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It is widely recognized that insufficient funds are being generated by the users of urban transit systems to cover operating expenses and capital improvements. Unless additional outside sources of funding are developed, urban transit systems will gradually disappear. If there is justification for continuing the existence of urban transit systems in American cities, mechanisms are needed for implementing an operating expense subsidy. A combined federal and local funding program already exists for subsidizing capital improvements for transit.

Some of the foremost issues addressed in the following papers involve whether the federal government should also be involved in the operating expense and how deeply it should be involved. The fact that local governments are in a severe cost-revenue squeeze is generally recognized by all authors, but one takes the position that it still makes more economic sense for transit financing to compete with all the other local needs.

Specific topics discussed in the papers include management postures associated with federal programs and their delivery systems; role of state and local governments in setting standards, funding, and administering a subsidy program; effect of subsidies on the bargaining process with labor; deficiencies in present subsidy efforts; interrelation of the service cost and the quantity and quality of the service; and public versus private ownership.

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The subtopics suggested for discussion under the general subject of financing public transportation are varied and permit some choice of favorite topics by the authors. I will discuss in general terms some of the administrative issues associated with major federal public transportation programs and their delivery systems; what objectives, standards, and management postures are appropriate and can be effectively applied; and the role of the states with respect to the administration of the programs. Let me first cite the programs of the Urban Mass Transportation Administration, in the order in which they were authorized by legislation:

1. A research, development, and demonstration program providing grants to develop, test, evaluate, and demonstrate new ideas and techniques for the improvement of transit services and equipment;

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2. Capital grant and loan programs to help finance new equipment, construct facilities, and advance land acquisition to improve transit service in urban areas;

3. A technical studies grant program to assist local authorities in financing engineering, architectural, and managerial studies necessary to plan transit systems and improvements and to develop transportation policy options for local authorities to consider;

4. Grants to public agencies to provide fellowships for up to 1 year of advanced schooling for persons employed in managerial, technical, and professional positions in the urban public transportation field, the purpose being to improve the competence of this labor force; and

5. A program of grants to nonprofit educational institutions to assist in establishing or carrying on comprehensive research and training programs in urban transportation, the purposes being to encourage progress in basic research and to create a number of transportation centers that will tend to induce young people to choose the transportation field as a career.

There is as yet no program of federal assistance for public transportation operating costs, but during the session of Congress in 1972 the following action was taken:

1. The Senate passed a housing bill with a provision authorizing an operating subsidy grant program at a level of $400 million per year for fiscal years 1973 and 1974.

2. The House Banking and Currency Committee reported out a housing bill with a similar provision.

3. The House passed a general revenue-sharing bill that provides at the outset $5.3 billion to state and local governments to be used for 3 functions: public safety, environmental protection, and transportation (including public transportation operating costs). The local government share remains at $3.5 billion per year for 5 years; the state share increases from $1.8 billion to $3 billion during the 5 years, the increase being intended to reward fiscal effort encouraged by the bill.

4. The administration's special revenue-sharing bill for transportation, introduced in the Senate April 29, 1971, permits the use of resources in its general transportation element for transit operating costs, if local authorities so desire.

5. Though not permitting the use of funds for transit operating costs, the administration's Federal-Aid Highway and Mass Transportation Act of 1972, introduced in Congress in April 1972, permits use of Highway Trust Fund resources for public transportation capital costs at local option and is akin to the revenue-sharing philosophy.

This recitation of legislative proposals makes it clear that the question has ceased to be whether federal dollars should be used for transit operating costs. The question is, Under what conditions and by what delivery system should federal dollars be made available?

Sometimes, of course, exaggerated claims are made for programs. It was said that the Urban Mass Transportation Assistance Act of 1970, which essentially provided a quantum increase in resources for capital grants, alone would alleviate traffic congestion and air pollution, increase property values, promote business activity, stop community decay, and ensure access to jobs, schools, medical care, and recreation for millions who are too old, young, poor, or handicapped to drive cars. The political process happens to be quite tolerant of such statements. To begin with, there is the hope that they will turn out to be correct, and the problems will in fact be solved.

