

Abridgment

Bus Transit Subsidies in Connecticut

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This paper traces the development of state transit operating subsidies in Connecticut and analyzes various operating subsidy options. From these analysis, an efficiency incentive formula was recommended to the Connecticut Public Transportation Commission in 1985. Under this formula, the state's share of operating costs increased as the farebox recovery ratio increased. Because this approach would increase state aid to some independent transit districts and reduce it to others, it was not acceptable to the state legislature. A revised "constant state share" formula, in which the state pays the operating deficit up to 67 percent of the total operating costs subsequently was implemented by the state Department of Transportation and legislature.

This paper traces the development of state transit operating subsidies in Connecticut. It analyzes the growth in subsidies and sets forth ways to better allocate state operating assistance. It identifies the 1987 subsidy policy that was adopted by the state Department of Transportation (DOT) as the outgrowth of a 1985 study of bus subsidy options (1).

BACKGROUND

Public financial assistance to urban transit has become a problem of national scope. No longer able to cover operating costs from farebox revenues, transit now relies on growing operating subsidies from local, state, and federal governments. Local and state contributions will assume even greater importance as federal operating assistance declines.

State and local involvement in Connecticut's transit systems mirrored the national trends. Service types and systems grew in direct response to the operating environment in the 1970s. Three key underlying factors were the threat to discontinue service; gasoline shortages, costs, and conservation needs; and federal funding policies (2).

The state's policy of providing operating subsidies to public transport began in the late 1960s. The New Haven Commuter Rail Line was sustained from 1960 to 1970 as studies were made on how best to provide the rail service. Full subsidies began June 1, 1971, in equal partnership with the Metropolitan Transportation Authority (MTA) of the State of New York. This was accompanied by programs to provide new rolling stock, build a new maintenance facility, compensate for deferred maintenance, modernize the signal system, and convert to commercial 60-cycle power.

Operating subsidies to urban bus systems grew out of the potential discontinuance of Connecticut Company service in Hartford, New Haven, and Stamford. (The Connecticut Company had been affiliated with the New Haven Railroad.) A

120-day strike in November 1972 in the three areas led to resumption of service on March 26, 1973, with a two-year state guarantee of operating deficits. The state required that transit districts be formed within two years. Threatened again with service discontinuance, the state purchased the assets of the Connecticut Company on May 26, 1976, using Federal Section 3 funds to cover 80 percent of the capital cost it established. Connecticut Transit was established to provide bus service in the three cities.

The decision to establish Connecticut Transit statewide reflected both the need for the state to act quickly, and the apparent inability or unwillingness of the major cities to act (including some perceptions of extensive urban-to-rural subsidies in other sectors of the economy).

Connecticut Railway and Light (CR&L) also struck in November 1972, but it was allowed to fail. The profitable routes were picked up by four companies, which continued service until purchased by the Greater Bridgeport Transit District in 1979-1980. Service was provided by the Northeast Transportation Company in Waterbury, and by Dattco Incorporated and New Britain Transportation Company in New Britain. Service in Norwalk, New London, Meriden, and Wallingford continued to operate at a minimum level, with the State arranging subsidies to assure its continuance.

Spurred by federal initiatives, "independent" transit districts were formed throughout the state. Federal demonstration projects provided funding for the start-up of transit systems in the Valley and Westport Transit Districts. Since the availability of Section 5 Federal operating assistance funding in November 1974, the Norwalk, Middletown, and Milford Transit Districts have been formed, and bus service has been expanded. The Southeast Transit District (SEAT), formed in Danbury by merging two local transit districts, offered a major expansion of service. The Housatonic Area Regional Transit District (HART) became active in July 1982 in the Danbury area.

Within the Connecticut Transit service areas, the state has covered all operating deficits. It constantly monitors the bus service to assure a reasonable balance in costs and revenues.

When transit districts began to improve and expand service in 1974, the communities wanted a greater level than that provided in areas fully supported by the state. To assist and guide transit districts, Connecticut DOT developed a "funding formula." Using this formula as a guide, state operating agreements were negotiated by ConnDOT with each transit district.

1. The state's formula, derived for a 60 percent farebox cost recovery ratio, was keyed to the farebox recovery ratios obtained in the three Connecticut Transit cities—Hartford, New Haven, and Stamford. When the revenues exceeded 60 percent of the expenses, the state paid the entire deficit. If

less than 60 percent of the expenses were covered by the fares, the state paid the first 40 percent and then shared the remaining deficit equally. Each district was required to pay 50 cents for each dollar it spent below the 60 percent threshold. The state then matched it under a "distribution of income concept" to avoid a further property tax burden for municipalities within the transit district.

