

FINANCING PUBLIC TRANSPORTATION

Americans took more than 10 billion trips on public transportation in 2007—the highest public transit ridership levels in 50 years. In fact, with gas prices hovering near record levels, more and more Americans are using public transportation. The American Public Transportation Association reports that during the first three months of 2008, ridership on public transportation was up 85 million trips over the same period in 2007.

“The pocketbook issues have caused communities and states to consider, and in fact demand, additional transportation options,” said Art Guzzetti, the public transportation group’s vice president for policy. “There is no doubt people are riding transit more, looking to ride transit more, looking for alternatives to driving.”

It’s the same in cities across the U.S. Boston saw a 9 percent increase in subway ridership—the nation’s biggest increase for a citywide subway system. Ridership on light rail streetcars has increased in cities such as Baltimore, Minneapolis, St. Louis and San Francisco. Seattle has seen a 28 percent increase in commuter rail passengers in 2008.

A July report by the U.S. Department of Transportation showed that since January 2008, high gasoline prices have prompted Americans to reduce their driving by more than 40 billion miles. They drove 3.7 percent fewer miles in May than they did in the same month a year earlier, the report said.

Ironically, the decrease in driving means consumers are paying less in federal fuel taxes, which help finance many mass-transit systems across the country. In late July, U.S. Transportation Secretary Mary Peters suggested gas tax revenues are falling so fast the federal government may not be able to meet its commitments to states for road projects already underway.

Last year, the American Association of State Highway Transportation Officials calculated the level of investment needed through 2030 to improve the transit system. The “cost to improve” was estimated at \$31.4 billion for 2007, increasing to \$55.3 billion by 2030. But federal and state funding for public transit was just slightly more than \$19 billion in 2006—\$11 billion of that from state governments—and many transportation analysts wonder how it can be expected to increase to \$31 billion or more anytime soon. Generally, states and cities cover most of the operating costs for highway and transit systems while the federal government provides funding for capital improvements.

Dedicated Funding Sources

Many experts believe establishing a dedicated funding source for public transportation is crucial to addressing the public transportation financing woes. Investments in transit often occur over many years and annual budget



fluctuations can create havoc for long-term projects and require completion of projects on a piecemeal basis as annual appropriations are approved. Dedicated funding sources ensure that capital projects receive the resources they need to be completed efficiently.

“It’s a bad situation to be in where you spend huge amounts of your management time and attention just toward the annual quest for a budget,” said Guzzetti. “First of all, that’s not a way to manage an organization. Second of all, it’s certainly not a way to plan for the future when you’re dealing with things on a year-to-year basis. It absolutely is beneficial and in fact critical to running a good transit system to have funds that you know are going to be there next year and you don’t have to spend 90 percent of your time in the annual quest for funds. If public transit is important to your state, you will have a system that provides a dedicated, stable source.”

According to the U.S. Government Accountability Office, in selecting a dedicated funding source, states must consider the year-to-year stability and longer-run adequacy of the source as well as the political feasibility of the tax or fee rate required to collect revenue.

But dedicated funding doesn’t necessarily mean a fund separate from the one used for highways.

“Policy has to look at it all as one system,” said Guzzetti. “You plan it as one system. You manage it as one system. You inte-

grate it as one system. You finance it as one system. So certainly from a policy point of view, it's often good to look at it in a holistic, synergistic way. The problem is sometimes states maybe in their constitution say gas taxes can only be used for highways. ... But the solutions aren't limited to highways. It's really not the right approach to limit the funds to highways alone."

Taxes as Revenue Sources

Revenue sources for public transportation vary in their stability, revenue adequacy and required tax or fee rate. In 2006, the most

common major source for overall transit funding was the gasoline tax. Fifteen states relied on it for at least a portion of their transit funding, while South Carolina and Tennessee relied on it for 100 percent of funding. However, the general sales tax was responsible for providing more funding in overall dollars nationwide.

Motor fuel taxes are generally applied on a per-gallon basis, not as a percentage of the total sale price. As a result, some question the adequacy of the fuel tax as a revenue source as improvements are made in fuel efficiency and more people

use public transit because of rising fuel prices. As more hybrid or electric vehicles come to market and as more states adopt California-style emission standards, some experts predict that gas tax revenues will decline while actual road use remains flat or increases. That will prompt the need to tap other revenue sources to fix or expand overburdened highways.