Notwithstanding such tolerance and statesmanship, let it be said that federal programs are always on trial for their lives, particularly in the appropriations process. The hearing cycle for the program manager, within the executive branch and before legislative committees, is almost continuous. And the favorite questions of review authorities are those related to purpose.

This has been so from the inception of the federal government's role in the transit function in 1961; but, when it became apparent that there was apt to be a quantum increase in resources in 1970, interest heightened in the objectives of the program and

UMTA's management approach. The recurring questions of review authorities and the policy cross currents they represent were contained in an assignment to UMTA to undertake a special study on the criteria and objectives of its programs, focusing on the capital grant program.

The subject at hand was in fact the basic approach to managing the UMTA programs—not just development of a statement of purpose. Some of the points at issue were

1. The relative emphasis to be placed on commutation in peak hours, mobility for captive riders, and use of transit to support desired development patterns and improve environmental conditions;
2. The optimum program level and financial plan to meet such objectives; and
3. The application of the results of the research, development, and demonstration program to the capital grant program.

The UMTA report concluded that the overriding issue in considering criteria for its programs was whether the program was to be viewed primarily as providing financial assistance in response to local requests or as one operating toward specific ends. This polarization of philosophies gets expressed in different ways and with varying degrees of vehemence. The argument can take place solely within the context of the categorical grant system, or it can be enlarged to set off the categorical grant delivery system against the revenue-sharing system, for we can fairly characterize the categorical grant system as more prescriptive and involving more federal intervention than the general or special revenue-sharing systems.

The report was developed within the framework of the categorical grant system, but the revenue-sharing proposals came on the scene as the implementation of the report's recommendations was being considered. Being involved in development of the transportation special revenue-sharing proposal as well as in the UMTA study, I found myself becoming an intellectual eunuch of sorts—still living with the categorical grant system and trying to make it work better and also fully supportive of the President's special revenue-sharing proposals that would inter the categorical grant system.

A management system that hews to either pole—prescriptive or demand-responsive—is mistrusted by those at the opposite pole. I happen to advocate a management posture near the middle, taking the position that management style is a force in itself, apart from literate statements of purpose. This approach is mistrusted by those at both poles. Too much depends on the actors, it seems. And people die. They get fired. They find other opportunities for themselves.

The advocates of the objective-oriented approach are largely those concerned with the appropriations process in both the executive and legislative branches. Their questions are: What are we buying? What is happening with respect to the problems to which this program is addressed? What are you doing through management of the program to ensure some results? Dealing with applications on a first-in, first-out basis will not satisfy them.

I have suggested that the political process is tolerant of limited results. But it is intolerant of little or no efforts to ascertain results or to ensure some results. This observation applies to federal programs regardless of the delivery system—either categorical grants based on individual applications or general and special revenue-sharing by formula. But it applies more pointedly to the categorical grant system.

The proponents of an objective-oriented management approach view financial assistance as the leverage to accomplish objectives determined by the federal government. One hears much more frequent mention of federal "clout" and "muscle" among proponents of this management posture than among those who prefer the demand-responsive approach. (What some view as federal whips, others tend to view as wet noodles.)

The objective-oriented approach is characterized by an emphasis on the judgment and values of federal program managers concerning desired purposes rather than on those of the local applicant. Associated with this emphasis is substantial skepticism about the vigor and relevance of the local planning process. Such skepticism is not unwarranted, but the real question is, What will be required for planning to succeed?

rather than, Has it succeeded?

Also characteristic of the end-oriented approach is the absence of doubt (or at least fewer doubts) that prescriptive strategies are feasible and operative. This is accompanied by some disdain for the abilities of local authorities, and with confidence in the ability of the federal executive establishment to manage administrative control problems and to be effective in implementing prescribed strategies in dealing with local authorities when they enlist federal allies in the legislative branch, gubernatorial support, and other assistance.

The advocates of an objective-oriented approach to program management within the federal establishment find allies in private corporate management. This becomes very clear in seminars with corporate executives studying the federal government as White House fellows and in association with political appointees from private industry. At the last Federal Management Improvement Conference in October 1971, it was suggested that the general impression among corporate executives that the federal government was not "well managed" stemmed from the poor articulation of organizational objectives, the absence of a clear intent to maximize some goals rather than just satisfy demands. The absence of ways to measure results was also cited as a major difference between the public and the private sectors.

