to be out-of-state vehicles, whose registration-fee revenue could not be accounted for.

CONCLUSION

The study results showed that the forecast revenues collected from each class of vehicles are greater than the expected maintenance expenditures on the Virginia Interstate highway system. They also indicated that there is a cross-subsidy among the routes in the state (i.e., heavily traveled routes generate more revenue than lightly traveled routes).

In general, heavy trucks (class 4) using the Interstate highway system in Virginia contribute more revenue than other classes of vehicles. And among all classes, the revenue-to-expenditure ratios are significantly different, which suggests a cross-subsidy even between the classes of vehicles.

With the present tax structure (fuel-tax rate and registration fees), the revenues collected from the use of the state highways in Virginia are likely insufficient to pay for the maintenance expenses, much less for the construction of new highways in the next 10 years. An increase in highway user charges seems necessary in the near future to cope with the increasing maintenance cost. Manifestation of this need is the fact that the Interstate highways have had the highest revenue-to-maintenance-expenditure ratio and this ratio seems to decline rapidly in the next 10 years.

ACKNOWLEDGMENT

We wish to thank J.L. McCoy, Assistant Commissioner of the Virginia Division of Motor Vehicles, for his support and cooperation and the staff of the Virginia Department of Highways and Transportation for their assistance in data collection.

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Publication of this paper sponsored by Committee on Application of Economic Analysis to Transportation Problems.

Transit Financing and the Cities: The Record and the Views of the Nation's Mayors

LINDA GORTMAKER

Because of the concerns expressed by the nation's mayors and other elected officials about the financial conditions of their cities' transit systems, the U.S. Conference of Mayors, in cooperation with the Urban Mass Transportation Administration, conducted a survey in the fall of 1980 on the current local transit-financing situation across the nation. Although many studies have been conducted about individual systems or transit financing in general, none have provided a systematic, comprehensive view of the fiscal problems of the nation's major general-purpose transit systems. Although city governments have delegated the day-to-day operations of most urban transit systems to transit authorities, many transit agencies lack independent financial powers. The public turns to local elected officials to develop ways to raise funds for capital and operations. This study investigated these areas from the mayors' perspective: current support levels for transit; earmarked transit taxes and other financial resources; administrative and intergovernmental relationships; problems with federal, state, and local funding programs; fare policy and pricing; potential new funding options for cities and elected officials' reactions; voter acceptability of funding options; impact of Section 504 regulations; and recommendations from the cities themselves on ways to solve their transit-financing dilemmas. In this survey, 132 cities participated of a possible 139 major cities from urbanized areas that had a population of more than 200 000 plus two dozen smaller cities. Both telephone and mail-back interview techniques were used.

Mayors have long recognized that public transportation is essential to their communities' vitality and economy. As financial resources at all levels grow tighter, mayors face greater challenges in financing the capital and operating costs of their transit systems. This is made even more difficult by the soaring price of gasoline and by other factors, which in many cities have pushed riderships to their highest levels. In the context of these challenges, the U.S. Conference of Mayors, in cooperation with the Urban Mass Transportation Administration of the U.S. Department of Transportation, undertook a comprehensive survey of 139 cities to document the transit-financing performance and outlook for the 1980s of the nation's cities.

The Reagan Administration's new public transportation policy emphasizes the use of federal funds for capital expenditures for transit systems but seeks a solitary local and state role in financing operating expenses after FY 1984.

The federal-state-local partnership has characterized national public transportation policy for 17 years. Since federal operating assistance started in 1974, the federal government has worked hard, primarily with local governments, to develop public transportation financing as a joint effort. Now more than ever, the need is great for continued leadership by local elected officials in planning and implementing new state and local funding sources for transit as strong elements of that partnership. The Conference of Mayors' survey results show vital evidence of that local leadership.

CITIES: SHARING TRANSIT-FINANCING BURDEN

Elimination of the federal operating-assistance program for transit would mean a step backwards in financing policy and in the progress the nation's transit systems have made in recent years. When federal, state, and local governments initiated their fiscal support of public transit systems in the 1960s, these systems had moved from self-supporting private companies to debt-ridden operators confronted by bankruptcy in a declining industry.

