WHAT WAS LEARNED

A number of lessons were learned from both experiences with citizen participation in transportation-financing referenda:

1. Today it appears to Dade County as well as throughout the nation that it is much easier to mobilize citizen support for mass transit issues than for highway issues.

2. Local governments must aggressively seek, keep informed, and maintain open lines of communication with people in diverse vocations so they may turn to them in times that require community support for transportation funding. This can be done through the establishment of ongoing transportation committees. Dade County established several special-purpose committees, which included the citizen involvement program for MUATS, the Transit Preliminary Engineering Program, a citizens' transportation committee to oversee the schedule and budget for the transit construction program, and a committee for the elderly and the handicapped. Local governments can use their constituents as a strong base of support for the policies adopted when the process includes citizen participation.

3. Each community in the county has numerous service and social organizations such as the League of Women Voters, Rotary Club, and Kiwanis Club. These groups must be kept informed of progress being made on transportation projects in their communities. Such groups can generate an enormous amount of influence and resources in the community either in favor of or opposed to financing for transportation projects. For this reason, a great deal of attention should be taken to keep them involved in the planning and implementation of major transportation projects.

4. Grass-roots efforts can be very effective in single-issue campaigns. Citizens can have a tremendous impact on the outcome of referenda sponsored by local governments. The public must perceive that funding for transportation programs is supported by a broad cross section of the community. Clearly, it is not enough to have elected local officials and public employees alone persuade the public that they should tax themselves for transportation improvements. Leading civic spokespersons, chambers of commerce, labor and minority leaders, and others must participate in efforts to secure favorable passage of transportation funding.

5. Perhaps one of the most important roles citizens have in getting transportation-funding measures passed is their ability to relate to their neighborhoods. No one is better equipped to assist in identifying what is needed to get issues across to the people than the people themselves. In both Dade County referenda, citizen volunteers were very effective at getting their neighborhood associations and neighbors out to vote.

A balanced campaign strategy is needed for passage of major transportation programs. A strong political base must be present, a professional political advisor and fund raiser are essential, and a strong grass-roots citizens' effort must augment these efforts. Citizens will continue to play a larger role in campaign efforts as it becomes more and more difficult to get the public's endorsement of new tax proposals for any government-sponsored project. The credibility citizens add to organized campaigns cannot be denied. We only need to look at the grass-roots nationwide thrust of the Proposition-13 movement to know that citizens can profoundly affect the outcome of important tax proposals.

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Partnership in Funding Public Transit: Seattle Metro

TRACY E. DUKER

The Seattle Metro transit system is financed by an interesting combination of partners that includes the transit rider, the service-area resident, and the state. Although the transit rider contributes via the fares paid, the contribution from the other two partners is made available to the transit system by way of taxes levied by the transit agency. Both taxes—the retail sales tax and the motor vehicle excise tax—are available on an ongoing basis without being subject to any state or local jurisdictional appropriation process. Yields from these taxes are driven by the local economy and are anticipated to rise at least with inflation. This combination of local revenues is available to support both the operating and the capital needs of the system. This partnership in transit funding has proved to have been a very successful means of improving transit over the last decade. The combination of funding sources has provided both sufficient resources and sufficient flexibility to enable Seattle Metro to build a better-than-promised transit system. The reasons advanced a decade ago for the involvement of all three partners have become even more compelling. For this reason the Transit 1990 plan of Seattle Metro challenges each partner to provide the increased resources necessary to enable the system to continue to respond to the demand for transit service.
This paper presents one of the more unique and successful structures for funding mass transit at the local level. The funding structure that now supports the public transit function of the municipality of metropolitan Seattle, Metro, is the result of work done by citizens and community leaders as far back as the late 1950s and has been implemented since 1972. This paper will review the history of this structure, its performance over the last decade, and the direction foreseen for the decade of the 1980s.

The Seattle Metro transit system has outpaced other all-bus systems in the nation in terms of ridership growth since its inception in 1973. Ridership has grown from 29.4 million in 1973 to more than 60 million in 1980. This success can be attributed in part to changing environmental conditions, the energy crisis, and inflation and in part to farsighted decision making on the part of the elected officials who govern Metro and systematically implemented a plan for equipment acquisition and service expansion over the last decade. However, this success must also be attributed in large part to the existence of a sound financial base that provided the resources to finance both the operating and the capital programs of the Seattle Metro transit system.

