

# Funding, Insurance, and Regulation Developments in Oregon

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This paper identifies funding, insurance, and regulation as the three major problems confronting rural public transportation in Oregon. Solutions to these problems on the state, federal, and local levels are suggested, along with future national possibilities for reducing insurance difficulties.

Oregon is a rural state. It covers 247 680 km<sup>2</sup> (96 000 mile<sup>2</sup>) and has 2.3 million people. About 70 percent of the population live within the Willamette Valley. The valley contains the state's three largest cities and is bordered by Portland on the north, Eugene on the south, coastal mountains on the west, and the Cascade Range on the east with Salem, the state capital, in the center.

Each of the three large metropolitan areas within the Willamette Valley has a public transit system. Outside of the valley, there are 12 cities or counties providing public transit. Of the 240 incorporated cities within the state, 50 have taxi service. There are over 60 nonprofit corporations providing transportation for their clientele. Ten intercity public transportation carriers transport approximately 2 000 000 passengers between cities annually.

State government efforts are largely devoted to making the public transit system work by encouraging usable services at reasonable cost. Although solutions to the problems of rural public transportation (transit within and between communities under 50 000) must be suited to individual situations, Oregon has identified three problems: funding, insurance, and regulation. This paper addresses these basic problems as they affect Oregon and outlines actions that have been taken to solve them.

## FUNDING

Intercity, rural, and small-city public transportation has been declining because of the national emphasis on the automobile. However, recent studies indicate that public transportation services are needed for old, poor, and young people as alternatives to expensive modes of transportation and as insurance in case of future energy shortages.

### State Operating, Capital, and Experimental Funds

The availability of state general funds (highway funds are designated for highway purposes by the state constitution) has improved public transportation. Oregon has a grant program to help pay one-half of the operating deficit of transit systems in nine small-city and rural areas. The capital grant match program will pay one-half the local cost of new buses in three small cities. The state's experimental program recently assisted the city of Woodburn (population: 10 000), a retirement community that has been without even taxi service for 2 years, in beginning a single-bus system.

In addition, state experimental funds have been used to match local funds in starting services both within the city of McMinnville (population: 12 640), within Yamhill County, and into Salem. The experimental program contributes one-half the cost of initiating services. Once developed, we find that transit users in

the smaller communities increase each month as people become accustomed to the service. Some earlier experimental projects have been transferred to the present operating assistance program.

### Rural Highway Public Transportation Demonstration Program

Oregon moved aggressively to receive four grants under the rural highway public transportation demonstration program. The four experimental projects have shown that there are many people in need of public transportation service because they cannot or should not drive. The state program will help one community with operating assistance funding when the federal program phases out. The other three areas are eligible to receive federal operating assistance through a large metropolitan transportation district.

### Intercity

Studies of intercity public transportation carriers indicate declines in service, the number of communities served, passengers, and profitability. However, this industry is extremely important to the population, as intercity buses often represent the only form of public transportation available to many communities. Our choice is to enter the process and try to reverse the service decline with public funds.

In June 1978, we submitted a proposal to the Legislative Emergency Board to use state funds for the following purposes:

1. To help buy bus shelters for small communities,
2. To purchase and install bus directional signs for small communities,
3. To prepare an intercity ticket jacket that will also serve as an information guide,
4. To participate in planning a multimodal terminal, and
5. To support a local intercity bus system by contributing operating assistance funding.

Approval was obtained for this proposal, and the individual program activities are now well under way.

### Federal Funding

There are two bills now before the U.S. Congress that expand and restructure federal transit assistance. Each bill provides an operating assistance program for public transportation in small urban and rural areas. Both programs are loosely structured to cover the range of transportation providers in these areas. The programs also provide sufficient funding with which to maintain and build good public transportation services. The Urban Mass Transportation Administration (UMTA) will probably administer the program through the states to take advantage of their experience in handling small urban and rural transit assistance.

Prospects for approval appear mixed, however. Oregon's experience indicates that such help is neces-

sary to ensure continuity of public transportation services.