Faced with the prospects of losing their transit systems, most cities elected to provide some form of fiscal support. At the federal level, priority was given to replacing capital equipment that had been allowed to wear out; the local governments were to pick up the operating deficits. In the mid-1970s, that federal policy began to provide support toward operating costs, reflecting the growing needs of transit and the federal policy decision that there should be assistance to keep fares from becoming too great a burden on individual passengers, many of whom are elderly and have low income levels.

As the gasoline shortage of the 1970s and skyrocketing prices pumped riders into buses and rail systems, cities around the country initiated programs to further upgrade their transit systems, and, not surprisingly, public transit's share of local government budgets increased, even with considerable federal aid available. Thus, the importance of local fiscal contributions to transit has been increasing steadily, and in recent years local governments have become especially active in establishing local and state taxes for transit support and other financing innovations.

The Conference of Mayors' survey of the mayors of 139 cities included all major cities from urbanized areas that had a population of more than 200 000 and two dozen smaller cities (1). The public turns to mayors and other local elected officials to develop ways to raise funds for capital and operations. The Conference of Mayors' survey found that mayors not only take this responsibility seriously but have made great strides in recent years in the area of transit financing. According to the survey, the following facts were observed:

1. Despite the fact that in almost 80 percent of the cities the transit agency is not a formal part of city government, 62 percent of the cities currently contribute some local funds to transit;
2. Almost half the cities responding reported that they have state or local tax sources earmarked specifically for transit capital and/or operating funds, and 21 more said they are planning to establish such a tax within the next two years;
3. Of the cities responding, 66 percent (two-thirds) reported fare increases during the first nine months of 1980; between 1979 and the first nine months of 1980, 80 percent of the systems reported they had a fare increase; and
4. When asked to rank in priority 10 local transit-financing issues, mayors gave highest priority to developing new local tax revenues.

In a separate survey taken during April 1981 (2), the Conference talked to mayors' offices in 100 cities to assess the specific impact of the Reagan Administration's proposal to drop public operating assistance after FY 1984. Although the cities in the earlier transit-financing study and the April survey were not precisely the same, almost all large cities participated in both, and the April survey results were overwhelming.

Cities predicted steep fare increases, ridership decreases, and reduced services if the Administration's proposal were adopted for future years. The proposal recommends that public transportation operating assistance, some $1.1 billion in FY 1981, be phased out over FY 1983 and 1984. Cities would receive sharply reduced funds to assist in operation of transit systems during those years and none at all after FY 1984.

Although local governments, as the Conference transit-financing survey shows, already bear the major burden of paying for their systems, dire consequences are predicted if the federal role is eliminated, as summarized below:

Consequence	Cities Responding (%)
Substantial fare increases	46
Moderate fare increases	20
Significant ridership decreases	65
Reduction in services	57

Significantly, the impact of the proposed elimination reflected no geographic or city size boundaries. One major northeastern rail system city saw a 40 percent fare increase over the current level of 65 cents. Another medium-sized city in the Rocky Mountain region foresaw a fare increase to $0.80 or $1.00 over the current level of $0.40. A Great Lakes university town looked for a doubling of fares, and a midwestern industrial city saw similar fare increases.

Significantly, fare increases are no guarantee to cities of an increase in revenues. Indeed, they could have the opposite effect, decreasing revenues by driving people back to their automobiles. The example of one Pacific Northwest city was instructive: a fare increase instituted a year ago resulted in a 10 percent decrease in ridership. One city estimated that a 33 percent fare increase yields a 6 percent ridership decrease.

Public transportation is particularly important to the nation's low-income urban residents; they often have no alternative transportation. Therefore, the impacts of eliminating operating assistance would hit them disproportionately. From a Northern California city came the comment that ridership would probably remain about the same on regular routes because poor residents must use public transit, and they would have to absorb higher fares. The elderly are similarly affected; one city estimated that 70 percent of its elderly population use the public transportation system.