2. By about 1983, the farebox recovery ratios on the three Connecticut Transit systems ranged from 45 to 50 percent. Accordingly, the required recovery ratio for other systems was reduced to 40 percent by the state legislature (Public Act 8319, and Connecticut General Statutes Section 7-273M). However, when a transit district recovered less than 40 percent, the remaining deficit was shared between the transit district and state by the first formula.

3. The revised formula produced a sharp discontinuity in the state's contribution when the farebox recovery ratio fell below 40 percent. It was most pronounced whenever a transit district fell just short of the specified threshold. This unduly penalized municipalities when their cost recovery ratios ranged from 30 to 40 percent. For example, if a transit district recovered 40 percent of its costs from the farebox, the state would cover 60 percent. But if it covered 38 percent, the state would cover 51 percent, leaving 9 percent to be covered by the District from other sources. But when the cost recovery ratio was less than 20 percent, the state actually would pay more than 60 percent of the operating cost.

4. The state subsidy policy has two other weaknesses: it does not differentiate between small and large systems, and it lacks a strong incentive for productivity or efficiency.

OPERATING EXPERIENCE

Bus transit services, management methods, and subsidy arrangements reflect Connecticut's history and geography. The multinucleated character of the state's urban development; the many political jurisdictions (especially in Fairfield County); the past failures of the Connecticut Company and CR&L services, and the varied responses to improving transit services have produced a patchwork of service patterns, management methods, and funding arrangements. Disparities in system size, operating territory, and community responsiveness have led to wide variations in performance, productivity, and operating ratios.

Operating Performance

In 1984, 17 systems, with a fleet of 652 buses, carried 36.8 million passengers. Revenues of \$24.5 million and operating costs totaling \$50.9 million resulted in a deficit of \$26.6 million, and an aggregate farebox recovery ratio of 48 percent. Approximately \$25.4 million of the deficit came from the state and \$0.8 million from local areas.

Operating patterns and performance varied by city size and by service provider. The three Connecticut Transit systems (Hartford, New Haven, Stamford) accounted for 65 percent of the fleet, 74 percent of the revenue, 70 percent of the expense, and 65 percent of the deficit; their aggregate operating ratio was 51 percent. The five state-managed, privately operated systems accounted for 7 percent of the passengers

and 8 percent of the deficit; their aggregate operating ratio was 45 percent. The Greater Bridgeport Transit District accounted for 11 percent of the passengers and 10 percent of the deficit; its operating ratio was 48 percent. The seven other transit districts accounted for 9 percent of the passengers and 17 percent of the deficit. Their aggregate operating ratio of 33 percent resulted in a collective local subsidy of \$803,000.

Subsidy Patterns

The state covered all operating deficits for state-owned or state-run systems, and covered operating costs for the independent transit districts based upon the revised 60-40 formula. The total 1984 subsidy per passenger averaged 71 cents, of which 2 cents came from the local community and 69 cents from the state (or federal government). The non-local subsidies per passenger ranged from less than 60 cents in Hartford and New Britain to more than \$2.50 per passenger in Wallingford and Westport. Independent transit districts generally received more non-local support per passenger than the Connecticut Transit or ConnDOT-managed operations. The state's share of operating costs ranged from 45 percent in Hartford to 60 percent in Westport and 75 percent or more in Bristol, Meriden and Wallingford.

SUBSIDY PRACTICES IN OTHER STATES

State operating assistance programs reflect specific traditions, political arrangements, urbanization patterns, and economic circumstances. Maryland provides a high level of support: Texas provides none. Ohio and Washington allow localities to choose which taxes can be used to support transit; however, assistance to large metropolitan areas such as New York City is negotiated. Farebox recovery ratios are mandated in California, Illinois, Maryland, and Pennsylvania, and serve as guides in Connecticut and Ontario. Cost recovery percentages range from 20 percent in California to 50 percent or more in Maryland, Illinois, and Ontario. These targets or requirements are implemented to encourage improved operating/financial efficiency and to limit reliance on state subsidy. The states of Illinois, Minnesota, Ontario, and Pennsylvania vary their cost recovery requirements according to urban area populations or bus fleet size, with somewhat lower requirements for smaller urban areas. However, Ontario and Pennsylvania require local contributions even when communities meet specified revenue/cost ratios. The Minnesota program is unique in that it explicitly specifies fixed local shares.

Connecticut's communities participate in a highly satisfactory arrangement with the state in terms of operating assistance. Connecticut ranks high compared to other state programs in terms of the state subsidy per passenger, and the proportion of operating costs covered by the state; but its subsidy arrangements (as of mid-1985) could be improved by reflecting city size and by modifying state support to promote operating efficiency.

