Packaging and Implementing a Financial Plan: Achieving Support, Consensus, and Consent

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INTRODUCTION

When the metropolitan planning commission (MTC) was created by the California Legislature in 1970, there were substantial state and federal highway taxes available to build urban roadways, but transit funding was limited. MTC's first responsibility was to prepare a regional transportation plan (RTP). The legislature recognized that the San Francisco Bay Area would expect to include transit as well as urban highways in its plan, and MTC was encouraged to recommend a financial plan that would depend on new legislative authorization of transit funding. From the very beginning MTC had to understand the role and importance of a financial plan in delivering transportation improvements.

ESSENTIAL ELEMENTS OF A FINANCIAL PLAN

Some successful financial plans have been sketched on the back of envelopes, and others have been shelved despite what seemed to be perfect formulation. The necessary ingredients of a successful financial package vary, depending on many factors.

If consideration is limited to that of funding urban transportation projects and services as provided by public agencies, it is possible to identify factors that may deserve being called essential elements of a financial plan. These elements are

- Program, project, or service to be funded must be clearly defined
- Source of funds must be adequate and should be dedicated
- A credible sponsor must be committed to delivering the program
- There must be a broad base of community support
- The sponsoring agency must be capable of responding to community concerns and economic variations as they arise without losing control of the budget and schedule, and have sufficient authority to carry out its mandate

A CLEARLY DEFINED PROGRAM

One example of a successful transportation funding plan on the national level was that authorized by Congress to build the Interstate highway program. For the most part its rural and urban segments have been constructed despite delays and a changing economy. It has not been a lack of funding that has caused a few segments to become controversial and difficult to complete.

The program was defined in broad terms and was to include approximately 41,000 miles, linking certain designated cities according to standards promulgated by the federal government. It was well defined and extensive, and merited the continuing financial commitment of Congress for almost three decades. The key to success has been the assurance that once designated as part of the system every Interstate segment would be funded eventually.

If the federal Interstate program is an example of financial planning at its best, some local transit plans have been prime examples of planning at its worst. Transit plans have faltered when they have been specific but not extensive enough to serve all parts of a community. On the other hand, plans have faltered when they were made extensive enough to serve most of the community but were unable to raise sufficient funds to cope with changing economic conditions and the cost of responding to other community concerns. To counter these difficulties, transit plan sponsors sometimes avoid being specific in describing programs to be funded. In Santa Clara County this general strategy has been employed successfully. While it is desirable to be as specific as possible regarding what is to be funded, this fundamental objective must be considered in the context of how well the rest of the financial plan can be defined and controlled.

ADEQUATE AND DEDICATED FUNDS

The Interstate program is a model of success. Congress dedicated gasoline taxes and other fees to finance the construction, and the continuous flow of funding made for a well-planned, orderly construction program. When delay, inflation, and higher standards drove the cost of constructing roadways up, Congress extended the program and authorized additional funds. There was rarely any notice of the extent of cost overruns on the system, and engineers were not fired or reprimanded because of inadequate attention to budget and scheduling control.

Other parts of the highway system have not been so generously funded. Nonetheless, because of the broad base and continuous nature of most federal, state, local, and highway programs, there has been little criticism for project cost overruns.

By comparison, transit is the neglected stepchild. The nation's network of transit systems has not benefited from steady, reliable funding. Major new systems have been fixed in scope and budget, and there is no built-in mechanism to fund the higher costs associated with inflation, delay, and response to community concerns. There is a federal discretionary program, Section 3, that has provided some relief, but it suffers because transit is important to a limited number of states. This means there is a limited base of support for the program in Congress and the executive branch. Even Section 3 funding is becoming less helpful as the federal government seeks to limit its commitments through spending ceilings in full-funding contracts and other devices.

Dedicated and adequate funding remains an illusive objective. The expectation when funding transit is that operators will have to compete for a limited supply of discretionary funds on a year-to-year basis. This tendency at the federal level puts even more pressure on the objective of securing more dependable funding at the state and local levels of government.

A CREDIBLE SPONSOR COMMITTED TO DELIVERING THE PROGRAM

The Interstate highway system was built by 50 state highway departments, in partnership with the Federal Highway Administration (FHWA). Federal and state agencies have, with limited exception, been accepted as credible Interstate highway program sponsors. They have been completely committed to the program. Their credibility has not been marred by attention given to cost overruns because of the way the financial plan masks the effects of the overruns.

It has not been easy for the Interstate program, however. In some cities, the details of design standards have been imposed without giving proper consideration to other community values. The most obvious result has been the inability to complete some Interstate segments and some loss of financial support for the program as a whole.