The critical feature of Seattle Metro's financial structure is the concept of partnership—the sharing of costs and benefits from a viable public transit system. The Seattle Metro partnership in transit involves the customer, the local service-area resident, and the state as a whole. In concert each of these partners contributes revenues that combine to provide for the cost of both operating expense and the local share of the capital program. The system is also dependent on the federal and state governments, primarily for construction grants, which have also been critical to the successful implementation of Seattle's transit program.

The movement to create a viable mass transit system on a regionwide scale dates back to the late 1950s when an effort was undertaken to create a regional form of government—called metropolitan municipal corporation—whose function was to perform regional public services that would be difficult for local governments alone to provide.

The law enacted that authorized such entities to carry out six such functions: water-pollution abatement, public transportation, comprehensive planning, water supply, garbage disposal, and provision of parks and parkways. In 1958, a measure to establish a Metro that would have responsibilities for transportation, comprehensive planning, and water-pollution control in the Seattle-King County area was placed on the ballot. This measure did not receive the necessary level of voter approval, although a second ballot measure in the same year that proposed only the water-pollution control function did pass, which resulted in the successful launching of a program of regional sewage treatment.

In 1968 and 1970, bond issues that would have financed a regional bus-rail rapid transit system from the property tax failed to receive the required level of voter approval. (Property-tax increases require a favorable vote of 60 percent; the total number of persons that vote must equal at least one-third of the total number that voted in the last preceding general election.) Meanwhile, in 1969 and 1971, the Washington State Legislature passed the bills that provided for the transit-funding mechanisms to be described in this paper. The 1972 King County voters authorized Metro to perform the public transportation function by taking advantage of the broader funding base made possible by the state legislature. With this 1972 vote, the federation of local governments that had been created to undertake the required financing and capital programs of the regional rapid transit system expanded its umbrella to provide the same resources for the cause of regional public transit.

**FINANCIAL SUPPORT BY RIDERS**

Farebox revenue was one of the three main sources of support upon which the Seattle Metro system was envisioned to rely for financing. State law (Revised Code of Washington, 25.58.240) expressly grants to metropolitan municipal corporations the power to "fix rates, tools, fares and charges" for the use of the transit system, thus giving the entity itself the authority to generate whatever portion of its total revenues from fares that it desires. The Metro council reduced fares in 1973, which reversed a trend of increasing fares and declining ridership; however, subsequent to this and as the system developed, fares were increased in 1976, 1979, and 1980 so that they would represent approximately one-third of total revenue.

The changing environmental and economic circumstances of the last decade have confused all prior theories regarding transit elasticity or the rider's responsiveness to transit pricing. However, the general direction of these changing circumstances has been toward making transit an ever-more-desirable choice. In this context, the feasibility that fares may eventually displace the need for tax subsidies is of some interest.

Even in the face of an apparently inelastic demand, i.e., ridership that will be maintained even with higher prices, the reality of public decision making indicates that fares will most likely continue to be a central but not the single source of transit financing in the future. The reluctance of local officials to raise fares to levels sufficient to fully finance the system relates to the fact that a core of transit ridership is transit-dependent by virtue of having a low income. Although a majority of the new ridership comes from the middle- to upper-income wage earners, the transit-dependent segment of the market continues to ride, which represents 24.1 percent of the Seattle Metro's system ridership.

Moreover, decisions to increase the fare are never made without extensive (at times exhausting) discussions of other dimensions of equity: the relationship of price and distance, price and ability to pay, price and jurisdiction of origin, etc. Washington state law explicitly speaks to an equity principle in the statute that grants the power to set fares (Revised Code of Washington, 35.58.240), which reads:

