Current Status of State-Level Support for Transit

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Data were gathered by means of questionnaires received from 49 states and personal interviews with state transit officials in 22 states concerning state programs for assisting local transit operations. Twenty-four states provide financial assistance for transit from state funds. Such support may be used for capital improvements, operating assistance, technical planning, or special projects. The states vary widely in the extent to which they participate in such programs. Most state funds are derived from general revenue sources, although some states have established a state transportation fund to finance transit assistance as well as programs for other modes. A few states use special tax sources that are earmarked for their transit programs. Four general methods of allocating funds among transit operations are in use: purchase of service agreements, formula allocations, the revenue generating base of a transit jurisdiction, and allocation on a first-come, first-served basis. Several forms of indirect assistance to local transit operators were also identified in the course of this research.

Financial assistance to local public transit from state revenues is both significant and well-established in many states. State support has been provided through direct funding of capital expenditures, operations, and demonstration programs and indirect means such as tax relief and contributions for technical planning.

The roles of states in providing financial support for transit have been summarized (1). However, many state programs recently have undergone significant changes. A number of additional states have become heavily involved financially with local transit whereas others are now in the process of surveying local transit needs and considering assistance programs. Factors such as inflation, the deteriorating financial position of local operators, the pronounced limitations of local revenues to meet costs or match federal transit program funds, energy shortages, and an increased public awareness of the unmet transportation needs of significant portions of the population have all served to increase the likelihood of a state becoming involved in financing local transit services.

The experience developed by those states that have established funding programs includes consideration of funding levels, sources of funds, cost-sharing splits, and methods of allocation to local transit operators. The state of Iowa undertook a research project to summarize and evaluate the experience of other states to aid in the development of a transit planning and assistance program for Iowa (3).

The data discussed in this paper were compiled primarily through questionnaires completed and returned by all the other 49 states and by personal interviews with key personnel in 22 states.

DISTRIBUTION OF STATE TRANSIT FUNDS

States that provide financial assistance for local transit have generally tailored their programs to supplement federal funding. However, data were gathered for this research before Section 5 of the Urban Mass Transportation Act was implemented. Therefore, it would be reasonable to expect some adjustments to the distribution and allocation of state funds now that federal funds can be used for operating assistance. A few other exceptions to this pattern occur in the case of some research and demonstration programs, free or reduced fares to the elderly, and technical studies. Such projects, although generally eligible for federal funds, may not receive federal support but are deemed to meet significant state or local needs.

A total of 24 states indicated that they provided some form of financial assistance to local transportation organizations. Although the other states did not indicate that they provide financial support, they may provide technical assistance or otherwise aid local transit services. States that do not provide financial assistance to transit generally are rural and have few major population centers. Several of these states currently are debating the relative merits of forming departments of transportation as well as the issue of providing financial assistance to local transit.

Assignment of funds for specific needs varies widely. States may provide funds for capital improvements, operating assistance, planning, or any combination of these. In some instances, nondedicated funds may be provided, in which little guidance is given on the use of these funds.

Two states fit the latter category. California returns

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proceeds of a 0.25 percent sales tax, of a total of 4 percent, to local governmental jurisdictions according to the amount collected in that area. These funds are earmarked for transportation purposes, and priority is given to administration, planning, development of bicycle and pedestrian facilities, and support of public transit. After these needs are met, remaining funds may be used for streets and roads, Amtrak, and payments to common carriers for public transportation services under contract.

In the state of Washington, communities and other public authorities that operate public transportation systems can levy a 1 percent tax on the fair market value of vehicles registered within their jurisdictions. This levy becomes a credit on the state motor vehicle excise tax of 2 percent and is returned to the local jurisdiction. These funds may be used for planning, operations, or capital improvements but must be matched dollar for dollar from non-fare-box revenues.

Generally, funds are assigned according to legislative mandates. The current priorities for expenditures mandated by legislation are based on a variety of rationales, a topic that is beyond the scope of this study. The important issues discussed in this report include the tendency for states currently providing financial assistance to pay part or all of the nonfederal share of costs and how these funds are distributed among eligible transit agencies.