Although cities have been developing their own local resources to pay for transit, the message from this survey seemed clear: A continued federal role in some form of operating-assistance program will be necessary to prevent significant transportation problems in cities.

LOCAL FINANCING AGENDA FOR 1980s

As Congress and the Administration grapple with the future of public transportation programs, cities across the country face the hard, more immediate task of raising revenues--at both state and local levels--to meet rising transit operating deficits. Following is a more detailed summary and brief analysis of what these results mean for mayors and cities as well as a description of the approach used in conducting the survey.

Major areas the Conference covered in its survey include the following:

1. Current support levels for transit;
2. Scope of earmarked transit taxes and other financial resources;
3. Administrative and intergovernmental relationships;
4. Problems with federal, state, and local funding programs;
5. Fare policy and pricing;
6. Potential new funding options for cities and elected officials' reactions;
7. Voter acceptability of funding options;
8. Impact of regulations of Section 504 of the Rehabilitation Act of 1973; and
9. Recommendations from the cities themselves on ways to solve their transit-financing dilemmas.

The strategy adopted was to contact the mayor of each city included in the study directly to obtain views and information on the major general-purpose transit system serving the area. In order to do this, a survey technique was used to elicit factual information on the transit systems and attitudes and views on key issues. Specifically, these steps were followed: (a) Key issue areas were identified; (b) a survey instrument covering key issue areas was designed; (c) the population to be surveyed (i.e., urbanized areas) was identified; (d) the survey instrument was pretested and necessary modifications were made; (e) advance-mail surveys were sent to selected cities with instructions on how to complete the quantitative questions and arrange for telephone interviews covering the attitudinal portion of the survey; (f) the telephone interviews were conducted; (g) review of survey responses was conducted and, where necessary, follow-up telephone calls were made; (h) codings were prepared for computer analysis, including hand-coding for open-ended questions; (i) surveys were processed and computer outputs and tabular presentations developed; and (j) results were analyzed and a final report was prepared.

A total of 139 cities were selected for participation in the survey and 132 agreed to participate; the survey was conducted during August-October 1980. In four of the cities, officials were asked to complete questions for two transit systems; these included San Francisco, Detroit, Newark, and Washington, D.C. This brought the total number of transit systems selected for the survey to 143.

CURRENT SUPPORT LEVELS AND TAXES

In conducting this study, one of the first questions asked of mayors' offices was whether the city contributed to the general-purpose transit system serving their area. Of the 132 cities participating in the study, 82 (62 percent) said they were currently contributing some local funds; of these 82 cities, 67 percent (55 cities) were from urbanized areas that had populations of 500 000 or less.

While governments at all levels are facing increasing constraints on their budgets in general and transit funding in particular, cities already appear to be making steady progress in developing local and state revenue sources as the prospect of a changing federal role for operating subsidies looms ahead. Of 101 cities responding, 46 (46 percent) reported that they had state or local tax sources earmarked specifically for transit capital and/or operating funds. Almost half the 46 cities were from urbanized areas that had populations of 750 000 and more. Fifty-five cities reported they had no earmarked transit taxes in place at the present time, but almost half (21) of 54 cities responding said they were planning to establish such a tax within the next two years.

The cities reporting earmarked taxes were further asked to indicate the type of tax being earmarked. Of the 46 cities reporting earmarked taxes, 22 cities use the sales tax, 8 cities use a gasoline tax, 11 cities use property taxes, and the rest use other forms such as utility, employer, vehicle, and oil-company profits taxes, which suggests considerable variation.

ADMINISTRATIVE AND INTERGOVERNMENTAL ENVIRONMENT

The increasingly fragmented nature of local governments across the country is symbolized in the relationships between general-purpose transit systems and city government. Questions on this relationship were postulated in the survey, and 130 cities responded. Of the 130 cities, 101 (80 percent) said that the transit agency was not part of city government; almost 40 percent of the 101 cities are in urbanized areas that have populations of less than 200 000. In terms of the larger cities, only about 14 percent of those cities where the transit agency was reported to be part of city government were from urbanized areas of 750 000 or more population.