Provided, that classes of service and fares will be maintained in the several parts of the metropolitan area at such levels as will provide, insofar as reasonably practicable, that the portion of any annual transit operating deficit of the metropolitan municipal corporation attributable to the operation of all routes, taken as a whole, which are located within the central city is approximately in proportion to the portion of total tax revenue collected in behalf of the metropolitan municipal corporation for transit purposes within the central city and that the portion of such annual transit operating deficit attributable to the operation of all routes, taken as a whole, which are located outside the central city, is approximately in proportion to the portion of such taxes collected outside the central city.
This proviso mandates that there be a relationship between where the tax subsidy comes from (city versus county) and where it goes. Where the subsidy goes, i.e., where the general fund deficit is located, is a function of both transit service distribution and farebox recovery in the respective areas of central city and noncentral city. The effect of this proviso has been pressure to not increase fares for long-haul trips that originate in suburban areas; transit tax was the result of broad-based support for incorporating more of the total transit taxes than the central city does. Although this proviso has not caused any totally illogical fare policies, it adds yet another dimension of equity to an already difficult and complex issue.

The long-range projection for fares in the Seattle Metro system is that they will continue to rise over the decade of the 1980s at least to keep up with inflation. This will undoubtedly demand some creative solution to the problems of equity mentioned above. With such upward movement, however, the system will continue to rely on its customer for approximately 70 percent of its total revenue; that is, the customer will continue to be a significant contributor to the transit partnership.

FINANCIAL SUPPORT BY SERVICE-AREA RESIDENTS

The second source of support, another major partner in transit, is the group of local service-area residents, a majority of whom voted in 1972 to tax themselves for transit by means of a retail sales tax of three-tenths of 1 percent on all transactions in Seattle-King County subject to the state sales tax. Sales of food and drugs were subsequently eliminated as taxable transactions pursuant to state initiative. The state legislature provided the authority for entities within certain counties to levy this transit tax (Revised Code of Washington, 82.14.045). This tax was originally authorized up to three-tenths of 1 percent in 1971 and was expanded in the 1980 legislative session to six-tenths. The extent of the levy is determined by the local governing body subject to a one-time approval by a majority of the voters in the affected area. The willingness of the state legislature to allow this tax was the result of a broad-based citizen effort mounted in the late 1960s. This citizen effort initially developed plans for a major bus and rail rapid transit system as well as for a comprehensive package of local capital improvements that included urban arterial construction. The thrust of this plan for capital improvements was, among other things, to achieve a balanced transportation infrastructure. To this end, this citizens' group also supported an increase in the state-wide gasoline tax to provide local jurisdictions and the state with funding for urban arterial improvements.

As mentioned briefly above, voters turned down the bond issue for the bus-rail rapid transit system in 1968, although they did approve the $333.9 million companion package of other capital improvements called "Forward Thrust." With the support of this same citizens' group, the state legislature increased the gasoline tax by 1 cent, which provided a major source of revenue for urban arterials. With the second defeat of the bus-rail rapid transit system proposition in 1970, the citizens' group scaled down the transit system plan to an all-bus system and proposed the combination of funding sources discussed here (the customer, the service-area resident, and the state). Favorable response from the legislature to this proposal was in large part a result of the decision by those with highway interests not to oppose the transit legislation—a reward exchanged for prior transit activist support for their successful efforts to increase highway funding. The concept of a local-option sales tax has shown significant strength as a transit tax. With farebox revenue, the governing body has the authority to levy this tax on an ongoing basis once it is sanctioned by a majority of the voters. These funds are not then subject to appropriation by any other jurisdiction, which provides a significant advantage in terms of stability. Although this tax is not directly transit-related, the rationale for its adoption has been that all service-area residents benefit from the availability of a viable transit system. Riders and nonriders benefit from reduced congestion, economic development, air-quality improvements, and energy conservation. These benefit criteria were those that passed in the early 1970s, and they have become even more compelling in the decade of the 1980s. One argument against such a source of income for transit was the regressive impact on the population. Although this was true when the tax was initially proposed, changes in state law that removed the sales tax from food and drugs in Washington State have changed the sales tax from a regressive one to a tax that is almost equivalent to an income tax.