Eight states in 2006 relied on a general sales tax for at least a portion of their transit funding, with Colorado, Georgia, Illinois and Indiana relying on it for 100 percent of state funding. Eight states also relied on a more targeted motor vehicle/rental car sales tax for funding, with Iowa relying on it for 100 percent of state transit funding. Studies suggest sales tax revenues are more susceptible to economic fluctuations than property or gas tax revenues because they are dependent on consumer purchases, which may vary with changes in income.

Alternative Financing Options

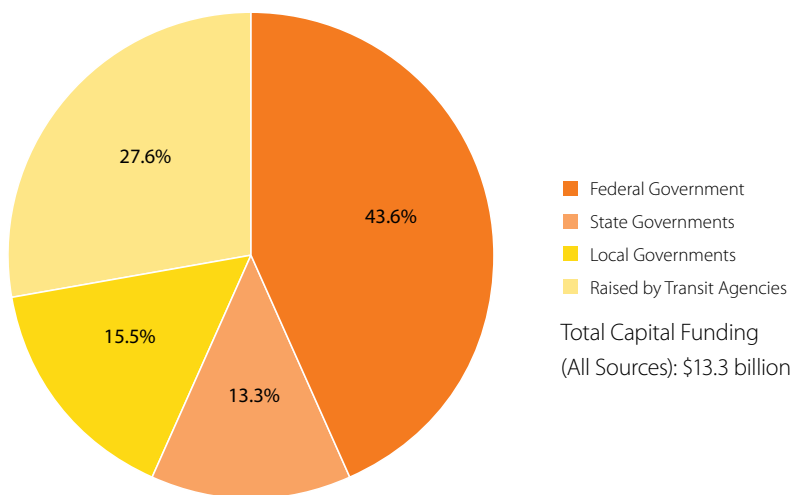
Transportation analysts say the wave of the future may be taxing motorists on how many miles they travel instead of a per-gallon fuel tax. Oregon in recent years piloted such a system that charges motorists based on vehicle miles traveled. It works like this: When a driver pulls into a gas station, the pump uses radio signals to read the miles the car has traveled since its last refueling. A global positioning system tells the pump how many of those miles were in certain zones. The pump computes the vehicle miles traveled tax and adds it to the gas purchase price.

But Guzzetti says widespread deployment of such a tax is still a long way off.

"There are a lot of things you'll have to change in your state to have a vehicle miles traveled tax," he said. "You'll need transponders on cars. You'll need some way of recording it. ... But until you get there—and it's going to take some transition—I would suggest the gas tax is a bridge to get to some long-term fee."

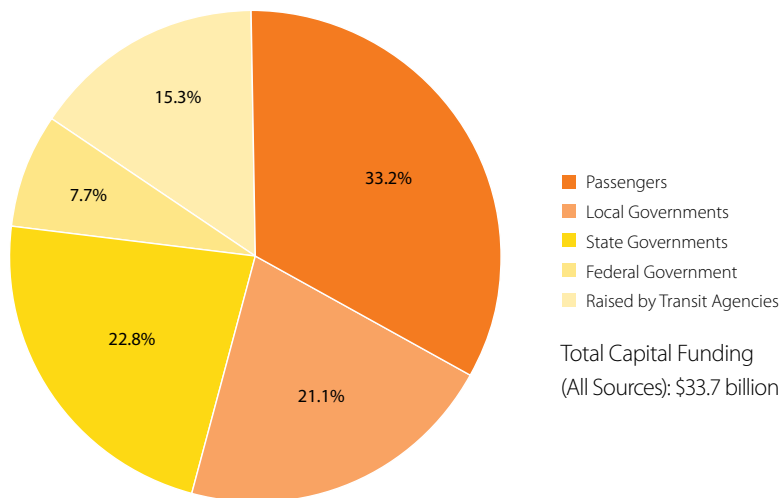
Another fee-gathering mechanism with potential is congestion pricing—a practice of charging motorists more to use a

Public Transportation Capital Funds 2006



Source: American Public Transportation Association
http://www.apta.com/research/stats/factbook/documents08/2008_fundcap_final.pdf

Public Transportation Operating Funds 2006



Source: American Public Transportation Association
http://www.apta.com/research/stats/factbook/documents08/2008_funding_operations_final.pdf

road, bridge or tunnel during periods of the heaviest use. It may be another way of not only generating revenue from tolls but also encouraging more use of mass transit during these periods of peak congestion. The congestion pricing concept was debated most recently in New York City. A plan that would have charged drivers \$8 to enter parts of Manhattan during peak hours was ultimately not approved by the state legislature. But a similar program was instituted successfully in London, England, in 2003.

