This report examines by in-depth personal interviews the processes which developed the specific financial support structures found among the case study systems. The origins of the broad intent and the specific requirements of these structures were the primary foci of this examination.

This report builds upon and extends the work of two previous UMTA sponsored research projects. The earlier reports examined the process of transit financing from a financial management perspective and developed the legal and institutional structures which provide transit financial support in the areas examined in the present study. The present study adds to the body of knowledge of support structures, knowledge of the development processes which created the existing structures and which can reasonably be expected to influence future modifications or alterations of those structures.

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EXECUTIVE SUMMARY

INTRODUCTION

The objective of the present research is to examine the origination of financial support programs for public transit which support six systems in five states. The financial support structures have been examined in detail in previous research.* Thus, the present study provides only a brief overview of those structures while concentrating attention upon the activities, predominately political activities (broadly defined), which led to the creation of the support structures. In addition to reviewing the processes which led to the structures, the study attempts to extract the common and continuing themes which pervade those processes and isolate them for comment. Hopefully, these discussions will provide insights and useful information for state and local governments, local transit providers and transit supportive citizens groups which will be of assistance in the development of stable and reliable sources of non-federal transit financial support.

The systems 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 Corportation (NJ Transit), Newark, NJ; and, San Francisco Municipal Railway (MUNI), San Francisico, CA. These systems embrace a variety of financial support structure approaches, a variety of political climates and a variety of service delivery methods.

It is important to remember that the results of these case study examinations can not be generalized to the universe of transit providers. Indeed, strictly speaking, the results can not be extended beyond the specific systems and specific time periods examined. However, with appropriate caution, the major themes pervading the case study examinations can be viewed as having generalizable application. These inferences are noted under the Summary of Major Findings.

FOCUS OF THE STUDY

The study examines the processes which developed the specific financial support structures found among the case study systems. Frequently, but not exclusively, these support structures are contained in state law or in resolutions of local governing bodies. The origins of the broad intent and the specific requirements of these structures were the primary foci of this examination.

*Erskine S. Walther, <u>State and Local Financing of Public Transit Systems,</u> Final Report, PB 83 261065, June 1983; and, Erskine S. Walther, <u>State and Local Governmental Responses to Increased Financial Responsibility for Public Transit Systems,</u> Final Report, PB 84 154343, November 1983.

Primary among the objectives of this study are to:

1. Explore the rationale supporting the creation of a stable and reliable financial support structure;

2. Explore the factors which determined the source(s) of funding which support the financial structures;

3. Examine the presence or absence of specific requirements, such as farebox recovery ratios and restrictions on the use of funds, which impact the financial managment and operations mangement functions;

4. Examine the changes, if any, made or desired to be made in the financial support structures;

5. Extract common themes or trends within each case study experience and examine themes common to multiple situations which may lend themselves to applicability in other environments.

MAJOR FINDINGS

The discussion of major findings is divided into five sections which conform to the five main study objectives noted above. The following represents a summary of the findings as they relate to the study objectives.

Initial Rationale

In terms of an intellectually well developed rationale which supported the creation of the finanical support structures examined here, there, generally, was not one, at least not in a financial sense. More common was a rationale for the development of a stable financial base to support a needed public transit service with the rationale being the need for that service rather than the merits of a particular financial mechanism. The financial support structures which were, in fact, developed are truly the creatures of what was politically feasible at that the time. During the process of development, a financial rationale sometimes emerged, but it was not present as a beginning, underlying factor in designing the support mechanism. This finding should not be particularily surprising as the mechanisms examined here include some of the earliest and most innovative mechanisms in the nation. Further, the body of knowledge upon which financial rationales for designing support mechanisms could be based is only now becoming reasonably well developed and was, general, non-existent when many of the structures examined here were being designed.

Alternative Funding Sources

In general, alternative funding sources were not examined when the structures examined here were developed. In most locations, there was no debate at all over alternative sources of financial support. That source or those sources which were the simplest to enact were selected without analysis. In the case of MARTA, alternatives were considered. However, the consideration was done without sophisticated analysis and was heavily influenced by the level of political support each alternative could generate. The ultimate decision in favor of a sales tax was, at least, half political and half on the back of an envelop. The observed fact that these sources have performed so well over a financally difficult decade, tends to suggest that sophisticated analysis may not be needed when the selection of a base funding source is made. Naturally, this should not be taken to mean that sophisticated analysis is never needed, rather that it is not needed in all cases or at all times.

Specific Requirements

The specific restrictions found in the financial support structures examined tend to break into three major catagories: farebox recovery requirements; limits upon the amount of funds usable for operating expenses; and, managerial reporting and/or legislative oversight.

Taking the farebox recovery requirements and the usage limitations together, there seems to be little or no, (generally no), economic or financial analysis underpinning the specfic percentage levels/limits mandated. Rather, they tend to reflect general senses of what is fair and what is practical under then-existing conditions and/or a political desire to limit the total level of operating subsidy. Indeed, the basic intent is to limit the level of subsidy either by establishing a floor for user payment (farebox recovery) or a ceiling on total public subsidy (limit on level of funds usage for operating purposes), or through a combination of both techniques. A related objective, which is not universely present, is to discourage the growth in labor costs. Another factor is a desire to improve system operating efficiency. This latter fator is frequently cited as the primary reason for mandating a farebox recovery ratio.

The difficulty with these approaches are their long-term nature and their independence of long-term economic conditions and political preferences, both of which change through time. A strong argument can be made for tying farebox recovery or funds usage limits to particular components of operating costs. Thus, making the objective of the requirement more explicit and giving it more of an economic and financial managerial base. In this manner, the distorting impacts of such requirements over time may be lessened and operating efficiencies encouraged in a more positive manner.

Another usage limitation approach which differs in subtle ways from those noted above, is illustrated by the original intent of the California Transportation Development Act (TDA). Those funds were explicitly designed for predominately capital purposes with the explicit intent of lowering long-term operating costs via capital improvements. The approaches noted in the preceding paragraph are designed to have the desired impacts through incentives. Here the desired impact is an intergral part of the structure of the financial mechanism. However, when this direct approach is taken, care must also be used in designing the regulatory oversight components; otherwise, the explicit intent may be rendered ineffective by administrative practice, as was the case with the TDA.

As to the managerial reporting and legislative oversight requirements frequently found in financial support structures, few general comments can be made that are particularly worthwhile. Managerial reporting requirements which are not onerous are certainly appropriate when the use of public funds is undertaken. When they become intrusive and require extensive degrees of managerial time and effort, then they detract from the efficient utilization of public funds and can become counterproductive. Legislative oversight is appropriate when the public funds are clearly state funds. However, such oversight is not appropriate, except for informational purposes, where the funds are not of state origin. The critical factor in determining the appropriate degree of legislative oversight is managerial and operating efficiencies. A major advantage of stable and reliable funding mechanisms is the managerial and operational efficiencies possible. When legislative oversight becomes sufficiently intense to negate those advantages, then a major objective of designing a stable and reliable structure is foregone.

Desired Changes

With the expected exceptions of fine tuning and response to changing conditions, expressed desires to significantly alter the financial support mechanisms examined here were generally absent. With two partial exceptions, there are no on-going efforts to alter the basic support structure.

The first of those exceptions does not constitute a significant alteration in structure. Rather, it represents a significant extension of the existing structure. This effort is the desire of Seattle METRO to increase the municipal levy of the MVET from 1% to 1.5%.

The other exception is of very recent origin and is not noted elsewhere in this study. This is an effort in California to "deregulate" the TDA. This is not a response to the basic premise of the TDA so much as it is a reflection of a generally pro-deregulation political climate combined with a fairly widespread view that, while the TDA is fundamentaly sound, it does need to be restructured from a legal structure point of view, i.e. the various exceptions and local accommodations which have been added over the years have made the act unduly hard to interpret.

Even with the two partial exceptions noted above, it is fair to say that there is no evidence of a desire for major structural changes in the financial support structures examined. There is a level of uncertainty with respect to the future of the federal role in transit financing. This uncertainty has led to some modifications of existing structures (the Sales Tax Equalization Bill in Washington State) and some reexaminations of the basic support structure (CAT in Raleigh, North Carolina), but it has not yet produced any meaningful changes in the basic support structures.

Common Threads And Key Elements

For the present purposes, these may be the most significant findings of the study. These factors represent the political, again broadly defined, elements which appear most frequently among the processes examined and which seem to represent variables which can be generalized and applied by a variety of differently positioned organizations. The following is a summary of those Common Threads and Key Elements.

General Lack of Alternatives Analysis. Generally none of the locations examined undertook significant alternatives analysis of the various funding sources available. In most cases, only one revenue source was, in fact, considered. Where alternatives were examined, the examination took the form of broad "ballpark" figures and the decisions turned, not on financial viability, but upon politicial acceptability. Thus, funding source determination has not tended to be "scientific;" however, given the growth in the body of knowledge regarding transit financing since the occurrances described herein, it is not reasonable to believe that an approach absent alternatives analysis is still an acceptable one.

"Gut Feelings" and Minimum Analysis. Flowing from the above and deserving of separate mention, is the importance of "what feels right." In other words, an intuitive belief that the proposed financing structure will fulfill the political and fiancial requirements prior to presenting the proposal in a legislative forum. This important preliminary step requires a good sense of the situation and a basic level of analysis. Should sophisicated levels of analysis be required, such analysis can be developed as the political/legislative process develops. However, recent events argue very strongly that financial analysis should be undertaken earlier in the full process and should be of a reasonably detailed nature.

Try the Improbable. In some of the cases examined here, the basic enabling legislation was passed with the expectation that no local government would be able to obtain the necessary voter approval to implement the activity. However, in these cases, voter approval was obtained. This would tend to imply that state legislatures do, upon occassion, pass enabling legislation to which there is no strong opposition but for which their is vocal but isolated support, with the assumption that it will "never pass" at the local level. In this way, the locals become the "bad guys" when the measure is defeated and not the legislature. Thus, because a measure appears unlikely of legislative success, is not sufficient grounds for abandoning efforts for passage when the ultimate decision is to be reached not by the legislature, but by local governments or by local voters.

Enlarging the Pie. This successful California technique commends itself for serious consideration in many other locations and situations. This approach finds a method for increasing the total dollar amount of funding available; thereby, providing the ability to expand the number of uses/users of the funds.

Keeping Everybody Whole. This technique is closely related to the pie enlargement method noted above. One of the primary advantages of enlarging the pie is that all current recipients of funding can continue to receive the current level of funding with the additional funds being used for new or additional uses/users. This technique tends to eliminate opposition based on funding cuts or transference of funds from one use to another.

Defining the Parameters. A useful approach where support is intended but unlimited support is impractical or impossible. This approach takes the form of specifying the limits of funding which a public body will be willing to provide. The preferable manner of stating the limits is in terms of a percentage of the revenues from a particular tax source or in terms of a share of a tax rate. The operating advantage this provides is knowledge of the parameters within which the finanical management and the relevant political bodies can/will respond to changing financial environments.

Legislative Oversight. At the state level a key concern is often the degree and extent of legislative oversight of the usage of funds. Thus, in situations where this is a concern, a clear and appropriately developed technique for legislative oversight must be presented as part of the financing proposal.

Innovative Organizational Structures. A rather interesting approach to the institutional question of who or what will be the funds flow mechanism is the use of new and often innovative organizational structures to channel funds from revenue source to fund users which was observed in New Jersey. While New Jersey has a history of creating independent authorities to fund and administer particular projects, the use of independent funding and/or operating authorities and of innovative new organizational structures, such as the bank concept, in other areas of the nation is certainly worthy of consideration. One advantage of an independent authority/bank is, that it places the location of responsibility for the day-to-day conduct of an activity outside of an elected governing body. A potential difficulty lies in the area for legislative/local elected body oversight. While solutions to this latter concern are available, the independent entity can provide administrative efficiency advantages when the activity administered is without political controversy as well as political advantages when the activitiy is a controversial one.

Menu For Local Choice. One approach observed among the case study states was the development of a "menu" of local options for the organizational form and financing structure of public transit. This approach was not designed in the standard sense of the term, rather, it evolved over time and presently presents local governments with a number of options; thereby, permitting local level development of the transit financing and organizational structure best suited to the local conditions and political preferences. In states with a divergence in local area needs and preferences the approach of a "menu" of choices has much to commend it. However, inherent in this approach is a minimal decison-making role for the state government. In areas where such a limited state role is not politically acceptable, the only option which allows for local diversity is one of exceptions written into the state funding legislation.

Advance Responses To Community Concerns. When a popular referendum is required for approval of a financing mechanism and where there exist particular concerns within the community and/or within the political leadership regarding specific activities which may or may not occur should the financing mechanism be approved, then a formal addressing of the specific concerns prior to the vote is an appropriate and useful approach. For example, should segments of the community express uncertainity over how service will be distributed across the system's service area should the mechanism be approved, a method for reducing the uncertainity and, thereby, reducing or eliminating opposition is for the appropriate body to formally adopt policy statements which specify how service will be distributed across the service area. This approach provides the voters with a fuller understanding of just what would be "purchased" if the financing mechanism is approved while also reducing specific sources of potential opposition by directly responding to particular concerns.

Citizen Leadership And Involvement. An important element in the deveopment of several of the financial structures reviewed in this report is the level and degree of citizen involvement. This has varied from citizen groups being the actual initiators of the movement to pass particular legislative initiatives to being influencial, often critical, lobbyists of state legislatures to being the key element in securing voter approval of financing referendas. The experiences noted subsequently in this report, argue very strongly for the early and active involvement of local citizens groups. A key part of obtaining such support is the frequent, regular and early initiation of community meetings where the issues and the alternatives are taken to the citizens and their advice, input, questions and comments are seriously requested. Not only can such activities build critical citizen coalitions, but they can provide the basis for on-going popular support for the transit system.

Local Elected Officials. Another factor which emerges is the importance of an informed group of local elected officials. While such an observation is not new per se, what is somewhat new is the emphasis upon technical information needs of local elected officials. Several respondents to this study argued for the provision of a relatively detailed level of information, on a continual basis, regarding transit operations, technical innovations and developments as well as upon financial matters beyond simply providing budgets and balance sheets.

RECOMMENDATIONS

In a very real sense, appropriate recommendations are best left to the eye of the beholder. The particular findings noted above are all on the order of a "recommendation," but which of them should be considered seriously will vary with the situational specifics of the reader. Thus, recommendations, in the traditional sense of the term, will not be made. However, some of the findings are worthy of further highlighting and particular note.

Specific Incentives. Specific performance rewards should be intergral parts of any financial support structure. However, the incentives should be based on a performance level achieved rather than on improvement of performance measures. Otherwise, the incentive has the perverse affect of rewarding inefficient systems that improve while not rewarding efficient systems which maintain desirable levels of performance.

Limitations and Restrictions. When usage limitations are placed upon particular funding sources, serious consideration should be given to tying those limitations to a subset of operating costs rather then to the total level of operating expenses. This approach would guard aganist unintended responses such as cutting deferable operating expenses in order to utilize the allowable funds for, often, uncontrollable expenses. An important element in this comment is the expectation that usage limitations, once established, should be long-term limits; hence, a long-term view of their potential impacts should be taken.

Long-Term Application. Once farebox recovery ratios or funds usage limitations are established, they should be maintained through time, assuming, of course, that they have been wisely constructed in the first place. If such requirements are eased or changed whenever they begin to "hurt," then they serve no purpose other than political window dressing.

Local Decision-Making. While the prevailing view among the cases examined here is that transit is a desirable public service which can justify receipt of non-local public funds, much of the decision-making should be concentrated at the local level (in some cases a regional level when regional service is to be encouraged). This view argues for local option choices (Menu for Local Choice) and for a block grant approach to funds administration. These approaches can be applied to state and to federal funding programs.

Citizen Involvement. While this will be noted several times in a variety of contexts in this study, it is of sufficient importance to warrent another notation. Citizen involvement has value when particular legislation or projects need approval at the legislative or community levels. Within this context, that citizen involvement is widely utilized. However, it's true value is in building broad based on-going community support for the system. To accomplish this, the citizen involvement must be broad based, on-going and not window dressing. Citizen involvement also means rider involvement.

Many times a transit program begins or undergoes important changes because of citizen involvement and intiative. All too often, once the immediate task is accomplished, the "professionals" arrive and the citizens, whose support and involvement were once so critical, are left on the outside or, worse, on window dressing "advisory committees." The care and feeding of citizens and riders must be an on-going activity.

Local Elected Officials. Just as with citizen and rider involvement, the on-going involvement of local elected officials should be a priority for transit management. The care and feeding of local elected officials is just as important as that of citizens and riders.

The findings derive from a fairly wide range of experiences and circumstances. Thus, most situations should be able to benefit, to some degree, from a consideration of the experiences documented here and from the factors noted.

CONCLUDING COMMENTS

This report builds upon two previous UMTA sponsored research projects cited previously. These reports began building a body of knowledge which examined the process of transit financing from a financial management perspective. These studies also expanded the development of a body of knowledge which examines transit financial support in an institutional/structural context. The latter of the two previous studies developed, in detail, the legal and institutional structures which provide transit financial support in the areas examined in the present study. Thus, the present study extends the previous works, and, in a sense, completes them, by adding to the body of knowledge of support structures, knowledge of the development processes which created the existing structures and which can reasonably be expected to influence future modifications or alternations of those structures.

Information contained in the present study can be useful to areas of the nation and to organizations attempting to develop, or alter exiting, stable and reliable transit financial support structures. While the particular dynamics of each effort towards stable and reliable financial structures is in some manner unique, insights, suggestions and potential directions of movement can be obtained from a careful review of the processes described here and of the structures created by those processes.

Future research should more fully develop the literature associated with stable and reliable financial structures by expanding the array of such structures and their associated development processes which are documented and available for study. Of particular importance, are the emerging efforts to incorporate private sector financial participation into existing financial support structures. These efforts are significant events in the evolution of transit support structures.

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Greensboro

And, as always, to my parents, whose patience never ceases to amaze me.

Any errors or omissions which remain after the excellent assistance and support of the above individuals are the responsibility of the author, unfortunately.

Erskine S. Walther
Greensboro, North Carolina

PREFACE

The information in this report derives from site visit case studies, documents and reports provided by respondents as well as from the results of two preceeding UMTA sponsored research reports*. The research activities conducted for the present study occurred from November 1983 thru January 1985. The results reported herein are as accurate and as complete as possible as of this time period. The area of transit financing is a fast moving area and the time frame of the study should be kept in mind when viewing the report.

*Erskine S. Walther, State and Local Financing of Public Transit Systems, Final Report, PB 83 261065, June 1983; and, Erskine S. Walther, State and Local Governmental Responses to Increased Financial Responsiblity for Public Transit Systems, Final Report, PB 84 154343, November 1983.

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INTRODUCTION

The objective of the present research is to examine the origination of financial support programs for public transit which support six systems in five states. The financial support structures have been examined in detail in previous research.* Thus, the present study provides only a brief overview of those structures while concentrating attention upon the activities, predominately political activities (broadly defined), which led to the creation of the support structures. In addition to reviewing the processes which led to the structures, the study attempts to extract the common and continuing themes which pervade those processes and isolate them for comment. Hopefully, these discussions will provide insights and useful information for state and local governments, local transit providers and transit supportive citizens groups which will be of assistance in the development of stable and reliable sources of non-federal transit financial support.

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FOCUS OF THE STUDY

As examined in greater detail during the methology discussion, the study examines the processes which developed the specific financial support structures found among the case study systems. Frequently, but not exclusively, these support structures are contained in state law or in resolutions of local governing bodies. The origins of the broad intent and the specific requirements of these structures were the primary foci of this examination.

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5. Extract common themes or trends within each case study experience and examine themes common to multiple situations which may lend themselves to applicability in other environments.

SUMMARY OF MAJOR FINDINGS

A summary of the major trends and themes found among the case study systems is presented below. In this discussion, the themes and trends have been generalized in order to view them in a non-site specific framework. The details of these thrends and themes are developed in the appropriate site specific chapters of this report. During the analysis section of this report, these trends and themes and other items of interest are expanded and treated in greated detail.

General Lack of Alternatives Analysis. Generally none of the locations examined undertook significant alternatives analysis of the various funding sources available. In most cases, only one revenue source was, in fact, considered. Where alternatives were examined, the examination took the form of broad "ballpark" figures and the decisions turned, not on financial viability, but upon political acceptability. Thus, funding source determination has not tended to be "scientific;" however, given the growth in the body of knowledge regarding transit financing since the occurrances described herein, it is not reasonable to believe that an approach absent alternatives analysis is still an acceptable one.

"Gut Feelings" and Minimum Analysis. Flowing from the above and deserving of separate mention, is the importance of "what feels right." In other words, an intuitive belief that the proposed financing structure will fulfill the politicial and financial requirements prior to presenting the proposal in a legislative forum. This important preliminary step requires a good sense of the situation and a basic level of analysis. Should sophisicated levels of analysis be required, such analysis can be developed as the political/legislative process develops. However, recent events argue very strongly that financial analysis should be undertaken earlier in the full process and should be of a reasonably detailed nature.

Try the Improbable. In some of the cases examined here, the basic enabling legislation was passed with the expectation that no local government would be able to obtain the necessary voter approval to implement the activity. However, in these cases, voter approval was obtained. This would tend to imply that state legislatures do, upon occassion, pass enabling legislation to which there is no strong opposition but for which their is vocal but isolated support, with the assumption that it will "never pass" at the local level. In this way, the locals become the "bad guys" when the measure is defeated and not the legislature. Thus, because a measure appears unlikely of legislative success, is not sufficient grounds for abandoning efforts for passage when the ultimate decision is to be reached not by the legislature, but by local governments or by local voters.

Enlarging the Pie. This successful California technique commends itself for serious consideration in many other locations and situations. This approach finds a method for increasing the total dollar amount of funding available; thereby, providing the ability to expand the number of uses/users of the funds.

