

objectives for decentralizing and deconcentrating services and jobs.

The planning and design of Metro was conducted within rather narrow confines. Designers overly simplified a problem and proposed a conventional static solution for a dynamic urban environment. The eventual approval of Metro was politically motivated, based on infatuation with expensive, modern technology. In short, Metro, which has a multibillion-dollar price tag, is a difficult project to justify.

The experience in Caracas is not unique. Similar scenarios are unfolding around the world. Cities are confronted with unprecedented urban growth and traffic congestion they are not prepared for and are unable to handle. It has become increasingly clear that the solution to strangling traffic jams is not more highways. The costs are just too great. City officials, in desperation, have grasped at the promises of rail transit technology. This sense of desperation, however, often results in inadequate assessment of other alternatives.

Strategies for expanding transportation opportunities and efficiencies have suffered from lack of imagination, expertise, and political will. In Caracas, as elsewhere, low-cost strategies (including parking and vehicle restraints) and increased governmental intervention in public transport, face opposition from labor unions, merchants, and transit

operators and owners. Moderate-cost strategies, including special lanes and roads for buses and trucks, have not gained widespread acceptance. And so Caracas, just as other cities are inclined to do, adopted the Metro option, almost to the exclusion of alternate strategies.

Other cities can learn from Caracas. Critical comparative analysis of costs and benefits of rail transit systems and less costly and possibly more effective alternate projects should lead to improved transit service rather than improved transit monuments.

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Abridgment

Implementation of a New Transit Funding Procedure in Minnesota

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The Minnesota Department of Transportation (MnDOT) is responsible for administering state and federal transit and paratransit grant programs that provide operating and capital assistance to more than 60 public and private agencies. The amount of state subsidy has increased from \$20 million in state FY 1978 to about \$32 million for FY 1981. The tremendous growth in the state subsidy has forced a revision in the subsidy-allocation policy. MnDOT has previously covered two-thirds of the operating deficit for each transit system. This discretionary deficit-based procedure implied no upper limit for the state subsidy as system deficits skyrocketed. A new procedure for subsidy allocation is proposed so that maximum levels of state participation will be established for systems grouped by the service area population. These maximum levels, expressed as a percentage of total operating cost, vary according to the size of the service area. The actual deficit incurred up to the policy maximum level will be subsidized in most cases with federal, state, and local dollars at the rate of 3:2:1. Beyond this level, unmatched local dollars are required to cover any additional deficit. The maximums imply a reasonable level of fare-box revenue that all systems must attain either through the fare box or local levy.

Minnesota has provided funds for the operation of public transportation services since 1974. In July 1977, the Minnesota Department of Transportation (MnDOT) began administration of the transit and paratransit grant programs. Since that time, the amount of state subsidy has increased from \$20 million/year to a projected expenditure of about \$32 million in state FY 1981. During this same period, the number of projects that receive state assistance has grown from 20 to more than 60. MnDOT is responsible for administration of 10 state-funded grant programs, including a capital equipment program and

a statewide rideshare program. Programs funded by Sections 18 and 16(b)2 of the Urban Mass Transportation Act of 1964, as amended, are also administered by MnDOT.

The rapid expansion of public transportation services and the failure of user fees to keep pace with increasing operating costs have led to an increasing dependence on state subsidies. In recent years in Minnesota, local budget overruns (caused in part by rapidly escalating labor and fuel costs) have been covered by MnDOT so that service cuts have been avoided. This practice has promoted the image of a never-ending supply of state subsidy dollars, so grant recipients are not forced to manage budgets. The prospect of tight public money in the near future is forcing MnDOT to confront the subsidy-allocation problem.

This paper identifies the existing subsidy-allocation procedures employed by MnDOT's Office of Transit Administration (OTA) and a proposed alternative for the future. The Minnesota legislature, which establishes program funding levels every two years, will address the transit subsidy issue in the 1981 session. This new procedure will be presented at that time for consideration.

EXISTING CONDITIONS

Public and private organizations are eligible to re-

ceive public transportation assistance from MnDOT. In general, the state can cover up to two-thirds of the operating deficit of a transit system, and the remainder is matched by the grant recipient. There are no state requirements for fare levels or service performance. Most of the grants are discretionary; OTA distributes the funds to applicants who successfully meet the application criteria as defined by the agency rules.

Several exceptions exist to the above-mentioned procedure within the Minneapolis-St. Paul metropolitan area. The Twin Cities Metropolitan Transit Commission (MTC) receives its funding for line-haul service based on the number of passengers carried, and a special appropriation is made for the provision of accessible services for the handicapped. Two private transit operators in the Twin Cities receive state funds for up to 65 percent of the total operating cost; the difference is covered by the fare box.