Transit sponsors frequently have not been perceived as credible for many reasons. Controversy over system coverage versus the construction budget, operating subsidies, local funding, cost overruns, and other factors often cast doubt in the minds of the public and local officials regarding the competency of transit sponsors. While transit sponsors may be committed to their programs, they seldom have partners to reinforce that commitment to the extent that FHWA, Congress, and state legislatures reinforce the highway program commitment.

COMMUNITY SUPPORT FOR THE PROGRAM

When someone else is paying the bill, most of the community is either neutral or supportive of a program. The Interstate system benefits from such favorable circumstances.

When a community is asked to vote local taxes to provide new or expanded services it is a different matter, and community support must be cultivated. All the elements of a good financial plan become crucial in building that support. If voters are asked to authorize an additional tax, they want to know exactly what is to be funded, how it benefits their community, whether they can trust the government to be responsible and deliver the program on budget, and what voice they may have when decisions are being made. Good communication and an active public participation program are crucial to building support.

ABILITY TO ADMINISTER THE PROGRAM

Events will dictate budget and schedule changes even for the most well-planned and organized transportation project. The challenge of the program manager is to deliver as close to budget and schedule as possible, while responding to concerns of the community and fluctuations in the economy.

The most significant community concerns are likely to focus on such areas as labor practices, affirmative action, environmental factors, and competitive bidding. Those concerns are usually addressed by local, state, and federal regulations and, in broad terms, the impact of these considerations can be anticipated. It takes a very sophisticated management team with clout and autonomy to assimilate successfully the detailed facets of these complex regulations into a lean budget and tight schedule.

Results are convincing; theories are not. To illustrate the relevance of the financial plan elements, consider how they relate to three examples.

The first was a plan to complete the capital funding of BART, consummated in 1969. The second was a plan to provide BART, AC Transit, and San Francisco Muni operating funds that had been authorized in 1977 and amended in 1979. The third is a plan to finance a 16-year, $2.8-billion rail extension program for the San Francisco Bay Area, now being formulated.

BART CAPITAL FUNDING (1966-1969)

Project Definition

In the original measure passed by voters in 1962, BART was defined as a 71-mile rail system with 33 stations serving 14 cities. The original financial plan covered the construction of a new Muni-Metro light-rail system with four new outer Market Street stations and occupancy of the middle level of four BART stations along inner Market Street. The measure also set a budget for the project.

By 1966 scope changes, delay, and inflation combined to drive costs over the original $1 billion revenue authorized. As a result the BART Board decided to seek legislative relief.

At this point the project definition changed in three aspects from the original plan:

- Parts of the system were cut back to save costs. This included replacing the central Oakland four-track section with a three-track section, deferral of power supply equipment, and elimination of reserve rail tracks and turnback.
- Features were added, particularly within the stations and in the vicinity of station parking lots to improve traffic and pedestrian circulation and the system's appearance. These changes were made at the urging of the cities affected and to secure necessary city street closure agreements. A 34th station, serving BART and Muni-Metro, and substitution of subway aerial sections in Berkeley were changes made later as a result of separate financial plans.
- Elevators and related features were added to make BART accessible to the wheelchair-dependent as part of the eventual legislative agreement to fund the project.

The plan rejected the idea of curtailing the length of the system as an alternative to securing additional funds.

Fund Sources

The legislature debated almost 3 years before enacting legislation required to ensure completion. In the beginning the debate focused on the amount needed to complete the system. The original $50 million shortfall was soon determined to be $150 million, and debate raged over the source. Governor Reagan sought a temporary ½-cent sales-tax solution, and legislative leaders preferred a bridge-toll increase. The ½-cent sales tax was enacted. Revenue bonds were authorized so the $150 million needed would be available as soon as possible to prevent further delay of the project. There was no provision for additional funding that might be needed if further unanticipated problems arose.

Credible and Committed Sponsor

While the BART Board of Directors was committed to completing the full 71-mile system plus the Muni-Metro Program, it did not meet fully the test of credibility and commitment. It was held responsible for the deficit and lost credibility on that account. The ultimate decision by the legislature to complete the system was due more to the extent of investment already involved than from their confidence in the BART board. In an effort to reduce the capital deficit, the board trimmed back certain critical project elements. This exposed a lack of commitment to the integrity of the BART system, and the decision came back to haunt BART in the form of operating problems.

Community Support

When the need for fiscal relief had become apparent, several factors had combined to erode much of the organized community support for BART—7 years' disruption of street traffic; emergence of a budget deficit; and arguments over design, jobs, and contracts. The public attitude mirrored that of the legislature, and the public continued to support completion of the system despite misgivings regarding BART as a government institution.