So much for the prescriptiveness. At the other pole are those who view the program basically as one of financial assistance designed to stimulate investment in a neglected function in keeping with locally determined needs. Those holding this view tend to be the federal program managers and their clientele, state and local authorities. They want to help. For starters, they question the authenticity of the resource allocation issue and would argue that the political process itself can settle this.

Then they would argue that there are no discernible national policies anyhow, that part of the problem of public administration is that objectives change, unlike private interest objectives, which basically do not. They advocate acceptance of local values about needs and priorities instead of the prescription of values to be recognized in the application process.

Finally, the demand-responsive school has a basic skepticism that prescriptive strategies are feasible and operative. They like the following statement from the August 1970 report of the President's Task Force on Model Cities:

> Now that billions instead of millions are being appropriated, the system simply will not work as it used to; Congress and the Federal bureaus cannot possibly regulate and supervise the details of hundreds of programs operating in thousands of cities. It is necessary either to give local governments vastly greater freedom in the use of Federal funds or else in effect to replace them with a much enlarged Federal and State bureaucracy. We have no doubt whatever as to which alternative is preferable.

It seems to me that under the categorical grant system when programs reach a certain size—as has happened to the public transportation program with an annual program level of $1 billion—the management approach requires more than the use of threshold conditions to determine legal eligibility for projects. The federal program manager, just to be competent and credible in the political arena, has to entertain the notion that choices may have to be made. And he has to have an explainable basis for making them. This is especially so when the program is characterized by large individual grants that have much political visibility. This, of course, is the nature of the capital grant program. Grants can range from several million to several hundred million dollars.

We are not able to emulate the highway program by defining a system (i.e., the Interstate System) to be supported in the national interest by programmed grants; nor can we devise a formula for getting money to the right places in the needed amounts (the ABC system). This, in fact, is the problem we have had with the special revenue-sharing and single urban fund proposals. We need to have a relatively large discretionary fund, allocated on a project application basis rather than by formula, to deliver sufficient resources to permit construction of major metropolitan systems, or extensions to them.

I have been describing the opposing philosophies for administering the UMTA programs, and to some extent the so-called "lumpy" problem of the capital grant program, which in itself affects the approach to program management. I want to add to this background a statement of 3 principal objectives for UMTA programs that emerged from the special study, after consultation with state and local authorities and transit industry representatives. Then I hope to outline the directions currently being advocated for the capital grant and the research, development, and demonstration programs and with respect to the operating subsidy issue so that some judgments may be formed about how things are being sorted out. The objectives are a distillation of purposes appearing in the legislative history of the program. They vary in importance with the size and nature of urban areas, the perceptions of the public, and their political representatives at any point in time.

1. To reinvigorate public transportation in order to provide service that will attract new riders regardless of their social or economic group or the purpose of their journey. The aim is to increase transit use relative to automobile use. A special aim is to attract the automobile commuter on his journey to and from work. This objective is addressed to what always has been the perceived problem—the quality of facilities and service and traffic congestion.

2. By providing better general service and developing special services, to provide greater mobility for substantial groups of people who are totally dependent on public transportation. This objective became particularly prominent in the administration of our programs at about the time of the riots in the cities in 1966-67 and has been a fundamental concern since then. It was reinforced and broadened somewhat by the so-called Biaggi provision in the Urban Mass Transportation Assistance Act of 1970, calling for special attention to problems of the aged and physically handicapped.

3. To promote transit as a positive force in influencing and supporting desired development patterns in urban areas and in improving environmental conditions. Such objectives are only pious hopes unless they can be made operational in program management. How is this to be done with respect to the programs, and what is the net effect on management approach?

CAPITAL GRANT PROGRAM

A revised edition of the information booklet on the capital grant program is being used in administration of the program as of July 1, 1972. It contains a new section, "Guidelines for Capital Grant Project Selection," that incorporates a number of existing administrative requirements and priorities—but in the context of the above statement of objectives about the program—and outlines additional guidelines.

In developing the new guidelines, we conferred in particular with the leadership of the American Transit Association, the Institute for Rapid Transit, the U. S. Conference of Mayors, and the National League of Cities. There has been publicity about this subject by ATA, and a working committee composed of industry and city representatives is to be formed to advise UMTA on the further content and timing of the use of the guidelines. This in itself says something about management posture.