The mechanism used by MnDOT to provide operating assistance is a one-year contract that specifies the state subsidy amount, the payment schedule, the local share, and the project management plan. Applications for transit and paratransit services are accepted throughout the year in order to avoid overloading of the small administrative staff. Such a practice presented no problem when the supply of state dollars exceeded the demand; but as the demand grew, management of the legislated appropriations became increasingly more difficult. This is evidenced by the recent appearance by OTA at the state legislature to request additional subsidy dollars for FY 1980/81.

As the number of grant recipients increased, it became more difficult to budget for future expenditures. Staggered state contract dates that had one-year terms began to overlap state fiscal periods. Because of this, it was nearly impossible to get an accurate accounting of fiscal balances.

The discretionary nature of the programs has also yielded problems because grant applicants are free to challenge the equity of the funding-allocation decisions made by OTA grant administrators. To date, few objections have been raised, but the potential grows as the demand for state dollars increases. Similar charges could be issued by unsuccessful applicants for Sections 18 and 16(b)2 funds, because these programs are essentially discretionary.

New applications for service have recently been rejected due to the lack of adequate state funds; this has increased the pressure on OTA staff to generate cost savings in existing systems. Such savings are supposedly derived through increased operating efficiencies, and this would allow for new system development. In theory this might work, but such savings are difficult to identify when no performance standards are in place. Even with a standardized reporting requirement in place, such standards have been dismissed by OTA staff as the range of services (1100 buses in urban areas to 1 bus in rural areas) preclude reasonableness. Thus, without additional subsidy dollars from the state legislature or a significant increase in administrative staff to attest to operating efficiencies, the funding of new systems would be increasingly more difficult.

The original legislative action provided a tremendous amount of flexibility for the development of transit and paratransit services within the state, but a significant number of procedural problems exist that require immediate attention:

1. State transit dollars are not being allocated as equitably as possible throughout the state as perceived by grant recipients,

2. The pure deficit funding procedures that exist provide little incentive for budget control at the local level,

3. Budget overruns create reactionary transit fund requests as in the past legislative session, and

4. Current procedures require more state bureaucratic control and involvement, when control and responsibility should lie with the local system management.

NEW SUBSIDY-ALLOCATION PROCEDURE

OTA and the Urban Institute of Washington, D.C., have developed a new procedure for the allocation of state subsidy dollars that will alleviate the shortcomings of the previous procedures. With this new procedure, OTA will spend more time in providing technical assistance to systems in an effort to develop efficient services and the grant recipients will take more responsibility for system management.

The first element of the new procedure was to consolidate all of the existing operating grant programs into a single transit fund. OTA believes that it is not necessary to delineate transit or paratransit services as a precondition of funding. That is, the merging of these funds will afford a local community the opportunity to develop the type of service it needs. OTA will then act as the facilitator by providing matching financial support and technical assistance.

All systems are categorized by their service area population. The large-urbanized category will contain systems that have population in the service area of 100 000 and above. The small-urbanized category is for systems in the 50 000 to 100 000 range; the small-urban category is 2500 to 50 000; and the rural category is for areas that have less than 2500 population. In addition, two unique categories are created temporarily for intercity services and elderly and handicapped services.

Elderly and handicapped services will be funded separately only in the urbanized-area classes. These systems need not exist in the other categories because MnDOT is striving to develop accessible services. Thus, a grant recipient in the small-urban category will not be able to request a special elderly and handicapped system to be funded under different circumstances. Instead, the general public system would be required to be accessible or a special service would have to be provided under the terms in effect for that size category. The need for a separate category for elderly and handicapped services for the urbanized classes can be justified by the expense of providing transitional service to facilitate the requirements of Section 504 of the Rehabilitation Act of 1973. This category will not be required when full accessibility is reached in the line-haul systems.

After the categories were determined, a subsidy limit was established for each category. This level, which is expressed as a percentage of the total operating cost, identifies the maximum point up to which the state will participate in a subsidy dollar matching program. The subsidy limits are 55 percent for large-urbanized systems, 75 percent for small-urbanized and small-urban systems, 85 percent for rural systems, 90 percent for elderly and handicapped systems, and 65 percent for intercity services. Each subsidy limit was determined by reviewing the calendar year 1980 average subsidy requirements. Thus, the 55 percent limit for the large-urbanized systems implies that 45 percent of the total operating cost is covered by fare-box receipts.