Keeping Everybody Whole. This technique is closely related to the pie enlargement method noted above. One of the primary advantages of enlarging the pie is that all current recipients of funding can continue to receive the current level of funding with the additional funds being used for new or additional uses/users. This technique tends to eliminate opposition based on funding cuts or transference of funds from one use to another.

Defining the Parameters. A useful approach where support is intended but unlimited support is impractical or impossible. This approach takes the form of specifying the limits of funding which a public body will be willing to provide. The preferable manner of stating the limits is in terms of a percentage of the revenues from a particular tax source or in terms of a share of a tax rate. The operating advantage this provides is knowledge of the parameters within which the finanical management and the relevant political bodies can/will respond to changing financial environments.

Legislative Oversight. At the state level a key concern is often the degree and extent of legislative oversight of the usage of funds. Thus, in situations where this is a concern, a clear and appropriately developed technique for legislative oversight must be presented as part of the financing proposal.

Innovative Organizational Structures. A rather interesting approach to the institutional question of who or what will be the funds flow mechanism is the use of new and often innovative organizational structures to channel funds from revenue source to fund users which was observed in New Jersey. While New Jersey has a history of creating independent authorities to fund and administer particular projects, the use of independent funding and/or operating authorities and of innovative new organizational structures, such as the bank concept, in other areas of the nation is certainly worthy of consideration. One advantage of an independent authority/bank is, that it places the location of responsibility for the day-to-day conduct of an activity out-side-of an elected governing body. A potential difficulty lies in the area for legislative/local elected body oversight. While solutions to this latter concern are available, the independent entity can provide administrative efficiency advantages when the activity administered is without political controversy as well as political advantages when the activitiy is a controversial one.

Menu For Local Choice. One approach observed among the case study states was the development of a "menu" of local options for the organizational form and financing structure of public transit. This approach was not designed in the standard sense of the term, rather, it evolved over time and presently presents local governments with a number of options; thereby, permitting local level development of the transit financing and organizational structure best suited to the local conditions and political preferences. In states with a divergence in local area needs and preferences the approach of a "menu" of choices has much to commend it. However, inherent in this approach is a minimal decison making role for the state government. In areas where such a limited state role is not politically acceptable, the only option which allows for local diversity is one of exceptions written into the state funding legislation.

Advance Responses To Community Concerns. When a popular referendum is required for approval of a financing mechanism and were there exist particular concerns within the community and/or within the political leadership regarding specific activities which may or may not occur should the financing mechanism be approved, then a formal addressing of the specific concerns prior to the vote is an appropriate and useful approach. For example, should segments of the community express uncertainity over how service will be distributed across the system's service area should the mechanism be approved, a method for reducing the uncertainity and, thereby, reducing or eliminating opposition is for the appropriate body to formally adopt policy statements which specify how service will be distributed across the service area. This approach provides the voters with a fuller understanding of just what would be "purchased" if the financing mechanism is approved while also reducing specific sources of potential opposition by directly responding to particular concerns.

Citizen Leadership And Involvement. An important element in several of the deveopment of several of the financial structures reviewed in this report is the level and degree of citizen involvement. This has varied from citizen groups being the actual initiators of the movement to pass particular legislative initiatives to being influencial, often critical, lobbists of state legislatures to being the key element in securing voter approval of financing referendas. The experiences noted subsequently in this report, argue very strongly for the early and active involvement of local citizen's groups. A key part of obtaining such support is the frequent, regular and early initiation of community meetings where the issues and the alternatives are taken to the citizens and their advice, input, questions and comments are seriously requested. Not only can such activities build critical citizen coliations, but they can provide the basis for on-going popular support for the transit system.

Local Elected Officials. Another factor which emerges is the importance of an informed group of local elected officials. While such an observation is not new *per se*, what is somewhat new is the emphasis upon technical information needs of local elected officials. Several respondents to this study argued for the provision of a relatively detailed level of information, on a continual basis, regarding transit operations, technical innovations and developments as well as upon financial matters beyond simply providing budgets and balance sheets.

The above discussion reviews a number of the more notable activities, trends and themes observed among the case study systems and states. Subsequent chapters in this report provide detail, background and particular illustrations of these and other activities of interest. The concluding sections of the report returns to these trends and themes and reviews them in greater detail as well as noting other activities of interest not included in the above review.

ORGANIZATION OF THE STUDY

The present chapter provides background to the study and an overview of the major findings of the research. The following sections of this chapter will provide a discussion of the research methodology utilized and a review of the literature. Subsequent chapters present the case study results, a summary of the research findings and the conclusions and recommendations which flow from the study results.

The case study results are presented by state with all systems and organizations examined within a single state being reviewed in the same chapter. This approach is viewed as preferable to alternative approaches as the processes examined occur within a particular context and environment and should be viewed within that setting.

METHODOLOGY OF THE RESEARCH

The present study is a set of in-depth case studies of the development of the financial support structures of six transit providers in five states. The existing support structures are briefly reviewed and the political processes which led to their development are examined in some detail. Additionally, and where appropriate, proposed, but not implemented, financial support structures are also examined.

The interviews followed an open-ended semi-structured format. A set of questions and an overview of the objectives of the research were provided as guidelines to the interview (Appendix A). A high level of structure was not needed and, indeed, might have been counterproductive, as the systems and states examined had been examined in the two studies cited previously and, with few exceptions, the knowledgeable individuals interviewed for this study had participated in the earlier studies.

Respondent systems were selected because they had been studied in-depth previously and, thus, the financial support structures were already documented. Even so, a brief review of the reasons for the selection of these systems for inclusion in the previous studies may be instructive.

The systems included in these studies offer an array of financial structures and funding environments:

- CAT and NJ Transit rely entirely upon discretionary allocations from their local and state governments, respectively, for non-federal operating funds, while AC Transit, MARTA, MUNI and METRO have the ability to utilize dedicated revenue sources;

- AC Transit and MUNI are part of a strong regional organization with service and financial planning coordination requirements mandated by state law;

- AC Transit and NJ Transit are both involved in continuing major capital improvement programs which have the reduction of long term operating costs as a major objective;

- MARTA is in the process of completing a rapid rail system and is prevented from receiving state funds by the terms of its dedicated funding law.

- METRO doubled its dedicated sales tax rate during a politically conservative election and is undertaking an innovative service delivery solution to its downtown congestion problems.

The above brief listing indicates some of the diversity captured by the systems selected for the previous studies. The states selected also present a wide variety of approachs to the provision of financial support for transit. A brief overview of the diversity found among the states selected for examination would note:

- California provides a complex and varied set of funding programs and was among the earliest state programs supporting public transit from sales tax revenues;

- Washington State utilizes a set of local option decisions which provide a true block grant approach to transit financing;

- North Carolina provides no funds for operating assistance and only limited matching funds for federal capital grants; as such, it is similar to many other states desiring only a limited involvement with financing public transit;

- Georgia provides limited state funding, much like North Carolina, but it has developed the "Atlanta model" for local option funding which, if utilized, ends a system's eligibilty for state financial assistance;

- New Jersey created a state-wide body (NJ Transit) in 1979 to oversee transit operations state-wide including direct operation of transit services and the subsidization of privately owned transit services; additionally, the state has attempted a number of innovative approaches to providing capital funding for transportation on a multi-modal basis.

Thus, the previous studies captured a wide range of diversity in approaches to the financing of public transit. The present study benefits from that diversity and provides information concerning the development of this diverse set of approaches. Additionally, the present study goes beyond the previous studies by exploring, where appropriate, changes in the financial support structures which have occurred since the immediately previous study. Such information is provided in addition to information detailing the development processes of the stable and reliabnle financing structures which are the major foci of the present study.

REVIEW OF THE LITERATURE

Introduction

In terms of literature relevent to the narrow definition of the study focus, i.e., the political decision making process in transit funding, virtually no literature could be identified during a rather wide ranging search. However, in a broader sense, the present research builds upon a respectable and extensive body of knowledge in the area of transit financing. Thus, it is not inappropriate that that broader body of knowledge be reviewed with special notation being given to the relatively limited number of documents bearing upon the narrow definition of the study's focus. Thus, the review of the literature presented here is an expansion and update of the review prepared for the research work noted previously*.

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; Kidder, 1980) to catalogs of alternative financing techniques (Gladstone Associates, 1978; Institue of Public Administration, 1979, to cite but a few). The Rice Center (1982) provides a guide to innovative financing mechanisms including examples of local application. This study identified factors such as organizational structure, legal status, financial independence as appropriate criteria upon which to evaluate the mechanism's 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 provided 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), research presented to the International Union of Public Transportation Congress shows that subsidies to public transit are giving far better value than previously believed. The cited

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*Erskine S. Walther, State and Local Governmental Responses to Increases Financial Responsibility for Public Transit Systems, Final Report, PB 84 154343 November 1983, pp. 12 - 15.

study refutes many conclusions on the inefficient effect of subsidies. A 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 the handicapped (e.g., Charles River Associates, 1980; Walther, 1984a; Sen, 1983.)

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

Some of the above cited works, and the literature of which they are representative, investigated 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,b; 1984b) examine transit financing in an institutional environment.

Managerial Perspective 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 the 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 tranit 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 as a public utility to be financed 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 is among the very few studies which examine system cash flow and the sources and uses of system funds. Additionally, the study indicates that financial arrangements must be tailored to the unique economic and political environments facing particular tansit systems. Again, the definition of the role of transit is an important element. Spies et.al. (1982) exmained 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. Walther (1983b) examines the funding structures supporting public transit in five states. This study suggests several approaches to the provision of transit funding which reflect the differing political objectives and climates. Further, the study addresses the impacts upon system financial management which flow from various specific requirements found in several of the financial structures examined.

Additional work by Walther (1983c) 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.

Political Decision-Making Literature

Very few works are available which address the specifics of the political decision-making process which underlies the development of financial support arrangements for public transit. Among this scarce literature are works by Bernhard (1984) which examined the development of the Development Fee and the discarding of the Benefit Assessment District in San Francisco and a not widely available document which, as part of a larger work, reviews the development of the legislation providing for the dedicated sales tax which supports MARTA in Atlanta (MARTA, 1982). A similar review of the development of the MARTA legislation and of the process of obtaining voter approval is contained in a document by Walther (1984c) which is an extension of work prepared for the present study.

A not yet published study of transit financing in Washington State was prepared in 1984 by Klender of the Western Legislative Conference of the Council of State Governments. This work documents the events which led to the development of the Washington State financial support structure but addresses only a limited number of the political issues involved.

The importance of involving local business leaders and various community leaders and local governmental officials in the development of transit support and local financing arrangements is documented in Harmon and Associates, (1984). This report documents the importance and the process of early and significant involvement of the local business community and local community leaders in addition to local elected officials in the process of developing support for local funding initatives. In a comparison of planning and decision-making for transit projects in two Canadian cities, Belobaba (1982) indicated the importance of political and financial considerations. However, there is little discussion of these considerations and their impacts.

A systematic approach to developing financial support structures which meet specified political goals was developed in Walther (1984d). This document specifies a series of "funding tracks" which led through an ordered set of decisions which must be made in the development of a financial support structure and the associated reporting, farebox and funds usage requirements. Thus, given a political objective with respect to the provision of funds for public transit, this series of "tracks" specifies the decisions appropriate to the accomplishment of the specified goals.

Summary Comment

The available literature provides a wide variety of studies addressing the various funding sources available nation-wide to support transit services. To a lesser degree, the impacts upon the tax payer of selecting a particular tax source is also examined. The literature which reviews transit financing from a system financial management perspective is relatively scare. Literature which details financial support structures is a bit harder to locate and literature which addresses the political process of developing transit support structures is the least available. As a greater emphasis is placed upon the skills of system financial managers and upon non-federal sources of funding, the need for guidance in the development of non-federal financing packages, the general political processes which led to the enactment of such packages and the impacts of financing approaches upon system management is becoming correspondingly greater.

CONCLUDING COMMENTS

The present study adds to a scarce body of knowledge which addresses the political decision-making side of the development of non-federal transit financial support structures. It draws upon the two preceeding works which detailed the existing financial support structures of the case study states and systems.

The Summary of Major Findings indicates a variety of themes which pervade the various efforts to develop stable and reliable transit funding structures. While some of these tend to reflect highly specific local situations, most reflect circumstances which are found, in a general form at least, in many parts of the nation. Thus, some insights and guidelines for local and state governments and for local system managements can be obtained from the study results.

II. THE RESULTS OF THE NEW JERSEY CASE STUDY

INTRODUCTION

In 1979, New Jersey created the New Jersey Transit Corporation (NJ Transit) to provide public transportation services state-wide. NJ Transit is empowered to acquire, own and operate public transportation services as well as to contract for such services. NJ Transit is unique among the systems examined in this study in that it has state-wide responsibilities.

NJ Transit not only directly operates transit bus services, it also subsidizes the operating expenses of unprofitable privately owned transit systems and provides capital equipment and planning for New Jersey's profitable private carriers as well as for the unprofitable private carriers. Additionally, NJ Transit operates intercity commuter rail services.

This chapter reviews several of the efforts to provide stable and reliable sources of funds to support the various activities of NJ Transit as well as the basic legislative act which formed the organization. The major emphasis is upon efforts to obtain capital funds as that has been the primary area of activity of interest to this study. The objective of the present discussion, then, is to indicate the major political factors which contributed to the passage or failure of the legislative proposals reviewed.

REVIEW OF FINANCIAL STRUCTURE*

The funding structure which supports NJ Transit's operating activities is that of farebox revenues, state discretionary allocations, UMTA Section 9 operating funds and other funds. There are no local transit funds in New Jersey. Each year the Governor proposes an operating budget which provides the best estimates of federal operating assistance, miscellaneous revenues and the levels of farebox revenues and proposed state subsidies needed to offset operating costs.

Obtaining a stable and reliable source of operating funds has been the focus of particular legislative efforts, but most of the recent legislative proposals have focused upon sources of capital funding, in particular, the obtaining of adequate local (i.e., state) funds with which to match federal capital assistance grants. Thus, the efforts described in this study are directed towards this end. This is a difference between the New Jersey situation and that found in many other areas of the nation and this difference should be kept in mind during the following discussion.

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*For a discussion of the details of funding activities at NJ Transit see: Erskine S. Walther, State and Local Governmental Responses To Increased Financial Responsibility For Public Transit Systems, Final Report, Report No. PB84 154343, November, 1983.

THE NEW JERSEY TRANSPORTATION ACT OF 1979

Background to the Act

Prior to 1979, New Jersey subsidized the existing privately owned transit providers rather than move to a publicly-owned and operated public transit system. This approach began in the late 1960's as a stop-gap measure to keep essential services on the streets. It was ten years before a political consensus could be reached to change that approach

One reason for that approach was the large number of private carriers and the existance of several natural transit corridors where profitable private provision of transit was occurring. Members of the legislature from these areas were concerned that a movement towards public ownership might lead to a public takeover of the profitable private carriers.

However, thru time, this approach put New Jersey in the "worst of both worlds." The state government was facing rapidly increasing levels of subsidy and deteriorating service quality, while having no control over policy or operations of the subsidized carriers.

The structure of the subsidy program (administratered by the New Jersey Department of Transportation) itself can be faulted for this situation. The subsidy was a bottom line subsidy with no performance incentives. Whatever amount the carrier lost, was the amount the state paid.

Prior to 1979, several unsuccessful efforts were made to change the situation by moving to publicly owned public transit. The primary arguments against the proposal were: one, a belief that private sector ownership was the best way to provide transit services; and, two, a refusal to believe that the public sector could do a better job. An additional factor was that public ownership would entail a major state undertaking and commitment which many legislators were reluctant to initiate.

1979

By 1979, several factors began to move together which led to the passage of the New Jersey Transportation Act. The initiative for the Act came from the New Jersey Department of Transportation (NJDOT) which administered the existing subsidy program.

Both the immediately preceeding and the then currently serving Commissioner of Transportation had a transit background rather than the highway background more common previously. This background made these commissioners more sensitive to the fundamental difficulties of the subsidy program. Both attempted to get the legislature to change the situation but only the latter Commissioner, Louis Gambaccini, was successful.

By 1979, all the trends in the subsidizy program were undesirable. The level of subsidy was increasing at an uncontrolable rate, ridership was decreasing, services were deteriorating and the equipment was out-of-date and poorly maintained.

By this time the subsidized carriers were private in name only. The state purchased the vehicles, subsidized the operating expenses and planning was provided by the Commuter Operations Agency of the NJDOT.

Combine a deterioring service situation, an escalating public subsidy program and the transparent fiction of private ownership with the interpersonal skills of Commissioner Gambaccni and the potential for a change in the transit situation was greatly increased. But even so, the Act passed by a very narrow margin.

Recall the previously noted predisposition in the legislature towards private ownership and the existance of several natural transit corridors such as Jersey City in Hudson County. The Act would provide the to be created agency with rather broad powers and legislators from the natural transit corridors were concerned that passage of the Act might lead to a public buy-out of the profitable private carriers in their districts. While these concerns have not been borne out as correct, they were very real issues at the time.

Intent of the Act

The intent of the Act was to create the New Jersey Transit Corporation (NJ Transit) to step in for the subsidy program with respect to the unprofitable private carriers and to keep the currently profitable private carriers profitable*. It was not intended that NJ Transit would acquire profitable private carriers, nor has that occurred.

Results of the Act

Following the passage of the Act, NJ Transit acquired Transport of New Jersey (the largest carrier in the state) and Maplewood Equipment Company (a smaller carrier). Those services are now directly provided by NJ Transit. Numerous other activities occurred such as route studies and revisions, schedule changes, improved maintenance and a major capital replacement program.

The subsidy program for the unprofitable private carriers was transfered to NJ Transit from NJDOT. NJ Transit continues the program but with tighter standards for service, maintenance and financial management, including more detailed analysis of the subsidized carriers' budgets.

A relatively new addition to NJ Transit's dealings with private carriers is the service contract. Private carriers bid on providing a stated service. The bid takes the form of stating the level of subsidy needed to perform the stated service. The winner receives a flat dollar subsidy. If the service is provided with a lower deficit than projected resulting in over-subsidization, then the carrier keeps the difference. If the carrier runs a larger deficit, under subsidization, the carrier absorbs the loss, no additional funds are provided. This approach has real financial incentives built into the program.

*Approximately 25% of the transit service in New Jersey is provided by profitable private carriers.

In addition to the programs noted above, NJ Transit also purchases capital equipment for the private carriers, both subsidized and unsubsidized. These programs are aimed at maintaining a healthy private carrier industry in New Jersey.

1984 Evaluation of the Act

As has been indicated, the 1979 Act was a bold move for New Jersey. At the time, the existing situation was known; however, what the needs of the agency being created to correct that situation could not be fully known.

In 1984, NJ Transit conducted an internal, informal evaluation of the Act and found that it was a remarkably resilient and farsighted Act. With a number of relatively minor exceptions, the powers and structures which the agency would need to accomplish the objectives of the Act were, in fact, embodied in the original legislation.

Summary Comment

This Act provides the foundation for the current public transit service in New Jersey. The actions reviewed below occurred within the context of an established state-wide transit authority (NJ Transit). A recurring theme in the following discussions is the need for capital funding, particularly for federal matching purposes. As has been noted, in the above review, the capital stock of the subsidized carriers had deterioriated to a very low state. This occurred even though the state was buying the vehicles for the private carriers, subsidizing operating costs and providing planning services.

Thus, the needed capital program extended beyond simply vehicles. It included the need for major new maintenance facilities, bus stops and shelters, vehicle maintenance equipment and a wide range of smaller capital items. Thus, the identification of capital funding is a major activity at NJ Transit.

TRANSPAC I AND II

One of the more unique capital financing arrangements used by NJ Transit is the two Transpac arrangements. The Transpac arrangements have provided approximately $320 million in transit capital funding for New Jersey.

The Port Authority of New York and New Jersey made a commitment to fund a major capital project in New York and a PATH (Port Authority Trans-Hudson) extension to Plainfield in New Jersey. To fund these projects the Port Authority raised the bridge and tunnel tolls from $1.00 to $1.50.*

After study, the PATH extension was found not to be cost effective. Thus, other appropriate projects in New Jersey had to be identified. At the same point in time, the State of New Jersey was searching for new sources of transit capital matching funds and funds for capital projects to be 100% state (i.e., local) funded.

*The toll increase required the approval of the Governors of both states. Thus, each state would expect some benefit from the increase.

The end result of these two events was Transpac I which generated approximately $220 million for NJ Transit. UMTA agreed to accept the Transpac I funds as local match for a program grant of a diverse set of capital projects. Under this program grant, the Transpac I funds were used for the purchase of buses. As per the Port Authority's requirements, the vehicle titles are retained by the Port Authority. All items acquired pursuant to Transpac must be located within the Port Authority District (a 25-mile radius of the Statue of Liberty) and operated within the Authority's service area (a 75 mile radius of the Statue of Liberty). NJ Transit leases the vehicles from the Port Authority.

Transpac II occurred because the toll increase produced more revenue than originally expected. Transpac II generated $100 million for NJ Transit which, again, was used for buses and bus related facilities such as bus shelters. These funds were used as local match for several UMTA Section 3 and Section 9 capital grants. Again, the vehicles are leased from the Port Authority and are subject to the same limitations as were the capital projects undertaken under Transpac I.

THE 1979 BOND ISSUE

Transpac I became the cornerstone of the transit portion of a massive transportation capital program announced in 1979. A $450 million bond issue which would provide approximately $120 million for transit was another key component of the transit capital program as well as the backbone of a major highway capital program.

However, the bond issue had to receive voter approval and three previous transportation bond issues had failed to do so. The 1979 effort, however, was backed by a well-organized voter-information drive which uncovered latent voter support for transportation. Opposition was limited, with some coming from people prefering pay-as-you-go financing and from those with a general opposition to state spending. The opposition view did not prevail and the bond issue passed. The bond issue funds and the Transpac funds are now all committed or programed for specific projects.