The advantage of the sales tax as a transit-funding mechanism has stemmed from the fact that the authority to levy and collect the tax rested with the transit entity—Seattle Metro—and has not been subject to interference by either the state government or any local governments within the Metro federation. Moreover, this source of income is tied to local economic activity and over the decade of the 1970s has provided yields that have increased each year because of inflation plus varying levels of real growth. The real growth in the sales-tax income has been invested in expanded transit service, whereas the increased income from inflation in sales-tax revenue has covered inflationary increases in transit operating expenses. Unfortunately, our expectations for the 1980s are that sales-tax income will more closely approximate increases in personal income, which are expected to be at the level of inflation only. The substantial increases in real growth experienced in 1977 and 1978 are assumed to be only a reflection of the "boom times" economic recovery in the Seattle-King County area in the late 1970s. Nonetheless, the sales tax is a stable and healthy source of transit income.

The long-range plan for the Seattle Metro transit program calls for aggressive expansion of the all-bus system financed by an expansion of the current partnership in transit funding. Accordingly, the 1990 financial plan calls for doubling the sales tax from the current rate of three-tenths of 1 percent to six-tenths of 1 percent. The Washington State Legislature was convinced of the soundness of such a plan and granted metropolitan municipal corporations the authority to seek voter approval of an increase in the sales tax levy up to six-tenths in the 1980 state legislative session. Those governing Seattle Metro elected to exercise this new authority and placed a referendum to increase the sales tax up to six-tenths of 1 percent on the September 1980 primary election ballot. This issue received a favorable vote of only 47 percent; the tax reached only 50 percent of the required majority of 50 percent. However, the issue was resubmitted in the November 1980 general election and passed by a majority of 51 percent. Approval of this increase cemented the second source of transit funding.

FINANCIAL SUPPORT BY STATE

The third partner in transit funding has been the state government, which has contributed to local
transit funding by allowing transit agencies to keep approximately one-half of the taxes collected on the value of motor vehicles registered in the area served by the transit system. The mechanism for this type of transit funding is the motor vehicle excise tax, which is imposed statewide at the rate of 2.2 percent of the fair market value of all registered vehicles. In 1969 the legislature authorized metropolitan municipal corporations to levy for public transportation purposes a motor vehicle excise tax in their respective jurisdictions up to a maximum of 1.0 percent of the fair market value of registered vehicles. The local levy of the motor vehicle excise tax for transit included the fact that it would be a move to enlarge the funding base of transportation needs rather than an attempt to raid the highway fund. Second, proponents demonstrated that the reduction in state general-fund revenue from the motor vehicle excise tax funds for transit occurred at a time when revenue from the motor vehicle fuel tax was considered inadequate to meet even the highway purposes to which it is restricted. Arguments in favor of the local levy of the motor vehicle excise tax for transit included the fact that it would be a move to enlarge the funding base of transportation needs rather than an attempt to raid the highway fund. Second, proponents demonstrated that the reduction in state general-fund revenue from the motor vehicle excise tax would be more than offset by revenue increases from the sales tax on the construction of transit facilities that the motor vehicle excise tax would make possible.

Although it responded favorably to these arguments, the legislature added a matching requirement to the motor vehicle excise tax that required the motor vehicle excise tax to be matched on a dollar-for-dollar basis by locally generated tax revenues other than the excise tax (Revised Code of Washington, 35.58.273). At the time that this provision was enacted in 1969, the only source of local tax revenues available to the metropolitan municipal corporation was the property tax, which required approval by three-fifths (60 percent) of the voters. Seattle-King County voters did not approve this tax increase in 1968 or in 1970. Only after legislative authorization for the local-option sales tax (1971) and voter approval (1972) for local-option sales tax (majority of 50 percent required) was Seattle Metro in a position to take advantage of the motor vehicle excise tax.

The uniqueness of this particular mechanism lies in the fact that it represents a direct contribution by the state government; state revenues are in effect being used, and yet no appropriation process is involved. This unique concept has a long and controversial history; attempts have been made to subject it to the state appropriation process, to limit the amounts actually remitted to transit agencies (which did occur in 1973 and 1974), and to eliminate it entirely. The original legislation that authorized the local tax credit contained an expiration date of July 1, 1981, after which the transit tax was no longer to exist.

