FEDERAL TRANSIT OPERATING SUBSIDY OPTIONS

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This paper reviews the political and historical background of transit operating subsidies. The issue discussed is not whether there should be operating subsidies, but rather which levels of government should provide them and in what fashion. Three arguments are reviewed: the fiscal, federal role, and pragmatic arguments. The fiscal argument is that the operating deficits of transit authorities represent a local government fiscal program and should be treated as such. The federal role argument states that federal operating subsidies would lead to an inappropriate degree of federal involvement in local government decision making. The pragmatic argument is that it would be extremely difficult to use federal operating subsidies as an effective tool for improving urban transit operations and that the subsidies carry a real chance of being counterproductive. This paper examines four categories of operating subsidy options: no operating subsidies, the pipeline approach (unrestricted flow of funds to the transit industry), the block grant approach (exemplified by the transportation revenue sharing bill and the federal-aid urban highway program in the 1973 highway act), and the quid pro quo approach (a grant program whereby specific quid pro quos in the form of definite improvements or innovations in an urban area transit system are demanded in return for federal subsidies).

•THE PURPOSE of this paper is to define and review the options that were open to the U. S. Department of Transportation with respect to transit operating subsidies after the Federal-Aid Highway Act of 1973 was enacted.

The operating subsidy issue in its present form resulted from changes in the market faced by public transit and changes in public attitudes toward the provision of transit services. After World War II, increasing incomes, generous federal housing programs, and federal support for highway construction combined to bring about a new pattern of land use and dependence on the private automobile, which cut deeply into the transit market, especially off-peak, nonwork trips. The financial consequences of this change in transit demand were especially severe. As the ratio of peak to off-peak ridership has increased, transit authorities have been compelled to maintain larger fleets of rolling stock and, much more importantly, larger numbers of drivers or motormen on the payroll for whom off-peak revenue-generating opportunities are not available.

At the same time, public attitudes have shifted from a perception of transit as a service to be provided by the transit operator to one to be provided by local government and, finally, to one to be provided by the taxpayers, regardless of whether it can be remunerative. Coupled with this view is the position that transit fares ought not to bear too heavily on lower income groups. This has led to proposals that transit be provided free, although zero fare transit has not yet occurred in any major urban area. The consequence of this new attitude is seen in a long series of public take-overs of private transit companies. It is notable that, in smaller urban areas where transit use has traditionally been light, service has frequently been allowed to cease altogether while the private operators go bankrupt or withdraw from business; in larger cities the local government has taken up the burden.

The involvement of the federal government began with the enactment of the Urban

Mass Transportation Act of 1964. This legislation recognized increasing difficulties of transit operations on a self-sustaining basis and contained an implicit presumption that the situation could be corrected with the purchase of new equipment. Deteriorating equipment that resulted from the weakened finances of the operators was seen as a major factor in driving away ridership, and it was thought that using federal aid to purchase equipment might turn the situation around. Through the remainder of the 1960s, pressures for increased federal aid to transit continued to mount as it became increasingly clear that the program established by the 1964 act was not leading to a resolution of transit problems. However, a broad consensus that federal operating support was necessary was not reached. The Urban Mass Transportation Assistance Act of 1970 provided much more money and made possible for the first time federal support of major rail system investment, but it continued to confine federal aid to capital purchases. Strong opposition by the administration was probably decisive in keeping operating subsidies out of the 1970 act. As a compromise, that act did contain a requirement that DOT report on the feasibility of an operating subsidy program.

The report, submitted to Congress in November 1971, essentially found that operating subsidies were not in fact feasible on the grounds that no way could be found to effectively operate such a program without offering transit authorities in local government a disincentive to look to their own resources. (This view will be discussed further under the so-called pragmatic argument.) The submission of the report did not dispel a strong interest in operating subsidies on the part of big cities and major transit operators. Considerable political activity continued, which ultimately resulted in a limited victory for the forces supporting operating subsidies with the passage of Title V of the National Mass Transportation Assistance Act of 1974.

THE BASIC ARGUMENTS

It is important to recognize that the issue is not operating subsidies, per se. That there may be valid efficiency or equity reasons for subsidizing transit, especially peak-hour transit, is not in dispute. The minimization of air pollution generated by peak-hour automobile use is only one such reason. The issue, then, is not whether there should be operating subsidies but rather which levels of government should provide them, and in what fashion. Inasmuch as there is general agreement that state and local governments are appropriate sources of such subsidies, the issue concerns only the desirability of federal operating subsidies.

The three arguments reviewed may be termed fiscal, federal role, and pragmatic arguments. The fiscal argument is that the operating deficits of transit authorities represent a local government fiscal program, not a transportation problem, and should be treated as such. The federal role argument states that federal operating subsidies would lead to an inappropriate degree of federal involvement in local government decision making. The pragmatic argument is that it would be extremely difficult to use federal operating subsidies as an effective tool for improving urban transit operations and that they carry a real chance of being counterproductive. The following discussion takes each of these points in turn.