First of all, to ensure fair distribution of program resources, applications will be grouped by size categories. Applications in each group size will be considered with reference to one another rather than to the entire case load of applications. The group sizes are urban areas with SMSA populations under 250,000, urban areas between 250,000 and 1,000,000 population, and urban areas with 1,000,000 population or more.

At present, the case load is split into 2 group sizes: those under 250,000 population and those 250,000 population and more. The existing priority of projects intended to prevent cessation of service will continue. In addition, for cities in the medium and large categories, priority will also be given projects designed to affect traffic congestion in conjunction with the Federal Highway Administration's TOPICS program. In the medium and large categories, a priority will also be given to projects that are part of programs demonstrating current or proposed use of noncapital means by which to affect congestion and modal choices. The means include regulating the supply and pricing of off-street parking, staggering of work hours, automobile-free zones, and pricing adjustments to vehicular facilities (such as bridges and tunnels) in order to encourage transit riding. The legal and institutional obstacles to the positive actions just typified are fully recognized. It is also recognized that some of the actions would be politically unacceptable without the precondition of improved transit. For these reasons, this guideline is not a precondition to the selection of projects, but a basis for giving priority to projects in areas showing attention to the subject.

The same is true of service improvements. The intent of the guidelines is not to exact service improvements per se as a condition for project approval. The intent is to assign a priority to projects specifically associated with service improvements.

Apart from the priorities, which themselves are related to objectives, the guidelines describe in general terms a number of analyses, or factual presentations, geared to objectives. Many of the analyses are current requirements, though frankly a number of those reviewing the guidelines did not recognize them in their new form.

I believe the guidelines should be viewed constructively. They basically call for improvements in the urban transportation planning process that will enhance consideration of transit as an alternative to private transportation. But it will take time to have the desired impact on local plans, which will be well supported by the UMTA technical studies grant program.

RESEARCH, DEVELOPMENT, AND DEMONSTRATION PROGRAM

UMTA has adopted an aggressive posture for management of its RD&D program. It will be planned rather than demand responsive. And although unsolicited proposals will be accepted, they will be acted on only if compatible with UMTA's planned efforts.

It is my opinion that an aggressive stance by UMTA in RD&D program management, unlike aggressiveness in specifying urban development objectives and transportation service strategies, will be well understood and accepted by local authorities. They will readily concede that in the area of technology the federal government is more aware of and more alert to possibilities than are other levels of government and that it is the logical repository of financial and managerial resources for this function.

Local authorities, though interested in RD&D, tend to have an interest in specific projects that they perceive as a service to the community or to a resident industry or institution or as a source of prestige useful in economic development of the area. They are not apt to be primarily interested in the research design of a project or the transferability of outputs to other places. Furthermore, political reprisals for failure are a severe constraint to innovation at the local level. So-called "negative results," still useful and constructive in an organized RD&D program, are not well understood in local affairs. This means essentially that a demand-responsive posture for RD&D program management (i.e., one responsive to applications from local governments) is not apt to be fruitful.

UMTA wants to affect in a positive way the development of new industry standards as to both hardware and software. Its ability to do so under the categorical grant system for capital assistance is relatively ensured. Under a revenue-sharing system for allocating capital assistance resources, by contrast, the federal government's leverage to induce innovation would be lessened. This need not be true of air pollution control and other environment-related improvements, which could be required outside the framework of the revenue-sharing system. But it would be true of most state-of-the-art improvements.

The RD&D program itself will be financed outside the revenue-sharing program and managed separately. So in this respect there would be no change in the federal role. The change would occur in implementation of results on a broad scale—or so it would seem. There would certainly be a much higher premium on an expanded information clearinghouse role for the federal government with respect to the state of the art.

OPERATING SUDSIDIES

With respect to making operational the objectives cited earlier, it seems clear that those associated with service improvements could be better addressed through an operating subsidy program than through a capital investment program. In our studies within the Department of Transportation, we concluded (with some dissenting opinions) that a formula could be devised to get the money where the needs are greatest, without being open ended or creating perverse incentives or necessitating intense administrative oversight of local operations by the federal government. But positive motivation to change local operating policies and practices, if desired, would have to be established by means of specific conditions to accompany the formula. Then the problem would be to select the policies and practices that might be universally appropriate. And this no one has been able to do.