TRANSPORTATION IMPROVEMENT FUND ACT OF 1982

The Transportation Improvement Fund Act (TIF) was an effort to obtain a stable funding source for transit at the state level. But, it was also closely related to efforts to solve the problem of the state's budget deficit.

The TIF would have increased the state excise tax on motor fuels by $ .05 per gallon and altered the distribution of the revenues from the then existing $ .08 per gallon motor fuels excise tax. Had the legislation passed, $ .10 of the resulting $ .13 per gallon motor fuels excise tax would have gone into the TIF. This would have generated approximately $400 million annually for transportation. Funds would have been allocated by the state legislature.

At the time of the legislative proposal, the state budget was in deficit approximately $100 million. There was a clear need to 'do something' to remove the deficit. An increase in the state income tax was politically unacceptable to Governor Kean (a Republican) who had campaigned on a no tax increase platform. An income tax increase for high-income individuals was being supported by the Democratic leadership in the legislature.

A motor fuels excise tax increase was suggested with the funds to be dedicated to transportation. This would have freed the general fund revenues then going to transportation; thereby, reducing the budget deficit.

The New Jersey Legislature has a history of reluctance in approving dedicated taxes. A dedicated tax commits the resulting revenue stream to a particular usage and removes those funds from the legislative allocation process.

Other factors working aganist passage of the proposal were the unpopularity of an excise tax increase <u>per se</u> and the regressive nature of excise taxes. Even though this proposal pre-dates the increase in the federal motor fuels excise tax, the federal increase was being discussed and the possibility that it might become a reality was considered in the discussions of the New Jersey proposal.

An additional complicating factor was the then-current state of the economy. At the time it was in a recessionary state and there was concern that the tax increase would negatively impact the state's economy.

Against this background, the Democrats in the legislature agreed to support the motor fuels excise tax increase if the Governor could deliver Republican support for the proposal. This support failed to materialize in the State Senate where the proposal failed passage by one vote.

Eventually, the state's budget crisis was solved by increasing the state sales tax from 5% to 6% and by adding a new tax bracket to the state income tax. The new bracket applied to incomes of $50,000 and above. However, with the recent economic recovery, these taxes have helped place the state budget in a surplus position. But the issue of dedicated transportation funding remained unresolved.

THE INFRASTRUCTURE BANK - 1983

Even though the state's budget deficit problem was resolved, a transportation financing plan was still needed as was a method of financing a variety of infrastructure needs in the areas of a bridges, highways, water and sewer. There was a large amount of federal funds available for these purposes but not all of the available federal funds were being utilized.

The Infrastructure Bank would have pooled some of the existing federal water and sewer grant monies to establish a revolving fund from which cities could borrow for infrastructure capital needs. The loans would be repaid from user charges. For water and sewer projects, the revenue source for loan repayment was clear and raised no questions. However, for bridges, highways and transit the repayment funding source was not clear and presented a major problem to the proposal's passage.

Another difficulty was the absence of any legislative oversight of the proposed Bank's funding. The Bank would have been housed in the Executive

Branch and its funding would not have passed through the legislature's allocative process. The question of legislative oversight needed clarification. Thus, many legislators were reluctant to support the proposal.

The combination of unclear repayment techniques and the absence of legislative oversight were sufficient to kill the proposal's chances of passage. Even though the concept of the Bank was taken seriously, received considerable media attention both local and nationwide (it sowed the seeds for other proposals) and a number of bills were introduced which addressed the concept, the legislation itself failed to gain the necessary momentum in the legislature.

SENIOR CITIZEN AND DISABLED RESIDENT PUBLIC TRANSPORTATION ACT OF 1983

This Act is commonly known as the "Casino Bill" as the funding derives from taxes imposed upon gambling casinos. The legislation permitting gambling casinos in New Jersey established the Casino Improvement Fund (CIF) financed from taxes imposed upon the casinos. The CIF revenues finance a variety of programs designed to benefit the state's elderly and handicapped populations. Utility assistance, property tax relief and pharmaceutical assistance are examples of CIF financed programs. Transportation was not originally included as a fundable activity. Even though the handicapped community, many of whom are employed, wanted it included, the elderly community did not consider it as important as the other programs. Initially, the elderly community's view prevailed.

In 1981, a proposal to add transportation as an allowable usage of the CIF revenues was approved in a state-wide referendum. However, the legislature did not appropriate revenues for transit purposes as the available funding was utilized for other previously identified programs. Prior to the 1983 Act, all CIF revenues were allocated by the legislature.

In 1983, the handicapped community went to the legislature requesting an allocation of CIF revenues for accessibility improvement programs and for increased levels and special types of accessible service. The legislature realized that the request was for services essential to the handicapped community. The legislature held a large number of public hearings and was highly visible in support of improving handicapped mobility.

The original request was for a flat dollar appropriation of approximately \$22 million from the CIF. As the hearings proceded, this became a request for a dedicate allocation of 15% of the CIF revenues (15% was the approximate proportion the flat dollar request bore to the total CIF revenues of approximately \$150 million). The 15% value was later compromised to 7.5% because of the strained resources of the CIF.

The 1983 Act, then, specifies that 7.5% of the CIF revenues will be allocated for mobility programs and accessibility improvements. A strong maintenance of effort requirement is included so that these funds will not replace existing expenditures.

All of the funds generated by the 7.5% provision initially pass to NJ Transit. Of these funds, 25% are retained by NJ Transit for accessibility improvements. The remaining 75% of the funds are distributed to the state's twenty-one counties by formula. The formula is the county's elderly population as a proportion of the state's elderly population. That proportion determines the county's share of the 75% funds. Eventually, the formula will be modified to include the handicapped population in both population counts.

The counties have wide discretion in the use of these funds and develop their own programs for improving mobility and access. The programs must be approved by NJ Transit. The current usages include paratransit service, paratransit feeder sevice to accessible fixed route service, taxi fare subsidies and transit fare subsidies.

The Act does contain a provision that the services funded under these programs should not adversely impact existing privately owned paratransit services or existing taxi services. This provision is quite consistent with the legislature's interest in preserving privately owned transit operations, an interest which has been noted previously.

THE BRIDGE REHABILITATION AND IMPROVEMENT BOND ACT OF 1983

This very straight forward Act was an effort to resolve a long standing confusion of responsibility for the repair of a sizable number of bridges which had been closed as unsafe as well as to repair a number of deteriorating but in service bridges. The confusion of responsibility centered around highway bridges over railroad tracks. Known as "overhead bridges," the repair and upkeep of these bridges had been the responsibility of the railroad owning the tracks which the bridges crossed. While the railroad's financial condition declined and as the automobile became the dominant transportation mode, the upkeep responsibility remained unchanged although the condition of the bridges deteriorated.

This Act took the position that who was responsible for the bridges did not matter. Rather, the over riding need was to repair the bridges. As NJ Transit operates commuter rail service, it received $25 million of the bond funds to repair the "overhead bridges" crossing it's rail tracks. The total program was $390 million ($135 million from the state with the balance being federal funds).

TRANSPORTATION TRUST FUND AUTHORITY ACT OF 1984

With the funds generated by the 1979 bond issue and the funds deriving from Transpac I and Transpac II fully programmed, the state was facing a situation of not knowning where it would generate the necessary local matcing funds for federal highway and transit capital assistance. The Governor proposed that funds from three sources be pledged and that a new state entity, a Transportation Trust Fund Authority be created to receive the pledged funds and issue bonds to be repaid from the pledged revenues.

Revenues would derive from:

* the various toll road authorities;

* increases in fees charged commerical trucking:

  - increased registration fee,
  - increased tax on diesel fuels, (only the increased amounts from these fees and taxes would be pledged to the Trust Fund Authority);

* the state's General Fund.

This would generate approximately $143 million in state revenues, which, when matched with federal funds and leveraged in the bond markets, would produce a total program of approximately $3.3 billion. This amount would support a four year capital improvement program for highways and for transit. Over the four year period, NJ Transit would receive approximately $940 million. The total package represents the equivalent of a dedication of 2.5 cents of the existing 8 cents per gallon motor fuels excise tax. In 1984, New Jersey voters approved a state-wide referendum which formally dedicated these funds.

In concept, this Act is not dissimilar to previous proposals which failed to receive legislative approval. A key difference between those proposals and this Act is the existence of clear legislative oversight. All projects funded from these bond revenues must go through the legislative review process and must be explicitly approved by the legislature. This requirement solves a critical failure of previous unsuccessful proposals.

PORT AUTHORITY BANK FOR REGIONAL DEVELOPMENT

This proposal is currently pending. A complicating factor is the need for identical legislation to pass in both New York and New Jersey. However, once the critical question of legislative oversight is resolved, it is expected that the proposed legislation will be passed in both states. This proposal, once again highlights the importance of legislative oversight in obtaining legislative approval of proposed transportation financing mechanisms.

The foundations for the proposal were laid in a bi-state agreement between Governor Kean of New Jersey and Governor Cuomo of New York following a blue-ribbon commission study of the Port Authority. The proposal would establish a permanent Bank operated by the Port Authority of New York and New Jersey. The Bank would provide grants (and some loans) for a wide range of infrastructure activities within the Port Authority District (a 25 mile radius of the Statue of Liberty). In addition to funding for transt capital projects, the Bank would also provide funds for water and sewer and highways capital projects. In this regard, the proposed Port Authority Bank is very similar to the unsuccessful Infrastructure Bank proposal.

The Bank would be funded from revenues generated by an increase in the Port Authority bridge tolls from $1.50 to $2.00, similar to the earlier toll increase from $1.00 to $1.50 which funded Transpac I and Transpac II, and from increased rents in the World Trade Center. Related to the discussions which produced the Port Authority Bank proposal are discussions between the Governors of New York and New Jersey concerning the future disposition of the

World Trade Center, PATH fare increases, new railcar purchases and construction of a new railcar maintenance facility.

Action on the Bank legislation was delayed in both states until an agreement could be reached regarding Port Authority plans for redevelopment on the Hudson River water front in Jersey City, New Jersey. The New York legislature wished to move with caution on this while the New Jersey legislature felt that no agreement would be reached on the Bank until an agreement had been reached with respect to the water front redevelopment. Underlying this was a history of bi-state arrangements in which New Jersey felt that it had moved with speed only to be delayed by inaction on the part of New York. Legislation has now passed in both states addressing the water front issue and the legislatures are now free to consider the issue of the Bank itself. As has been noted, the primary difficulty is in resolving the technique of legislative oversight. The Bank has strong support in both legislatures, thus, the expection is that the oversight problem will be satisfactorily resolved.

COMMON THREADS

The above discussion has reviewed a variety of activities, both successful and unsuccessful, which relate to the funding structure in New Jersey. Several comon threads run through the various activities reviewed here. These threads are:

Legislative Oversight. The presence of specific legislative oversight provisions are not, in-and-of themselves, sufficient to ensure a measure's passage. However, the absence of specific legislative oversight is sufficient to ensure a measures defeat. Attention to this legislative preference is particularly important in states where the legislature has a marked reluctant to approve dedicated taxes.

Multi-modal Approach. A distinguishing feature of most of the financing proposals reviewed above is the multi-modal nature of the projects which benefit or would have benefited from the proposed financing mechanism. This is a relatively uncommon approach in that most financing mechanisms elsewhere in the nation tend to be mode specific. In New Jersey's case, the total financing package is multi-modal, while with-in the overall package there is a fairly clear means of allocating the total available funds among alternative modes.

Innovative Organizational Structures. Another common feature which is found in most of the financing efforts reviewed above is the presence of an unusual organizational structure to carry-out the financing/expenditure process. The move to a state-wide transit authority - NJ Transit - is a unique structure for financing and provision of pubic transit.

The "Bank" concept is another innovative approach to structuring the flow of funds to public capital projects. This review has noted two such efforts: the Infrastructure Bank and the Port Authority Regional Development Bank. Similar to the bank concept is an older concept with a new twist to its application: the Authority created by the Transportation Trust Fund Authority Act of 1984. This creates an entity with the sole purpose of financing capital projects on a multi-modal basis (transit and highways). More traditional transportation authorities had been primarily charged with operating a transportation system of some type.

Another innovative use of the available resources is found in Transpac I and Transpac II. Both of which represent imaginative methods of translating available resources into an area of needed resource input. Additionally, the resource transfer was accomplished without developing commitments or expectations of future such transfers while, at the same time, fulfilling all of the legal requirements which the various parties to the transaction must meet.

Politics of State Budget Deficits. The discussion of the Transportation Improvement Fund clearly illustrates the importance of the political activities which tend to accompany unhappy state budgetary situations. While the TIF would have produced a financing mechanism of benefit to transportation, it's inception and most of the debate concerning the TIF was grounded in the impact upon the budget deficit. The difficulties flowing from the defeat of the TIF* are an instructive argument for dedicated financing mechanism.

Avoidance of Dedicated Taxes. The discussion also indicates a general avoidance of the dedication of tax revenue to a particular usage. The only case of legislatively dedicated funds among the initiatives reviewed above is the dedication of 7.5% of the CIF revenues to accessibility improvement programs. While previous attempts to obtain a dedicated revenue source for transportation failed, this effort succeeded. Two important differences exist between the successful and the unsuccessful efforts. First, the successful effort requested the specific dedication of funds from a funding source already dedicated to a set of programs benefiting the elderly and the handicapped. Thus, it did not represent a divergence of funds from the general fund. And, second, the dedicated use requested was well within the philosophical usage area of the CIF revenues. Thus, approval of the dedication did not represent a new direction for the legislation. These differences, plus the general political influence of the handicapped populations, when organized, were the major factors which spelled success for this dedication effort in an area with a general non-preference for the dedication of revenue sources.

CONCLUDING COMMENTS

The common treads noted above are found in some degree in each of the financing efforts reviewed during this discussion. They are among the major factors which define the thrust and nature of the financial mechanisms developed to support public transit in New Jersey. Several of the factors noted are commonly found throughout the country. Some of the methods developed in New Jersey for addressing these commonly found factors may be of use to transit operators elsewhere. Information of particular value may well be found

*NJ Transit and several other important state financed activities stated that they would suspend operations if additional state funds did not materialize. State funds were provided (see earlier discussion regarding the budget deficit) and the operations were continued.

in the use of innovative organizational structures and in the use of innovative resource transfer mechanisms. While it is true, that some of these innovative approaches rely, quite heavily, upon unique organizational situations found in New Jersey, a consideration of them can serve as a springboard for better utilization of the potential for innovation contained in most situations around the nation.

III THE RESULTS OF THE NORTH CAROLINA CASE STUDY

INTRODUCTION

The City of Raleigh North Carolina has developed a financing support structure for the City owned public transit system which can be viewed as a stable and reliable non-dedicated structure. Indeed, this funding structure has been termed a semi-dedicated structure.*

This funding structure has been discussed in detail in two previous studies sponsored by the Urban Mass Transportation Administration (UMTA) of the United States Department of Transportation.** Thus, only a brief review will be reported here.

The objective of the present study is to discuss the political, institutional, legal and other appropriate factors and activities which led to the development of this semi-dedicated financial support structure. The case study provides a delineation of and insights into activities which produced the financial structure existing in Raleigh, North Carolina. A brief review of the Raleigh structure is presented below, followed by a brief overview of the role the State of North Carolina plays in the funding of public transit.

REVIEW OF FINANCIAL STRUCTURE ***

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 services, 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.

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*See: Erskine S. Walther, "Reappraising Transit Financing: The Role of Dedicated Financing", Transportation Research Board, Washington, DC, January 17, 1983.

**State and Local Financing of Public Transit Systems. Final Report, Report No. A&T-TI-49-RR-82, June, 1982; and State and Local Governmental Responses To Increased Financial Responsibility For Public Transit Systems. Final Report, Report No. PB84 154343, November, 1983.

***See: Erskine S. Walther, State and Local Governmental Responses To Increased Financial Responsibility For Public Transit Systems. Final Report, Report No. PB84 154343, November, 1983, pp 144-145.

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 of 1982 threatens 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.

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 primiarly 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 necessry political support. In general, transit is not a political issue at the state level.

CONTEXT: RELEVANT STATE LAWS

North Carolina does not have a Home Rule law with respect to the powers of local governments. Rather, local governments have only those powers explicitly stated in state statute. While there is a general movement towards broader grants of power to local governments on most issues, financial issues are still fairly closely watched. The general practice on new financial approaches has been to authorize a particular local government to undertake the approach, such as a county sales tax and, then, if it works well, to pass state-wide authorization enabling local governments to adopt the measure at their pleasure.

For cities, property tax funds may be utilized at the discretion of the city council for purposes enumerated in state statute. Transit is not one of those purposes. For property tax funds to be used for transit a public referendum is necessary. There have been three such referenda; two passed, one failed.

This usage restriction does not apply to most other sources of local revenue. Thus, it does not constitute a meaningful restriction on transit funding. However, given the fiscal conservative view of the state and of local governments, the inclusion of transit as a allowable usage for property tax revenues could prove beneficial in that it might "legitimize" transit in the eyes of local officals. Adding transit to the allowable uses list has been recommended by a special transportation taskforce (the Governor's Blue Ribbon Committee) appointed by the Governor to study transportation needs and financing. To date the legislature has not acted upon this recommendation.

The state legislature passed, in June of 1977, state-wide enabling legislation permitting local governments to establish Public Transportation Authorities. Authorities created under this law are creatures of the local government authorizing the authority and are accountable to that local government. While an authority has no taxing power of its own, the local government can authorize a special election to establish a special tax to fund the operations of the authority.

The Raleigh Transit Authority was formed under this enabling legislation. All of its fundings derives from appropriations by the City Council.

DEVELOPMENT OF THE FINANCIAL STRUCTURE: RALEIGH

In 1973, the City of Raleigh began to examine the question of a publicly owned public transit system. At that time, transit service was being provided by a privately owned system. Upon the initiative of the City Council, an intergovernmental steering committee was established and a consultant was hired. These actions began the study of public transit in Raleigh and the collection of public input and option.

Both the steering committee and the consultant recommended that the City apply for a grant from the Urban Mass Transportation Administration (UMTA) and purchase the privately owned system. The purchase occurred in April, 1975.

The study process and the committee process examined questions pertaining to the goals, service levels, areas of service and the target ridership populations of a publicly owned system. These examinations were strongly influenced by social and economic factors and concerns. The primary focus of the service would be the transit dependent. Public transit as an alternative to the privately owned automobile was only a secondary consideration.

Thus, the objective of public ownership was to develop a good basic transit system which served most areas of the city with an emphasis upon service to the transit dependent. When viewed from this goal perspective, a publicly owned transit system was not expected to be an ever expanding service with a "lot of frills." Nor was it expected to create an ever increasing demand upon city revenues.

In 1974, the oil crisis generated increased interest in transit as an alternative to the private automobile and raised questions about expanding the proposed service area. However, as the oil crisis passed, so did most of the interest in transit as an alternative, even though it did not completely disappear. The crisis did not speed up the purchase process because that process was proceding as rapidly as possible already.

In January 1975, direct responsibility for completing the purchase and overseeing service delivery following public ownership passed from the intergovernmental committee to the city's Department of Transportation. The Department was instructed to obtain federal funding and purchase the private system. The UMTA grant was approved within four months and the system was purchased in April, 1975.

The grant application included funds for new equipment purchases and expanded service. New buses were ordered in July, 1975 and arrived during July, 1976.

During the 1976 - 1977 time period, the City Council indicated, but did not require, that the city's share of the operating deficit should be held to one-half million dollars per year. This was successfully done until the inflation of the late 1970's drove the operating costs markedly upward. The city's share of the operating deficit is now approximately $1 million per year. Until 1983, the Council did not raise the question of a formal limit to the city's financial participation. Even so, the limitation does not seem to be as strong in practice as it appears on paper. This topic will be treated in some detail below.

From the begining of publicly owned service until 1983, an informal agreement for financing operating costs of the system had evolved. There was no formal structure to this evolution. Rather it grew out of a set of practices flowing from the purpose and intent of the publicly owned system noted above.

During 1982, the Raleigh Transit Authority undertook to place the then and presently existing practices with respect to financing the system on a more formal basis. The staff of the city's Department of Transportation prepared a draft resolution incorporating the current division of financial commitments for the consideration of the Transit Authority. The Authority approved the language and recommended that it be adopted by the City Council.

During this same general time period, members of the sitting City Council and the Mayor began informal discussions aimed at the development of some formula to determine what levels of financial support would be forthcoming from the city's general fund revenues. The informal discussions addressed the basic question of what needed to be done to maintain the public transit system's financial support in the face of a possible termination of federal operating assistance grants. The results of these informal discussions later were incorporated into the formal council resolution noted above. The resolution is reproduced in the Appendix B. The resolution was adopted in April of 1983.

This movement to a formal statement was initiated in response to the possible withdrawal of federal operating assistance as has been noted. The essence of the resolution was to commit the existing financial support structure to a written form and provide a framework within which any unfunded deficits resulting from a withdrawal of federal operating assistance funds would be shared between the city's general revenues and the system's farebox revenues.

The first "test" of the impact of this resolution will occur with the beginning of the 1986 Fiscal Year. The caps placed upon the use of UMTA Section 9 funds for operating purposes will be felt for the first time during that fiscal year. Section 5 carry over funds have been used to provide operating funds above that allowed under Section 9. The carry over period for Section 5 funds ends with the close of the 1985 fiscal year.

Another development growing out of the informal discussions noted above and also incorporated in a recommendation of the Transit Authority to the City Council was the elevation of the city's automobile license tag fee from $1.00 per year to $5.00 per year. A primary rationale for this increase was the possible withdrawal of federal operating assistance. This fee currently generates approximately $400,000 per year for the city's general fund. These revenues are not dedicated but are "earmarked" for transportation in general with transit having a "first claim" upon the funds.