Cities were also asked about their transit system's fiscal and tax powers. Of 100 systems responding, only 25 (one-fourth) possessed independent taxing or other fiscal capacities. Of those 25 systems, 18 identified taxing power; some systems had more than one power. Eleven agencies have taxing power based on property tax; 6, based on sales tax; 1, vehicle tax; 2, income tax; and 2, other forms of tax. In addition, of those 25 cities with financial powers, 7 can issue bonds, 4 can set fares, and 3 possess other miscellaneous powers.

Perhaps even more significant is the fact that at least three-fourths of the cities responding to this survey question indicated that the major general-purpose transit system lacks any power to develop new local revenues. When regional transit authorities are established by law or referendum, the power to levy some type of tax is frequently part of the legislative package, and the coming decade may see more of these arrangements.

FUNDING PROGRAM PROBLEMS: FEDERAL, STATE, AND LOCAL LEVELS

Cities are experiencing severe financing problems with their transit systems despite a variety of federal, state, and local programs designed to help out with both operating and capital expenditures. To determine where present programs might be improved for greater efficiencies and economies, the Conference of Mayors included a section in the survey designed to identify those parts of the transit-financing process with which cities may have had particular problems or where they have faced major bottlenecks in implementing transit-financing plans.

In general, very few problems were noted with state or local transit-funding programs, a reasonably predictable result since participants in surveys are more inclined to be critical of programs away from home. In terms of federal programs, the extent of problems identified varied by program type. Demonstration (Section 6) and planning (Section 8) grants showed fewer problems; more complaints were noted in the capital and formula grant programs, especially in the areas of regulations and program administration. On balance, however, the number of complaints seemed relatively small.

PRESENT FARE POLICIES AND PRICING

A transit system's fare policy provides the means to raise additional revenues. Transit systems can charge different fares for peak periods, weekends, or for special users as a means of increasing revenue and better links to costs. Despite these options, the majority of transit systems reporting in this study use flat fares and show no variations in response to base and peak periods.

Of 112 transit systems responding to this particular question, close to 60 percent use a flat fare (64); two-thirds of these 64 flat-fare systems were from medium-sized or small cities (urbanized areas of 500 000 and less). About one-third (35) of the systems reported a combination of flat and zone fares, and only 10 percent (11) of the systems reported using a zone fare. (Almost three-quarters of the systems with zone fares are from urbanized areas of 750 000 or more.)

In terms of fare variations over time, of 106 systems responding, close to 80 percent show no variation throughout the day, and only 3 percent reported variations between weekdays and weekends or holidays.

An important source of revenue is fare increases, and this study shows that cities seem to be doing their share. Of 106 systems responding, two-thirds reported fare increases in 1980 (covering only the first nine months of the year). Between 1979 and the first nine months of 1980, almost 80 percent of the systems reported that they had had a fare increase:

Most Recent Fare Increase	Cities Responding (%)
1979	13.2
1980 (first nine months)	66.0
Total	79.2

FAREBOX AND OPERATING EXPENSES

Cities were asked to report the relationship between farebox revenues and operating expenses in 1980. Of 90 systems reporting, 30 percent (27 systems) reported a farebox-to-operating-expense ratio in the range of 40-50 percent, and 13 percent (17 systems) were in the range of 50 percent and more.

Developing a fair and equitable policy for setting fares can be a challenge, and some cities have tried to make their fare structures sensitive to certain inflationary factors, such as labor wages, especially in California where this is mandated by law. When cities were asked if they would be willing for their transit systems to tie labor wage increases to the farebox, 71 percent (66 of 93 systems responding) said no.