Fiscal Argument

The fiscal argument starts with the position that, to a large degree, transit operating deficits are the consequence of deliberate policy decisions at the state and local levels. Some portion of deficits may be due to management ineptitude or failure of management to aggressively pursue new sources of revenue. Clearly, some portion, perhaps the largest part, must also be due to prevailing public attitudes in many large urban areas concerning the need for transit service, fare levels, and labor agreements. As a consequence of these attitudes, local governments find themselves providing deficit transit service as one more service that taxpayers desire, along with school, police, and welfare programs. In this light, the deficit of a public transit operation does not reflect a transportation problem but simply adds to the fiscal burden on local government. The problem, then, should be addressed not by the Department of Transportation but by those who concern themselves with the fiscal burdens on state and local government and federal assistance with those burdens. In other words, the proper federal answer to transit deficits lies in revenue sharing.

Intellectually, this provides a powerful argument in favor of general revenue sharing as the best way to cope with the operating deficit problem. Revenue sharing has some weakness, however, because it does not provide an argument against federal operating subsidies, as such. A proponent of operating subsidies could fully embrace this rationale but would point out that, as a practical political matter, important segments of the Congress have been somewhat suspicious of revenue sharing and that, desirable as it may be, it simply may not be available as a tool for federal fiscal assistance. Therefore, such a proponent could continue, What is the matter with providing the same fiscal assistance through a categorical grant program? Aside from the standard arguments against categorical grant programs, this is a difficult point to answer in the context of the fiscal argument. The possibilities are a general opposition to categorical programs, the argument that the state and local fiscal crisis is overblown, or development of another argument against operating subsidies.

Federal Role Argument

In one form, the federal role argument is based on the concept that the federal role in urban affairs is defined, a priori, as being very limited. Meeting the current operating costs of a local government function is considered to be beyond the defined limits of this policy, and, hence, not a good idea. Appeal to federal noninvolvement on these grounds is limited, however, by the fact that the federal government is already deeply involved in urban matters and urban transportation. Indeed, transportation infrastructure investment decisions may well have a more profound impact on the life, growth, and quality of an urban area than do decisions concerning transit system operations. There is a practical side to the federal role argument, however, that does have some force. This has to do with the possibility that the federal government could, through the grant approval process, begin to participate in decision making on matters such as fare levels and transit operators' working conditions. The federal government would risk becoming a party in local disputes rather than being in the position of responding to requests for assistance that come after local political questions have been resolved.

Pragmatic Argument

The pragmatic argument rests on DOT's strong, explicit, and statutory interest in improving urban transportation. Clearly, in pursuing that objective, DOT ought to be able to influence at least some critical local decisions, particularly in the context of supporting innovations in the way local authorities conduct transit operations.

One of the most useful tools that DOT could possess would be an ability to support and reward innovators and improvers of public transportation. In this respect, operating subsidies provide a potentially much stronger lever than capital grants. However, the kind of operating subsidy for which the transit industry, represented by the American Public Transit Association, has been pressing would be tantamount to an open cash pipeline from Washington to the transit authorities' coffers. Such an arrangement would combine some of the worst features of categorical grant and revenue sharing programs; that is, federal funds could be used for only one purpose and there would be no effective project approval or program review. DOT would simply hand the money over and, in so doing, would find itself stuck in a situation that was nearly irrevocable, that was constantly deteriorating financially, and that presented an ever larger claim on the federal fisc. This presents a fundamental problem with operating subsidies that must be overcome.

OPTIONS

The four general categories of operating subsidy options established here are no operating subsidies, the pipeline approach, the block grant approach, and the quid pro quo approach. The preceding part of this paper was devoted to the arguments concerning no operating subsidies, so that option will be treated only briefly here. The pipeline approach, meaning the unrestricted flow of funds to the transit industry, was also discussed and dismissed in the discussion of the pragmatic argument and will receive very brief treatment. The block grant and the quid pro quo options are the only two that offer any hope of overcoming the objections contained in the pragmatic argument.

The block grant approach is exemplified by the transportation revenue sharing bill and the federal-aid urban highway program in the 1973 act. The quid pro quo approach represents a categorical grant program under which specific quid pro quos in the form of definite improvements or innovations in an urban area transit operation would be demanded in return for the federal subsidy.

No Operating Subsidies

The upshot of the arguments presented is that there should be no federal operating subsidy program unless the objections raised by the pragmatic argument can be overcome. These can be overcome only if ways can be found to run a program without it becoming a mere conduit for federal money to transit operators.

Pipeline

The pipeline option serves only to convey funds to transit operators, and by its use DOT would forgo any possibility of positively fostering transit innovation and improvement. It should, therefore, be rejected.

Block Grant

The theory underlying the block grant option is that operating subsidies for urban transit should compete with a number of other uses, including nontransit uses, for the available federal money. This competition, it is argued, has a built-in guarantee against wasteful maintenance of the existing operations. Whether such a result would, in fact, occur in practice in the absence of any federal review or project authority is debatable. In any event, it is probably a sound political judgment that revenue sharing is currently not a viable approach to the operating subsidy problem. The transportation revenue sharing bill was never warmly received by Congress.

