Session 4

Alternative Solutions to the Problem: Increasing Revenues

The other approach to controlling deficits deals with increasing revenues. This workshop session considered some new directions transportation systems might try in their efforts to support their operations. There is no magic method for raising money. Although many revenue sources have simply never been tapped, not all sources will work equally well for all transportation systems. Some are highly individual and depend heavily on the character of the particular transportation authority and on the environment in which it operates.

Finding Revenue for Urban Transportation

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There aren't many alternative means of financing urban transportation. Why then is so much time spent on the subject? It is because there are several difficult and directly related questions that must be answered simultaneously, if a financial program is to be implemented: Who is to decide? What is to be financed? How much money is needed? Where will the money come from? How will the program be administered? These are the basic questions, and there are risks associated with any combination of answers chosen. Table 1 examines these and some subsidiary questions and how they have been answered in financing the Interstate highway program, the capital program of the Bay Area Rapid Transit System (BART), and the recent transit service program of the San Francisco Metropolitan Transportation Commission (MTC).

WHO DECIDES AND HOW?

The commitment to the Interstate highway system was, and remains, strong because of strong backing at the federal level. Since it involves local decisions, BART's continuing support has been more tenuous. A partnership between MTC and the state legislature characterizes MTC's recent transit-finance package.

The federal government plays an important part in making capital decisions for transit as it considers projects now eligible for funding by the Urban Mass Transportation Administration (UMTA). The alternative analysis has become UMTA's test of a project's worthiness. Selection of the benefit discount rate to be used is the critical analytical choice that must be made. The discount is used to estimate the worth today of a benefit anticipated in the future. If the discount rate is set high enough, any capital project can be found infeasible.

Capital investment must continue in a healthy economy, even if little of it is directed toward transportation. If other investment decisions are not subjected to the conservative tests that are applied to transportation, however, then the effect will be to shift resources to possibly less desirable purposes. World fairs, sports stadiums, hotels, and office buildings all compete for investment on the basis of wide-ranging ground rules. Investment risks are commonplace, and those responsible for ensuring adequate transportation service must be willing to take commensurate risks.

WHAT IS TO BE FINANCED?

The distance covered by the Interstate highway system has increased only slightly during the life of the program. Its cost and its construction period are more than double the original estimates, but Congress has extended completion dates and increased appropriations to match changing conditions.

The original estimates for BART were also inadequate. Among other things, operating costs were supposed to come from the fare box. Fifteen years later, BART is on the threshold of receiving permanent authorization for two-thirds of its operating costs to be funded by taxes. Would either BART or the Interstate highway system have been launched if these conditions had been anticipated? Maybe not.

Today, UMTA wants all related costs anticipated and allowances made for inflation and other contingencies. It seems prudent, but what might the results be? Comparable decisions in other sectors are not usually bound by such conservatism. Are we building in yet another hindrance to improving transportation services?

HOW MUCH IS NEEDED?

Congress requires periodic preparation of an updated cost-to-complete estimate for the Interstate highway system. Funding authorizations are adjusted accordingly, which mitigates the large uncertainties associated with such a major long-term program.

BART's original estimates did not adequately anticipate inflationary pressures. That fact, combined with a fixed budget, triggered disrespect for BART's board of directors and management. MTC has anticipated a larger inflation factor, but has been stringent in other

decisions, such as assuming a 5 percent reduction in efficiency, a reversal of the fare-contribution decline, and an inflation adjustment that is less than the projected increase in the consumer price index. Thus, MTC runs the risk that it, too, will not have adequate funding to sustain indefinitely the full transit service it has proposed.

These are three approaches to balancing (a) the risk of providing inflation and contingency allowances that are so generous as to jeopardize program authorization and (b) the risk of providing such tight allowances that the program will become underfinanced if unforeseen difficulties arise.

On a broader scale, transportation advocates have conducted studies designed to make the case for substantially increased funding. While such studies have apparently been effective, they have also been the source of much mischief. Highway program management has been influenced by using the needs so identified as the basis of project decisions, whereas a more realistic assessment of forthcoming funding would have led to different kinds of project decisions.

In the case of transit, the needs studies and 20-year plans have largely represented wish lists rather than serious proposals. In contrast, MTC's transit finance program was developed by a policy body that, in effect, decided which transit services are needed by simultaneously determining the realistic funding possibilities.

WHERE WILL THE MONEY COME FROM?

Elaborate criteria are often used in testing which tax source is best. It is the adequacy of the decision process (legislation or a voter referendum) that is critical to defining an acceptable package. The outcome of such a process is difficult to anticipate. Consider the following example:

A public opinion poll performed for MTC showed only 5 percent support for increasing property taxes to finance transit service. But a property tax levy of up to 35 cents/$100 of assessed value was authorized recently by the voters of the low-density Newark-Fremont subregion of southern Alameda County. The same poll showed that more than a majority of voters favored extending a sales tax for transit support; this was almost double the voter support given an income-tax levy. Thus, it appears the voting citizen has a different view from some economists of the equity attributed to the progressive income tax compared with the supposedly more regressive sales tax.

This example does not deal with why a given choice is favored at a given time in a given place. It points, however, to the importance of giving adequate attention to the decision-making process that is needed to determine public opinion. Whatever the choice, a funding source is needed that will expand with inflation. A perpetual problem exists if this basic need is inadequately addressed.