The study also found that general-purpose transit systems develop estimates of average revenue (fare) per passenger. Of the 113 systems responding to a question on this issue, 88 percent said they prepare average revenue estimates. In response to a question on how they prepared these estimates, 60 of 92 systems (65 percent) said they use a simple equation of total revenue divided by unlinked passenger trips, a method that underestimates average revenue per passenger by ignoring transfers.

In terms of their estimates of average revenue per passenger, for approximately 90 systems responding to the conference study, the median was 26 cents in 1978, 27 cents in 1979, and 31 cents in 1980. This represents an increase of 14 percent from 1979 to 1980 and an average annual rate of about 9 percent since 1978.

TRANSIT PASSES

The use of special employer transit passes to pay for fares has now become an established trend in all city sizes, especially since the long gasoline lines in the summer of 1979 when many transit systems across the country witnessed dramatic surges in ridership. Of 113 systems responding to questions on use of special passes, the Conference's study shows that 81 percent said they use special transit passes, almost half of which are monthly passes. In addition, almost 60 percent of the systems responding use some type of employer ticket purchase program, almost 80 percent of which provide partial or full subsidies to employees.

LOCAL FINANCING CHALLENGE

Cities can choose from a variety of approaches in developing a workable, successful plan to meet their operating deficit. This study examined how transit systems forecast what their operating deficit will be and looked at what minimum share cities are willing to pledge from farebox revenues. In addition, mayors' offices were asked to assess voter reaction to new ways to raise local and state revenues for transit.

Future Needs and Programs

A substantial proportion of the nation's large transit systems are planning means for dealing with their operating deficit problem; a substantial number are even developing five-year planning horizons. Of 90 systems responding to a question on this subject, 70 percent (63) said they prepare projections of their operating deficits. Of these 63 systems, 61 identified the actual period. Of considerable interest is the fact that 44 of the 61 systems (72 percent) covered the period through 1984-1985.

The median of forecasts of the ratio of systems' operating revenues to operating deficits indicates that transit systems expect operating revenues to be a decreased share of support relative to operating deficits.

Farebox Attitudes

Even in the face of anticipated tighter financial conditions, mayors indicated in the survey that farebox revenue should cover a reasonable portion of operating deficits. Of 90 cities responding, almost 95 percent (85 cities) said they felt that there should be a minimum share of operating expenses for which farebox revenues should be responsible. Specifically, cities were asked to indicate what that share should be. For 72 responding cities, the median (minimum) share was about 40 percent.

When the minimum shares cited by the cities were compared with their reported percentage ratio of farebox revenues to operating expense, the medians showed relatively close correspondence--36 and 38 percent, respectively. This suggests that cities feel that their transit systems are very close to the desired minimum, and detailed review of the farebox/expense responses shows that up to a ratio of 40 percent, most (70-80 percent) of the systems responding felt they were above the desired minimum.

Funding Options and Voter Acceptability

This study attempts not only to show what current financial conditions are for the nation's transit systems but also to identify attitudes about what might be realistic, politically feasible alternatives available to decisionmakers at all levels for improving the situation. The mayors participating in the study were asked to indicate what transit funding sources would be most acceptable to their local voters. Of 94 mayors' offices responding, general fund appropriations and fare increases were considered to be most acceptable to voters. The least acceptable were property, payroll, and parking taxes, and a lottery.

TRANSIT-FINANCING AGENDA FOR 1980s

As the cities and other units of government struggle to pay for their transit systems in the coming decade, mayors find that pinpointing their needs and setting priorities are two of their most important responsibilities. To determine what the nation's mayors believe the major transit-finance issues and needs will be in their communities over the next five years, the Conference study asked mayors' offices to rank 10 issues in order of importance.

Of 109 cities listing a first-priority rank, 30 gave first priority to developing new local tax revenues. In addition, 23 cities gave first priority to securing operating funds for expansion of system routes. Eighteen cities gave first priority to improving present service levels. Below is a summary of what cities rank as the top three issues, combining some of the individual issues listed in the original survey into broader categories:

	Number of Cities Ranking Issue		
Issue	First Priority	Second Priority	Third Priority
Increased revenues: fares and/or local tax	34	8	14
Increased funding for improved service levels and/or route extensions or additions	41	44	37
Capital for system expansion and/or replacement	14	28	25

The above tabulation makes it quite clear that increased revenues and funding for service improvements and expansion represent important local considerations.