State Grants for Capital Improvements

Most of the financial support for capital improvements for local transit is in the form of federal aid. Up to now funds have come primarily through Section 3 of the Urban Mass Transportation Act of 1964, as amended. Currently, eligible recipients receive federal grants equal to 80 percent of the costs, and the remaining funds come from local or state sources.

A total of 18 states provide a portion of the local share (Table 1). In general, they have directed their resources toward supporting projects eligible for federal grants in an effort to generate federal funds with state funds.

Cost-sharing ratios vary widely among states, as given in Table 1. Four states provide all local matching funds, five provide more than half the local share, and four more provide half. Some states vary their contributions. Florida normally contributes 50 percent, but, if the project is statewide in scope and impact, it provides all the local share. In Maryland, the local share of the Baltimore system comes entirely from state funds, but the remainder of the state gets 75 percent of the local share. Massachusetts may pay up to one-half of the local share. However, in practice, the state contributes nothing for a good operation and 10 percent (half of local share) for a poor operation or one just beginning. Michigan pays 80 percent of the local share, except for small grant applications, which are fully funded. Ohio's contribution, which is not based on a strict formula, varies but averages about 20 to 25 percent. However, no single agency can receive more than 20 percent of the total state funds available in any year. The Virginia legislature distributes funds directly to the five major urbanized areas and pays 85 percent of the local share for the remaining urban areas. Even when a state has a formula, the state contribution may vary. Illinois has four provisions whereby the state can pay more than the usual two-fifteenths of the total cost.

The impact of federal grants for capital improvements is emphasized by the fact that only three states reported a program of grants from state funds for projects not eligible for federal funds. Florida grants up to one-half of the cost of projects with localized scope and impact, up to 100 percent of small local projects to install or upgrade safety equipment, and all of the cost when local or area sponsorships cannot be determined. Illinois can provide two-thirds of the cost if the project fulfills an extremely urgent need. The state can also make loans to local jurisdictions so that projects eligible for federal approvals are not delayed. Tennessee can pay one-half of the total cost of a project that cannot be federally funded.

Operating Assistance

Procedures for distributing operating assistance from the state to local transit agencies also vary. Much of the difference can be attributed to the desire of state legislatures to provide incentives for improved service and good management. In all, 14 states provide funds for operating assistance, including California and Washington. Table 1 gives a complete list.

Connecticut and Rhode Island pay all operating losses; however, Connecticut normally will not pay all if revenues do not equal or exceed 60 percent of the operating cost. The intent in New Jersey is to pay 75 percent of the operating losses of buses and all losses on commuter railroad services. Massachusetts grants one-half of the operating loss, providing the cost to the public does not exceed two-thirds of the cost of the operation (revenues should provide at least one-third). Maryland assumes all the operating losses of the Baltimore system but one-half of the losses of other systems.

Michigan uses an allocation formula that may provide up to 33 percent of operating costs. The legislature of New York allocated a fixed portion of its funds during fiscal year 1975 to the Metropolitan Transportation Authority and other regional authorities. The remaining funds were disbursed under an incentive program based on transit service and ridership. Pennsylvania pays up to two-thirds of operating losses, but the amount cannot exceed 50 percent of the operating revenues.

Technical Assistance

In the questionnaire used in this research, technical assistance referred to planning, design, or both. However, grants for technical assistance are used only for planning in most states.

Although additional states very likely include some level of transit planning as part of statewide planning efforts, only 18 specifically indicated direct financial support (Table 1). A few states provide this assistance from their staff, to the extent that this could be considered a line item in their budget. Some do as much as possible with their personnel and assist in the expense of hiring consultants for the remainder. Most of the states have specific formulas for allocating funds as a portion of the local share of federally financed studies. Where the state provides financial assistance, a minimum of 50 percent of the local share is provided from state funds.

The dollar value of grants for technical assistance is not great when compared to the amounts spent for capital improvements and operating subsidies. In some states, funds are appropriated to assist local jurisdictions in their quest for federal grant money for transit, particularly in speeding up the process. In others, these funds are used to pinpoint needs for either initial financial assistance or continuing aid.

Assistance for Special Projects

A few states have appropriated funds for special projects to solve specific needs. Most of these projects fit three categories: reduced fares for the elderly, demonstration projects, and transportation for the handicapped (Table 1).