The motor vehicle excise tax has survived these various attempts to remove or limit it, the most recent of which occurred in 1979. In the 1979 legislative session, the case for state benefit from a viable transit system was restated; emphasis was on state benefit from improved economic development, state benefit from more-efficient use of the existing highway network, and air-quality and energy-conservation benefits. With regard to energy conservation, state benefit was shown to result from reduced oil consumption in urban areas that have a transit option, which makes the oil supply more plentiful to nonurban parts of the state in which transit is not an option. This struggle in 1979 succeeded in establishing the local motor vehicle excise tax as a transit tax for the future by removing the July 1, 1981, expiration date.

The same legislation that removed the expiration date for the motor vehicle excise tax also added a restriction to this revenue source related to the pledging of such funds as security for bonds. In 1973, Seattle Metro issued $14 million in general- obligation bonds at a reduced local tax levy for transit funding by allowing the three partners to keep all three tax revenues (farebox, sales tax, and motor vehicle excise tax) to bondholders as security. Furthermore, language in the state statute read as follows (Revised Code of Washington, 35.58.279):

If any of the revenue from any such special excise tax shall have been pledged by any municipality to secure the payment of any bonds as herein authorized, then as long as that pledge shall be in effect the legislature shall not withdraw from the municipality the authority to levy and collect the tax.

Realizing that a bondholder's covenant that pledged the motor vehicle excise tax became a law more powerful than their own, the legislature in 1979 prohibited transit agencies from pledging the motor vehicle excise tax for bonding purposes in the future. The motor vehicle excise tax has performed well as a source of transit funding. As noted above, it is available to the transit agency as an independent tax, free from any state or local appropriation process. It has yielded revenues that have grown in recent years above the rate of general inflation, and although it is not anticipated that this level of growth will be maintained in the future, the motor vehicle excise tax is expected to grow at about the level of general inflation. The trend of fewer vehicles per person is expected to be offset by the trend toward increased cost per vehicle. The effect of the constraint with regard to pledging the motor vehicle excise tax is at this point unknown, since no new bonds have been issued; however, it is expected to be reflected in the quality and security of any future transit bonds and therefore in the interest rate to be paid. Thus, the restriction on pledging the motor vehicle excise tax is not expected to destroy the transit agency's ability to borrow but rather to affect the cost of the borrowing.

As with the other two revenue sources discussed here, the motor vehicle excise tax is expected to play a significant role in the next decade's plan for Seattle Metro's transit system. The financial plan calls for an increase from 1.0 percent to 1.5 percent in the local motor vehicle excise tax. The transit share of the motor vehicle excise tax can only increase if the tax is raised from 2.2 percent to 2.7 percent or if the state general-fund revenue portion is reduced from 1.0 percent to 0.5 percent in those areas of the state that support a transit system. Since neither raising taxes nor raiding the state general fund is a popular issue, Seattle Metro may encounter more difficulty in securing this tax increase. If secured, the partnership will be renewed, and the three partners will continue to contribute approximately the same share of total revenue as shown below:

<table>
<thead>
<tr>
<th>Revenue Source</th>
<th>1980 ($)</th>
<th>Proposed 1990 ($)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fares</td>
<td>30</td>
<td>30</td>
</tr>
<tr>
<td>Sales tax</td>
<td>41</td>
<td>49</td>
</tr>
<tr>
<td>Motor vehicle excise tax</td>
<td>29</td>
<td>21</td>
</tr>
</tbody>
</table>
The funding sources described above are those that have provided Seattle Metro's system with the resources to fund operating expense, debt service, and the local share of the capital program over the last decade. This combination of local revenues would not have been sufficient to do the job had not significant levels of federal funding been available for the capital program. Approximately 80 percent of the capital program, or $140 million, was made available from the Urban Mass Transportation Administration to complete the 1980 plan. In addition, the state department of transportation contributed its federal and state funds to the construction of certain park-and-ride lots, high-occupancy-vehicle lanes, and freeway flyer stops. The transit plan for the 1990s likewise envisions a significant infusion of both federal and state capital construction dollars in order to complete the capital improvements planned for the coming decade.

Only with this funding partnership—the customer, the local resident, and the state—can the agency finance a system that no one partner alone can fund. This funding partnership has allowed Metro to respond to ridership demands in the Seattle area and even to build a better-than-promised transit system.

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