Ability to Administer the Program

In retrospect, the delay in building BART was inevitable. The project opened with a 6-month-long taxpayers' suit and was plagued by inflation that exceeded anyone's expectations. This example illustrates vividly the challenge of a project sponsor to deliver a fixed program within a fixed budget and schedule.

BART, AC TRANSIT, MUNI OPERATING PLAN— 1977 AND 1979

Project Definition

BART became fully operational and a new financial challenge arose— providing for the system's day-to-day operating expenses. BART was not alone in this dilemma. The other two transit operators providing service in the San Francisco-Oakland area, Muni and AC Transit, were also facing mounting deficits. In response the state legislature directed MTC to work with the three overlapping transit districts to develop a long-term financial plan for transit operations. The level of service to be funded was defined as the existing levels of service, plus introduction of certain committed services by BART and Muni. The plan was implemented in 1977 and modified in 1979.

Fund Sources

A wide range of potential sources was estimated—extension of the temporary 1/2-cent sales tax was the most obvious candidate. A complementary bridge-toll increase to provide capital matching funds was also a likely prospect given recent legislative action granting MTC authority to raise tolls for that purpose. These were the sources chosen.

Credible and Committed Sponsors

Credibility was earned for the financial plan in a number of ways. The local commitment to do all that could be done before turning to the legislature for assistance became a feature of the financial plan. MTC joined with the three affected operators in setting forth 20 principles regarding program administration, cost savings, labor rates, fare setting, and service coordination that had been agreed to as the foundation for the program. This formed the basis for administration of the program and has worked essentially as intended since enactment of the financial plan in 1977.

The one major change came about in response to Proposition 13. This measure denied AC Transit over half its local tax support, and, to some degree, reduced BART and Muni support. Under the 1977 legislation three-fourths of the 1/2-cent sales tax was earmarked for BART operating and capital expenses, and the remaining 1/4 cent was to be allocated by MTC to any of the three operators for service improvements. A plan revision was approved by the legislature in 1979 that made 1/4 cent of the sales tax revenues allocated by MTC available to sustain existing service, rather than being limited to improved services as originally contemplated.

Community Support

Polls taken by the Bay Area Council and MTC indicated substantial support for additional transit funding and for the sales tax as a likely source. Informed interest groups, such as the Bay Area Council and the League of Women Voters, followed the plan's development. A 19-member citizens advisory committee was involved also. The result was support for the program by the most interested representatives of the community and there was no organized opposition.

Ability to Administer the Program

The principles adopted as the basis of the plan became the guidelines for its administration. MTC commissioners from the three counties involved and representatives from each of the three transit operators have served as a committee to guide administration of the program since its enactment in 1977. Thanks to its considerable authority, MTC has been able to administer the plan successfully for 7 years, despite the loss of revenues from two major sources.

Under MTC's guidance, the three operators' labor contract settlements during the interim have been more conservative than before, and they raised fares approximately in unison in 1979 and 1981. Service and transfer coordination was improved, and, while there are still significant improvements to be made, the MTC-operator partnership provides the basis for the expectation of continued improvement.

The 1977 and 1979 plans were intended to provide sufficient funds to constitute a permanent base of operating support for the three transit agencies. The Proposition 13 tax loss and declining federal operating support are having an adverse impact on one operator, AC Transit, causing it to cut services. AC Transit's weakened financial position will be addressed by a Bay Areawide Transit Operating Plan being developed as a part of a regional rail-extension finance plan.

THE $2.8 BILLION RAIL EXTENSION PROGRAM

Project Definition

The original BART master plan in the mid-1950s envisioned a 6-county system encircling the lower San Francisco Bay. The existing 71-mile system was seen as a first increment. In 1962 when the vote was taken, brochures showed dotted lines to suggest extensions in Alameda, Contra Costa, and San Francisco counties. Since the successful 1962 vote several project plans devoted to these extensions have been prepared, but there has not been any real effort to secure funding needed for construction.

In the meantime, the state, through Caltrans, has contracted to contin commuter-rail service (now called Caltrain) operated by Southern Pacific along 44 miles of double track, linking San Francisco and San Jose. Caltrans seeks an extension of both terminals to sites closer to the central business districts. Santa Clara County Transit has secured funding for its Guadalupe light-rail line that will run for 22 miles on a north-south axis through downtown San Jose, connecting with the Caltrain service, and extensions are being planned. The Muni-Metro service has been operating since 1976 and San Francisco has proposed extensions.