There also is an important administrative/philosophical difference between Connecticut and other states. Most other states (i.e., California, Pennsylvania) view transit mainly as a *local* responsibility; systems are locally controlled, and the local transit agencies contribute to the operating deficits. A

few states, Rhode Island and New Jersey, own and operate mutually all urban transit, because of their small size, and the nature of their local markets. Connecticut, in contrast, owns and operates major systems, and sets policy for the others; state, rather than local control predominates; and local financial responsibility is minimized. Maryland is the only other state which operates a major transit system (Baltimore MTA), and simultaneously sets subsidy policy for the small bus systems.

OPERATING SUBSIDY OPTIONS

Various short-range bus operating subsidy options were based on the following assumptions:

1. The ownership, management and operations of the state's bus systems would remain unchanged in the short run.
2. Local subsidy would be required only where there is an independent transit district, and its cost recovery falls below a specified threshold.
3. Threshold criteria would be keyed to the 40 percent cost recovery target specified by Public Law 83-19. (If this target changes, there would be a corresponding change in each option.)
4. Subsidies would be allocated on a systematic basis.
5. The total state subsidy would remain at 1984 levels for analysis purposes.

Some 13 specific subsidy options were analyzed in terms of factors such as acceptability, efficiency, equity, and predictability. They varied in three ways: use of a single criterion versus setting criteria by service area population; use of mandated versus target operating ratios; and mechanism for relating state subsidies to the farebox ratio—i.e., use of an efficiency-incentive versus a fixed local share, or a shared deficit. They included the status quo as well as options that provided equal state subsidies per passenger.

RECOMMENDED SUBSIDY POLICY

The analyses of alternate subsidy policies practices in other states led to the following recommendations:

1. Bus operating subsidies should be systematically allocated to enhance the objectivity and credibility of the state's subsidy allocation procedures. The subsidy formula should (a) differentiate between larger and smaller transit systems, and (b) provide financial incentives for improved operating efficiency. The local subsidy as a percentage of operating cost should increase as the farebox recovery ratio declines.
2. The recommended formulas were as follows:
 - (a) For urban areas of 100,000 or more population, the state would pay up to 60 percent of the operating cost when the farebox recovery ratio is 40 percent or more. When the farebox recovery ratio is less than 40 percent, the state subsidy payment as a percent of operating costs would be $30 + .75 [100 \times \text{cost recovery ratio}]$.
 - (b) For urban areas of less than 100,000 population, the state would pay up to 64 percent of the deficit when the farebox recovery ratio is 36 percent or more.

When the ratio is less than 40 percent, the state subsidy payment as a percent of operating costs would be $37 + .75 [100 \times \text{cost recovery ratio}]$.

These formulas were keyed to a 40 percent cost recovery criterion for Connecticut transit. If this criterion changes, the formulas should be adjusted accordingly.

3. The fixed local share represents a practicable alternate approach, since it is probably the most attractive from the perspective of the individual transit districts.

IMPLEMENTATION

The efficiency incentive formulas were adopted by the Connecticut Public Transportation Commission in 1986, and submitted to the State General Assembly and ConnDOT for their approval. Discussions ensued for 18 months regarding the advisability of implementing the formulas. The formulas were not perceived as politically acceptable, as some communities would have to pay more local subsidy. During the protracted discussion period, two events took place that required changes in the formula: (1) The farebox recovery ratio declined in all systems throughout the state, requiring a change in the basic criteria. Under the initial proposals, all systems would get less state support than they did under the state formula then existing. (2) The state amassed a large revenue surplus.

Accordingly, a modified "constant state share" formula was proposed by the CPTC to ConnDOT and the state legislature. Under this formula, the Connecticut Department of Transportation will pay 67 percent of the approved operating expenses of transit districts or the entire deficit, whichever is less. It requires that transit districts receive 33 percent of their expenses through the farebox or make up the difference through local sources. No transit district would receive reduced funding under this plan. The plan approved by ConnDOT and the state legislature in June 1987 will provide an additional \$500,000 annually to the seven independent transit districts.

IMPLICATIONS AND EXTENSION

The following implications emerge from the analysis of bus operating subsidies in Connecticut: first, farebox cost recovery ratios can be used to apportion state operating assistance. Second, the allocation formula concept should provide an incentive to efficiency. The state should cover a higher proportionate share of operating costs as the local system approaches (or meets) specified targets. However, in implementing such a formula, care must be taken to assure that individual systems are not unduly penalized when the formula is used. Thus, applying the formula would be more appropriate when a state begins an operating subsidy program, rather than when it changes a program already established. Third, a "constant-state share" of operating deficit provides a practical alternative—one which can also encourage maximum local efficiency.

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