A consistent theme running though the city's support of public transit is that it is a necessary public service and that it must be delivered at a reasonable financial cost to the city. As one respondent phrased it: "We must live within our means." A corollary to this philosophical approach is the view that the city will not expand service beyond needs simply because federal funds are available. To do so would not constitute responsible government, in the respondent's view.

The financial structure supporting Raleigh's public transit system has been strongly influenced by three political beliefs:

- that transit is a necessary public service;
- that users should pay a fair share of the operating costs;
- that city revenues should not be formally dedicated to a particular use.

The existing financial structure evolved from these principles and the 1983 Council resolution reflects their continuing influence.

KEY ELEMENTS

Among the factors which molded the financing structure of the CAT system, several are worthy of particular note. These factors are summarized below.

Public Transit as a Public Service. A key element is the perception of public transit as a necessary public service. As such, the support of public transit is viewed as an appropriate use of public funds. This view underlies and reinforces the base of political support for transit which has evolved over several city administrations.

Sharing of the Costs. While transit is a proper use of public funds, it's users can be identified and charged. Thus, a view of shared costs has evolved where the operating costs of the system are shared by users, local property tax payers and federal grants.

Avoidance of Dedicated Taxes. Reflecting a general political view that control over public funds should remain with elected public officials, dedicated taxes are generally avoided. In this context, this keeps public transit in the public decision making arena. This highlights the importance of maintaining the existing political consensus.

Defining the Parameters. Given the above elements and the political intent of providing support for public transit but not unlimited support, the City Council has specified the parameters within which future local public funds will be provided for transit. This approach has the advantage of providing, in advance, the financial parameters within which the system will have to work to maintain its operations. This also provides the ground upon which future discussions of local funding will occur.

The key elements identified above, are remarkably interconnected. Each builds upon and reinforces the others. It is this consistence in approach which permits the financial structure supporting the CAT system to be viewed as a stable and reliable structure even though it intentionally avoids the use of dedicated funding mechanisms.

CONCLUDING COMMENTS

The above discussion may be a little "unfulfilling" and may sound a little too simple. However, it does accurately describe the financing situation in Raleigh. There is a clear cut and strong political commitment to providing a good level of basic service and to doing so within reasonable financial parameters. The provision of transit services has not been a political issue since the system was purchased. What political issues have occured involving transit were over specific projects and not related to the larger question of continued support for the system.

When transit will become a political issue again will depend upon when, or if, there is a large jump in the operating funding required from the city. The 1983 resolution, which was reaffirmed by the newly elected Council in February 1984, specifies an upper limit to the city's financial commitment to the transit system. Yet, the respondents to this study left the clear impression that those limits could be exceeded, if need be, and that they probably would be exceeded if the excess was not prohibitively large.

Thus, Raleigh has evolved a stable and reliable financial structure which supports a transit system with specificed service objectives. The structure has moved from the informal to the formal in response to the possible withdrawal of federal operating assistance revenues. The movement has been based upon a set of historical experiences and reflects the underlying political philosophy of the local political leadership.

The importance of a political leadership which believed that a basic public transit system was a proper and necessary public service and the continuing commitment to that belief by subsequent political leaders is not something easily documented, but it was and continues to be of unquestionable value to the financial stability of the transit system.

The future for this structure may prove to be rather interesting when the caps upon the use of Section 9 funds for operating purposes place a financial strain upon the current structure and as the city continues to grow and the need for expanded service arises. However, the city has an established framework within which to evolve a solution to what financial problems may arise and the political commitment to actually develop a viable modification to the existing financial structure should that be needed.

IV. THE RESULTS OF THE GEORGIA CASE STUDY

INTRODUCTION

The Metropolitan Atlanta Rapid Transit Authority (MARTA) is supported by a dedicated sales tax in the counties of Fulton and DeKalb which contain the City of Atlanta. Clayton and Gwinnett counties belong to MARTA and have representatives sitting upon the MARTA Board of Directors but receive no transit service. These counties while electing to join MARTA chose not to impose the dedicated sales tax. Cobb County elected to do neither.

This report describes several aspects of the MARTA referendum in 1971 which established the current composition of the Authority and provided for the dedicated sales tax. Additionally, several aspects of the legal structure supporting MARTA are examined and causative factors leading to the enactment of these requirements are noted.

The MARTA sales tax is an important, indeed, landmark decision in the financing of public transit systems in the United States. In 1971, two communities, Atlanta, Georgia and Seattle, Washington, requested voter approval of the first dedicated sales taxes in the nation to support their respective transit systems. Both efforts were successful.

The Atlanta success is examined here with a special emphasis upon the 1971 referendum and upon the various requirements contained in the enabling legislation. Additional attention is directed to major changes in the initial MARTA legislation in the years subsequent to the successful referendum.

REVIEW OF FINANCIAL STRUCTURE*

The Metropolitan Atlanta Rapid Transit Authority (MARTA) is the only transit system in Georgia which receives funds under a local option sales tax. As such MARTA is 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 approximtely $.05 per one-way trip in FY83, an 8.3% increase.

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*See: Erskine S. Walther, State and Local Governmental Responses To Increased Financial Responsibility For Public Transit Systems, Final Report, Report No. PB84-154343, November, 1983, p. 146.

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.

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 usuable 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 recourses would be fare increases or unlikely increases in federal operating subsidies.

MARTA: 1965 - 1968

Two acts of the Georgia Legislature in 1965 established MARTA. The first was enabling legislation to permit the amendment of the state constitution to establish public transit as an essential public service. The second act established MARTA as a transit authority and identified five counties* which could join if the voters of those counties so elected. The Authority was formed in 1966.

The original funding authorized by this legislation was permissive. The Authority was authorized to issue bonds, local governments were authorized to contribute local tax dollars to the Authority, and the state was authorized to contribute state tax revenues to the Authority. MARTA was authorized to apply for and to receive federal grants. The 1968 referendum was an effort to obtain a dedicated source of revenues to retire the bonds to be issued under this authorization.

MARTA funding during this period was heavily reliant upon various federal grants and contributions from the state and local jurdictions. Table 4.1 displays a listing of the grants supporting particular MARTA activities between 1966 and 1971. Table 4.2 displays local governmental support during this period.

The 1968 referendum proposed a rapid rail system and a dedicated property tax to support the Authority. The referendum was soundly defeated. The reasons for the defeat and the actions undertaken in response to the defeat are reviewed in the following section.

*Clayton, Cobb, DeKalb, Fulton and Gwinnett.

TABLE 4.1
FEDERAL SUPPORT FOR MARTA, 1966-71

Date	Project	Funding
June 1966	Rapid Transit for Metropolitan Atlanta	$122,376 from National Housing Act
June 1966	Preliminary Engineering	$125,000 from HUD Interest Free Loan
February 1967	Urban Planning	$361,333 from HUD Technical Study
July 1968	Urban Planning-Amendment	$97,600 from HUD Technical Study
February 1968	*AATS initial Plan Develop AATS - IPD (supplemental)	$168,000 from Ga. DOT $ 24,500 from Ga. DOT
January 1970	Technical Study Grant (Includes Amendments) (Phases 1, 2 and 3)	$1,105,333
May 1970	Town Flyer - Demonstration Grant GA-MTD-1 (Dec. 1969) GA-MTD-2	$215,000 from UMTA
May 1970	Urban Corridor Demonstration Program (Never Completed)	$190,000 from DOT/FHWA
June 1971	Staggered Hours - Urban Corridor Demonstration Program	$72,467 from FHWA
August	*Model Cities	$63,400 from City of Atlanta

*This is assumed to have been passed-through federal money.

Source: Administrative Analysis of MARTA Experience, "MARTA and Money," Metropolitan Atlanta Rapid Transit Authority, Department of Planning and Public Affairs, Division of UMTA Relations, Atlanta, GA, December 1982, funded by UMTA - Project GA-09-0037. Table II, page 5 (case study dated March 8, 1982)

TABLE 4.2:
LOCAL GOVERNMENT SUPPORT FOR MARTA, 1965-71

City of Atlanta	$ 641,662.00
Clayton County	84,900.25
DeKalb County	632,622.00
Fulton County	692,182.00
Gwinnett County	72,114.92
	$2,123,481.17

Source: Administrative Analysis of MARTA Experience, "MARTA and Money," Metropolitan Atlanta Rapid Transit Authority, Department of Planning and Public Affairs, Division of UMTA Relations, Atlanta, GA, December 1982, funded by UMTA - Project GA-09-0037, Table I, page 4 (case study dated March 8, 1982).

MARTA: 1968 - 1971

The 1971 MARTA referendum is an excellent example of packaging and marketing a financial plan and a service plan as a joint proposal. Even though the referendum passed by a rather narrow margin, the system currently enjoys very broad based and strong community support. In the main, this support rests upon two factors:

- the packaging of the orginal proposal; and

- the effective delivery of the items in that package.

The MARTA system was originally placed before the voters in 1968 and suffered a major defeat. Subsequent investigation and analysis indicated several reasons for that defeat. The major reasons included:

- the use of the property tax as the funding mechanism;

- no or poor communications with major segments of the community, the black community in particular;

- the proposal focused upon long-term benefits but paid little attention to immediate transportation needs;

- the absence of a firm federal funding commitment; and

- the perception that the proposal was being rammed down the public's throats.

In short, MARTA supporters moved too quickly and without the proper attention to developing a consensus of support among the various communities of interest in the Atlanta region.

The period between 1968 and 1971 was spent addressing these errors. The funding source was a major concern as it was a primary factor in the defeat of the 1968 referendum.

Several alternative sources of funding were examined during the inter-referenda period. The primary sources considered were:

- the property tax

- a sales tax

- a gasoline tax

- a cigarette tax

- benefit assessment districts surrounding stations and rail lines

- an income tax

- a commuter payroll tax

- combinations of these.

Even though the income tax option received considerable attention, serious consideration quickly narrowed to the property tax and the sales tax. The other options were eliminated from consideration because they either did not generate sufficient revenues or they did not have any political support.

In the choice between the property tax and the sales tax, the dividing lines of support quickly and clearly emerged with the City of Atlanta favoring the property tax and the counties favoring the sales tax (1/2%). MARTA had no preference between these options. As one MARTA official described it: "At that time we did not fully appreciate what a good funding mechanism the sales tax would be."

The debate over the funding mechanism continued until the Mayor of Atlanta agreed to support the sales tax if the other parties would agree to free transportation. Apparently one person laughed while the others in attendance remained in stunned silence. However, this statement lead to the political consensus to support a sales tax coupled with a low fare structure, the exact nature of which was to be developed later.

The fare structure which eventually emerged was a ten year policy with a seven year commitment to a 15¢ fare with free transfers (the then existing fare was 40¢ with 5¢ transfers). More will be said about this fare policy shortly.

Thus, the MARTA supporters went to the state legislature and to the initial community meetings with a combination package of a sales tax proposal of 1/2% and the concept of a low fare. During the legislative hearings, the sales tax rate and the role of the state government underwent major changes. During the community meeting process, MARTA policy became better defined and, ultimately, committed to paper with respect to a number of issues of importance to various communities of interest in the area.

The combination package of a sales tax coupled with an as yet unspecified low fare concept is of major importance and must be emphasized. The sales tax was criticized, quite expectedly, as a regressive tax. However, the regressive nature of the tax can be notably eased when combined with a low fare policy. Groups representing low income persons, including elderly groups, testified before the General Assembly in support of the sales tax provided it was coupled with a low fare. Once the coupling of the sales tax and the low fare was accomplished, the regressivity of the sales tax became and remained a non-issue.

As has been noted, the original sales tax rate considered was 1/2%. During the legislative hearings the rate was moved upward to

3/4% as the cost numbers and the fare subsidy numbers became more detailed.

At this stage of the process, the State of Georgia was still a funding source for the proposed MARTA system over and above the sales tax revenues. Then Governor Jimmy Carter had been advised that the collection of a 3/4% sales tax would present the state with major administrative difficulties. Therefore, he proposed that the rate be moved to a full 1% and that the state no longer contribute to the costs of MARTA. This suggestion was well received by MARTA supporters, and legislation permitting a vote on a 1% sales tax dedicated to transit was passed by the General Assembly.

In order to secure the support of the fiscal conservatives in the state legislature, a number of compromises were made. A major concern of these legislators was the level of the fare subsidy. In response to this concern, the agreement was reached that the sales tax rate would drop to 1/2% at the end of ten years and the system would then be required to recover 50% of its operating expenses from the fare-box. The ten year time frame was selected because the construction plans called for the completion of the heavy construction phase within those ten years. The ten year fare policy discussed below, reflects this provision of the legislation. Since the passage of the referendum, the MARTA legislation has been amended to extend the full 1% rate until June 30, 2012 and to impose the currently existing requirement that 35% of the previous year's operating cost be supported from operating revenues. Two other requirements are important to note. First, that 50% of the sales tax revenues must be used for capital expenditures, and second, that no more than 50% of these revenues can be used to subsidize operating expenditures. These two requirements together with the 35% requirement noted above are the three main parameters of MARTA's financial management activities.

Thus, the core part of the MARTA package was formulated through a process of political consensus building among the local governments and political compromise in the state legislature. When this legislation was passed by the Georgia state legislature in 1971, the process of community building began in earnest.

Another core component of the MARTA package was a series of formal policy statements adopted by the MARTA Board of Directors. A key policy statement was the ten year fare policy noted previously. This policy committed MARTA to seven years of 15¢ fares followed by three years of annual 5¢ fare increases. After that period, the fare would be set at the level necessary to meet the farebox recovery requirements contained in the enabling legislation.

Thus, the core financial package contained a 1% sales tax for ten years declining to 1/2% thereafter and a ten year low fare policy. The service component of the package began with a 53 mile rapid rail system and certain specified improvements to the bus system.

Several aspects of the service component of the package grew out of the numerous community meetings and were incorporated into formal commitments of the MARTA Board. Such items as bus shelters, air conditioned buses and service levels were prominent aspects of the bus system improvements contained in the service component of the package.

Another important component of the package might be termed the community responsibility component. Parts of this component arose from concerns of the black community. The black community came to MARTA with a set of concerns which, if satisfied, would bring forth their support. MARTA responded with a series of Board adopted formal policy statements. This approach of learning of community concerns and of developing formal policy commitments to those concerns which could be addressed within the abilities of the system was followed with respect to a wide range of community concerns. Prominent among these policy statements are ones which address:

- fair treatment for persons displaced by MARTA rail construction;

- equal employment practices;

- Minority Business Enterprise procurement policies;

- equal service levels to all segments of the community.

Thus, the package which went before the voters included a clearly stated financing mechanism, a strong commitment to low fares, a plainly stated service package for both bus and rail services and a series of strong policy commitments on matters of particular interest to various communities within the Atlanta region. Together these items presented a rather strong package. Even so, the vote was very close. But that should not distract from the long-term value of this well developed package.

As has been noted, the MARTA system currently enjoys extensive popular support. This situation rests, in large measure, upon two primary factors.

First, the referendum package contained some benefit for practically all segments of the community. Second, MARTA has delivered what it promised. As one observer stated: "They had a public trust placed in them and they delivered on that trust." As another commented: "There are very few people who can not see some direct benefit from the MARTA system." Clearly, a well designed package of financing and service has benefits far beyond its inital usage.

A map of the MARTA rapid rail referendum system is shown in Appendix C. This is the core system which is the base point for long term transportation planning for metropolitan Atlanta.

MARTA 1973 - 1979

After the passage of the referendum, there was a concern among members of the state legislature that there should be some public reporting on MARTA to assure the public that MARTA was not "a loose cannon." This concern lead, in 1973, to the formation of the Metropolitan Atlanta Rapid Transit Oversight Committee (MARTOC). MARTOC has become the major link between MARTA and the state legislature and has proven to be very helpful. Members of MARTOC take the lead in securing passage of amendments to the MARTA Act which assist MARTA in "doing a better job." The MARTOC amendment was coupled with a very unusual requirement noted below.

Probably the oddest component of the MARTA Act is the requirement that the name, position and salary of all employees making over $20,000 per year and any contracts over $20,000 be published once a year in the local newspaper having the largest daily circulation (Section 14A). This requirement, added in 1973, interestingly enough, has no direct relationship to transportation, labor, or even to MARTA per se. Rather, it was the effort of a member of the state legislature to "speak to the discomfort" felt by many local elected officials regarding an independent authority.

During this time period, two changes in the MARTA Act which relate to the fare subsidization polciy were enacted. There was still a concern among members of the legislature that the fare was too heavily subsidized. This resulted in an amendment requiring that not more than 50% of the sales tax revenues could be used for operating expenses (Section 25(i)). At the time of passage (1974) capital costs were relatively low and more than 50% of the sales tax revenues were being used for operating expenses.

Somewhat later in this time period (1979), the requirement that 35% of the previous year's operating expenses be supported from operating revenues was added to the law (Section 9(h)(1)). This reflected a concern that the fare would not be rising fast enough even with the usage limitation noted above. This is in line with a trend, not only within the legislature but within the Atlanta community as well, towards gradually increasing fares through time.

KEY ELEMENTS

The key elements in the passage of the MARTA Act and the subsequent successful referendum have been noted above in the appropriate time period context. It may be useful to highlight two of the most important and interesting of those at this point.

Packaging of Financing and Service. The most fundamental element in the successful MARTA referendum is the explicit joining of the financing mechanism and specific service/pricing policies. The concerns over the regressive nature of the sales tax were satisfied by joining it with a ten year low fare policy. While the two were not joined in a direct "legal" sense, in that the fare policy was not a part of the referendum ballot language, there were joined in the public understanding of what passage of the referendum would mean and formalized into a policy committment by action of the MARTA Board of Directors. This joining of what the voters will "pay" with what the voters will "get" may well be the most important single element in the success of MARTA for it produced benefits long after the passage of the referendum. Benefits which could not have been foreseen at the time.

Advance Response to Community Concerns. By the same technique used with respect to the fare policy, the MARTA Board adopted formal policy statements addressing certain specific concerns of various parts of the Atlanta community. Among these, as discussed more fully above, were policies on the treatment of persons displaced by MARTA construction, the hiring of minority firms and equal opportunity employment practices. Other concerns included service levels in particular parts of Atlanta, bus shelters and air conditioned buses. By committing in advance to particular policies which respond to community concerns, the levels of uncertainity as to what approval of the referendum would actually produce were notably reduced. Additionally, such actions reduce or eliminate sources of opposition by providing pre-vote satisfaction on particular matters of concern. These actions also establish a track record of being responsive to community interests and concerns which can be a major asset to a public service agency.

CONCLUDING COMMENTS

The above discussions have touched upon the major elements in the legislation defining the financial support structure for transit in the Atlanta metropolitan area. The unusual elements contained in the MARTA Act, such as the elimination of state financial support, the publication requirement, the farebox recovery requirement, the funds usage limitation among others have been noted and the causative factors reviewed. As might have been expected, the Atlanta support structure was evolved rather than constructed.

While the details of the financial structure continue to evolve, the above discussion ends with the last major change in that structure. Subsequent alterations in the legislation have extended the basic structure into the future, i.e., the extention of the 1% rate for the sales tax until 2012 or modified the existing administrative structure to permit more effective management, i.e., the use of part-time operators and the recent changes in arbitration panel composition.

The structure supporting MARTA appears well designed to finance an operating transit service. Thus, its' major advantages will probably become clearer once the high construction costs of the rapid rail system have been absorbed and the bonds related thereto have been retired. However the financial support structure appears to work quite well even with the heavy construction costs. Which is a good thing as the long term regional plan developed by the Atlanta Regional Commission calls for a 101 mile rapid rail system.

V: THE RESULTS OF THE CALIFORNIA CASE STUDY

INTRODUCTION

This discussion reviews certain key elements in the passage of the Transportation Development Act (TDA) which provided local transportation funding from the state's sales tax, the passage of SB 620 which established the State Transit Assistant Fund (STA), the enactment of Proposition 5 which amended the state constitution to permit the use of highway funds for fixed guideway capital costs, and the passage of AB 1107 which made permanent the 1/2% sales tax in the three Bay Area Rapid Transit District (BARTD) counties. The history of the passage of these four acts illustrates the primary themes in the political process of providing financial support for public transportation in California.

By no means does this discussion cover all aspects of the passage of these Acts, nor does it attempt to do so. Rather, an effort is made to describe the main themes and the concepts which run through multiple pieces of legislation.

The discussion begins with a brief review of the existing financial structure supporting public transportation funding in California. Then the discussion moves to a review of selected parts of that financial support structure. Finally, the main themes which ran through the enactment processes of these financial support sources are considered. A few general observations and comments conclude this discussion.

REVIEW OF FINANCIAL STRUCTURE*

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 dedicated tax revenues, bridge tolls and non-fare system generated revenues.

Closely related to this array of local support sources, are farebox recovery requirements. The view from Sacramento is that local revenue sources must provide a pre-set minimum of operating costs.**

*See: Erskine S. Walther, State and Local Governmental Responses to Increased Financial Responsibility For Public Transit Systems, Final Report, Report No. PB84-154343, November 1983, p. 146.

**Generally, 20% of operating costs for services to the general public in urbanized areas.

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 third category of state level programs for regional transportation is comprised of two main programs: the State Transit Assistance (STA) fund and the Transit Capital Improvement (TCI) fund. The revenues for these programs derive from state sales tax funds. The STA funds are distributed to Regional Transportation Planning Agencies (RTPA) which, in turn, allocate the funds to individual transit systems.

The STA program has two funds distribution tracks. The first includes 70% of the STA funds which are distributed by population formula to the RTPA's and by discretion to individual transit systems. The second track involves 30% of total STA funds which are distributed via the RTPA's, in accordance with an operator's generated revenue criteria.* The RTPA is a pass-through organization for this portion of the STA funds.

The Transit Capital Improvement (TCI) fund represents 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 quideways construction programs and are administered and distributed at the state level by CALTRANS and the California Transportation Commission (CTC).