Seven states, Illinois, Maryland, Nebraska, New Jersey, Ohio, Pennsylvania, and Wisconsin, indicated that funds are available to local jurisdictions for reduced or free fares for the elderly. For example, Nebraska has appropriated $1 million in part to reimburse metropolitan-operated bus lines for providing service to persons 60 or older during off-peak hours for 10 cents or less. Pennsylvania has appropriated 30 percent of gross revenues from the state lottery ($11 million) for free transit service for the elderly during nonpeak hours. Illinois provides operating assistance of a maximum of 25 cents per rider (up to one-half) for reduced fares for elderly persons and students. The New Jersey program helps provide off-peak transit rides at half fare to the elderly. Reduced fares for the elderly are subsidized by Maryland in Baltimore and by Wisconsin in Milwaukee. Ohio has appropriated $2 million to reimburse operators who reduced elderly fares by 10 cents for calendar year 1975.

Delaware has established the framework of a system of specialized transportation for the elderly and the handicapped. It is known as the Delaware Authority for Specialized Transportation and operates in one county. It will be expanded to cover the state and will receive financial assistance from the state.

Although a number of states are doing studies or reviewing proposals for demonstration projects, only seven indicated that funds are appropriated specifically for demonstration projects. In general, cash resources put into these projects are not large. Indeed, sometimes only one project is funded, but it is the one among several proposals that showed the greatest promise for statewide application.

Accordingly, the trend is to increase the level of state participation if the project may show broad statewide application. Florida, Michigan, Pennsylvania, and Wisconsin are the most extensively involved in demonstration projects.

The only remaining special projects were listed by Pennsylvania. In Pennsylvania, projects involving promotion or advertising are eligible for a 50 percent state match, and straight research is funded 100 percent by the state.

SOURCES OF FUNDS

State Revenue

The 24 states that provide some financial assistance to local transit are given in Table 2 together with the sources and the amount budgeted in fiscal year 1975. It is clear that state general funds are most often used as sources of revenue for public transit; state transportation funds run a distant second. (State transportation funds are either dedicated funds used by all modes of transportation or highway trust funds derived from road use taxes, a portion of which is appropriated for public transportation.) In a few cases, specific sources of revenue are collected and earmarked for use by public transit. These include sales tax (California and Illinois), motor vehicle registration fees (Illinois and Washington), cigarette tax (Massachusetts), and state lottery receipts (which are used to support reduced fares for elderly in Pennsylvania). All of these are revenues collected statewide and do not include any local-option taxes collected by the state and returned to the local jurisdiction.

The actual amount of state money spent for local transit varies widely, but urban states generally spend much more than rural states. In some states, although current spending levels are low, significantly higher levels are expected in the near future, depending on legislative mandates. For others, current expenditures will be adjusted mostly by economic factors including energy costs, federal cost-sharing, and inflation. A few states are spending small amounts to assist local operators in determining their needs and in seeking federal assistance or to determine the extent of statewide needs. This could be translated into more substantial funding in the future.

Local Revenue

Information on local sources of revenue (other than state funds) was obtained mostly from the states visited for personal interviews. Enough information was gathered from these states to show definite trends.

The primary revenue sources of funds for local jurisdictions were general funds and federal revenue sharing. Although there are a number of ways used to replenish general funds, the most important one is the property tax. Some states have a local option, providing for a millage rate dedicated for public transit. Although this is not from general funds, the source is the same: local property tax.

Several states use local income tax or local sales tax revenues. Atlanta, Georgia, uses a $0.01 sales tax, while the rest of the state uses general funds. There are a few other sources of income, generally limited to one state. Some of these are

1. Revenue from liquor sales,
2. Household tax,
3. Business and occupation tax (flat rate on gross receipts),
4. Toll revenues, and
5. Motor vehicle taxes.

In several states, sources of revenue other than general funds can be used, but generally such use must be approved by a referendum. Some of these are used by local jurisdictions in California, Florida, Illinois, Kentucky, Michigan, Nebraska, New York, Ohio, Oregon, Utah, Virginia, Washington, and Wisconsin.

ALLOCATION OF TRANSIT ASSISTANCE FUNDS

A critical issue in the implementation of state transit assistance programs is the question of allocating limited resources among eligible transit operations. In general, an allocation procedure should be judged by its ability to distribute funds to agencies in proportion to need, to enable the state to maximize the effectiveness of funds expended by establishing service quality guidelines, and to provide the receiving and disbursing agencies sufficient information about the amounts and the temporal flow of money so that they may develop effective, workable operating plans.