The subsidy limit does not represent the amount of the state grant. Instead, this represents the

point up to which the state will participate with the local governments in a matching program at the rate of 2:1, after available federal funds have been used. Any actual deficit that remains above the subsidy limit must be covered entirely with unmatched local dollars. This could arise if the implied level of fare-box revenue is not achieved. Any systems that currently receive state funds in excess of that allowed under the subsidy limit procedure will be forced to bring the deficits into line. Systems currently below the subsidy limits are encouraged to stay at that level so that the amount of local match is minimized. At the same time, these systems are assured that state matching dollars are available up to the subsidy limit should they wish to expand services.

This procedure requires that all system budgets be submitted concurrently to MnDOT. After review by MnDOT, the approved preliminary budgets are summed to yield the total state subsidy required. If this total is within the legislated appropriation, system budgets are approved for funding. If the total state subsidy required exceeds the state appropriation, additional funds can be secured from the legislature or the subsidy limits will be revised downward until the required state subsidy matches the appropriation.

In this way, new systems will be accepted into the state system and receive an equal share of the funds. New systems could mean less state subsidy for some existing systems unless additional funds are committed by the legislature. But as the amount of state subsidy decreases and the local share increases, areas will be forced to become more efficient in order to minimize the local share. Some areas that are not strongly committed to public transportation services might abandon services, but such drastic decisions will rarely be made. In order for new systems to be competitive, extensive preoperational planning should be completed. This could be funded from existing planning funds at the state and federal levels. This should increase the chances for success and will exhibit to MnDOT a strong local commitment.

Some significant benefits that can be derived by adopting this new procedure follow.

MnDOT will be able to

1. Administer public transportation program funds with explicit policy direction from the legislature,
2. Treat all similar recipients equally,
3. Improve state budget programming and planning because information on all systems will be available at the same time, and
4. Concentrate on improving specific system's performance and on implementing service and management innovations.

The legislature will gain the following:

1. Assurance that all recipient funding is determined fairly and in a manner that provides incentives for local efficiency;
2. Direct policy control over subsidy levels;
3. Influence over the systems' fare levels, but recipients will set fares; and
4. Consideration of longer-term overall direction and general funding level of state program.

Recipients will

1. Establish their own service and fare objective,
2. Be assured that similar recipients will be

considered and funded on an equal basis,

3. Be encouraged to improve their planning and budgeting process,
4. Be encouraged to operate efficiently,
5. Obtain funds to implement innovative service and management improvements, and
6. Receive the state funds at the beginning of the operating year.

IMPLEMENTATION STEPS

It is proposed that only local units of government or transit authorities will contract directly with MnDOT. This guarantees a local match for services including special elderly and handicapped projects and intercity services. In metropolitan areas where a multitude of services might exist, one agency will be designated as the grant recipient. This agency will then be responsible for the distribution of state subsidy dollars, federal dollars, and taxing authority revenue to eligible systems. In this way, overlapping, competing, and inefficient services will be phased out.

The proposal will require additional local dollars at some point in time if the deficit incurred exceeds the subsidy limit. To avoid serious problems with the existing grant recipients, a hold-harmless period is proposed. This will hold the level of state funding constant for a period of time until the local governments are prepared to assume more responsibility for their service.

A basic requirement for MnDOT will be to help local government sponsors and system managers improve their planning and budgeting processes. System managers and decision makers will have to plan and operate their systems to meet their community objectives while living with a yearly fixed state contribution. MnDOT will need to establish useful, standard budget-building procedures and an administrative manual to help local managers plan, budget, market, operate, and evaluate their services.

A performance incentive program would also be available to help local public transportation managers improve their service effectiveness. All eligible recipients could apply for this discretionary program and MnDOT could fund up to 90 percent of the costs of worthwhile experiments. Recipients would be able to implement innovative management and performance improvement approaches as well as to test new service or fare changes. The program would be aimed at encouraging innovations that, if successful, could be funded permanently and transferred to other parts of the state.

SUMMARY

This new funding program will require each recipient's planning and programming processes to consider a longer time horizon than the next year or two. To properly plan for vehicle replacement and major service or fare changes, each recipient should establish objectives and cost and revenue projections for up to a five-year period. Each year a recipient should assess the benefits of the service relative to the costs and determine whether there are more cost-effective ways to obtain the benefits. Although MnDOT can provide technical and financial assistance to help recipients develop more cost-effective services, only local decision makers can assess whether the services are worth the required local funding commitment.