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 requrirements for farebox 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.

TRANSPORTATION DEVELOPMENT ACT

What was to become one of the landmarks in the field of non-federal transportation financing was enacted into law in California during the fall of 1971. This legislation was the Transportation Development Act (TDA) and became effective in 1972.

*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 TDA increased the local share of the California state sales tax by 1/4% with these revenues being used, in general, for public transportation. This led to the creation of a Local Transportation Fund (LTF) in each of California's fifty-eight counties. These monies are known as TDA funds or as the LTF. The basic provisions of the Act are reviewed below.* Following that review, the discussion will move to an examination of the origins of the TDA and of some of the particular provisions of the legislation.

Background to the Original Legislation

The movement which was to result in the TDA began during the late 1960's when there developed a concern that traffic congestion was becoming severe at the same time that privately owned transit was cutting back service. Additionally, the major private transit providers were experiencing their first difficulties in meeting operating expenses from farebox revenues. This situation led to a felt need to develop alternative transportation services.

In 1970, Proposition 18, which would have permitted funds from the State Highway Account (SHA) to be used fo transit purposes** went to a state-wide vote. After an intense media campaign, led by the major oil companies and the large highway contruction firms, the proposition was defeated even though pre-election polls showed that a majority of those polled favored the proposal. A similar proposal surfaces again in 1974 and will be discussed subsequently.

The Original Legislation

Against this background, three separate bills were introduced into the California Legislature which would have provided financial assistance for public transportation. Two of the bills (one sponsored by Senator Alfred Alquist and one by Assemblyman (now Senator) Y.D. Wadie Deddeh) proposed extending the state sales tax (then 5%) to include motor fuels and using the revenues derived from motor fuel sales to establish a state fund to support public transportation capital improvements in the more populous counties. The state legislature was not particularly enthusiastic about funding operating deficits; however, the legislature was responsive to the concept of funding system capital improvements. Thus, the Alquist and Deddeh bills and the Mills bill noted below emphasized funding for transit capital improvements.

The bill sponsored by Senator Jim Mills took a somewhat different approach. It extended the state sales tax to gasoline (rather than all motor fuels) and added 1/4% to the local share of the state sales tax rate.

*For a detailed discussion see: Erskine S. Walther, State and Local Governmental Responses To Increased Financial Responsiblity For Public Transit Systems, Final Report, Report No. PB 84-154343, November 1983, pp. 65-74.

**The usage of these funds would not have been restricted to capital expenses as was the case with Proposition 5 discussed subsequently. Thus, operating expenses would have been an eligible usage of these funds had the proposition been successful.

The extension of the sales tax* to gasoline would generate approximately $130 million in additional revenue while the 1/4% increase in the local share of the sales tax rate would absorb approximately $130 million in sales tax revenue. Thus, the state itself would continue to receive approximately the same level of sales tax revenues. This provides an illustration of a continuing theme in California transit financing legislation: "Keep Everybody Whole." That is, expand the total "pie" so that those entities currently receiving funds continue to receive the same, if not more, funding while the new activity receives the additional funds from the expanded "pie." This pattern of "increasing the pie and keeping everybody whole" will be observed elsewhere in this chapter.

The Mills bill adopted the approach of increasing the local share of the tax rate rather than the Alquist-Deddah approach of establishing a state fund. This approach was adopted because Ronald Reagan was the Governor of California and had announced that he would not sign a state tax increase for such a purpose. By taking the Mills approach, there was no state tax increase and the state did not benefit from the extension of the sales tax to gasoline.

This deserves a bit more explanation. At the time, the California sales tax rate was 5% with 4% deriving to the state and 1% to the county of origin. The Mills bill proposed to change that relationship to 3-3/4% to the state and 1-1/4% to the county of origin. However, under the provisions of the Uniform Sales Tax Act, each county would have had to act to increase its local share of the state sales tax rate from 1% to 1-1/4%. Thus, the tax increase would be a local one. (The counties would not have to act to expand the sales tax base to include gasoline as that determination is made at the state level). But, as a practical matter, the counties would have had no choice but to act because the state can collect the sales tax only for counties which conform with the state-wide application of the sales tax. Thus, this approach would yield a local, not a state, tax increase, albeit not a strictly voluntary one.

Towards the end of 1971, the three bills (Mills, Alquist and Deddeh) were, rather quickly, merged into one bill, SB 325**. The process of merging the bills and then passing the resultant single bill required several important accommodations. Among these compromises is the ability of counties of less than 500,000 population to use the TDA funds for streets and roads where there are no unmet transit needs. This accommodated the desires of smaller counties.

However, the larger counties did not want the streets and roads option; thus, the population criteria. San Bernadino County, however, did want the option. Therefore, the original legislation included both a population criteria and a provision for counties with more than 4,500 miles of county maintained roadways, i.e., San Bernadino.

*All three bills utilized the sales tax as the revenue source. Alternative revenue sources were not considered. At that point in time, sales taxes were relatively easy to enact and there already existed a low cost method of collecting the tax.

**As might be expected, SB 325 was also known as the MAD bill. The reference was not, apparently, to the contents of the bill.

This possibly confusing set of criteria stems from differences among the three original bills. As will be recalled, the Alquist and the Deddeh bills did not apply state-wide, rather they would have extended the sales tax to motor fuels only in the larger counties. However, no consensus was reached as to what population criteria should be applied. The various options considered ranged from 200,000 to 500,000 persons. Thus, the final criteria was a compromise which accommodated the needs of the larger counties, the smaller counties as well as San Bernadino*.

The Mills-Alquist-Deddeh Bill, SB 325, passed both houses of the California Legislature with the two-third's majority required of revenue bills and it was so constructed as not to entail a state tax increase. Even so, then-Governor Reagan was prepared to veto the bill. However, business community supporters of the bill; insurance companies, banks, retail chains and others with downtown locations, telephoned to express their support. These telephone conversations persuaded the then-Governor to sign the legislation.**

Thus, the TDA legislation came into being.*** The process was aided by three factors of note. First, the structure of the revenue source was determined by the need to accommodate the views of the then-Governor. Second, the process was possible because "everybody remained whole" and, third, special needs were accommodated. The latter two factors are of continuing importance in the history of California transit legislation.

Intent of TDA

As has been noted, it was not the intent of the TDA to provide extensive operating subsidies to public transportation. Rather, the objective of the legislation was to provide funds for capital improvements so that system operating efficiency would be increased and; thereby, operating deficits would be reduced. Reflecting this view, the original law required that 75% of the TDA funds be spent for capital purposes. The remaining 25% were available for operating purposes.

*Eventually, the law specified the population count as of the 1970 U.S. Census of the Population as the basis for determining a county's population. Had this provision not been added, the 1980 Census of the Population would have changed the status of several counties with respect to streets and roads usage of TDA monies.

**It is worth noting that the highway interests in California did not oppose the TDA legislation. These interests seem to have felt that if the TDA passed, then efforts to divert funds from the State Highway Account (SHA) would cease. Additionally, the TDA, as finally constructed, extended the sales tax only to gasoline rather than to all motor fuels.

***For a discussion of the sections of the TDA which apply to the financing of specialized transportation services, see: Piras and Hatfield, "The Challenge of Financing Coordinated Specialized Transportation in California," Appendices A and C, Transportation Research Board Annual Meeting, January 1985, pp. A-1 - A-3, C-1 - C-5.

In practice, the Act has functioned in a rather different manner. The 75% provision came to be interpreted administratively as meaning an amount equal to 75% of a system's TDA funds must be spent for capital purposes. Capital assistance from the federal government was counted towards the 75% amount; thus, "freeing" TDA funds for operating usages. Thru time the Act has been modified so that, presently, only 15% of the TDA funds must go for capital expenditures.

Spillover and the STA

In line with the principle that the TDA was not a state tax increase and in keeping with the "everybody kept whole" concept, the TDA included a provision that any sales tax revenues originating from the sales tax on gasoline which exceeded the revenues the state would have received in the absence of the sales tax on gasoline, i.e., spillover funds, would go into the Transportation Planning and Research Account (TPRA). As no such funds were anticipated at the time of passage, the provision was not given particularly serious attention. However, it was a necessary provision because the concept of the TDA as a local tax required that the state not benefit from the extension of the sales tax to gasoline.

The spillover; however, did generate modest levels of funds. These funds were expended in response to specific legislative acts for specific projects. Such projects included planning studies,* particular research efforts and particular capital projects including such projects as particular transit stations and specific multi-modal stations. Thus, no on-going mechanism for utilizing these funds existed during this time period. There was no need for such a mechanism as the spillover funds were modest in amounts.

This situation remained unchanged until SB 620 was passed in 1979. SB 620 changed the TPRA into the Transportation Planning and Development Account (TPDA) and created the State Transit Assistance Fund (STA) and a set of state capital programs within the TPDA (later merged into the Transit Capital Improvement (TCI) as noted below). This bill was sponsored by then-Senator Mills. The objective of the STA was to provide funding so that transit could meet the increased demand for services resulting from the 1979 oil crisis. At the time of SB 620, gasoline prices were rapidly rising, thus, there were sufficient funds to keep most everybody happy. The bill contained a variety of projects, reflecting, as one respondent put it, the bill's path through the various committees of the legislature.

SB 620 divided the TPDA funds: 50% to the STA and 50% to local capital projects funded at the discretion of CALTRANS. In 1982, SB 1335 (Senator Foran) changed the TPDA distribution to 60 % STA and 40% TCI (a merger of the previous capital projects into a single account). Within the STA, the distribution of funds was changed from 100% based on population to 30% based on system revenues and local support and 70% based on population. The intent was to reward systems which generate farebox and local support funds.

*The on-going transit planning undertaken by CALTRANS was funded from these funds as were special planning studies.

The 70%-30% distribution was selected because, by expanding the total funding for the STA (made possible by the increased revenues deriving from the rapid rise in gasoline prices), 70% of the "larger pie" would provide all funds recipients with at least the amount they were receiving under the old distribution formula.

ARTICLE XIX: FIXED GUIDEWAYS

As has been previously noted, there was an effort in 1970 to permit the usage of State Highway Account (SHA) funds for unrestricted transit purposes (Proposition 18). The effort failed at the polls following an intense media campaign sponsored by the big oil companies and the major highway construction firms.

A second effort was made in 1974 (Proposition 5). Proposition 5, however, limited eligible funds usage to fixed guideways capital purposes. This effort was successful. During the 1974 vote, there was not a major media campaign against the proposition. In part, this was due to the negative image of big oil companies stemming from the oil embargo and from revelations of questionable contributions to the 1970 campaign against Proposition 18. During both elections, polls indicated that 60% of the voters favored the proposal. In 1974, Proposition 5 passed by over 60% of the vote.

AB 1107

AB 1107 made permanent the 1/2% sales tax originally imposed by the legislature upon the three counites comprising the Bay Area Rapid Transit District (Alameda, Contra Costa and San Francisco) for the support of the BART capital construction program. The situation prior to the passage of AB 1107 was one of severe finanical difficulties for BART and a period of political and public disrepute for the management of BART.

There was a need for a stable funding source for BART. Therefore, the Metropolitan Transportation Commission (MTC) undertook a financial study to examine alternative financing methods. In order to secure approval of a stable funding source for BART from the state legislature, it was necessary for the Bay Area to go before the legislature with a package upon which all parties in the Bay Area could agree.

The intention of the financial plan was to identify a stable source of funds, that would move with inflation, for each of the three largest operators in the Bay Area (AC Transit, BART and MUNI). At the time, AC Transit had a property tax base and MUNI had funds from the San Francisco General Fund as their stable funding sources. The sales tax, made permanent, would provide the stable source for BART. Additionally, the MTC financial plan recommended a required farebox recovery ratio which would apply to each of the three operators.

The MTC financial study recommended "...that aggregate fare revenues in the three BARTD counties equal 35% of the total cost of providing transit service."* The formal resolution adopted by the MTC Board required "...that 35% of operating costs regionwide will come from operating revenue..."** During the legislative process, various other recovery ratios were proposed: 40% and 45%. Eventually, the legislature settle upon a required farbox recovery ratio of 33% excluding operator generated revenues and other local support funds.

The MTC financial study recommended that the 1/2% sales tax funds be distributed "...either by a legislatively-established allocation formula, or by assigning all sales tax funds to BARTD, balanced by channelling most TDA and Section 5 funds to AC Transit and MUNI."***

The legislative analysis of the proposal suggested that BART could not utilize 100% of the sales tax revenues, and, thus, recommended that 75% of the revenues be guaranted to BART with the remaining 25% to be allocated by the MTC among BART, AC Transit and MUNI at the discretion of the MTC.****

The 75% value derives from an examination of the stable funding bases of AC Transit and of MUNI. Each received approximately 75% of their revenues from a stable local base. Thus, the decision to distribute the funds on the 75%-25% basis. Recall, that the primary objective of the proposal was to develop a stable local funding base for BART. This approach fulfilled that objective while maintaining a sense of equity.

Given the negative reputation of BART's management at the time, the formulation of a proposal benefiting all three of the major operators and under the auspices of the MTC, greatly enhanced the chances of approval. Additionally, the legislature, at the time, was concerned about low farebox recovery in the Bay Area (low relative to Southern California). Thus, the addition of a required farebox recovery ratio was an important action. Sponsorship by a Bay Area Representative***** was the final touch to enhance the probability of approval by the legislature.

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*MTC, San Francisco Bay Region: Transit Financing Study, Background Papers, December 1976; Background Paper 4: "How To Finance Transit Service," p. 4.

**MTC Resolution No. 382, December 15, 1976, Decision 4, Motion 8. Decision 7, Motion 17, of the same resolution and date, differs: "Require that 35% of regionwide operating costs...be contributed by fares..."

***MTC, Background Paper 4, p. 4.; adopted by MTC Resolution No. 382, December 15, 1976, Decision 8, Motion 18.

****The 25% funds could only be used for extended services. This was changed by AB 842 (July,1979) to permit usage of these funds to maintain existing services. This change followed the passage of Proposition 13 which reduced the stable base for AC Transit; i.e., property tax funds.

*****An earlier unsuccessful bill was sponsored by a non-Bay Area member of the legislature.

SAN FRANCISCO: THE DOWNTOWN DEVELOPMENT FEE*

Currently San Francisco is collecting a Development Fee of $5.00 per square foot on new office development within a defined core area of the Central Busines District (CBD). The CBD has a long history as an active area and has been averaging approximately 1.5 million square feet of new development each year for many years. Thus, there is a continuing and growing need to provide high levels of mobility to the large number of people needing access to the CBD.

The Development Fee proposal was initiated as a response to CBD growth rather than as a transit financing technique per se. The timing of the levying of the fee was a response to the initial federal proposal to phase-out transit operating assistance.

The discussions of the Development Fee lead to consideration of a Benefit Assessment District in the same CBD area. While a consensus with the business community** and an overall political consensus was developed supporting the Develoment Fee, no such consensus was developed supporting the assessment district. Thus, the assessment district idea has not been pursued.

The Development Fee was the idea of a Public Utilities Commissioner who is also a planning consultant. The level of the fee derived from an estimate by this Commissioner. Upon study, the costs of providing additional CBD transit service were shown to be almost twice the $5.00 per square foot fee. However, the political decision was made to maintain the fee at this level, largely as a good faith measure, since the original consensus was built around the $5.00 amount.

The costs of providing the additional CBD transit services are required to be updated annually. Thus, thru time, an upward movement in the Developement Fee is expected as service provision costs increase.

COMMON THREADS

The structure of the TDA was somewhat atypical due to the need to accommodate the rather strong views of the then-Governor. Otherwise, the TDA and other parts of the transit financing program in California, which have been reviewed here, tend to have several common elements.

Enlarging the Pie and Keeping Everybody Whole. This is a major thread running through the financing structures developed in California. New initiatives are fairly easy to secure if a means can be found to keep all present

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*For a detailed discussion see: Erskine S. Walther, State and Local Governmental Responses to Increased Financial Responsibility for Public Transit Systems, Final Report, Report No. PB 84-154343, November 1983, pp. 97-98; and, Bruce Bernhard, "Charging Downtown San Francisco for Transit Service," Transportation Research Board Annual Meetings, January 1984.

**Even so, the Development Fee was unsuccessfully challenged in court by non-concurring members of the business community.

players as well off as they currently are while at the same time enlarging the available funding to permit the new initiative. This was done with the original TDA legislation and with the various changes in the STA program.

Something For Everybody. This thread has two main variations. The first is simply porkbarrel politics where particular projects are added to a bill in order to secure support. The SB 620 STA funding authorization took this "Christmas Tree" path.

The second variation can be seen with bills of a regional nature and is less porkbarrel than it is coalition building. AB 1107 illustrates this approach where a mechanism was developed to accomplish a primary goal (secure a stable base for BART) and also build a regional coalition by providing benefits to the other primary actors.

Special Needs and Equity. This is a major theme which runs through most of the modifications of the TDA which have occurred over the years. In a state as diverse as California, there is an ongoing need to accommodate the special circumstances of particular locations. One can debate whether or not a particular accommodation is wise, but the approach is necessary if the overall structure is to be maintained. These post-enactment modifications are a critical element in maintaining support for the overall TDA and in maintaining equity among the various diverse areas of the state.

Temporal Currents. In addition to the more ongoing threads noted above, there have also been changes in the law, not discussed here, of a more time-specific-personality-specific nature. Some of these reflect particular interests of particular governors while others reflect a legislative judgement of the ability of particular administrative appointees. At one time, for example, a particular Director of Transportation did not enjoy the confidence of the legislature. As a result, changes in the method of discretionary allocations were made so as to reduce the authority of that individual. Interestingly, these changes were also desirable in and of themselves but might not have been made under other circumstances.

Post-Enactment Modifications. This activity deserves to be singled out for special note as it is one of the more important factors in the long life of the TDA legislation. Post-enactment modifications are primarily the correction of unintended impacts and the accommodation of special local needs and circumstances. The ability of the TDA to accommodate such modification and still retain its basic character and effect is a primary factor in the continuing base of support enjoyed by the legislation.

CONCLUDING COMMENTS

This discussion has examined a selected number of key pieces of legislation in the financial support structure for California's public transportation network. While the review has been brief and has intentionally avoided the highly interesting interplays of personality, it does capture the primary events, competing factors and main philosophical political themes which have shaped the California transit financing structure.

These processes have provided California with a resilient financing structure and a mechanism for accommodating local needs and changing situations. The approaches utilized can be instructive to locations outside of California and can provide insights into structuring state and local transportation financing mechanisms.

VI: THE RESULTS OF THE WASHINGTON STATE CASE STUDY

INTRODUCTION

Washington State permits a variety of local option organizational forms and funding sources for the support of public transportation. Among the more important of these legislative initiatives are the metropolitan municipal corporation legislation, the Motor Vehicle Excise Tax (MVET), the local option sales tax, the Public Transportation Benefit Area (PTBA) and the County Transportation Authority (CTA).

The following discussions will reviews these initiatives with an eye towards the political processes which led to their enactment. Attention will also be paid to important citizen movements which were critical to the success of the legislative efforts reviewed.

Before beginning the review of the legislative actions of note, a review of the overall financial structure supporting public transportation in Washington State is appropriate. The financial structure review briefly summarizes the major components of that structure.

REVIEW OF FINANICAL STRUCTURE*

The state has specified an array of organizational forms which transit organizations may assume. These five alternative organizational structures allow for all circumstances in which transit might be offered in the state. The types of local taxes and the maximum tax rates permited are keyed to the organizational form adopted.

Very briefly, these five organizational forms are the Metropolitan Municipal Corporation (metro), the County Transportation Authority (CTA), the Public Transportation Benefit Area (PTBA), city systems and unincorporated areas of counties. Any of these organizational forms may utilize the local option sales tax or household and business taxes, but not both, to finance transit services. The tax revenues may be used to match MVET funds with the exception of sales taxes for city systems which can not be used as MVET matching funds.

A cornerstone element in the Washington State finanical structure is the return of up to 1% of the state's 2.2% Motor Vehicle Excise Tax (MVET) to the area of origin to suppport public transportation services. This return,

*For a detailed discussion of the Washington State financial structure see: Erskine S. Walther, State and Local Governmental Responses To Increased Financial Responsibility For Public Transit Systems, Final Report, Report No. PB 84-154343, November 1983, pp. 109 - 144; and Mark Klender, "Case Study: Transit Financing in Washington State," April 1984, in press, Western Office of the Council of State Governments.

technically known as the municipal levy, must be matched dollor-for-dollar by funds from another local tax source. Most commonly, that tax source is a local option sales tax. There are two important limitations on the availability of MVET funds. First, only MVET revenues collected within the transit system's service area can be utilized. Second, only that amount of MVET funds, up to the 1% ceiling, which are matched, dollar-for-dollar, by another local tax source also collected only within the system's service area can be used for matching purposes. This approach maintains a benefit area/payment area relationship. Further, systems which only serve a particular city, may not use sales tax funds to match MVET funds. The rationale for this requirement is that persons not residing within the system's service area, i.e., the city boundaries, would be paying the sales tax but not benefiting from the transit service.

In addition to sales tax revenues, general fund revenues, revenues from household and business taxes and from utility taxes may be used to match MVET revenues. Again, only those revenues collected within the transit system's service area may be used for matching purposes.

METROPOLITAN MUNICIPAL CORPORATIONS - 1957

The history of the enabling legislation permitting the establishment of metropolitan municipal corporations has its origins in 1952 when a revised county charter for King County was defeated at the polls. As a result of that defeat, various citizen activists, in particular Mr. Jim Ellis a Seattle attorney, examined techniques for forming area wide solutions to problems which crossed political jurdistictional lines.

This citizen's effort became a "movement" in 1956 when a variety of community interests came together to seek solutions to problems arising from rapid urban growth in the Seattle metropolitan area. A focal point of concern was the deteriorating water quality of Lake Washington.