As public-private partnerships are becoming increasingly popular as a way of financing highway projects, the idea is catching on in the public transit world as well. In public-private partnerships, a private company leases a transportation asset from the state for a given period of time, and the proceeds allow for a reduction in the overall tax burden. But such partnerships are still only part of the equation.

Along with tax increases, these alternative funding options carry potential political risks for state policymakers, so objective analysis of these options may be a somewhat futile exercise. Ultimately, Guzzetti said, the best way to raise revenue for public transportation in a state may be simply whatever is politically feasible.

"The goal is coming up with the funds," he said. "It's whatever package you can put through."

Pennsylvania Transportation Funding & Reform Commission

Pennsylvania Gov. Edward Rendell in 2005 created the nine-member Transportation Funding and Reform Commission to examine the state's transit, highway and bridge system needs. The commission was chaired by Transportation Secretary Allen Biehler and involved three legislative leaders, including Rep. Richard Geist.

"The question in Pennsylvania was that the state government pays a huge percentage for Philadelphia and Pittsburgh's (transit) systems and other transit systems," said Geist, who represents Altoona and chairs the House Transportation Committee. "As

the feds have pulled back their support, the state and local (governments) have had to do more. ... But what's the ideal situation and what percentage should the local government put up? I think that's going to be debated (for years) ... because you want local responsibility. You want local efficiencies."

In 2006, the state faced a transit crisis that had been building for 10 years, and in November of that year, the commission delivered its recommendations. Among those for public transportation funding:

- ▶ Replace all existing public transportation program funding sources with one broad-based, reliable, dedicated tax that grows with inflation.
- ▶ Provide an additional \$760 million in state and local funding annually to, among other things, put existing public transportation systems on sound financial footing and provide for targeted expansions.
- ▶ Simplify state and local shares of federal funding. Require the local transit match for additional funding to be 25 percent. Enact local enabling legislation for counties and/or municipalities to raise additional local dedicated revenues limited to supporting transit.
- ▶ Explore the use of bond financing for capital projects as a way to reduce the need for increasing taxes.

The commission evaluated several specific revenue-generating sources and determined that the personal income tax, sales tax and realty transfer tax all had broad-based revenue-generating capacity and the capability to grow at rates at least equal to the rate of inflation. The commission found the realty transfer tax to be the best option because the county-by-county proceeds are more closely aligned with public transportation ridership.

But when state lawmakers considered a measure to increase investment in transportation in 2007, the proposed realty transfer tax and some other recommendations of the commission were not included. House Bill 1590, which Gov. Rendell signed in 2007, commits nearly \$1 billion in annual funding for transportation infrastructure and public transit.

The bill includes \$450 million a year for 10 years to support the state's 73 public transit systems, much less than the \$760 million the commission proposed.

Just months after House Bill 1590 became law, however, a group of legislators introduced a bill to repeal it. Their concern was about the economic impact of the legislation's increased tolls on the Pennsylvania Turnpike and new tolling on Interstate 80. The repeal legislation has not passed, though increased tolling remains controversial in Pennsylvania.

Geist said House Bill 1590 served a purpose but didn't go far enough. "It skirted the edge of what the needs were," he said. "The idea was to have an immediate fix to get transit monies. ... In looking for a long-term fix for it, we felt that (another plan), which was to lease the turnpike as part of a public-private partnership, made much more sense."

Geist believes public-private partnerships are likely to be an important part of Pennsylvania's transit future. "I just don't think you can raise and generate the kind of money (needed) at the pump. ... Every state has to really figure out how they're going to pay for the physical plant (infrastructure) and quite frankly that's not a sexy issue and it doesn't get you elected. It doesn't get you re-elected," he said.

