

# TRANSIT OPERATING SUBSIDIES FROM THE LOCAL PERSPECTIVE

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Passage of the National Mass Transportation Assistance Act of 1974 created a source of federal funding that can be used to offset transit operating deficits and improve transit operations, among other things. As a result, transit agencies are now able to turn their attention from the overall problem of balancing revenues with expenses to other issues in transit planning. A key problem that transit agencies and planners must now confront is the question of allocation of service among competing subsectors of the transit market. This paper describes some of the issues in service allocation and suggests that evaluating alternatives may be of primary importance in solving the problem. It is suggested that, within the overall framework of analysis of alternatives, some specific techniques need further development.

\*NOW that federal operating assistance for public transit has become a reality, it is appropriate to predict the impact of the operating assistance grants on local communities. This paper suggests that the primary impact of operating assistance will be to focus attention on a local problem that has existed for a long time but has not been widely recognized until now. Some suggestions are made for ways to deal with the problem.

## SUBSIDIES ARE NOT NEW

Local communities are very familiar with transit subsidies; many of them have received or given them for a number of years. This statement holds regardless of whether the transit operation is public or private. The privately owned transit company that continues to give service when it does not make a profit is, in effect, giving a subsidy to the community it serves. The public body that, for example, gives a lucrative school bus service contract to a privately owned transit service operator may, in effect, be giving a subsidy to ensure the continuance of the city transit service. In general, any time that operating expenses exceed operating revenues, a subsidy is being provided from somewhere, in some way, to cover the shortage. When subsidies are viewed in this context, it becomes apparent that the basic impact of the federal operating assistance program is to provide a predictable, non-fare-box source of revenue to a transit operation.

## NEW PROBLEMS FOR OLD

For some time now, the primary transit concern of local communities has been finding enough non-fare-box revenue to maintain some sort of public transit operation. The passage of the federal operating assistance program has certainly relieved the pressure to augment total transit system revenue for some time to come. The program has moved transit one step closer to the classic definition of a public good by separating revenues from cost to some extent. That is, user charges have become less of a factor in determining appropriate levels of service. Accordingly, the importance of the old problem of identifying and providing the service that would bring the most money into the fare box has diminished considerably.

Another issue that caused substantial debate some years ago was the question of the exact nature and magnitude of the deficit. With more revenue coming in, the importance of allocating every cent of outflow also appears to have diminished. Although economists would agree that the question of resource consumption should not be ignored, one may safely suggest that aggregate measures such as labor cost, depreciation, and the like can be temporarily subordinated to a more pressing issue. In short, we can, in the next few years, turn our attention from attempting to balance the level of service for the entire operation with the revenue for the entire operation and look into another problem area.

Suppose that the combination of existing fare-box revenue and federal operating assistance will create a surplus for a transit system in the coming year. The transit system, with the best of intentions, wishes to use this surplus to provide more service. Where should this service be provided? It seems plain that the new problem is determining the appropriate service levels to be provided to different neighborhoods, different routes, and different user groups. In other words, if the old transit problem was at the macrolevel, the new problem is at the microlevel.

The magnitude of this problem should not be underestimated. In economists' terms, it is a resource allocation problem among segments of a market, possibly combined with a serious issue of cross-subsidization. (The cross-subsidization issue arises because any transit property is likely to have under its control a few routes that could be profitably operated by private enterprise and a number of routes that could never be profitable. As part of an integrated system, the profits from one route go to subsidize the losses of another. To the extent that the routes serve different sectors of the city, one element of the riding public ends up subsidizing another.)

This new problem, which may be called a service allocation problem, includes a number of other issues. For example, in major metropolitan areas, there is a question of service allocation between links in the regional transit network and local community transit services. A minor political jurisdiction, for example, may wish to provide transit service, within its own boundaries, that is only marginally related to the regional rail transit system. Although the needs may be relatively modest, who will make the allocation between competing demands and on what basis?

Even in smaller metropolitan areas, various segments of the transit market have competing transit needs. For example, if there is just enough money left in the budget to run one more bus trip per week, should that bus provide service to senior citizens for Sunday trips to church and dinner, or should it transport young people home from an evening recreational activity? What provisions should be made for the needs of the handicapped? Do these needs, in turn, conflict with the desires of downtown merchants? Do those needs, in turn, compete with the desires of operators of outlying shopping malls (some of whom already benefit from transit service in some areas)? How are all these competing demands reconciled?

## TOOLS FOR PROBLEM SOLVING

Clearly the service allocation issue will not be resolved on either purely economic or technical grounds. Inasmuch as we already have economic and technical tools to deal with problems, this is unfortunate. However, to the extent that the service allocation issue is really a political issue, it is appropriate that we find ways to assist local communities in solving this new problem. Some techniques are already available to transportation planners; these tools need to be improved, and new ones may have to be developed. The issues can be put in terms of evaluation of alternatives, and doing so suggests some of the steps that need to be taken to solve service allocation problems.

1. Local goals and objectives need to be articulated more clearly and in ways that can be empirically meaningful. Improving mobility for all residents of the community may be an admirable goal, but it does not lend itself to objective measurement. Objectives will have to be defined more carefully, and the impacts on different segments of the community will have to be explicitly recognized.

2. A better definition of level of service is needed. Measurement of service levels is the subject of several current and proposed research projects. Without further discussion, more work is needed in this area.

3. In some localities, greater public participation in the planning process is required. Given that different segments of the community have differing transportation needs, their wishes should be considered in the planning process. Conventional techniques of determining travel desires may not be adequate for this task. It may become necessary to receive input from special-interest groups, for example, as well as through other data collection techniques.

4. In general, the decision-making mechanism must be improved. A variety of techniques exist for evaluating alternatives. Although some of these techniques are powerful tools, their potential is not fully appreciated in many transportation planning circles. The process by which the decision is made to send the one extra bus to the old folks' home, for example, is neither easy nor technical. Nevertheless, it can be facilitated and documented by an adequate evaluation technique properly applied.

## SUMMARY

Passage of the federal operating assistance legislation enables many transit planners to turn their attention from keeping the system afloat to the somewhat more pleasant task of deciding how to distribute new service among the various segments of the community. Problems within the system rather than problems of the system as a whole will become the focus of attention. To deal with these problems may require that some new techniques be developed or existing ones be perfected. The federal operating assistance in itself will not solve these internal problems; it will merely permit attention to focus on them rather than on macrolevel issues.