The result of this citizen's effort was the passage, in 1957, of state enabling legislation permitting local governments to join together in federations called metropolitan municipal corporations to address problems which crossed city, county and special district boundaries. The enabling legislation passed the state legislature by one vote on the last day of the session.

In the Spring of 1958, again at the urging of citizen groups, a measure to establish the Municipality of Metropolitan Seattle (METRO) was placed on the ballot for a popular vote. The prosposal would have given METRO authority for water pollution control, public transportation and comprehensive planning in Seattle and the surrounding surburbs (including eleven incorporated cities). While the measure was successful in the City of Seattle, it was unsuccessful in many of the surburban communities.

At the time there was philsophical resistance to anything termed metropolitan government or government federations. The more conservative tended to view such organizations as too left wing. There was also some concern over creating what amounted to another level of government.

A second effort was organized by the citizens groups for the Fall 1958 election. This time the focus was upon the most pressing area wide problem: Lake Washington. This time elected officials from across the political spectrum and from all of the local governments in the proposed metropolitan municipal corporation's area of jurisdiction endorsed the measure. The popular vote was positive, both in the City of Seattle (58% affirmative) and in the surburban areas (67% affirmative). While the constitutionality of metropolitan government was challenged in the state courts, the enabling legislation was upheld in the state supreme court in 1960.

The Municipality of Metropolitan Seattle began operations in 1959 with the first meeting of its governing board having occurred in October 1958. Seattle METRO succeeded in its charge of cleaning up Lake Washington. It did so both on time (a 10 year plan) and within budget ($125 million in construction*). As one respondent noted, this surprised the people as local governments were not known for building anything on time or within budget. Thus, the citizens became convinced that metropolitan government did work and METRO became a source of pride. This reputation for accomplishment of promises made becomes a positive factor, as will be noted, when the role of METRO is expanded to embrace public transportation.

In 1971, the state legislature expanded METRO's boundaries to make them identical with the boundaries of King County. Thus, METRO became a county-wide authority and its activities expanded accordingly. This change is most important with respect to the provision of transit services by METRO which was authorized in 1972, as discussed below.

FORWARD THRUST - 1966

Forward Thrust was a broad based citizen's movement which addressed a wide variety of activities designed to improve the overall quality of life in Seattle. Forward Thrust was a coalition of various citizens groups including business, labor, environmentalists and average citizens.

Of the projects and legislative initiatives which were proposed by Forward Thrust, public transit was the most expensive and most extensive project. Indeed, it would not be unfair to say that it was one of the cornerstones of the Forward Thrust movement.

The emphasis upon public transit needs to be placed into the context of the times in order to understand the high degree of importance attached to this initiative. Thus, discussion of the Forward Thrust program will be limited to the public transportation portion of the Forward Thrust activities.

During the early 1960's the Puget Sound Regional Transportation Study was conducted and recommended numerous new highways and five bridges over Lake Washington. In 1964 the Urban Mass Transportation Act was enacted and federal funds for transit capital became available. In 1965, the City of Seattle received a planning grant from the Puget Sound Council of Governments to do a transportation plan with more balance, i.e. more attention paid to the

*Technically, this is 2% over the 1961 cost estimate.

potentialities of transit. At this time, Interstate 5 was under construction through Seattle and was displacing approximately 900 businesses and homes. The public reaction to the construction produced a sizable citizen protest whenever more highways were proposed.

The 1965 planning study recommended a 47 mile rapid rail system and an upgraded bus system. These recommendations were to be funded from property taxes and state and federal grants. This proposal was placed before the people in 1968 and was defeated. This vote and subsequent activities are discussed below.

During the 1967 - 1969 legislative sessions, twenty-one major bills were passed which were part of the Forward Thrust agenda. For the present discussions, the three most important ones were those adding public transportation planning to the allowable tasks of a metropolitan municipal corporation, the municipal levy of the Motor Vehicle Excise Tax and the local option sales tax.

THE 1968 BOND ISSUE REFERENDUM

In a special election in February 1968, eight bond issues growing out of the Forward Thrust movement were placed before the voters. The proposed bonds were to be retired from a dedicated increased in the property tax rate. Since the bonds were to be financed from property tax revenues, a 60% affirmative vote was required for approval of the tax increase. Seven of the eight issues received the required 60% affirmative vote, a total of $330 million in bonds. Pubic transit received a majority affirmative vote (51% overall) both in the City of Seattle and in the surburbs, but it failed of the 60% requirement. Of the total increase in property taxes proposed, approximately one-half was accounted for by the public transit proposal. The bond revenues from the public transit bonds would have been utilized as matching funds for federal capital grants as well as to finance system construction and other capital costs.*

The 1968 failure seems to be traceable to two predominate reasons. First, the size of the property tax rate increase stemming from the transit proposal. Thus, the financing mechanism, at least in part, seems to have been questioned by the voters. Second, the proposed rail system was not adequately sold to the voters. To an outside observer, this appears to be more a failure of presentation than a failure of concept.

Opposition to the concept of the rail system came from a group of citizens, mostly academics at the University of Washington, who believed in the concept of a dispersed city and did not approve of the wide spread growth in then non-urbanized areas which a rail system could produce. More important were the failures of the pro-rail advocates to develop a clear strategy for implementing the rail system.

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*Interestingly, assurances of federal capital funding had been received and, had the bond referendum passed, Seattle would have had a subway system before Atlanta. The federal funds which would have gone to Seattle eventually went to Atlanta following the successful sales tax referendum in 1971.

This latter comment needs further expansion. The rail system proposed was to be a 47 mile system. There were doubts that the existing densities were adequate to support the full system. These doubts were not satisfactorily addressed. The advocates of the rail system did not suggest a phased-in approach with the high density corridors being the first to be constructed. This left the voters with the impression, as one respondent described it, that the whole system would just appear one day and that did not make much sense. Additionally, the rail service proposed for then lower density areas was not adequately defended as either a stimulus to growth in those areas or as advance planning for the future needs of those areas.

The outcome of the vote was taken as a reluctance to incur the higher property tax rates rather than as a rejection of the concept of public transit. A second attempt at obtaining bond revenues for public transit would be made in 1970. Before that vote is reviewed, other developments in the state legislature need to be noted.

MOTOR VEHICLE EXCISE TAX - 1969

Part of the Forward Thrust legislative agenda included securing a source of state funds for public transit. With the support of the Seattle-King County legislative delegation and with extensive lobbing efforts by the Forward Thrust coalition of business, labor, environmentalist and average citizens, the state legislature passed legislation permitting counties to levy a 1% motor vehicle excise tax which would be a credit aganist the state Motor Vehicle Excise Tax (MVET). These funds could be used only for public transit support and only if matched dollar-for-dollar by another local tax source. Additionally, only MVET revenues generated within the transit system's service area could be utilized and the local matching revenues had to be generated within the system's service area as well. This legislation passed by one vote on the last day of the 1969 session.

A factor which assisted in the passage of this legislation was the postive reputation of Seattle METRO's water quality and water pollution control efforts. A rather interesting factor working in favor of the legislative proposal was the view that local matching funds would not be forthcoming, so the proposed legislation was without fiscal significance anyway. A factor working aganist the legislation was the perception by many rural legislators of Seattle as a big city with big city problems, (the Ugly Urbanite as one respondent described it), and continual needs for special legislation.

A more difficult aspect of the passage of this legislation is just what the legislature thought it was passing. Many legislators seemed to believe that the proposal was an increase in the MVET and not a diversion of state MVET revenues to local areas. Further complicating the picture was the belief held by many members of the legislature that the MVET funds which would go to local areas that passed the municipal levy had to be allocated* by the state legislature; thereby, keeping ultimate control of those funds with the

*Until 1975, the legislature was, in fact, appropriating the municipal levy MVET funds. It was only after a law suit by Seattle METRO that the legislature fully realized that appropriations were not required by the statute.

legislature. This misconception of the actual language of the bill would arise at a later time and eventually result in a law suit and continuing hard feelings aganist Seattle METRO, as will be noted subsequently.

THE 1970 BOND ISSUE REFERENDUM

In May of 1970, a second attempt to obtain property tax based bond financing for public transit was made. This time the bond revenues would also serve as local match for MVET funds as well as federal grant matching.

The proposal was essentially unaltered from that placed before the voters in 1968. It still included a 47 mile rapid rail system and an upgraded bus system to be financed from increased property tax rates. What had changed was the economic envirnoment of Seattle. A recession had begun in 1969 with large scale lay-offs by the area's major employer (Boeing Aircraft). Approximately 100,000 people had moved out of the Seattle area in search of employment elsewhere. The times were not favorable for proposals to increase property tax rates.

As might be expected under the circumstances, the proposal failed. Only 47%, of those voting, voted affirmatively on the proposal.

The outcome of this vote was taken as a rejection of the use of bonded indebtedness and of the use of property taxes as the financial mechanism. Additionally, the vote was taken as a rejection of the rapid rail concept.

What is most notable to the outside observer concerning the 1970 bond referendum is the apparent absence of learning from the the results of the 1968 referendum as well as the apparent misreading of the local economic conditions.

Extensive public hearings were held in both 1970 and in 1968. While these hearings did not result in the desired results in either year, the high level of public hearings and of broad based citizen involvement in the efforts to obtain public transit would prove to have been positive and valuable factors in the eventual voter approval of a public transit initiative, in obtaining changes in state law and in the conduct and public image of Seattle METRO. While unsuccessful in both 1968 and in 1970, the long term significance of these citizen involvement efforts can not be overstated.

Following the 1970 vote, the Forward Thrust leaders formed a special committee to obtain citizen opinion, to share those opinions with planners, to develop a bus plan with broad based support and to go to the legislature with both a plan and with citizen support to obtain a local option sales tax to finance the proposed system. These efforts were successful with respect to all of those objectives.

THE LOCAL OPTION SALES TAX - 1971

Having been unsuccessful in two attempts to secure bonding authority funded by property tax revenues to support public transit, the citizens groups involved with Forward Thrust went to the state legislature requesting local option sales tax authority. The proposal would permit any city, county or metropolitan municipal corporation to impose, with voter approval, a sales tax of .1%, .2% or .3%. The sales tax revenues could be dedicated to the support of public transit.

In response to the strong citizen support, the legislature passed the local option sales tax proposal in 1971. The sales tax revenues could be utilized as matching funds for M VET purposes.

It is not entirely clear that the legislature was convinced that local communities would, in fact, pass local option sales tax initiatives for transit purposes. This question is raised because of subsequent events in 1973 which are noted below.

THE 1972 SEATTLE SALES TAX VOTE

Over the years beginning with the 1968 bond referendum, the citizens had been extensively informed and consulted concerning transit. The primary difficulites experienced with the two bond issue referendas were the use of property tax as the financing mechanism and the view of rapid rail as being inappropriate to the existing densities. The concept of transit was not a source of opposition to the bond issues. Indeed, there was widespread support for a bus system and especially for electric rubber tired trolley buses.

The 1972 vote actually contained two ballot questions. The first was the addition of public transit service provision to the allowable duties of the Seattle METRO. The transit service would be operated county-wide. The second was the addition of .3% to the sales tax rate with the resulting revenues to be dedicated to the support of those transit services.

The 1972 vote (September 19, 1972) was affirmative on both questions. A 58% affirmative vote was received with the measure passing in every district of King County including, of course, the City of Seattle. The success of the 1972 local option sales tax vote is not surprising when the considerable communications and consensus building activities of the preceeding years is recalled. Thus, a long history of citizen involvement and community communications were underlying keystones to the success of the local option sales tax vote.

M VET RECONSIDERED - 1973

During the earlier discussions of the M VET and of the local option sales tax enabling legislation, it was commented that some members of the state legislature seemed to hold the view that the M VET would not be matched at any meaningful level of funds and that the local option sales taxes would not be passed. These comments are given credence by legislative actions taken or proposed during the 1973 session.

Following the 1972 passage of the local option sales tax in Seattle, some members of the legislature became concerned that an "out-of-control" state financial involvement was beginning. In response to this concern, an effort was made to repeal the municipal levy of the M VET and the local option sales tax authority. Both efforts were strongly opposed by the citizens groups which had originally spearheaded the efforts to pass both bills, by Seattle METRO and by the legislative delegation from METRO's service area (King County). Opposition to the repeal efforts also came from other pro-transit groups and legislators from other parts of Washington State.

While the repeal efforts were unsuccessful, other efforts to limit the level of MVET revenues being diverted from the state treasury were successful, at least temporarily. Until 1973, the state legislature had been appropriating MVET funds to local transit systems. In 1973, the legislature made a drastic cut in the level of funds appropriations.* While this was effective in the short run, it led to a lawsuit by Seattle METRO aganist the State Treasurer calling for the release of the MVET funds. The suit was based on the language of the original legislation which did not require legislative appropriation of the MVET revenues. In 1976, the state supreme court ruled in favor of Seattle METRO. Thereby, settling the question of whether or not MVET municipal levy funds were subject to legislative appropriation - they were not. This led to the feeling on the part of some members of the legislature that they had been "dupped" by Seattle METRO at the time the 1969 legislation was being debated and has produced some anti-METRO feelings in the legislature which have impacted subsequent legislative efforts. These impacts will be noted later.

The long term limitation which did emerge from this legislative session was a limit on the life of the MVET legislation unless extended by the legislature. Under this legislation the municipal levy of the MVET would expire in 1981.** In 1979, the legislature removed this expiration date from the statute. The growth of state-wide support for transit and experience which indicated that the statute did not lead to an out-of-control state financial commitment led to the early removal of the termination date. This action was also facilitated by a compromise whereby the ability of local transit agencies to pledge MVET revenues to support bond issues was ended.***

*For example, Seattle METRO should have received approximately $23 million in MVET revenues, it was appropriated $12 million.

**The MVET expiration date was viewed as a challenge by some legislators to METRO to prove itself by 1981. Thus, the first long-term plan developed by Seattle METRO ended in 1980. The early removal of the expiration date was as much a recognition of the success of METRO in providing a quality transit service as it was part of a compromise to end the ability to pledge MVET revenues for bond support.

***Earlier the legislature had limited the pledging of MVET revenue for bonding purposes to 10% of a recipient's MVET funds. This reflected the legislature's desire to retain ultimate control over these funds. However, as the legislature later learned, if any part of those revenues were pledged, then the entire amount of the municipal levy was considered encumbered until the bonds were retired. Pledging of MVET revenues to long-term bond support would be a technique for local agencies to retain control over the MVET funds even after the enabling legislation had expired.

COUNTY TRANSPORTATION AUTHORITY - 1974

By 1974 popular support for public transit was better developed at the state level as more systems had come into existence or expanded in response to the avaliability of MVET funds and local option sales tax revenues. At this point in time, the major legislative acts are responses to local needs by tailoring allowable organizational forms to meet local desires and situations. While these actions were not always without controversy or compromise, they tended to proceed without the same level of controversy encountered during the consideration of the MVET legislation.

The first of these organizational forms developed exclusively for transit service provision was the County Transportation Authority (CTA). This legislation permits the formation of a county-wide authority whose sole duty is the provision of transit services. A CTA can be established by resolution of the county commissioners; however, a popular vote is required if a local option sales tax is to be the financing mechanism.

This legislation has a somewhat odd history in that its origin was a bill affecting the taxing powers of metropolitan municipal corporations. It was also affected by efforts to develop a transit organizational structure that was less-than county-wide. That concept encountered opposition from the Senate Majority Leader who viewed special purpose districts as a poliferation of government and was particularly opposed to special purpose districts that were less than county-wide. The rewritten bill went through a stage where it would have permitted counties to take over existing transit operations, including a provision for a King County take over of Seattle METRO. It ended up as the County Transportation Authority legislation, still including a provision for the take over of Seattle METRO. The governor vetoed the King County take over provision while approving the other parts of the bill.

While the efforts which eventually resulted in the CTA legislation originated in Snohomish County, the only transit service currently operated under the CTA organizational form is in Grays Habor. Snohomish County formed a CTA in May 1974, but it has since been superceded by a Public Transportation Benefit Area.

PUBLIC TRANSPORTATION BENEFIT AREA - 1975

Between the 1974 and 1975 legislative sessions, two important developments occurred. First, experiences in Snohomish County indicated a need for a transit providing organizational form that was less than county-wide but larger than a city only service. Second, the Senate Majority Leader was prepared to drop his opposition to less than county-wide organizations and, at least in part, to special purpose districts.

These conditions permitted the passage of the Public Transportation Benefit Area (PTBA) legislation which permits the formation of a PTBA that is county-wide, less than county-wide or embraces parts of multiple counties provided no county is served by more than one PTBA. The PTBA has become the dominate organizational form for the delivery of public transit services in Washington State.

SALES TAX RATE INCREASE FOR SEATTLE METRO - 1980

In 1975 there was a bill introduced and passed to increase the MVET rate from 2.0% to 2.2% with the .2% revenues being dedicated to public transit. This bill was vetoed by the governor. In 1980, Seattle METRO spearheaded an effort to increase the municipal levy of the MVET from 1% to 1.5%. There was sizable opposition to a further diversion of state revenues from the MVET funds. Additionally, the state's economy was in recession and the state government was in a tight financial position. Affecting these efforts was the remaining "hard feelings" stemming from METRO's MVET appropriation suit as well as perception that METRO had a lot of money already.

Eventually, the matter was compromised such that no changes were made in the MVET municipal levy, but the local option sales tax enabling legislation was changed to permit metropolitan municipal corporations in Class AA counties to increase the local option sales tax rate up to .6%, subject to voter approval. Only King County carries the AA classification; thus, only Seattle METRO would be impacted by the change in the enabling legislation. The result was the preservation of the existing MVET distribution mechanism and an avenue for providing addtional funding to Seattle METRO, should local voters approve.

THE 1980 SEATTLE METRO SALES TAX INCREASE REFERENDUM

After the passage of the legislation permitting an increase in the local option sales tax rate for metro's in Class AA counties had passed, Seattle METRO went to the people during the 1980 primary election with a request to increase the sales tax rate from .3% to .6%. The vote failed by a relatively slim margin.

The issue was again placed before the voters during fall general elections in 1980. This time all members of the thirty-seven member METRO Council (the governing board) were at bus stops handing out literature and talking with the voters about the need for the tax rate increase. This had not occurred during the first vote. As all of the members of the METRO Council are local elected officials, their "on the line" support of the increase was an important contribution to the measure's success during the fall general election. Another influencing factor noted by respondents was the observation that primarnies and general elections tend to attract somewhat different voters with a more broad based representation of voters turning out during the general election.

One difficulty encountered during the campaign for the sales tax rate increase was the need to convince the voters that METRO actually needed the additional revenues. The view that METRO already had lots of money was the basic reason for oppostion to the measure. METRO accomplished the selling of the need, at least in part, by stating that .2% of the .3% increase would be reserved for capital purposes. By separating the majority of the proposed rate increase from the operating budget and placing it in the capital budget, where voters had a better perception of need for revenues, many of the voters questioning the need for additional revenues were convinced to support the measure.

THE SALES TAX EQUALIZATION BILL - 1984

Shortly after the legislature gave metros in Class AA counties the ability to increase the local option sales tax to .6%, the Washington State Transit Association (WSTA) and particular systems began efforts to have the allowable local option sales tax rate raised to .6% for all transit system organizational forms. This effort, known as the Sales Tax Equalization Bill, was successful in 1984.

The predominate reasons for its success were the concepts of fairness and equality that would be advanced if all systems were permitted the ability permitted the Seattle METRO. Further, and perhaps more importantly, the measure was advocated as a safeguard should federal operating funds be eliminated or drastically reduced; i.e, if the ability to move to a .6% rate was already in place, transit systems would not have to return to the legislature requesting that ability in a crisis atmosphere. An additional and probably rather minor, but noted none-the-less, factor was some residual resentment against Seattle METRO still felt by some members of the legislature.

At present, it is not expected that any system will move towards the .6% rate with a few potential exceptions which may request part of the .6% to financing particular capital projects.* To the extent that there have been changes in the local option sales tax rates, the trend in Washington State, for systems other than Seattle METRO, has been towards decreases in the sales tax rate.

COMMON THREADS

Weaving throughout the above noted activities are several common elements worthy of note. These are reviewed individually below.

Citizen Led Movements. Probably the most striking of the common features of the activties noted here, is the prominent position of citizen led efforts. From the very beginning, starting with the metropolitan municipal corporation enabling legislation, the major ground breaking movements have been led by broad based citizen groups rather than by politicans or by transit operators. The political significance of this can not be overstated. It is also notable, that, in recent years, the primary leadership for changes in the existing laws has come from the transit operators or operator associations. While citizen involvement is still an important factor in securing final passage of the proposed changes, the initiating initiator has changed.

Citizen Involvement. Even though it was not appropriate to any of the particulars of the above discussions, it should be noted that Seattle METRO continued and still continues to utilize a high level of citizen input. Indeed, citizen input is structured into the orgnization in the form of a citizens advisory body that is not window dressing. This reflects the citizen effort

*Recall, that the local option sales tax may be implemented in whole tenths of a percent up to the maximum percent allowed.

origin of METRO and is frequently noted in a highly positive vein by persons not formally associated with the organization.

Delivery On Promises Made. Another factor, in the popular success of Seattle METRO which has contibuted to its legislative success, has been its record of fulfilling the commitments it has made to the public. The organization's performance with respect to water quality and water pollution control were positive factors in decisions to expand its role to include the provision of public transportation services. The excellent manner in which, in 100 days, METRO combined two separate transit operations into a single functioning county-wide operation also enhanced its reputation for performance. The down side to such reputations is that the organization is given relatively little room for highly visible errors given the level of expectations which has been developed.

Menu For Local Choice. One of the important results of the development of the transit support structure in Washington State has been the evolution of a menu of organizational forms and local option tax sources which can be used for the operation and financing of public transit systems. Providing such an array for local decision makers not only permits, it encourages, the tailoringl of service provision organizational forms and financial mechanisms to local needs and preferences.

