mental concepts. An example of this is the failure to understand what capacity means in the urban transportation field; each new study defines it differently. It will be impossible to evaluate alternative solutions to these problems without a common understanding of the underlying, fundamental concepts.

Workshop Discussion: The Transit Environment

Much of the general discussion centered on whether it is consumer ignorance or political ignorance that underlies the reluctance of the public to use transit services. It was suggested that the consumer preference for automobiles may be quite rational if the cost of the extra time consumed in bus travel is taken into account. Politicians may be unaware of the social advantages of public transportation, but this is at least partly the fault of the transit industry; a greater effort should be made by the industry to educate politicians about the potential of public transportation and about the problems of financing it. It was pointed out, however, that even if politicians were fully informed, they are limited in their ability to act by the public's reluctance to accept efforts to fend off impending disaster; perhaps the catastrophe must occur before anything can be done about it.

Session 2

Definition of the Problem

There are many ways of defining the urban transportation problem in terms of its financial aspects. The most immediate and critical problem that must be faced is the large and growing deficit that transit operations generate and the imposing burden this deficit places on government at all levels. From a broader perspective, however, it may not be transit operations in themselves that are responsible; ultimately, it is the government's insistence that transit fulfill social objectives that feeds the transit deficit.

Transit Financing Trends and Outlook

Cynthia J. Burbank, Urban Mass Transportation Administration

Transit deficits are not a straightforward matter of cost and revenue curves; rather, they are ultimately the result of public-policy choices on fares, levels of service, and taxing. Whether we like it or not, when the headlines say that Washington's Metro deficit will be $300 million in 1990, the responsibility for that deficit rests with federal, state, and local officials. However, transit costs and deficits also seem to have a momentum of their own that decision makers must grapple with. That momentum is the focus of this paper.

RECENT TRENDS

Although transit deficits nationwide increased only 9 percent during 1976, they had increased more than 800 percent during the preceding 6-year period. What were the forces behind these deficits? At its simplest, the current deficit in transit operations is a result of the growing gap between costs and revenues. Transit costs have increased at a rate more than twice the general inflation rate; at the same time, operating revenues have increased at only about half the inflation rate. As a result of this combination of trends, operating revenues currently cover only 56 percent of operating costs—down from 91 percent 6 years ago.

It is possible to identify about six categories of operating cost that have increased since 1970. The relative magnitude of these increases, which in absolute terms add up to a doubling of overall transit costs, is shown below.
General inflation has been the primary culprit. The next largest contributor has been the cost of labor—in both wages and fringe benefits—excess of the increase that can be attributed to inflation. Third in line was the cost of employing more workers than can be attributed directly to service expansion.

Taken together, these factors added almost $2 billion to the costs of transit service since 1970; most of that—about $1.5 billion—was paid to labor in higher wages and fringe benefits. The magnitude of labor’s share of transit costs warrants a closer look at labor payments. While wages in the transit industry grew significantly between 1970 and 1976, in fact, at a rate 15 percent faster than the cost of living—labor productivity, measured as vehicle kilometers per employee, decreased by 10 percent.

Meanwhile, a survey of municipal employment in 1976 found that transit employees had the highest average monthly earnings among public-sector employees—more than $18,000/year. However, in cities with populations of more than 1,000,000 (where more than 78 percent of all municipal transit workers are employed) the earnings of transit workers ranked fourth, behind those of police, electric utilities workers, and teachers. In fact, transit workers’ earnings did not rank first in any population category of cities. Thus, within any given city, transit wages are not as out of line with other public wages as often appears. Yet this does not change the fact that any significant attempt to control future transit costs will hinge on labor agreements, particularly on the wage rates and work rules included in new agreements.

Operating revenues have increased at only 51 percent the rate of increase in costs. This has resulted from the combination of a net decline of 4.4 percent in ridership since 1970 and only modest increases in average fares. Ridership rose significantly during the energy crisis (about 6 percent) but has tapered off since to only 0.5 percent last year. Meanwhile, average fares have been rising slowly; in constant dollars, the average fare actually declined 13 percent between 1970 and 1976. In current dollars, each revenue passenger pays an average of 38 cents/ride. In contrast, the average cost of providing transit service is 68 cents/ride. Local governments evidently have preferred to dip into tax revenues rather than raise fares in order to cover increased costs.

