Allocating Transit Costs and Funds

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If there was any consensus at all in regard to how transit costs should be allocated, it is that the guidelines as to how much money should come from fares or from any other source are a function of local conditions. Perhaps each area should set a guideline and use it as a way of helping to keep costs down and to keep revenues improving. An overall guideline does not make much sense.

It was discovered in debate that there is a painless tax. For the local area, the painless tax is clearly the state tax. For the state, it is clearly the federal tax. The federal tax is almost painless, because no one really knows who is bearing the burden, but it hurts when the federal people say, "We are only going to fund so much operating deficit." Then the state and local levels must decide how much money they are willing to put up or how much service they are willing to cut.

This painful prospect led to the idea that state legislatures and metropolitan planning organizations should start being a lot tougher on the operators and draw the line on deficits. The implication is that there is a lot of inefficiency and that, if the managers would really get out and manage better, they would find a way of improving the productivity of labor and management.

There is, of course, some gamesmanship here. There are no notable cases in which a city transit operation actually has been closed down. But some cities have closed down their schools because they do not want to pay higher taxes, and it could start being seen that transit is doing the same thing. Most people are not quite sure what transit is doing for them anyway. Transit people tend to define the role of transit according to their own biases. It is obvious to them that transit saves energy, that it helps urban development, and that it provides mobility to the poor. A lot of these things may actually be true, but who can prove them in numbers?

In addition to trying to prove what transit does, there is a need for sets of standards to prove how well it is doing what it does. There is no one set of magic numbers that can do this, but it is still important to set the goals. It is particularly important to be able to prove to the people supplying the money and to the citizens in general that transit is responsible and that it is trying to improve its operations.

The issue of pragmatic versus rational approaches to generating financial mechanisms has stimulated extensive discussion. The pragmatic theory is that you should go along with whatever the current financing forms are; they are there, they work, and some thought has been given to them at some stage in their development. Over the short term, there is certainly no alternative to using existing mechanisms, but it is necessary to make the best of whatever situation is given. Over the longer term, rational theories of what is the best financing mechanism can be considered. A set of criteria can be drawn up on the basis of equity, efficiency, and administrative practicality, and a better answer can be found.

The people who work for legislatures were a little skeptical about that. It is a very good idea in theory but, if the state or federal legislatures do not agree with it, the theory will never be practiced. The issue of user charges is an example. In theory, all economists agree that, where it is possible, there is no rational reason for people not to pay at least part of the capital costs and part of the operating costs of the goods and services they use. Every president in recent history has come out in favor of this. But it has taken a long time to convince legislators and their staff members that there is a case for this. Now, some movement in that direction is under way. In many ways, politicians have a much more direct tie to transportation users than do most planners and bureaucrats. If the arguments for user charges cannot be expressed in such a way as to convince the transit user, it will certainly not be possible to convince the politician either.

A strong case was made for block grants as a financing mechanism for mass transportation, on the grounds that they have fewer biases than categorical grants and give state and local governments more flexibility. However, several problems with block grants were noted. One is that any type of block grant makes it difficult to deal with building heavy-rail systems and making other large local investments. For example, if Atlanta wants to build a rapid rail system, it would have to save up little block grants for 20 or 30 years before it would finally have enough to build it.

Another problem is that some formula generally is used to spread block-grant money around, but there is often a lot of dissatisfaction with any particular formula, e.g., the discussion of the current section 5 formula. It will always be difficult to give money in proportion to problems. Transit problems are concentrated in the large cities and more members of Congress represent smaller cities and rural areas. In that sense, transit is a special interest, and it may be better off relying on the Urban Mass Transportation Administration to do what is right and spend the money where it is needed.

Although it is possible that section 5 may provide some incentives to increase deficits, the different effects of various financial mechanisms on efficiency are largely unknown. Do they encourage operators to decrease costs or increase revenues or improve service? There is a real need for more research on this question. An operation in Southern California frankly increased its deficit because, if it did not, its maintenance of effort would have dropped, and it would have lost all of its section 5 money. As a result, it was cheaper for that local area to have a higher deficit in order to get more federal money.

One of the many calls for research concerned the institutional arrangements and the financing mechanisms at the local level. It was generally agreed that this is a key issue, but no one had an overall answer to it; perhaps there is no one overall answer, and the answer has to be generated locally. What is right for one area is not necessarily right for some other area. It might be possible, however, to at least group the different types of local arrangements into three or four categories.