Approaches used to distribute state funds to local agencies have varied widely depending on the type of program and the state. Disbursement of demonstration program grants potentially imposes the least difficulty because the amounts involved usually are small and there generally is no commitment to provide each agency with a fair share of available funds. Instead, funds frequently can be distributed on a first-come, first-served basis to those applicants with proposals most responsive to program objectives.

Capital assistance programs potentially are more difficult to administer. However, persons interviewed as part of this research did not appear to have encountered any particular problems in administering their state programs. State-level evaluation of individual grant requests ranges from the extremely superficial to the very comprehensive. As an example of the latter, the New York State DOT evaluates all assistance requests for compliance with the State Master Plan. For the most part, however, state assistance for capital improvements is contingent on approval by the federal agency (generally UMTA) that provides funding.

Although actual levels of state assistance vary, most states provide a fixed percentage of the capital costs (Table 1). Of the 18 states providing assistance for capital improvements, 10 pay a fixed percentage, two (California and Washington) provide nondedicated funds with little guidance, and four use a fixed percentage but will pay all the local share under certain conditions (two for metropolitan areas, one for projects of statewide significance, and one for small requests).

Because of the limited experience with operating subsidies at both the federal and state levels, this form of assistance has generated the most concern by funding agencies. Distribution procedures currently in use have been classified into four categories, which are discussed and evaluated here. Details of operating assistance programs of specific states were discussed previously.

Purchase of Service Agreements

In the purchase of service agreements, the state contracts with the local agency to furnish transit services in a given service area. In return for state funding, the operator agrees to meet certain performance criteria. The state may reserve the right to approve routes and headways as a measure of level of service and may exert control in the form of setting standards for schedule reliability, fares, and marketing programs. Penalties may be involved in the form of reduced state aid if the operator fails to meet the performance standards agreed to in the contract.

Contracts may provide up to 100 percent funding of the operating deficit. Funds are appropriated based on the deficits of individual operations during the previous year. States using purchase of service agreements include New Jersey, Connecticut, and Pennsylvania.

The use of purchase of service agreements is beneficial to the state in that it allows for control of the quality of service. It is also desirable to the operator because he can provide quality service in the face of increased costs without increasing fares, decreasing service, or depleting cash or capital reserves. Passengers benefit because of operator incentives to provide quality service inasmuch as the contract may limit or withold payments to operators if service falls below established performance standards.

The program is not without problems, however, because escalating costs may outstrip the fixed amounts made available by a legislature. In at least one case, the costs contracted for by a state exceeded the amount of funds available.

Formula Allocations

Another common procedure for distributing a fixed appropriation to eligible transit systems is by formulas based on population, service characteristics, or both. Two states, Michigan and New York, use this approach.

The Michigan formula considers two parameters, urban population as a proportion of statewide urban population and revenue-kilometers of service, also as a proportion of the statewide total. Each factor is weighted equally in the determination of the portion of total available funds for which a community is eligible. An additional constraint, however, which may limit the actual state funds received, is that operating subsidies may not exceed 33 percent of operating costs.

New York uses two forms of allocation, a legislative appropriation for a fixed amount to each of five regional authorities and a formula allocation to other agencies. The allocation formula is currently based on the number of passengers and vehicle-kilometers of service; the reimbursement rate differs for buses, light rail vehicles, and commuter rail.

Formula allocations can be adapted to provide an effective distribution procedure and incentives for service improvements and operational efficiencies. They permit transit operators to estimate with reasonable accuracy the amount of support that will be forthcoming, providing that the amount of appropriate funds is stable and the state has a mechanism whereby all operations can receive a share of available funds.

However, formula allocation also has potential problem areas. Just as it was recognized by New York that different forms of public transit have different operating costs and potentials for generating revenue, it must also be recognized that costs and revenue potential vary with the size of urban areas. Furthermore, a transit operation may be highly desirable from the standpoint of providing an essential social service but have particularly low potential for generating ridership and revenues. Careful evaluation is required in such cases to help ensure that the formula used gives adequate attention to the special needs of operators.