The motivational element we tend to settle for is a locally initiated plan, meeting criteria established by the transportation secretary, covering service and fare levels, operating policies and practices, noncapital actions, and so on. Subsequent grants are to be contingent on satisfactory implementation of the plan.

So much for management posture for such a categorical grant program. The fact is that the administration has taken the fundamental position that it is strongly opposed to the provision of Title VII of the housing bill, which would authorize a new categorical grant program for operating subsidies, and it has urged passage of the general revenue-sharing legislation as a more appropriate answer to the problem. This was done in a letter from the secretary of transportation to the House Banking and Currency Committee in June 1972.

It seems clear that the objectives cited earlier cannot be attained just by capital investments in transit or by transit service improvements, however financed. They cannot be attained, to be sure, without such investments and improvements, which in effect are a base-line condition. But the perception is taking hold that money alone will not win the day. We see many indications of this growing perception. In a report of a research project on the subject "Urban Transit Regulation: An Institutional Evaluation," these comments appeared in the summary and conclusions:

> In the city of tomorrow, transportation regulation must be construed to include every action and policy of metropolitan government which acts, reacts or interacts with urban transport services by any mode. It is no longer sufficient for transit to be regulated in isolation, while decisions are made and actions taken elsewhere on such matters as traffic signals, vehicle flow patterns, parking availability and pricing, zoning, or land use planning. Local governments will have to devise organizational structures, mechanisms and procedures by which transit operation and planning may be upgraded and treated as an integral part of the total circulatory system of the community.

Institutional formation and actions of the kind and scale needed, according to the report, are in fact within the purview of state and local authorities rather than that of the federal government. And the federal government can rightfully ask about state and local performance with respect to them in considering its own role. Even so, the federal government and its numerous grant programs are not completely blameless for the jurisdictional tangles of state and local governments. Federal grants have tended, for example, to induce the proliferation of special districts.

To round out this picture, there are provisions in the proposed legislation for both the administration's Transportation Special Revenue Sharing Program and its Single Urban Fund Program, which positively encourage development of institutions able to program as well as plan and, therefore, are consistent with the direction in which changes must occur. For establishing such an institution, the special revenue-sharing bill provides a bonus of 10 percent of the shared revenues that would normally flow to a metropolitan area. And the SUF legislation provides that, if within 4 years a state does not enact enabling legislation permitting formation of such institutions by voluntary local action, 15 percent of the funds available for SMSAs in that state will be withheld by the transportation secretary and used for urban public transportation projects in any state. Legislation for other domestic programs is calling for attention to the same issue of institutional competence. And public interest groups, particularly the National League of Cities and the U. S. Conference of Mayors, are deeply involved in such developments.

ROLE OF THE STATES

We share a concern that has been expressed about the need for a clearer understanding of the relation between the Urban Mass Transportation Administration and state agencies with respect to the management of financial resources under the Urban Mass Transportation Act. There are misconceptions, not confined to state and local authorities, about what is now possible under the act. We encounter this frequently in discussions within the U. S. Department of Transportation.

Although most grant recipients of UMTA resources are local municipal corporations and planning agencies, we are able to make grants to the states and have done so under the capital grant, technical studies, and RD&D programs. The New Jersey Department of Transportation, for example, has been an applicant for capital grant assistance for commuter railroad improvements and for the acquisition of a fleet of buses to be leased to several local operators throughout the state. The same department is the sponsor for the Haddonfield dial-a-ride demonstration project. Other examples can be given.

Where we seem to encounter confusion in our charter to assist states is with respect to the technical studies grant program. The states would like to develop a program planning and technical assistance staff resource with the use of this program, but we are confined by statutory language to financing studies that relate directly to programs for specific urban areas. In this respect our legislative authority is different from that of the Federal Highway Administration. We, in fact, think that the development of a technical assistance resource at the state level assisted by UMTA funds would be a good idea. But it will require an amendment of the law.