### FEDERAL, STATE, AND LOCAL ASSISTANCE

How have governments responded to these trends in operating deficits? Most striking is their fiscal response. The 800 percent growth in deficits since 1970 means that in 1976 federal, state, and local governments came up with nine times as much operating assistance as they had 6 years earlier. Their willingness and their ability to find tax resources to support increasing levels of assistance will play the critical role in the near future of transit.

In 1976, the transit industry’s operating deficit was about $1.7 billion. Just more than half that amount was provided by local governments, one-fourth was provided by the federal government through section 5 of the Urban Mass Transportation Act, and slightly less than one-fourth was provided by state governments.

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<tr>
<th>Cost Category</th>
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<tbody>
<tr>
<td>General inflation</td>
<td>50</td>
<td>Increased service</td>
<td>8</td>
</tr>
<tr>
<td>Labor (net of inflation)</td>
<td>20</td>
<td>Fuel (net of general</td>
<td>4</td>
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<tr>
<td>Employment (net of service expansion)</td>
<td>13</td>
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<td>Other costs</td>
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The remaining 2 percent came from nonoperating income. Although the data from earlier years are incomplete, it is clear that although the absolute amount of local assistance has increased, its relative share has been declining as new state and federal assistance programs have been enacted.

Federal operating assistance first developed during 1974, and it has rapidly become a significant part of transit financing; in 1976, it even exceeded state contributions to transit. However, state programs have also developed rapidly in the past few years, and they continue to grow as more states develop new operating assistance programs, as they expand their financing of existing programs, and as they increase their level of involvement (their oversight role) in transit.

### FUTURE FINANCING

As we look to the future of transit financing, the prospects of two of the more transit-intensive states—California and New York—indicate that compromises will have to be made in transit services in the immediate future. A 1977 auditor’s report to the California legislature states:

Even with government subsidies, many of California’s transit operators project unfunded deficits between 1976 and 1980. In order to provide existing or expanded levels of service, these operators must either reduce projected expenditures or increase revenue.

According to New York’s 1976 Annual Report on Public Transportation Operating Assistance,

During the past year the basic mandate of New York State’s operating assistance program—to, at a minimum, maintain existing fare and service levels—has not been achieved. Furthermore, the prospect for maintaining that mandate in the current year is uncertain, even with the stringent controls necessitated by recent fiscal crises within the state, and the present structure and magnitude of current public transportation operating assistance programs appear to be inadequate to support that mandate in the next and future years.

What is critical is whether anticipated deficits during the next 5 years will be so much larger than financing capacity that they will require fundamental changes in transit services or whether present and future transit needs can be met by gradually adjusting existing service and fare levels and tax policy.

On a national scale, transit deficits could somewhat more than double during the next 5 years. This would occur if (a) federal, state, and local governments were willing and able to continue to increase the level of operating assistance by about 17 percent each year through 1981 and (b) transit costs and revenues continue to rise as they did between 1975 and 1976—costs at a rate of 11 percent annually and revenues at 5.5 percent. Broken down a bit more, these cost and revenue rates would be consistent with 3 percent annual increases in the amount of service, 8 percent increases in unit costs (due primarily to inflation), 1 percent annual increases in ridership, and 4.5 percent increases in average fares.