Long Legislative Memories. Some of the difficulty which METRO has experienced in securing passage of its legislative initatives in recent years is, in part, traceable to memories of the 1969 MVET legislation and the 1973 lawsuit. Some members of the legislature believed that the 1969 legislation was to include legislative appropriation provisions. When it did not, these members of the legislature tended to blame METRO. Some residual of this feeling has been observed as recently as the 1984 legislative session.

Don't Give Up. Another interesting feature of many of the legislative initiatives noted above has been their passage on the last day of the legislative session, often practically at the last hour. While the percise dynamics of this observation are not completely clear, it seems to argue for continuing to work with the legislature, even up to the last minute, in order to seek the accomodations which will secure passage. Clearly, this approach will not be politically acceptable in all areas.

Local Elected Officials. Even though not particularly stressed during the above discussions, the importance of informed and supportive local elected officials was noted by several respondents. One respondent went so far as to say that the transit industry is making a big mistake when it does not share its technical knowledge, on an on-going basis, with local elected officials.

This "care and feeding" of local elected officials is a point worthy of serious note. In Washington State it is of particular importance as the boards of transit operating organizations are, by law, predominately local elected officials. Clearly, the above comment was intended to include officials sitting on boards as well as those not sitting on boards of transit systems.

CONCLUDING COMMENTS

The above discussions review several of the major components of the Washington State financial support structure benefiting public transit and the compromises and debates which attended their enactment. As with most all financial suppport structures, the Washington State structure was evolved rather than designed. The political processes which developed this financial structure are highlighted by high levels of citizen involvement and a tailoring of organizational structures and financial mechanisms to local situations.

The support system has evolved into one where decision-making authority is vested with local agencies. This includes control with respect to financing mechanisms. This particular financial structure is of special note because of the high level of local authority and for the sizable amounts of total funds which can be generated for a relatively low level of state financial commitment. The dollar-for-dollar MVET match requirement ensures the existence of local commitment. While the requirement that both the MVET funds and the local matching funds be generated within the transit service area, ensures a general beneficiary-payee relationship.

The resulting mechanism has resulted in transit services being available to approximately 75% of the state's population with a resulting growth in local political support for transit and for the mechanisms which fund transit. The local decision-making approach which evolved is another factor contibuting to the existing levels of local political support for transit; in that, local services are responsive to local needs and under local political control as the governing board is composed, predominately, of local elected officials.

The most serious challenge to transit financing in Washington State was the attempt to repeal the MVET municipal levy. During that debate, knowingly or unknowingly, the essential character and direction of the Washington State financial structure was determined. The survival of the municipal levy established the concept of local control as a bedrock of that structure.

Another interesting part of the evolution of this structure is the unusually important role played by Seattle METRO. As the largest transit provider in the state and the largest metropolitan area, Seattle and Seattle METRO has tended to be the first to approach the state legislature regarding transit funding legislation. In the early days, METRO's excellent reputation, the strong levels of citizen involvement and the skills of the Seattle/King County legislative delegation were important factors in securing legislative approval of new and innovative approaches to transit financing. In the latter years, of those reviewed here, the sheer size of METRO's operation and the total funding required as well as some lingering resentment of the MVET law suit have had some "negative" impacts. However, these impacts have tended to work in favor of transit legislation where systems other than Seattle METRO were the predominate beneficiaries. Additionally, it does not seem to have adversely affected the ultimate legislative success of METRO in any meaningful way. That is, while METRO does not necessarily obtain the specific legislative action it has initially sought, it seems to be able to obtain an equivalent action, as in the increase in the allowable rate for the local option sales tax instead of the sought increase in the municipal levy of the MVET.

VII: IMPACTS, FINDINGS, RECOMMENDATIONS AND CONCLUDING COMMENTS

INTRODUCTION

This chapter presents selected comments upon the impacts of the stable and reliable financing structures examined in this study, a review of major findings, recommendations and other final commentary. With a few exceptions, the commentary will be generalized rather than site specific.

IMPACTS

Assessing the impacts of the finanical structures reviewed here is a somewhat elusive task, for the relevant impacts are not of a nature which readily yield to quantitive analysis or numeric summarization.

By way of illustration of this difficulty, an early draft of the California case study contained a comment to the effect that the existence of the TDA legislation had led to a high level and wide availability of public transit in the state. A reviewer commented that there was no analytical "proof" of this statement, i.e., no numbers to demonstration what would have been in the absence of the TDA verses what exists in the presence of the TDA. This is an interesting comment in that it tends to assume that impacts only exist when numeric support can be provided and that quantitive support must always be provided to demonstrate the existence of impacts. Because this interpretation of the term impact is common, it deserves some attention in the present context.

First, quantative analysis is possible which would provide the information desired by the commentor. A simple linear projection of the pre-TDA situation would be sufficient. The pre-TDA period was one of decline of transit both in terms of quality and quantity, as is noted in the California study. This was true nationwide and is well documented elsewhere in the literature; thus, no useful purpose would be served by repeating or duplicating such an analysis here. In sum, a quantative approach to impact analysis in the present context is possible, but it is not necessary or useful to do so here.

Second, the term "impact" in the present context has a process flavor rather than a mathematical flavor. Thus, the emphasis, admittedly not always explicit, upon the impacts of "political" variables upon the development of the stable and reliable financial support structures examined in this study. Here "political" is broadly defined to include the traditional political activities involving elected bodies as well as variables more commonly associated with public relations, marketing and consensus/support building. Addtionally, impacts upon managerial activities are also of concern. Even though they have been addressed in previous studies, they still have not become an explicit focus of concern when developing financial structures . Therefore, further commentary is in order.

Thus, the impacts identified in this study, and summarized below, are more of a process nature and effect the structure of the financial suppport process and of the transit management process. The detailed nature of the impacts vary among specific situations, naturally. Therefore, the impacts of stable and reliable financial structures, which are noted below, are phrased in somewhat general terms*.

Managerial and Planning Advantages

Stable and reliable financial support structures, almost by definition, permit predictability of future streams of financial resources. Thus, long term planning of both operations and capital projects can be undertaken with greater reliability and certainty. This reduces long term costs, improves long term management and provides a more predictable flow of service to the user. These factors hold true even when predictable levels of funding are below needed levels of funding; in that, service reductions may proceed in an orderly fashion and efforts to identify additional sources of funding can proceed without the panic traditionally associated with threats of system shut downs. Indeed, a financial support structure which is not stable and reliable virtually mandates a panic response to funding short falls as the only clearly effective method for obtaining the attention of legislative bodies.

Service Continuity and Ridership

A point noted above but worthy of individual attention is the continuity of service possible in the presence of a stable and reliable financial support structure. For transit to build and to maintain ridership, especially among the choice rider, transit services must be dependable. Scheduled service which does not arrive, or does not arrive on time, quickly erodes ridership and community support. If the transit system is in a position of finanical uncertainty, which negatively impacts service quality, the citizens may be understanding, but they will be so from another mode of transportation.

Encouraging Managerial/System Efficiency

While a stable and reliable financial structure permits the advantages noted above, these advantages will only materialize in the presence of good management. With one exception, none of the financial support structures examined here have directly addressed the question of management capabilties. The exception is California where a tri-annual performance audit is required of all recipients of TDA funds. While the performance audit is not a direct part of the finanical structure, the distribution of the STA funds is. Under this approach, 30% of the STA funds are distributed upon an operator generated funds basis. This approach rewards cost effective service delivery and system generated revenues, including farebox revenues. Thus, encouraging managerial and system operating efficiencies.

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*Several of the impacts noted here were also discussed in previous studies of the financial structures examined. In such cases, full development of the discussion is foregone and the interested reader is referred to: Erskine S. Walther, State and Local Governmental Responses to Increased Financial Responsibilty for Public Transit, Final Report, PB 84 154343, November 1983, pp. 159 - 165.

Limiting Growth of Operating Costs

Funds usage requirements contained in many of the financial structures tend to limit managerial choice and, when imposed by non-local bodies, local options. Of course, that is the intent of such limitations. Most frequently such limitations address the level of farebox recovery and the level of fare subsidy permissible. The long-term intent of these usage restrictions is to indirectly contain the growth in operating costs. When these limits are developed, as they generally are, based on political criteria rather than economic or system financing criteria, they have the long-term effect of elevating fares automatically and independently of prevailing economic conditions or political preferences.

Lowering Long-Term Operating Costs

Other usage restrictions have had the explicit intent of lowering long-term operating costs directly rather than through indirect pressure. The best illustration of this approach is the original design of the TDA where 75% of the funds were to be used for capital purposes. The clear intent was to move transit towards capital intensive methods of service provision which have lower life cycle operating costs. This attempt was unsuccessful because the language of the law permitted administrative interpretations which allowed these funds to be used for operating costs in excess of the intended limits. Thus, California has not received the long term benefits possible under the original concept and intent of the TDA.

Political Parameters

Prevailing political conditions, often influenced strongly by current economc conditions, are a highly important source of impact upon the design of financial support structures. The importance of this factor can be seen in all of the sites examined in this study. The impacts range from the relatively subtle to the plainly obvious. The best example of the latter is, naturally, the original design of the TDA. A good illustration of the former is the CAT system where the political consensus supports a good basic system as a public service with particular emphasis on service to the transportation dependent. This consensus has produced a good system meeting those objectives. However, those objectives also discourage more innovative views of transit. Thus, political conditions and prevailing views will influence the basic design of a financial support structure as well as the intellectual parameters within which the potentialities of transit are considered.

Incentives

The existance of state level financial support mechanisms, including those which are actually local option decisions, tend to encourage the creation of or the expansion of transit services. The result is higher levels of service and greater availablity of service than would occur in the absence of the state level actions. When the local option approach is selected, then the fact of local action can be taken as an indication of local desire for and support of transit services. When a state simply makes funds available without significant local decisions being required, then there is a built-in incentive to develop or expand services without regard to local support simply because the state funds are available. Which approach is viewed as desirable, indeed both may be desirable independently or in some combination, depends upon the preferences of the decision makers involved. Regardless of those preferences, built-in incentives should be explicitly recognized and selected.

The above noted factors are some of the observed impacts of stable and reliable financial support structures. The list does not attempt to be exhaustive. Other factors which can correctly be included in the above listing are noted subsequently in a different format in order to enhance their presentation.

MAJOR FINDINGS

The discussion of major findings is divided into five sections which conform to the five main study objectives noted in Chapter One. The following represents a summary of the findings as they relate to the study objectives.

Initial Rationale

In terms of an intellectually well developed rationale which supported the creation of the finanical support structures examined here, there, generally, was not one, at least not in a financial sense. More common was a rationale for the development of a stable financial base to support a needed public transit service with the rationale being the need for that service rather than the merits of a particular financial mechanism. The financial support structures which were, in fact, developed are truly the creatures of what was politically feasible at that time. During the process of development, a financial rationale sometimes emerged, but it was not present as a beginning, underlying factor in designing the support mechanism. This finding should not be particularly surprising as the mechanisms examined here include some of the earliest and most innovative mechanisms in the nation. Further, the body of knowledge upon which financial rationales for designing support mechanisms could be based is only now becoming reasonably well developed and was, general, non-existent when many of the structures examined here were being designed.

Alternative Funding Sources

In general, alternative funding sources were not examined when the structures examined here were developed. In most locations, there was no debate at all over alternative sources of financial support. That source or those sources which were the simplest to enact were selected without analysis. In the case of MARTA, alternatives were considered. However, the consideration was done without sophisticated analysis and was heavily influenced by the level of political support each alternative could generate. The ultimate decision in favor of a sales tax was, at least, half political and half on the back of an envelop. The observed fact that these sources have performed so well over a financally difficult decade, tends to suggest that sophisticated analysis may not be needed when the selection of a base funding source is made. Naturally, this should not be taken to mean that sophisticated analysis is never needed, rather that it is not needed in all cases or at all times.

Specific Requirements

This topic has been noted above under the discussion of particular impacts. However, some elaboration is in order. The specific restrictions found in the financial support structures examined tend to break into three major catagories: farebox recovery requirements; limits upon the amount of funds usable for operating expenses; and, managerial reporting and/or legislative oversight.

Taking the farebox recovery requirements and the usage limitations together, there seems to be little or no, (generally no), economic or financial analysis underpinning the specfic percentage levels/limits mandated. Rather, they tend to reflect general senses of what is fair and what is practical under then-existing conditions and/or a political desire to limit the total level of operating subsidy. Indeed, the basic intent is to limit the level of subsidy either by establishing a floor for user payment (farebox recovery) or a ceiling on total public subsidy (limit on level of funds usage for operating purposes), or through a combination of both techniques. A related objective, which is not universly present, is to discourage the growth in labor costs. Another factor is a desire to improve system operating efficiency. This latter fator is frequently cited as the primary reason for mandating a farebox recovery ratio.

The difficulty with these approaches are their long-term nature and their independence of long-term economic conditions and political preferences, both of which change through time. A strong argument can be made for tying farebox recovery or funds usage limits to particular components of operating costs. Thus, making the objective of the requirement more explicit and giving it more of an economic and financial managerial base. In this manner, the distorting impacts of such requirements over time may be lessened and operating efficiencies encouraged in a more positive manner.

Another usage limitation approach which differs in subtle ways from those noted above, is illustrated by the original intent of the TDA legislation. Those funds were explicitly designed for predominately capital purposes with the explicit intent of lowering long-term operating costs via capital improvements. The approaches noted in the preceding paragraph are designed to have the desired impacts through incentives. Here the desired impact is an intergral part of the structure of the financial mechanism. However, when this direct approach is taken, care must also be used in designing the regulatory oversight components; otherwise, the explicit intent may be rendered ineffective by administrative practice, as was the case with the TDA.

As to the managerial reporting and legislative oversight requirements frequently found in financial support structures, few general comments can be made that are particularly worthwhile. Managerial reporting requirements which are not onerous are certainly appropriate when the use of public funds is undertaken. When they become intrusive and require extensive degrees of managerial time and effort, then they detract from the efficient utilization of public funds and can become counter-productive. Legislative oversight is appropriate when the public funds are clearly state funds. However, such oversight is not appropriate, except for informational purposes, were the funds are not of state origin. The critical factor in determining the appropriate degree of legislative oversight is managerial and operating efficiencies. A major advantage of stable and reliable funding mechanisms is the managerial and operational efficiencies possible. When legislative oversight becomes sufficiently intense to negate those advantages, then a major objective of designing a stable and reliable structure is foregone.

Desired Changes

With the expected exceptions of fine tuning and response to changing conditions, expressed desires to significantly alter the financial support mechanisms examined here were generally absent. With two partial exceptions, there are no on-going efforts to alter the basic support structure.

The first of those exceptions does not constitute a significant alteration in structure. Rather, it represents a significant extension of the existing structure. This effort is the desire of Seattle METRO to increase the municipal levy of the MVET from 1% to 1.5%.

The other exception is of very recent origin and is not noted elsewhere in this study. This is an effort in California to "deregulate" the TDA. This is not a response to the basic premise of the TDA so much as it is a reflection of a generally pro-deregulation political climate combined with a fairly widespread view that while the TDA is fundamentally sound, it does need to be restructured from a legal structure point of view, i.e. the various exceptions and local accommodations which have been added over the years have made the act unduly hard to interpret.

Even with the two partial exceptions noted above, it is fair to say that there is no evidence of a desire for major structural changes in the financial support structures examined. There is a level of uncertainty with respect to the future of the federal role in transit financing. This uncertainty has led to some modifications of existing structures (the Sales Tax Equalization Bill in Washington State) and some reexaminations of the basic support structure (CAT in Raleigh, North Carolina), but it has not yet produced any meaningful changes in the basic support structures.

Common Threads And Key Elements

For the present purposes, these may be the most significant findings of the study. These factors represent the political, again broadly defined, elements which appear most frequently among the processes examined and which seem to represent variables which can be generalized and applied by a variety of differently positioned organizations. The following is a recapping of those Common Threads and Key Elements noted throughout this report.

General Lack of Alternatives Analysis. Generally none of the locations examined undertook significant alternatives analysis of the various funding sources available. In most cases, only one revenue source was, in fact, considered. Where alternatives were examined, the examination took the form of broad "ballpark" figures and the decisions turned, not on financial viability, but upon political acceptability. Thus, funding source determination has not tended to be "scientific"; however, given the growth in the body of knowledge regarding transit financing since the occurrances described herein, it is not reasonable to believe that an approach absent alternatives analysis is still an acceptable one.

"Gut Feelings" and Minimum Analysis. Flowing from the above and deserving of separate mention, is the importance of "what feels right". In other words, an intuitive belief that the proposed financing structure will fulfill the political and financial requirements prior to presenting the proposal in a legislative forum. This important preliminary step requires a good sense of the situation and a basic level of analysis. Should sophisicated levels of analysis be required, such analysis can be developed as the political/legislative process develops. However, recent events argue very strongly that financial analysis should be undertaken earlier in the full process and should be of a reasonably detailed nature.

Legislative Oversight. At the state level a key concern is often the degree and extent of legislative oversight of the usage of funds. Thus, in situations where this is a concern, a clear and appropriately developed technique for legislative oversight must be presented as part of the financing proposal. The presence of specific legislative oversight provisions are not, in-and-of themselves, sufficient to ensure a measure's passage. However, the absence of specific legislative oversight is sufficient to ensure a measures defeat. Attention to this legislative preference is particularly important in states where the legislature has a marked reluctant to approve dedicated taxes.

Multi-modal Approach. A distinguishing feature of many of the financing proposals in New Jersey (Chapter Two), is the multi-modal nature of the projects which benefit or would have benefited from the proposed financing mechanism. This is a relatively uncommon approach in that most financing mechanisms elsewhere in the nation tend to be mode specific. In New Jersey's case, the total financing package is multi-modal, while with-in the overall package there is a fairly clear means of allocating the total available funds among alternative modes.

Innovative Organizational Structures. A rather interesting approach to the institutional question of who or what will be the funds flow mechanism is the use of new and often innovative organizational structures to channel funds from revenue source to fund users which was observed in New Jersey (Chapter Two). While New Jersey has a history of creating independent authorities to fund and administer particular projects, the use of independent funding and/or operating authorities and of innovative new organizational structures, such as the bank concept, in other areas of the nation is certainly worthy of consideration. One advantage of an independent authority/bank is, that it places the location of responsibility for the day-to-day conduct of an activity outside of an elected governing body. A potential difficulty lies in the area for legislative/local elected body oversight. While solutions to this latter concern are available, the independent entity can provide administrative efficiency advantages when the activity administered is without political controversy as well as political advantages when the activitiy is a controversial one.

Politics of State Budget Deficits. The discussion of the Transportation Improvement Fund (New Jersey, Chapter Two) clearly illustrates the importance of the political activities which tend to accompany unhappy state budgetary situations. While the TIF would have produced a financing mechanism of benefit to transportation, its inception and most of the debate concerning the TIF was grounded in the impact upon the budget deficit. The difficulties flowing from the defeat of the TIF are an instructive argument for dedicated financing mechanism.

Avoidance of Dedicated Taxes. The discussion of New Jersey (Chapter Two) and of North Carolina (Chapter Three) indicated a general avoidance of the dedication of tax revenue to a particular usage. The only exception among these states was the dedication, in New Jersey, of 7.5% of the CIF revenues to accessibility improvement programs. Nevertheless, the financial structure supporting the CAT system in Raleigh, North Carolina is viewed as a stable and reliable one because of the strong local political commitment to the transit system. In New Jersey, the only stable and reliable source of operating revneus is federal Section 9 allocations. Capital funding is more reliable because of the various innovative programs which were noted during the dicussion of New Jersey. These two cases illustrate two different aspects of the view which avoids dedicated taxes. In the CAT case, the avoidance does not prevent the existence of a stable and reliable funding situation. While in the New Jersey case, the avaoidance was produced a history of instability in operating funds which has only be modified by the passage of the Surface Transportation Assistance Act of 1982 which created the Section 9 block grant program.

Public Transit as a Public Service. Another key element is the perception of public transit as a necessary public service. As such, the support of public transit is viewed as an appropriate use of public funds. this view underlies and reinfornces the base of political support for transit which has evolved over time.

Sharing of the Costs. While transit is a proper use of public funds, it's users can be identified and charged. Thus, a view of shared costs has evolved in many of the case study systems. For the CAT system, costs are shared by users, local property taxpayers and federal grants. For Seattle METRO, the sharing is among users, sales taxpayers and motor vehicle owners.

Packaging of Financing and Service. An observation of particular value is the joining of financing mechanism and services to be provided with the funds generated by that mechanism. This provides the voters with an understanding of what they will be "buying" and what "price" they will be paying. It may also serve to reduce or remove particular sources of opposition to the financing initative by addressing particular community concerns. MARTA (Georgia, Chapter Four) is the best example of this technique reviewed in this study. The coupling of the sales tax financing mechanism with a ten year low fare policy successfully satisfied the concerns over the regressive nature of a sales tax.

Defining the Parameters. A useful approach where support is intended but unlimited support is impractical or impossible. This approach takes the form of specifying the limits of funding which a public body will be willing to provide. The preferable manner of stating the limits is in terms of a percentage of the revenues from a particular tax source or in terms of a share of a tax rate. The operating advantage this provides is knowledge of the parameters within which the finanical management and the relevant political bodies can/will respond to changing financial environments.

Advance Responses To Community Concerns. When a popular referendum is required for approval of a financing mechanism and were there exist particular concerns within the community and/or within the political leadership regarding specific activities which may or may not occur should the financing mechanism be approved, then a formal addressing of the specific concerns prior to the vote is an appropriate and useful approach. For example, should segments of the community express uncertainity over how service will be distributed across the system's service area should the mechanism be approved, a method for reducing the uncertainity and, thereby, reducing or eliminating opposition is for the appropriate body to formally adopt policy statements which specify how service will be distributed across the service area. This approach provides the voters with a fuller understanding of just what would be "purchased" if the financing mechanism is approved while also reducing specific sources of potential opposition by directly responding to particular concerns.