## INSURANCE

### Experience

Insurance is the most widespread problem that bus operators face in Oregon today. In many cases, intercity, small-city, and rural operators have nearly eliminated services because of the lack of insurance or because of its high price. Hamman Stage Lines, a Salem-based intercity carrier providing services to numerous small communities, had an increase from \$19 000 to \$56 000 for liability coverage over a 1-year period. A rural demonstration project faced service termination because an insurance company refused to renew a policy. In Woodburn, a one-bus funding experiment was almost dropped a week before startup because the agent did not find a company to provide insurance coverage. In short, if carriers can be found at all for coverage, their policies continue to double and triple in price.

### State Action

The Public Transit Division became the focal point for solving the statewide insurance problem because it administers UMTA's section 16b2 capital grant program for elderly and handicapped transportation. Ours is the agency normally contacted first when insurance expires or costs increase. The Office of Elderly Affairs of the Department of Human Resources became involved because it often provides operating assistance funds to run the buses.

### Oregon Special Services Association

As the insurance problems increased, the Transit and Elderly Affairs' agencies and the insurance commissioner's office collectively tried to solve them. Following a meeting of operators and agencies, a committee was formed to explore possible solutions. This evolved into the Oregon Special Services Association (OSSA) and became an operators' membership organization. OSSA emphasized a strong safety program enforced through self-policing and established a uniform set of policies regarding driver selection and vehicle maintenance. Membership was contingent upon compliance with the established policies. It eventually became a large enough program to warrant the retention of an agent of record, or broker. OSSA then established marketing and loss review subcommittees; it compiled a Membership Standards Manual consisting of required standards, recommended standards, and procedures.

OSSA was instrumental in obtaining an insurance company to provide vehicle insurance within certain liability limits. To date, OSSA has helped find insurance for one of Oregon's rural highway public transportation demonstration projects.

### National Effort

Experience with OSSA in Oregon is encouraging but limited. From the literature on rural transit, it appears that a broader national effort to attack insurance problems is necessary. A task force, study team, or commission needs to devote considerable attention to the growing issue.

## REGULATION

Regulation of intercity public transportation has become a very complex business. By use of an intricate body of laws, administrative procedures, and precedents, the Oregon Public Utility Commissioner has granted a series of franchises to carriers to provide passenger and freight transportation services. The small nonprofit organizations providing passenger services are struck by the complexity of the regulatory process; however, certain procedures have evolved in recent years to integrate the services provided by the small operators with large-scale rural and intercity programs.

### Public Agency Exemptions

Cities are exempt from state regulation concerning passenger transportation within city boundaries and within a 4.8-km (3-mile) limit of those boundaries. At the request of the Public Transit Division, the legislature has also exempted transportation districts from state regulations. Transportation districts can be formed in any Oregon county by a vote of the people within the proposed district. We have one operating transportation district in Oregon, located in the Medford-Ashland area.

### Nonprofit Corporation Exemptions

In 1973-1975, the legislature amended the regulatory process to allow the Public Transit Division to make exemptions from regulations and weight-kilometer taxes for nonprofit corporations that are providing transportation for their clientele with either regular buses, school buses, or vans. Basically, exemptions are allowed as long as the services provided by the organization do not compete with either a regular intercity carrier or services provided by transit or transportation district. Three of Oregon's rural highway public transportation demonstration projects and one elderly nonprofit corporation provide transportation under state regulatory exemptions.

### Contract Services

In 1977 the Oregon legislature provided the Oregon Department of Transportation with authority to contract for improved intercity bus services, thus identifying the respective roles of the public utility commissioner and the transportation department when services are offered. Intercity bus companies can now contract with the state to provide experimental services without requiring carriers to provide the services when the contracts expire. The law also allows the state to receive and disburse federal funds in the event federal operating or capital assistance becomes available.

## CONCLUSION

Funding, insurance, and regulation are all essential considerations in providing rural public transportation. The problems of funding intercity, small-city, and rural public transportation can be partially solved by congressional approval of any one of the different operating assistance programs now under consideration. Fortunately, there are agencies of the federal government that have had experience in providing operating and capital assistance to transit operators. This could be rather easily extended to meet the needs of the smaller operators and intercity carriers.