Approaches and Recommendations

To achieve these goals, mayors indicated their willingness to push for new taxes at the local level, want more support from state governments in terms of financial resources and legislation for taxes, and want more flexibility and predictability in federal funding and programs. Although it is recognized that there is a continued need for a federal operating assistance program of some kind, the area in which cities seem to feel free to ask for more federal funds is in capital improvements, which the Reagan Administration has indicated is its own priority as well.

Special Needs and Issues

Two issues--serving the needs of the elderly with more routes and service quality and serving the needs of the disabled with a fully accessible transit system--were ranked as the two lowest priorities by cities in the Conference survey. However, this did not indicate an unwillingness to serve special groups. In terms of special services provided to the elderly and handicapped by the general-purpose transit agency, of 110 responding systems, 93 (85 percent) indicated they were providing service, and almost all systems provided some type of fare subsidies to these groups. These services were often in addition to special transportation services being provided to the elderly and handicapped (and other special groups) by the cities, frequently in the form of a social service agency transport system, although sometimes as a special service contracted to the transit agency.

Almost all of the cities participating in the Conference study said their transit agency is preparing a plan for compliance with the U.S. Department of Transportation's regulations concerning Section 504 of the Rehabilitation Act of 1973. A number of cities predicted future difficulties. Of 93 systems reporting, more than half said they saw no problem in complying with Section 504 regulations, but one-third said they would have to discontinue special services because of compliance. When the 504 regulations are lifted this summer, however, compliance efforts may take new directions.

CONCLUSIONS

On the progress in local transit financing, there should be no debate. There will be considerable discussion, though, in coming months on the future of the federal role in transit operations. The federal role might remain constant or grow somewhat, and initiatives were taken by the Conference and other interest groups last spring to develop a new approach for federal transit funding--the block grant. Mayor Lionel Wilson of Oakland, California, who testified for the Conference in the Senate in May, said the block-grant approach could "guarantee flexibility at the local level with assurance at the national level that the federal dollar is spent wisely." The block-grant approach, which would include a bus program, rail program, and discretionary program for various construction and major investments, is being developed by Congress at this time but will more likely be finalized as an option later in 1982.

No matter what form future federal funding takes, the need for increased local funding for transit will become greater in the next decade because rising costs are sure to outpace any federal role. Local officials will assume an even larger share of the responsibility for meeting these costs.

In deciding how to meet its transit system's operating deficit, a city faces a variety of choices that require careful consideration of both supply and demand issues. On the supply side, one way to close the revenue-cost gap is to lower the level of service and thereby reduce total costs. However, here the revenue impact is uncertain. Some ways to lower service levels would be to drop underutilized routes and/or to reduce service quality by implementing longer headways or cutbacks in maintenance. These choices are usually difficult to achieve and have dire consequences for the mobility of citizens and the economy of the city.

Alternatively, communities can develop financing strategies. These include (a) new sources of revenue such as a tax increase or earmarking or (b) increased fares. Fares, however, cannot rise to unreasonable levels. If they do, it can discourage transit use, especially for those who can least afford to pay. In terms of increased taxes or other similar revenue producers, cities in the Conference study have already shown considerable progress in this area and plan to increase their efforts, even if federal operating support is continued.

How cities balance all these alternatives and how they resolve these issues will determine the future of transit for the next decade. One point is clear: Though strong federal and state assistance will be required, cities will continue to have the leadership role in transit financing.

ACKNOWLEDGMENT

The research results presented here were primarily financed by the Urban Mass Transportation Administration, with some independent surveys conducted by the U.S. Conference of Mayors. Special recognition is given to Leonard S. Simon, Assistant Executive Director of the Conference of Mayors, for his review and helpful comments on this article. Recognition is also given to Joseph Revis of Crain-Revis Associates, Inc., in Washington, D.C., for his role in helping develop and analyze the information contained in the Conference of Mayors survey.