A second major concern is that the parameters used should appropriately reflect the needs of transit agencies. For example, whereas revenue-kilometers of service may uniformly reflect operating costs in cities of similar size, route-kilometers may not be a uniform indicator. In one city, for example, service may be provided on 30-min headways, and in another city service might be provided only twice daily, although the number of route-kilometers might be the same for both.

In this connection, it should be pointed out that the ability to develop viable transit programs is based on a reasonable consistency in annual funding levels. Extreme fluctuations in legislative appropriations will require annual adjustments in the weights given to formula parameters. Some annual variation is anticipated, but large changes in funding levels will hinder program development.

Revenue Generating Base of Transit Jurisdiction

Three states, California, Illinois, and Washington, reported that transit funds were apportioned on the basis of taxing levels in the transit district. Summaries of the operation of these programs follow.

1. California returns a portion of sales tax proceeds to counties to be used according to a priority schedule for (a) administration, (b) planning, (c) facilities for exclusive use of bicycles and pedestrians, (d) public transportation, and (e) other transportation needs. Transit agencies are required to report basic operating data to the state DOT. Within counties, allocations are based on population. In 1974, 61 percent of these funds were used for transit.
2. Illinois returns a portion of sales tax collected in a given district upon receipt of an appropriate operating plan consistent with local needs and the generation of local matching funds.
3. Communities and other public transit authorities in Washington may levy an excise tax on vehicles registered in their jurisdiction, but they must produce local matching funds.

Table 1. Proportion of state funds allocated to local transit.

State	Capital Improvements	Operating Assistance	Technical Assistance[a]	Special Projects Funded
Alaska	Not known	None	Yes	
California	Varies	Varies	Yes	
Connecticut	All	All	Yes	
Delaware	All	More than half	Yes	
Florida	Half, varies	None	Yes	Demonstration grants
Georgia	Half	None	Yes	Demonstration grants
Hawaii	None	None	Yes	
Illinois	More than half	More than half	Yes	Reduced fares for the elderly
Kentucky	None	None	Yes	
Maryland	More than half, varies	Half, varies	Yes	Reduced fares for the elderly, demonstration grants
Massachusetts	Half, varies	Half	No	
Michigan	More than half, varies	Varies	Yes	Demonstration grants
Minnesota	None	More than half	No	Demonstration grants
Nebraska	None	None	Yes	Reduced fares for the elderly
Nevada	None	None	Yes	
New Jersey	All	More than half, varies	No	Reduced fares for the elderly
New York	More than half	Varies	No	
Ohio	Varies	None	No	Reduced fares for the elderly
Pennsylvania	More than half	More than half, varies	Yes	Reduced fares for the elderly, demonstration grants, other
Rhode Island	All	All	Yes	
Tennessee	Half	None	Yes	
Virginia	More than half, varies	None	Yes	
Washington	Varies	Varies	Yes	
Wisconsin	None	More than half	Yes	Reduced fares for the elderly, demonstration grants

[a]Specifically allocated funds (not including statewide planning).

Table 2. Sources of revenue for state financial assistance to transit.

State	Source	Total Dollars for Fiscal Year 1975
Alaska	Appropriations from general revenues	10 000 000
California	State sales tax	103 000 000
Connecticut	State transportation fund	32 000 000
Delaware	Appropriations from general revenues	4 200 000
Florida	State transportation fund	7 600 000
Georgia	Appropriations from general revenues	428 000[a]
Hawaii	Appropriations from general revenues	303 000[a]
Illinois	Appropriations from general revenues,[b] state sales tax,[c] registration fees[d]	92 250 000
Kentucky	Appropriations from general revenues	200 000
Maryland	State transportation fund	77 800 000
Massachusetts	Appropriations from general revenues, cigarette tax	57 000 000
Michigan	Appropriations from general revenues,[e] state transportation fund	26 000 000
Minnesota	Appropriations from general revenues	6 000 000
Nebraska	Appropriations from general revenues	1 000 000
Nevada	State transportation fund	75 000
New Jersey	Appropriations from general revenues	97 500 000
New York	Appropriations from general revenues	100 000 000[f]
Ohio	Appropriations from general revenues	3 400 000
Pennsylvania	Appropriations from general revenues, state lottery	118 600 000
Rhode Island	Appropriations from general revenues	2 000 000
Tennessee	Appropriations from general revenues	1 600 000
Virginia	Appropriations from general revenues,[e] state transportation fund	21 900 000
Washington	Registration fees	10 000 000
Wisconsin	Appropriations from general revenues	7 000 000

[a]Fiscal year 1974 data.
[b]For capital improvements.
[c]For operating expenses.
[d]Only portion of fees collected in RTA area.
[e]Dedicated funds are the primary source of revenue; appropriations from general fund are small in comparison.
[f]Plus a variable portion of bonds used for capital improvements.