When the President signed the penny-for-transit federal gas tax into law in 1983, it marked a reaffirmation of some federal involvement in rail construction. This prompted MTC to sponsor an effort to develop a Bay Area rail extension program. The commission decided it was time to focus serious consideration on where and how to build the next round of rapid transit lines for the Bay Area.

To gather input from the public and transit operators, MTC held eight public hearings, beginning in July 1983 and ending in February 1984. On February 22, 1984 the commission adopted a 16-year, $2.8-billion plan to build 86 miles of rail extensions. The plan was predicated on the assumption that 50 percent of the funding would come from federal sources and 50 percent from state and local sources. MTC's task now is to formulate a financial plan capable of funding the extensions.

Fund Sources

Key to the financial plan will be the $920-million-per-year UMTA Section 3 program proposed by the President in the 1984-1985 budget. Assuming a 10 percent Bay Area share, which is optimistic, it would produce $92 million per year for the region, or roughly 50 percent of the cost of the rail plan.

Federal funds depend on regular renewal of federal program authorization and successful advocacy by the region. It is impossible to anticipate with any certainty how much federal support will be forthcoming. It is clear, however, that a community helps its case most by showing a substantial state and local financial base as a demonstration of local commitment to the project. So the focus of the MTC financial plan at this stage will be to build the strongest base of state and local support possible. At this early stage of plan development MTC can predict with some confidence only those funds presently dedicated to capital funding, including fares, bridge tolls, state gas taxes, state general funds, and local sales taxes. More of these same fees and taxes as well as development fees, special assessment taxes, motor-vehicle license fees, and any other device capable of making substantial contribution must be considered.

The use of bridge tolls for transit has become a special case. The legislature authorized MTC to increase tolls on the Bay's bridges to provide capital funds for transit in 1975. MTC proposed to use its granted authority and increase the tolls from 50 cents to $1 in 1977. After protests, the legislative leadership advised MTC that it would be easier to secure the companion 1/2-cent sales-tax measure if tolls were increased to 75 cents and that suggestion was implemented. The increase now produces approximately $10 million per year for transit projects that, when matched with federal funds, supports a capital program of almost $50 million each year.

In 1981 MTC's authority to increase tolls was restricted. In 1984 the state legislature attempted to lift the restriction only to be thwarted by a veto from the governor. Had the measure survived, MTC would have been able to raise tolls to $1 in 1985, producing $12 million a year for transit.

The bridge-toll example illustrates the volatility of transit funding. It demonstrates that firm resolve and considerable patience are needed to secure funding and find substitutes if a plan goes awry. It also demonstrates that state policies do not always mirror state sentiments—a generic problem for urban transit financial planning.

Credible and Committed Sponsors

MTC is sponsor of this plan. The ten transit operators associated with MTC in the Transit Operators' Coordinating Council are partners. The transit operators become the sponsors of individual projects when funds begin to flow for construction. The extent of commitment of the partners must be developed as the plan is developed. It is too soon to tell if there will be sufficient commitment on the part of everyone needed to make the plan successful.

Community Support

To win the support of the transit community MTC has invited representatives of the major transit operators to sit on MTC's Executive Committee, which is overseeing the financial planning work for all of the rail program. In addition, a transit finance advisory committee has been formed, composed of representatives of business, labor, environmental organizations, and other community groups. Local media, particularly community newspaper publishers, showed intense interest in the development of the rail plan. News coverage was considerable, and editorials, positive and negative, appeared regularly. MTC has invited publishers and top broadcast executives to serve on the finance panel and several have accepted. It is through the work of this committee and MTC's continuing work with Bay Area interest groups that support for the program may be developed, just as was done with the 1/2-cent sales-tax program in 1977.

Ability to Administer the Program

Just as the financial plan must be expanded from the conceptual to a refined definition, so must the projects be better defined. This is being done in several corridor-planning projects sponsored by MTC, BART, and Santa Clara County. In recognition of the 16-year duration of the program, some projects may not reach the final design stage for several years. Even the institutional sponsorship of some projects is subject to further investigation. At this stage a detailed budget and schedule have yet to be redefined. It follows that the mechanism for assuming adherence to budget and schedule also will require additional work and agreement.

CONCLUSION

The elements of a good financial plan have been defined and used to evaluate two financial plans successfully implemented and one being formulated.

A plan must be flexible and embody an administrative mechanism able to adjust to change. The experience of producing successful plans in some past context does not assure success in some different context.

The financial plan must be tailored to the unique circumstances of the program and community in question. The trick is to have the right plan at the right time, and the insight to recognize that specialized fit.