A more suitable alternative to revenue sharing would be to make operating subsidies one of the eligible uses in a more limited block grant program, such as that represented by the federal-aid urban provisions in the 1973 Federal-Aid Highway Act. This program retains federal project approval that can be exercised in as broad or as detailed a manner as appears appropriate. Indeed, it might be possible to incorporate requirements and conditions of the type discussed under the quid pro quo approach. Of course, to respond effectively to the political pressures for operating subsidies, funding for urban transportation would have to be increased considerably. But another highway bill is not due until the 1975 session of Congress. Moreover, it would probably be difficult to modify the highway bill in such a dramatic manner in a year in which the Public Works Committee would not ordinarily expect to take it up, and that would also be the first session after the Highway Trust Fund was finally opened after a long struggle. There is a great deal to be said for getting at operating subsidies via the highway legislation. One of its strongest attractions is that, coupled with a gradual phase-out of the capital grants program (which would have to occur some years in the future), it would remove the bias toward capital-intensive solutions that characterize current grant programs.

Quid Pro Quo

A quid pro quo approach is a program through which the federal government consciously buys specific improvements or innovations in the operation of urban transportation in a particular city. The improvements or innovations must be specific and recognizable. Vague statements of good intentions and plans of doubtful success in the distant future would not be acceptable. Acceptable improvements would not have to be highly radical, but changes would have to be significant in terms of increasing the number of persons using transit. Some examples follow:

1. Significant decreases in door-to-door travel times;
2. Significant increases in passenger comfort and convenience on or off vehicles including, for example, replacement of obsolete vehicles and provision of bus shelters and terminals;
3. New service to places, within districts, for trip purposes or for persons currently unserved or inadequately served by public transit;
4. Reduction of adverse environmental impacts; and
5. A strategy of controlling automobile usage, e.g., projects ranging from peak-hour pricing to automobile-free zones.

It should be clear that the design and implementation of such a program would present some formidable problems. Transit authorities would strongly resist the idea that the operating assistance should go for anything other than bailing them out of their current financial problems. UMTA, presumably the administrator of such a program, would be under enormous pressure to accept only token improvements in return for the operating cost grants. An apportionment formula for distributing funds among cities might mitigate these problems, but that is by no means certain. On the one hand, a formula would settle the question of who gets how much money so that lengthy arguments with various cities about the size of their operating grants would be avoided. Certainly, project approval can be retained with an apportionment formula, but the fact that an urban area would have a definite pot of money to claim as its own might make the pressures for acceptance of token or cosmetic improvements even more difficult to resist. A formula approach also carries the danger of overfunding some areas and underfunding others.

Thus, although the quid pro quo concept for an operating subsidy program seems to have considerable appeal, there would be very real problems in administering such a program.

The EPA clean air standards and recent moves toward restricting gasoline consumption may change the situation in a significant way. Just as these events may sharply increase the pressures on us for an operating subsidy program, they may also strengthen the argument for real improvements in urban transit. It ought to be possible to key an operating subsidy program to helping cities to improve and expand their transit operations in ways that offer positive alternatives to travelers who will presumably be driven from their automobiles.

In this manner it might be possible to overcome the objections to federal operating subsidies raised by the pragmatic argument. The essential thrust of that argument is that, under normal conditions, political pressures for access to an operating grant program unrestricted by meaningful DOT requirements for transit improvements would simply be too strong for DOT to resist and a pipeline would be created. Now, the energy crisis and the clean air program (even with the compliance date extended to 1977) may provide a strong enough case to use an operating subsidy program as a tool for transit improvement.

Adoption of any form of categorical grant program, however, would raise a question of its duration. Either an indefinite commitment or a target date to terminate the categorical grant program could be used. There are two possible ways of accomplishing the latter goal:

1. Require cities to introduce taxes or tolls or both on automobiles and parking that

would eventually provide enough revenue to cover transit expenses, or

2. Create an urban transportation block grant program along the lines of the highway act, which would be applicable for both highways and transit and for capital and operating expenses, but retain some measure of federal approval authority.

One way of limiting the commitment at the outset would be to limit the amount of the subsidy to the deficit attributable to the improvements and not provide any support for existing deficits. This might not be acceptable, however, to the factions pushing for the subsidies. Another problem with this limited approach is that its power as an inducement to innovation might be limited by the fact that no assistance would be offered for existing deficits.

CONCLUSIONS

We have seen that a categorical grant program for operating subsidies based on the so-called quid pro quo approach might result in innovations and improved service in urban transportation. No one should deceive himself, however, about the difficulties of operating such a program. It was noted that much of the substance in the quid pro quo approach could be incorporated into a block grant program based on future modification of the existing urban highway program. Such a combination might be the best of all possible operating subsidy worlds because the fact that other uses of the money would compete with operating expenditures for a fixed sum would serve as an additional control beyond that applied in the project approval process. A future concomitant of this type of modification of the highway program could be a phase-out of the UMTA capital grant program.

ACKNOWLEDGMENTS

This paper was prepared before enactment of the National Mass Transportation Assistance Act of 1974. The views expressed are the author's and do not necessarily reflect the position of the U. S. Department of Transportation.