Our experience indicates that insurance problems are

increasing. Establishment of OSSA in Oregon appears to be a partial answer; however, on a broader national scale, there appears to be a need for a study committee, task force, or national organization to suggest insurance alternatives.

We have only begun to alter the regulatory process

to organize different transportation services into a working system. Because of the nature of the laws, rules, and precedents, it will probably take a number of years to revise the regulatory process so that it works for the system's many users.

*Abridgment*

## Joint Funding and Depreciation

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In developing materials for encouraging more effective use of transportation resources through coordination and cooperative agreements, the Institute of Public Administration (IPA) regularly encounters the problem of depreciation and the use of depreciation accounts involving public investments. Most disagreement is based on the contention that depreciation is not allowed when public monies are used for capital purchases. The counter argument is that depreciation should be permitted under coordinated systems because (a) it permits projects to recover that portion of their vehicle that is used by other than their own clients and probably at a more accelerated rate than would otherwise be true, and (b) it will provide for continuity of funding for vehicle replacement (although, as will be seen, that is only true if there are cash reserves set aside and it does not provide for operating-fund continuity). These questions and the resulting debate have been observed as obstacles to successful coordination of several transportation projects.

It is worth noting that, although much of the discussion about depreciation relates to vehicles, the concept applies to all capital investments. Depreciation is one of several financial costs that cover the expenses of debt costs, including interest on loans, bonds, and notes. In the traditional classification of depreciation accounts, one may include—as far as transportation systems are concerned—the vehicles owned by the system (and depreciated in a legally prescribed manner or as set forth in governing legislation or regulations on an annual basis); the buildings owned and used by the transportation system in the operation of its service; support equipment, such as nonrevenue vehicles and office machinery and equipment; and other items such as shelters, wheelchair lifts, and any special equipment necessary to routine operations (radios and other communication devices).

### CONCEPT OF DEPRECIATION

Depreciation is the value of a capital resource, such as a transportation vehicle or other equipment, that declines over time as a result of use and age. Because it is recognized that depreciation is a very real business cost, most accounting systems include a method that systematically allocates this cost to the accounting period during which benefits from the services of the capital equipment are realized. [This section is based on an article written by Lemond and Knautz (1).]

Depreciation is typically used by private enterprise as the basis for taking into account two major factors:

(a) the capital replacement cost of plant and equipment as a cost of operation (e.g., vehicles and other related equipment) and (b) conversion of this capital cost (i.e., depreciation) into an annualized expense that reduces income and in turn lowers the amount of taxable income. Thus, for the private profit-oriented firm, depreciation serves as a means of converting the cost of a plant or other asset to an expense item and reflects the fact that these physical (capital) investments have a limited life span and must eventually be replaced. Using depreciation accounts for this purpose, the accounting formats for depreciation allocate the cost of the asset over a period of years during which it is used and reflect the rate at which physical deterioration of an asset, and thereby its loss of market value, is expected to occur. Private businesses often depreciate equipment at accelerated rates in early years of ownership; this action assumes that material value declines faster for new equipment than for older objects. This practice of accelerated depreciation qualifies private business for larger income tax deductions on the high cost of depreciation in early years of ownership.

In the case of publicly owned transit systems of public or nonprofit agency sponsored projects, the requirement for accounting for depreciation takes on a somewhat different format and the previous description loses some of its relevance. This is particularly true when fares are not changed to recover the cost of operation. In this situation, depreciation only serves to identify unrecovered costs, and income tax considerations are not relevant because in most cases these are untaxed operating units. Private nonprofit enterprises (e.g., special transportation projects for the elderly and handicapped) or government transportation projects that do not pay taxes often depreciate capital equipment—if they are permitted—at a constant annual rate with a small residual value for scrap material or trade-in value at the end of the anticipated useful life of equipment. This practice of straight-line depreciation is easy to calculate and simple to estimate based on the acquisition cost of the object and its projected useful life. In general, most projects prepare a list of all their capital equipment by category. This list includes not only the number of pieces of such equipment but generally identifies the life span of each type of equipment in order to determine the basis on which these costs can be spread over a period of time. In this process of spreading cost over a specified life span, the basis is provided for translating a capital cost into a direct operating cost on an annual and even on a day-to-day basis. In developing estimates for