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Publication of this paper sponsored by Committee on Local Transportation Finance.

Options for Financing a Regional Transit Authority

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Transit service stoppages for lack of funds and eleventh-hour makeshift financial solutions have become all too common in recent years. Regional taxes dedicated to transit service subsidization are increasingly popular and may be necessary for continued operation in many U.S. metropolitan areas. Although these taxes are relatively new, they are under active consideration in many areas in response to rapidly increasing transit deficits and the current administration's proposed reductions in federal operating subsidies. This paper compares the efficiency and equity of various taxes for these purposes, including motor fuel, real estate, sales, wage and income taxes as well as fare increases. Data on the tax levels required and resulting burdens by income class are reported for the Pittsburgh region. Tax payments per trip are also estimated by income class as an indication of the distribution of net benefits. Broad-based wage or income taxes seem to be the most desirable sources, coupled with close attention to potential reductions in transit expenses. Sales taxes are also an acceptable tax source, although they have a smaller tax base and a slightly more regressive effect than wage or income taxes.

Government assistance for transit service burgeoned in the past decade. In 1970, total subsidy for all modes of public transit was $541 million in the United States. By 1978, subsidies had increased to $5.264 million, representing more than a fivefold increase in real dollars (1,2). Funding the capital requirements and operating deficits of existing and desired transit services has become both a substantial undertaking and a continuing problem in many metropolitan areas. Transit service reductions or stoppages for lack of funds have occurred in several areas recently, including Chicago, Birmingham, and Boston. Eleventh-hour makeshift solutions such as special state appropriations or loans have become all too common in the past few years.

The rapid increase in the level of subsidy has been accompanied by major changes in the sources of subsidy funds. Prior to 1973, no funds for operating assistance were provided by the federal government. By 1978, federal grants for operating assistance totaled $567 million for the 26 largest metropolitan areas, or 10 percent of total operating revenue in these areas. Revenue from regional taxes and counties also increased, with a 180 percent increase in real dollar contributions from 1974 to 1978. This represents an increase from 25 to 31 percent of operating subsidies. Although contributions from state and local governments increased in dollar amounts from 1974 to 1978 in these large metropolitan areas, the real value of these contributions declined. These changes for 26 large metropolitan areas are generally indicative of the nation since these services represent 92 percent of the total national operating deficit. Assistance for capital investments such as new vehicles, exclusive rights-of-way, and other facilities has also increased dramatically in the period from 1974 to 1978, but there has not been a major shift in the source of funds. Throughout this period, the federal government has provided matching funds to the level of 80 percent of the cost of capital investments, and virtually all transit agencies have taken advantage of this funding opportunity (2).

The current transit funding situation in the United States is marked, then, by rapidly increasing subsidy amounts, increasing reliance on federal and regional taxes for operating subsidies, and continuing reliance on the federal government for the bulk of capital funds. However, the federal government is not only unwilling to substantially increase operating subsidies, but has proposed elimination of all federal transit operating subsidies. Coupled with rapidly increasing deficits, many transit systems are faced with financial crises.

By and large, states seem to be unwilling or unable to assume a larger role in transit funding. Accordingly, regional taxes will become increasingly important as a source of funds for transit service. Based on the principle that the beneficiaries of services should assume their costs, regional financing for transit operation is sensible since the benefits of transit are predominantly regional in nature.

While regional funding is one revenue option, we emphasize that enacting new taxes or increasing existing taxes should certainly be avoided unless these changes are necessary to achieve public objectives. Transit service reductions, cost reductions, or private operation may provide more desirable alternatives to increased transit subsidies in any particular case and should always be carefully considered. The current remarkable increase in transit operating and capital costs coupled with the stagnation of operating revenues must be curtailed at some point in the future. Otherwise, no financing scheme will be adequate. Although cost reduction is extremely important, analysis of the possibility or