In viewing the flow of highway funds directly to states and the flow of transit funds to urbanized areas, it is sometimes concluded that this is modal separation and that it tends to promote the lack of intermodal planning and programming at all levels of government. I do not agree that this is so. The basic factor impeding intermodal planning and programming is the lack of institutional competence at the metropolitan level to do intermodal planning and programming. The states cannot be absolved from responsibility for continuation of this institutional incompetence—they have simply stood aside and conveniently used the state highway bureaucracy as the basic vehicle for affecting transportation programming. I do not believe that simply by flowing transportation funds through the states we would bring about intermodal planning and programming. Such a delivery system might in fact make matters worse, unless the states were constrained to induce the formation of competent metropolitan institutions.

At the present time, most states do not even have enabling legislation to permit the formation of the kind of institution needed at the metropolitan level to do the things that need to be done with respect to intermodal planning and programming. The Single Urban Fund Program recognizes this; so on the face of it does the department's pilot effort with intermodal field planning groups in its 10 regions (i.e., the goals of this effort concentrate on institutional formation). And so does the administration's transportation special revenue-sharing proposal.

Some have suggested a pass-through program for delivering capital grants to urban areas under a certain size (e.g., 250,000 population) by way of state agencies. If the states provide significant financial assistance for the transit function, they can readily develop their own procedures for allocating of such resources among urban areas in the same way in which they have developed such procedures for the highway program. It is our opinion that, when the states in fact begin to "buy in" to the transit program in the same way in which they have for highways, we will begin to see much of the confusion about the role of the states in transit programming disappear. What we have really been encountering is a call by the states for financial assistance to help them set up a capability to deal with the transit function, and this we have not been able to deliver.

We see no apparent reason for the state to act as our agent or as a designated authority to carry out projects, but neither do we object to the states' developing such a role—especially following commitments to "buy in," as in the highway program. We think it prudent to give heed to local mores in the appropriate development of state and local roles in relation to UMTA.

There is one exception: When states approach the $12\frac{1}{2}$ percent limitation for receipt of capital grant assistance, they clearly should have a determining voice in further allocation of resources within the state. The states indeed provide a perspective often lacking at the metropolitan level and can help balance off conflicting claims over a wider area. But even this role is available, to an extent, within the A-95 process, buttressed by the provision of the Urban Mass Transportation Act calling for comments of governors.

The planning clearinghouse commentary can, of course, be just a ritual. In fact, we receive very few substantive comments. This can mean that some projects are adjusted locally before formal clearinghouse comments are made or that area-wide agencies do not want to (or as a practical matter, cannot because of the way in which they are supported) jeopardize the flow of federal dollars to the area. In the latter case, local and state authorities may consider themselves in league vis-à-vis the federal government.

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The perennial subject of financing is so broad and deep that we must subdivide it before we analyze it. The first question is obviously whether financing should include government assistance of some kind.

Generally, those most interested in public transportation have come to assume, almost without questioning, that government assistance is absolutely essential, but the rural electorate and the automobile clubs do not generally agree. These are important factors in the representative government process. Transit proponents, like myself, cannot expect government aid simply because we demand or need it.

The need for aid is not universal. In downtown Philadelphia, for example, there is a 15-cent loop bus line that uses city streets to serve 9,000 rides a weekday and grosses \$1,350 on 7 buses that put in 76 service-hours. The rate of revenue is \$17.75 per bus-hour. The full cost of bus operation, with capital recovery, does not exceed \$13 per hour at Philadelphia's wage scale. The profit margin is handsome. Private enterprise could do the job without any kind of help except provision of the city street.

Similarly, in 1955, the Chicago and Northwestern Railway decided that its steam train commuter service with museum-piece rolling stock did not have to be a severe deficit operation. Management borrowed \$50 million on shaky credit, bought air-conditioned gallery coaches (double deckers), revamped schedules, and set out to earn a series of profits with no government help. The success was broken only temporarily by the opening of the parallel Kennedy Expressway until Congress voted to give railway employees a 42 percent wage increase. The quality of service has been superior. There were years when freight deficits were mitigated by commuter earnings. Why should such success stories be clouded by bureaucratic oversight that might be more expensive with less quality?

With this introduction, let us look now to the question, How can urban public trans-