Citizen Leadership And Involvement. An important element in the deveopment of several of the financial structures reviewed in this report is the level and degree of citizen involvement. This has varied from citizen groups being the actual initiators of the movement to pass particular legislative initiatives to being influential, often critical, lobbyists of state legislatures to being the key element in securing voter approval of financing referenda. The experiences noted subsequently in this report, argue very strongly for the early and active involvement of local citizens groups. A key part of obtaining such support is the frequent, regular and early initiation of community meetings where the issues and the alternatives are taken to the citizens and their advice, input, questions and comments are seriously requested. Not only can such activities build critical citizen coliations, but they can provide the basis for on-going popular support for the transit system.

Local Elected Officials. Another factor which emerges is the importance of an informed group of local elected officials. While such an observation is not new per se, what is somewhat new is the emphasis upon technical information needs of local elected officials. Several respondents to this study argued for the provision of a relatively detailed level of information, on a continual basis, regarding transit operations, technical innovations and developments as well as upon financial matters beyond simply providing budgets and balance sheets.

Try the Improbable. In some of the cases examined here, the basic enabling legislation was passed with the expectation that no local government would be able to obtain the necessary voter approval to implement the activity. However, in these cases, voter approval was obtained. This would tend to imply that state legislatures do, upon occassion, pass enabling legislation to which there is no strong opposition but for which there is vocal but isolated support, with the assumption that it will "never pass" at the local level. In this way, the locals become the "bad guys" when the measure is defeated and not the legislature. Thus, because a measure appears unlikely of legislative success, is not sufficient grounds for abandoning efforts for passage when the ultimate decision is to be reached not by the legislature, but by local governments or by local voters.

Enlarging the Pie. This successful California (Chapter Five) technique commends itself for serious consideration in many other locations and situations. This approach finds a method for increasing the total dollar amount of funding available; thereby, providing the ability to expand the number of uses/users of the funds.

Keeping Everybody Whole. This technique is closely related to the pie enlargement method noted above. One of the primary advantages of enlarging the pie is that all current recipients of funding can continue to receive the current level of funding with the additional funds being used for new or additional uses/users. This technique tends to eliminate opposition based on funding cuts or transference of funds from one use to another.

Menu For Local Choice. One approach observed among the case study states was the development of a "menu" of local options for the organizational form and financing structure of public transit. This approach was not designed in the standard sense of the term, rather, it evolved over time and presently presents local governments with a number of options; thereby, permitting local level development of the transit financing and organizational structure best suited to the local conditions and political preferences. In states with a divergence in local area needs and preferences the approach of a "menu" of choices has much to commend it. However, inherent in this approach is a minimal decison-making role for the state government. In areas where such a limited state role is not politically acceptable, the only option which allows for local diversity is one of exceptions written into the state funding legislation.

Something For Everybody. This thread has two main variations. The first is simply pork barrel politics where particular projects are added to a bill in order to secure support. The second variation can be seen with bills of a regional nature and is less pork barrel than it is coalition building. AB 1107 (California, Chapter Five) illustrates this approach where a mechanism was developed to accomplish a primary goal (secure a stable base for BART) and also build a regional coalition by providing benefits to the other primary actors.

Special Needs and Equity. This is a major theme which runs through most of the modifications of the TDA which have occurred over the years. In a state as diverse as California, there is an on-going need to accommodate the special circumstances of particular locations. One can debate whether or not a particular accommodation is wise, but the approach is necessary if the overall structure is to be maintained. These post-enactment modifications are a critical element in maintaining support for the overall TDA and in maintaining equity among the various diverse areas of the state.

Post-Enactment Modifications. This activity deserves to be singled out for special note as it is one of the more important factors in the long life of the TDA legislation. Post-enactment modifications are primarily the correction of unintended impacts and the accommodation of special local needs and circumstances. The ability of the TDA to accommodate such modification and still retain its basic character and effect is a primary factor in the continuing base of support enjoyed by the legislation.

Delivery On Promises Made. A factor in the popular successes of Seattle METRO and Atlanta MARTA, for example, which has contributed to their legislative successes, has been a record of fulfilling commitments made to the public. Such a record is an important source of broad based community support. Such support is critical when innovative legislative initiatives are sought as well as when popular referenda are required. The down side to such reputations is that the organization is given relatively little room for highly visible errors once a high level of expectations has been developed.

The above noted common threads and key elements, while not observed in each and every site examined, represent a summary of those observed in the process of this study. Hopefully, they will provide some insights and possible guidance for localities seeking stable and reliable transit financing structures.

RECOMMENDATIONS

In a very real sense, appropriate recommendations are best left to the eye of the beholder. The particular findings noted above are all on the order of a "recommendation," but which of them should be considered seriously will vary with the situational specifics of the reader. Thus, recommendations, in the traditional sense of the term, will not be made. However, some of the findings are worthy of further highlighting and particular note.

Specific Incentives. Specific performance rewards should be intergral parts of any financial support structure. However, the incentives should be based on a performance level achieved rather than on improvement of performance measures. Otherwise, the incentive has the preverse affect of rewarding inefficient systems that improve while not rewarding efficient systems which maintain desirable levels of performance.

Limitations and Restrictions. When usage limitations are placed upon particular funding sources, serious consideration should be given to tying those limitations to a subset of operating costs rather then to the total level of operating expenses. This approach would guard against unintended responses such as cutting deferrable operating expenses in order to utilize the allowable funds for, often, uncontrollable expenses. An important element in this comment is the expectation that usage limitations, once established, should be long-term limits; hence, a long-term view of their potential impacts should be taken.

Long-Term Application. Once farebox recovery ratios or funds usage limitations are established, they should be maintained through time, assuming, of course, that they have been wisely constructed in the first place. If such requirements are eased or changed whenever they begin to "hurt," then they serve no purpose other than political window dressing.

Local Decision-Making. While the prevailing view among the cases examined here is that transit is a desirable public service which can justify receipt of non-local public funds, much of the decision-making should be concentrated at the local level (in some cases a regional level when regional service is to be encouraged). This view argues for local option choices (Menu for Local Choice) and for a block grant approach to funds administration. These approaches can be applied to state and to federal funding programs.

Citizen Involvement. While this has been noted several times in a variety of contexts in this study, it is of sufficient importance to warrant another notation. Citizen involvement has value when particular legislation or projects need approval at the legislative or community levels. Within this context, that citizen involvement is widely utilized. However, its true value is in building broad based on-going community support for the system. To accomplish this, the citizen involvement must be broad based, on-going and not window dressing. Citizen involvement also means rider involvement.

Many times a transit program begins or undergoes important changes because of citizen involvement and intiative. All too often, once the immediate task is accomplished, the "professionals" arrive and the citizens, whose support and involvement were once so critical, are left on the outside or, worse, on window dressing "advisory committes". The care and feeding of citizens and riders must be an on-going activity.

Local Elected Officials. Just as with citizen and rider involvement, the on-going involvement of local elected officials should be a priority for transit management. The care and feeding of local elected officials is just as important as that of citizens and riders.

Evolution of Structures. The financing structures decribed here are all evolved structures, indeed, the primary task of this research has been to trace the path of that evolution. Thus, new structures should not be discouraged when revisions and alterations are found to be necessary. Such revision is inherent in the nature of task being attempted. Some assistance may be found be critical examinations of the evolutionary paths taken by other older financing structures.

Intergration of Financial Planning with Service Planning. A topic not addressed during this review and which by its absence calls for comment is the general lack of intergration of the planning of the financial structure with the cost estimations flowing from the service planning decision-making. The common approach seems to be for the financial planners to take the service plan as given and attempt to find sufficient funds to meet the estimated costs. It is only when sufficient funds cannot be found that funding-driven changes are made in the service planning/service delivery functions. A more rational approach might be to intergrate the planning functions in such a manner that cost-efficient service delivery techniques are encouraged from the out-set and that financial resources are a beginning factor rather than "another department" for the service planner.

New Techniques. The majority of the systems reviewed here were early innovators in the area of transit financing. In general, they have also been early adopters of new techniques, such as value capture. Designers of new financial support structures should be aware of both what has been utilized and what approaches are as yet untried. The initial willingness to innovate has tended to serve the early innovators well as it preconditioned them to an acceptance of new innovative financing activities.

While the above have been singled out for particular note, that should not detract from the value of other findings not so treated. The findings derive from a fairly wide range of experiences and circumstances. Thus, most situations should be able to benefit, to some degree, from a consideration of the experiences documented here and from the factors noted during the above discusssions. Creative transferences of the information presented here should be encouraged as should innovative approaches to public transit financial support structure formation.

A FINAL OBSERVATION

While it has not been particularly noted previously, an important thread ran through the case study interviews conducted for this research project. While it was never phrased this way, a reoccurring reality was the need for someone to take the point and be the led person. Without fail, these were persons with a vision which they could effectively communicate with others. By bringing others within the scope of their particular vision, they were able to make that view of what could and should be a part of everyday reality. In Seattle, the point-person was Mr. James Ellis, in California it was State Senator James Mills. In Atlanta two names kept reoccurring as key to success of the MARTA initiative, in Raleigh, three to four people, extending over several city administrations, were the critical point-persons, in New Jersey, it varied by the legislation, but almost without fail, there was a point-person. Perhaps, an appropriate "bottom line" comment would be that, regardless of the wisdom of what is being proposed, without a point-person, someone to share the vision, the odds of success decline.

FUTURE RESEARCH

Future research activities in the area of transit financing should utilize previous research and earlier experiences not just as a base for additional efforts but as a platform from which to intergrate existing knowledge and experiences with on-going efforts to develop new knowledge and experiences. Future activities could be profitably directed towards further explorations of private sector/public sector relationships; to methods for evaluating the probability of success of proposed financing structures; and operative techniques for intergrating service planning with financial planning. It would seem to be the better part of wisdom to begin to tie cost-effective operating technologies with stable and reliable funding structures.

CONCLUDING COMMENTS

This report builds upon two previous UMTA sponsored research projects cited previously. These reports began building a body of knowledge which examined the process of transit financing from a financial management perspective. These studies also expanded the development of a body of knowledge which examines transit financial support in an institutional/structural context. The latter of the two previous studies developed, in detail, the legal and institutional structures which provide transit financial support in the areas examined in the present study. Thus, the present study extends the previous works, and, in a sense, completes them, by adding to the body of knowledge of support structures, knowledge of the development processes which created the existing structures and which can reasonably be expected to influence future modifications or alternations of those structures.

Information contained in the present study can be useful to areas of the nation and to organizations attempting to develop, or alter existing, stable and reliable transit financial support structures. While the particular dynamics of each effort towards stable and reliable financial structures is in some manner unique, insights, suggestions and potential directions of movement can be obtained from a careful review of the processes described here and of the structures created by those processes.

Future research should more fully develop the literature associated with stable and reliable financial structures by expanding the array of such structures and their associated development processes which are documented and available for study. Of particular importance, are the emerging efforts to incorporate private sector financial participation into existing financial support structures. These efforts are significant events in the evolution of transit support structures.

Additionally, there appears to be an emerging need for technical assistance to state and local decision makers to facilitate efforts to apply the existing knowledge of financial support structures to the particular dynamics of specific sites. Expanded research activties, increased dissemination efforts coupled with regional technology sharing and assistance centers would be important steps towards the useful application of the expanding body of knowledge of public transit finanical support structures.

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APPENDIX A

AN OVERVIEW OF THE RESEARCH WITH SPECIFIC INTERVIEW QUESTIONS

In the last two decades, the federal government has played an increased role in promoting public transportation systems through legislation and financial assistance for both capital equipment purchases and operating expenses. These steps were initiated with the passage of the Housing Act of 1961, followed by several legislative acts explicitly stipulating federal financial assistance to public transit systems. An important example of such legislation is the Surface Transportation Assistance Act (STAA) of 1982.

Current federal policy envisions a reduced federal role in providing operating subsidies to public transit systems. Additionally, the STAA altered the manner of disbursement and the extend of federal capital grant programs. These changes in federal transit funding programs place additional financial responsibilities on state and local governments, many of which are already experiencing difficult financial situations. Under these conditions, public transit systems can reasonably be expected to reappraise their present finding mixes with an eye towards revisions in those funding mixes which lead to increased degrees of stability and reliability. Given the changes in federal transit funding policy, any such reappraisal must place high levels of emphasis upon state and local sources of stable and reliable funding. Independently of, or in combination with the reexamination of present financial arrangements, public transit systems may also be expected to consider major restructurings of present service provision arrangements. Should increased levels of stable and reliable funding at the state and local levels of government not be forthcoming, then major alterations in service provision arrangements, including fare levels, may become the only viable option available to public transit systems.

As public transit systems seek ways and methods to adapt to an altered funding environment, it is necessary that the relevant decision-makers in the transit systems and the state and local governments have access to information which details the decision-making variables and financial impacts of alternative efforts at developing stable and reliable financial arrangements. The need for applications-oriented research has never been greater than it is in the present environment of a declining federal presence in public transit financing.

Broadly stated, the objective of the research is to examine a set of stable and reliable funding arrangements, predominately dedicated funding arrangements, utilized by public transit systems. These arrangements represent an array of alternative stable and reliable funding arrangements which are being utilized by state and/or local governments. The research will trace the life-cycle of these arrangements from inception to current and projected impacts upon the financial decision-making of the transit systems. The overall financial particulars of the transit systems to be studied have already been detailed during two other research endeavors. The broad objective indicated above, will be actualized by obtaining detailed information on the following topics and questions:

- Detail the rationale supporting the decisions leading to the creation of a stable and reliable funding environment.

- If no dedicted source of funding is specified but the environment is viewed as stable ans reliable by the transit system management, what factors led to the creation of that environment?

- If a dedicated funding agreement exists, what considerations were involved in determining what funds source or sources would be dedicated?

- What sources were examined but not selected for dedication and what factors argued for those decisions?

- Why were specific conditions concerning the following factors placed into or excluded from the dedication agreement?

- methods for allocating funds among competing users;

- farebox recovery rates;

- limitations on funds usage for operating and/or capital expenses;

- collection of funds and timing of funds disbursements;

- preclusion of the availability of discretionary allocations of funds.

- What importance was attached to the impact of the above specific conditions upon the transit system's financial management tasks?

- What role in the decision-making process was attached to the adequacy of the funds generated?

- What significance was attached to cash-flow variables with respect to the timing of funds disbursement? If this is not included in the dedication agreement, what procedures have been developed.

- What has been and is expected to be the impact of the specifics of the dedication agreement upon the transit system's financial management tasks, including such factors as establishing fare levels and bonding capacities, of:

  - the adequacy of funds generated, especially in light of any usage restrictions;

  - farebox recovery rates mandated;

  - availability of discretionary allocations;

  - long-and short-term budgeting, maintenance programming, and capital acquisition programs;

  - cash-flow variables as impacted by the timing of funds disbursement;

  - labor-management relations, especially wage demands and union work rules?

- What changes, if any, does the transit system management and/or the local/state political leadership desire in the dedication agreement and/or the stable and reliable funding environment?

- What specific factors support the desired changes in the dedication agreement and/or the stable and reliable funding environment?

Respondents (officials of the transit systems and of state, local and regional governmental organizations) are requested to provide information concerning a variety of topics relevant to the evaluation of stable and reliable funding arrangements. Several of the topics noted below have also been noted earlier.

- What rationale underlay the decision to dedicate or not to dedicate a source or sources of funding to transit usage?

  - economic reasons
  - transit financial reasons
  - political reasons

- Which sources of funds were considered for dedication?

  - criteria used for judging alternatives
  - rationale for rejection of sources not chosen
  - rationale for election of source or sources dedicated

- Rationale for inclusion or non-inclusion of specific requirements in the dedication agreement:

- farebox recovery rate
- method(s) for allocation of funds among alternative users
- limitations on usages of funds; i.e., capital/operating splits
- timing of funds flow to recipient organization
- preclusion of receipt of discretionary allocations from non-dedicated sources of funds

- Impacts upon transit financial management tasks of:

  - adequacy of funds from dedicated source or sources
  - adequacy and availability of discretionary allocations
  - limitations on usage of dedicated and/or discretionary funds
  - farebox recovery rates mandated
  - cash-flow factors arising from timing of funds flow

- Impacts upon long-and short-term budgeting, capital acqusition planning and maintenance programming

- Changes desired in the dedication agreement by members of the transit management and/or members of the state and local governments

- Rationale for desired changes

- Rationale for preference for present situation if changes are not desired, including preference for non-dedication of funds.

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. <u>Definitions</u>

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.

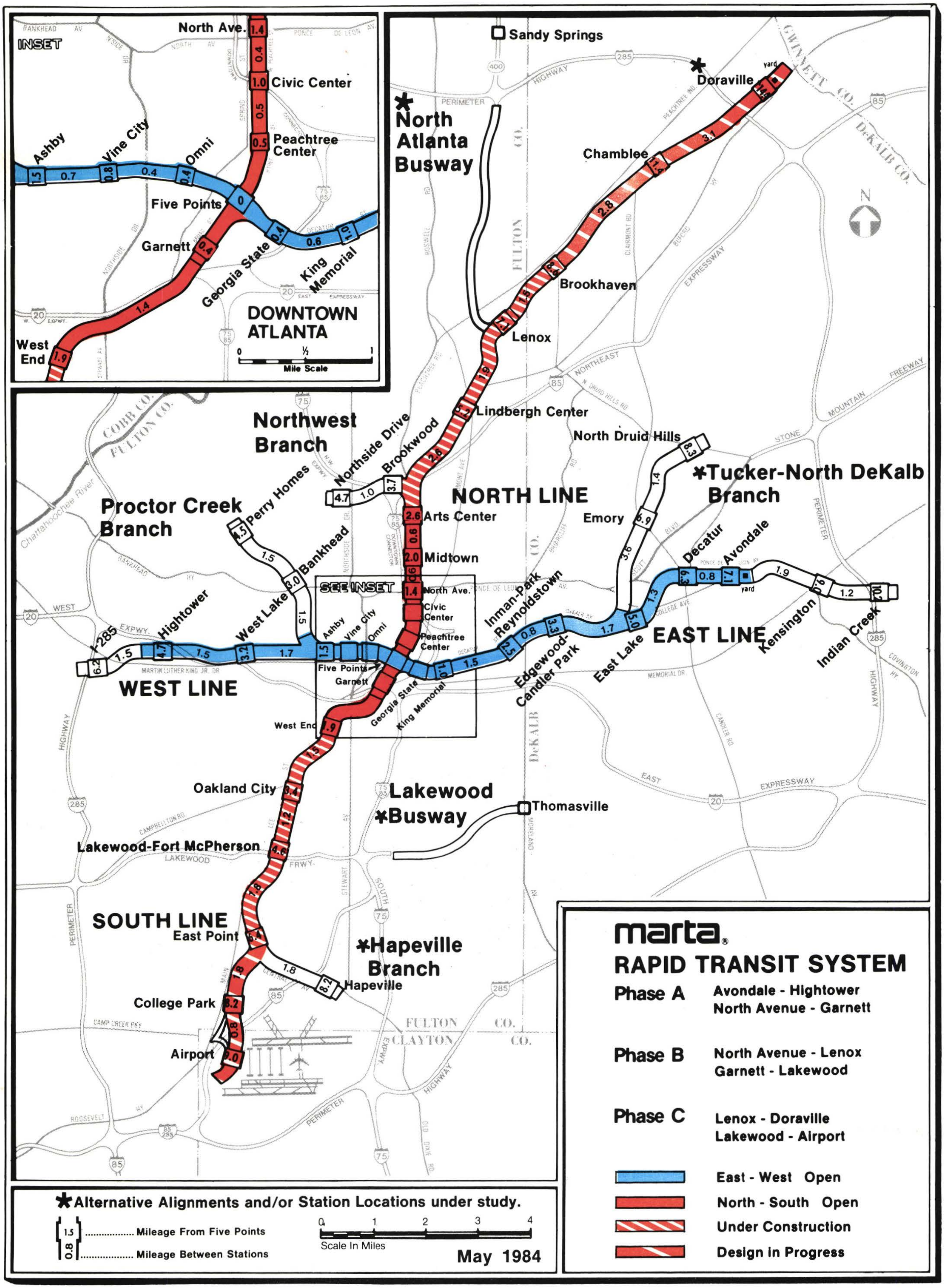
B. Operating Deficit (Section III and IV) - the term identified as "net project cost" in the UMTA Project Budget. This is the eligible operating expenses less farebox revenues.

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



INSET
North Ave.
Civic Center
Peachtree Center
Ashby
Vine City
Omni
Five Points
Garnett
Georgia State
King Memorial
West End
DOWNTOWN ATLANTA
Mile Scale
Sandy Springs
North Atlanta Busway
Doraville
Chamblee
Brookhaven
Lenox
Lindbergh Center
North Druid Hills
Northwest Branch
Northside Drive
Brookwood
Perry Homes
Proctor Creek Branch
Bankhead
NORTH LINE
Arts Center
Midtown
Emory
Tucker-North DeKalb Branch
Decatur
Avondale
Kensington
Indian Creek
EAST LINE
East Lake
Edgewood-Candler Park
Inman Park-Reynoldstown
SEE INSET
West Lake
Hightower
I-285
WEST LINE
Oakland City
Lakewood Busway
Thomasville
Lakewood-Fort McPherson
SOUTH LINE
East Point
Hapeville Branch
Hapeville
College Park
Airport
marta
RAPID TRANSIT SYSTEM
Phase A Avondale - Hightower North Avenue - Garnett
Phase B North Avenue - Lenox Garnett - Lakewood
Phase C Lenox - Doraville Lakewood - Airport
East - West Open
North - South Open
Under Construction
Design in Progress
*Alternative Alignments and/or Station Locations under study.
Mileage From Five Points
Mileage Between Stations
Scale In Miles
May 1984