In the light of recent history and the apparent intention of federal, state, and local governments to continue to increase the levels of transit service, albeit modestly, these projections are not unrealistic from an industry-wide perspective. However, there are several reasons to believe that both cost and revenue factors will increase at slower rates between 1976 and 1981 than they did between 1974 and 1976. First, 1976 saw a much smaller increase in costs than did 1975 (8 percent as opposed to 14 percent); second, ridership seems to be tapering off; third, it is doubtful that a 4.5 percent rate of increase in fares can be sustained over the next 5 years, in spite
of the recent spate of significant fare increases in the larger cities. In addition, the issue of transit efficiency and economy is receiving increasing attention at all levels of government; new state programs and local initiatives, such as the recent productivity-linked labor agreement in New York City, are being undertaken to combat rising unit costs. These considerations support the view that costs and revenues will increase at somewhat lower annual rates than those projected on the basis of performance from 1974 to 1976 alone. In these lower estimates, unit costs would increase 6.5 percent, service levels 2 percent, ridership 0.5 percent, and average fares 3 percent. The net result would be a slightly lower deficit in 1981 than the earlier projection had indicated. This smaller deficit would require increases in operating assistance of 14 percent annually, rather than 17 percent. Some governments will find 14 percent increases in transit financing tolerable; others will not. Some will even welcome much greater increases as they undertake significant service expansion or fare reduction. Many small urbanized areas, for instance, have recently inaugurated large service increases, probably largely as a result of recent new sources of federal and state operating assistance. On the other hand, some medium-sized and small cities fear that using these new funds now will leave them holding a very large bill if state and federal funding is withdrawn or reduced 3 to 5 years hence. Even present deficit levels are intolerable in many of our largest and most transit-intensive cities, despite federal and state assistance. These cities have already found the cost of transit service too high, and they are attempting to retrace through service cutbacks and fare increases.

Obviously, the way different cities handle this issue depends on the priority they place on transit services and on their taxing resources. The catch is that the cities that appear to have the greatest need for and dependency on transit are the older, denser cities, whose budgets are most strained by other public-service needs. Because these cities have grown to be dependent on transit, they have the most to lose by curtailing transit services and the most to gain by developing lower cost transportation alternatives. On the other hand, innovations in the types of service provided and in the efficiency of traditional services may be more difficult to implement in these cities, simply because the inertia surrounding existing methods may be much greater than that in less transit-intensive cities. Future transit service and financing initiatives can and will come, as they have to date, from a variety of cities—New York City (the recent labor agreement); Knoxville (paratransit and the brokerage concept); and Madison, Wisconsin (transportation systems management and the use of part-time labor).

CONCLUSION

In summary, three points stand out.

1. Deficits are not completely self-generated; both past and future deficits are a result of public-policy choices concerning fares, levels of service, labor negotiations, and taxation.

2. The momentum of current trends in rising costs, constant ridership, slowly rising fares, and gradually increasing levels of service will probably push deficits upward at a rate of about 15 percent/year, but this will vary greatly among types of cities.

3. The probability that governments will take the initiative to reduce deficits through innovative types of service and new efficiency controls—rather than through service cutbacks—will be largely a function of the financial pressure on those cities and of their commitment to provide improved public transportation service in the face of that pressure.

Objectives of Public Transportation Assistance

Porter Wheeler, Congressional Budget Office

Basically, it is clear that transit has rather strong support in Congress. Members of Congress are very reluctant to oppose transit programs and transit funding, because the urban voting block is strong and the mass transit block may be stronger still. The question really is what is being supported. The objectives of the urban transit programs of the Urban Mass Transportation Administration (UMTA) are not particularly well defined. In the operating area, this is because the programs are rather new; they just began in a small way in fiscal year 1975. At present, both the capital and operating programs require more thought, rather than more money.

Specifically, there are two aspects of the transit programs that will be addressed here. One involves some budgetary questions and the other some questions that have been raised by Congress about the UMTA programs. Such questions must be answered if Congress is to continue to approve dramatic increases in mass transit funding.

First, how does the new budget process affect mass transit funding? This big push for financial aid to urban transit came in the 1970s. Although some funding was provided under the 1964 act, the largest amount came under the 1973 and 1974 amendments, which provided approximately $12 billion in the form of contract authority. This funding was provided in legislation recommended by the authorizing committees, in this case, the Senate Banking Committee and the House Public Works Committee.

The Congressional Budget Act of 1974 changed the rules of the game. It created budget committees, a congressional budget process, and the Congressional Budget Office (CBO). Congress will have a budget and will attempt to help determine national priorities for federal spending in the future. The essential difference is that the Congressional Budget Act made it rather difficult to get contract authority; in fact, it basically prohibited the granting of contract authority without prior appropriation.