Public transit is also a tough sell for legislators in communities beyond the major urban centers, Geist said. "A lot of rural guys just absolutely hate it because all they see is this huge amount of money going to Philadelphia. ... (But) transit to me is an economic generator and you have to have a good transit system if you want a good economy."

Illinois Mass Transit Funding and Reform

Illinois was another state to pass major transportation legislation in 2007. The legislation there focused exclusively on public transportation. House Bill 656 allowed state transit systems, including the Chicago Transit Authority, to avert drastic service cuts and fare hikes, which might have resulted from funding shortfalls. The bill provides \$280 million from a 0.25 percent regional sales tax increase

Major Sources for Overall Transit Funding

State	General Fund	Gas Tax	Motor Vehicle/ Rental Car Sales Tax	Registration/ License/Title Fees	Bond Proceeds	General Sales Tax	Interest Income	Other
Alaska	99.4%							0.6%
Arizona	0.2%							99.8%
Arkansas			89.3%					10.7%
California		30.7%			0.1%	62.6%		6.6%
Colorado						100.0%		
Connecticut								
Delaware		X		X				100.0%
DC	80.7%				19.2%			0.04%
Florida		41.6%		19.1%				39.3%
Georgia						100.0%		
Idaho								100.0%
Illinois						100.0%		
Indiana						100.0%		
Iowa			100.0%					
Kansas								100.0%
Kentucky								
Louisiana								
Maine								100.0%
Maryland		32.9%	31.2%	22.8%	4.3%			8.8%
Massachusetts		4.2%			22.8%	58.4%		14.6%
Michigan		39.8%	28.6%	31.3%			0.1%	0.2%
Minnesota	32.6%		41.7%		25.8%			
Mississippi	100.0%							
Missouri	100.0%					X		X
Montana		10.1%		89.9%				
Nebraska		69.8%	20.6%	9.5%			0.2%	
Nevada							100.0%	
New Hampshire					72.3%			
New Jersey	32.9%	13.5%	6.6%		35.5%		0.8%	10.7%
New Mexico								
New York	4.0%	X	X					X
North Carolina		90.5%	0.9%					
North Dakota				100.0%				
Ohio	100.0%							
Oklahoma		X						X
Oregon		8.6%		9.7%	1.5%		2.1%	78.1%
Pennsylvania	38.1%				12.4%	18.9%		30.6%
Rhode Island	16.4%	82.2%			1.3%			0.1%
South Carolina		100.0%						
South Dakota								100.0%
Tennessee		100.0%						
Texas								
Vermont								100.0%
Virginia		21.0%				28.0%		49.0%
Washington		X	X	X				X
West Virginia	100.0%							
Wisconsin		33.3%		33.3%				33.3%

Note: X indicates that the state listed this source but did not specify the percentage of funding from the source.

Source: American Association of State Highway and Transportation Officials, 2008

in Chicago's Cook County and a 0.5 percent increase in the surrounding counties.

Overall the state plans to spend \$530 million a year starting in 2009 to keep city and suburban trains and buses running the way they do now and to fund overdue repairs and improvements. But analysts contend at least \$1 billion more per year will be needed just to keep transit systems from deteriorating. Upgrading 1967-vintage elevated trains and adding new suburban services to get to where many jobs are now located are just two of the issues the systems face. A strategic plan issued by the Regional Transportation Authority in 2007 said the amount needed is more likely \$2 billion a year in capital for the next 30 years to keep facilities in good repair and to expand and enhance the system.

A nonprofit, business-supported planning organization called Chicago Metropolis 2020 last year studied the potential regional economic impact of the transit authority's recommendations. It found that investing \$1.68 billion a year to maintain services and keep them from deteriorating would produce \$2.04 billion of yearly economic benefit across the region, for a 21 percent return on investment. Additional investment to add new routes and improve equipment could result in a 34 percent return, the organization found.

The Future of Public Transportation

Factors such as high gas prices and increasing demand for public transportation alternatives will likely encourage other states to debate funding options in order to invest more. And policymakers are likely to get an earful from their constituents regardless of how the debate proceeds.

"States that (invest more) are going to be the ones that are ahead of the game. Cities that give that kind of urban vitality as an option are going to be ahead of other places that don't. I think communities are seeing that," Guzzetti said.

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