Table 3. Indirect assistance to local transit operators.

Type of Assistance	Participating States
Exempt from local property taxes	Nearly all
Exempt from motor fuel taxes	Nearly all
Authority to sell tax exempt bonds	About half
Exempt from state income taxes	About half
Exempt from local income taxes	Less than half[a]
Exempt from motor vehicle registration fees	Most
Fares exempt from sales and use tax	Most
Exempt from special assessments	About half
Exempt from excise taxes	About half
Lease of operating equipment at less than cost	Five[b]
Exemption from franchise-license fee	About half

[a]Use of local income taxes for revenues is common but not widespread.
[b]Personal interviews indicated a lack of enthusiasm for state involvement in direct purchase of equipment.

The return of funds collected by a state to the local communities does not necessarily imply that local agencies can use such money indiscriminantly. As indicated above, states using this procedure may require extensive local reporting, development of an operating plan, and use of local matching funds. The distribution procedure could establish fundamental performance standards as a basis for receiving an allotment for which a local agency is eligible.

The primary advantage of this allocation methodology over the other concepts is that both the state and the operating agency can better estimate the annual funds that will be involved because the base for prediction (sales tax or motor vehicle assessed valuation) may be more predictable than are annual legislative appropriations. Further, an individual agency is not competing against every other operation for a piece of a fixed apportionment but can instead plan on having available revenues based on the economic growth of the area. In this program the state can still establish level-of-service guidelines, performance standards, and the operational reports necessary to evaluate service quality.

This allocation procedure does not, of course, guarantee satisfaction of every community's needs even though there is no direct competition for a fixed fund. The legislation establishing such a program will likely be set up to provide sufficient assistance, on the average. If an area is economically depressed relative to other areas or has higher transit needs relative to its revenue generating potential, the transit operator may find that both assignable state funds and local matching funds are inadequate to meet transit needs. Thus, special consideration of individual needs may still be necessary.

First-Come, First-Served Allocation

In a first-come, first-served allocation, the first agencies to submit requests for assistance are given funds according to their established needs. Generally, service incentives are lacking, although the state may require collection of certain data, submission of a management plan, or audits of the operations. State contributions are set at a given proportion of operating losses. Sometimes, a maximum public share of operating costs is set or a maximum percentage of operating costs to be paid with state funds is established.

Allocation of funds on a first-come, first-served basis is likely to be inadequate overall because of the possible inequality in distribution and the inability to base planning on a specific funding level. Although management of this distribution procedure may be satisfactory during the developmental stage of a state subsidy program, the potential for pressures from new operating systems suggests that more definitive and equitable procedures are desirable.

INDIRECT ASSISTANCE

There are a number of nonmonetary forms of assistance that can be provided to local transit operators that collectively could be of significant benefit to them. This is often referred to as indirect assistance and generally is given in the form of exemption from payment of certain taxes or fees. To a tax collecting body, this represents income forgone. To a local transit operator, it means a reduction in operating expenses. For the most part, exemptions seem to be limited to public operators, in part because of the ever-decreasing number of private operators. Some of the more common forms of direct assistance are given in Table 3. (Only 70 percent of the states completed this part of the questionnaire.)

CONCLUSION

The information contained in this report shows that more states are providing more of the local share of the capital and operating costs of local transit systems. There is also a tendency to subsidize operating costs by using allocation procedures that give the local operator incentives to provide a good level of service for transit users. On the other hand, several states have not yet made funds available for local transit. Their future efforts can benefit from the experience of their colleagues in other states, to suggest transit policies and programs that can afford an incentive for local transit management to develop cost-effective solutions that provide better service.

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