HOW IS THE PROGRAM TO BE ADMINISTERED?

Generally, the federal and state governments can collect and administer tax programs more efficiently than local government can, while they can avoid tax levies that unduly affect the normal workings of the economy, for example, the effect a county gasoline tax might have on gas stations located at the county line. Local government is better suited to make many of the remaining program decisions. However, when responsibility for the program is delegated to local governments, there is the danger that this separation of taxing and spending responsibilities will remove a vital incentive to keep spending within acceptable limits.

MTC attempted to address this defect in part by adopting fare-level guidelines that would, among other things, require transit boards to finance excessive labor costs from the fare box. MTC is having trouble already, however, in sustaining this position while giving adequate recognition to mitigating circumstances unique to each operator.

BART and the Interstate highway program both got into trouble in trying to determine just how much flexibility to allow in making program decisions. In BART's case, it gave in to more community demands than it could finance on its fixed budget. As a result, a more attractive and compatible system was built, but the fi-

Table 1. Some questions and examples of answers on financing urban transportation.

Questions About the Program	Answers for: Interstate Highway System	BART	MTC
Who decides and how?			
Program definition	Federal Highway Administration and Congress	BART commission	MTC
Program analysis	Office of Management and Budget and state departments of transportation	County supervisors	MTC and state legislative staff
Program decision	Congress	Voters in the BART area	MTC and state legislature
What is to be financed?			
Full or partial system	Full system	Full system	Full system
Capital or operating expenses	Capital expenses	Capital expenses	Operating and some capital expenses
Concept or finite system	Finite system	Finite system	Finite system
How much is needed?			
What is the inflation allowance?	Periodic adjustments	Inadequate (3 percent/year)	6.7 percent/year projected
What is the contingency allowance?	Periodic adjustments	10 percent	None
What related costs are included?	Relocation costs and so forth	Relocation costs and so forth	None
Where will the money come from?			
How are fundamental criteria satisfied?	Emphasis on user fees	Original voter choice	MTC and proposed legislation
Does revenue expand with inflation?	Periodic adjustments	No	Yes
How is the program to be administered?			
How are tax levy and spending linked?	By Congress	Voter authorization limit	MTC bridge-toll levy and fare guidelines for operators
How are accountability and flexibility balanced?	Perhaps too rigid	Perhaps too flexible	Remains to be seen

nancial problems were exacerbated as well. The Interstate highway program was adjusted to improve housing relocation allowances and to accommodate similar ameliorating strategies. In many cases, however, the design standards were applied too rigidly, which made it difficult to fit elements of the system into metropolitan communities. The prospects for ultimate completion of the system have suffered as a result.

Study on Transit Revenue Sources: Part 1

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The Institute of Public Administration and Gladstone Associates are jointly engaged in a project that will produce a manual or handbook for the Urban Mass Transportation Administration (UMTA) on local government financing for public transportation. The book will cover both existing methods that have been applied in public transportation and innovative methods, most of which have not. Almost all of the new methods that are included have been used somewhere for some other public financing purpose.

Although the handbook is confined to sources of nonfare financing for public transportation, public taxation of the practical sort involved here is a field that is not very well suited to handbook treatment. The end results of the political processes required to produce support for transit are too unpredictable.

The final document is to be an exposition of all practical local financing methods, innovative and proven, along with suggestions as to how they could be combined into packages with federal and state funds for financing an entire system. It will focus less on financing large-scale investments than on operating assistance.

The upsurge in national subsidy requirements is unmistakable, and it appears that federal assistance will have to continue on a 50-50 basis, at least in the near future. As work on the study progressed, it appeared that the major emphasis should be on developing relatively stable cash flows from any feasible source rather than on the specific-use objectives of the cash flow. There is no great financial difference between flowing funds through to debt service for financing a public investment and flowing them through to operating assistance. Some difference may exist from the legislative standpoint, and this publication should provide a variety of arguments for the legislative process.

The handbook will have at least six major sections. The introduction will discuss types of financing problems and set forth, in a summary fashion, the framework of legislative and organizational actions and traditions within which specific financing steps will be considered. The types of problems include existing operating deficits, equipment replacement on existing systems, moderate-cost new investments (that is, new components, additional capacity, or even a new subsystem), large-cost new investments (fixed-guideway, grade-separated systems), and the operation of special clientele services, particularly those for the elderly and handicapped. This section will call attention to the fact that the school-bus business is a special-clientele service that has been around a long time and is basically a much bigger business than transit.

The next section, on public organization for transit financing, will discuss the relative importance of specific organizational structures and, to some extent, different local institutional settings for transit financing. The advantages and disadvantages of five major structural categories will be discussed.

The first is private ownership with public subsidy in moderate amounts to cover operating deficits or capital investments. This, of course, is the declining alternative, but there are still some examples. The second is direct public ownership by a city or county government, so that transit is in effect operated as a line department of the local government. There are a number of examples of this and, as long as there is no major demand for multijurisdictional services, it is a perfectly valid form of organization.

The single-purpose, multijurisdictional authority that does not have separate sources of financing, which is by far the most common structure at the moment, was designed essentially to bridge the jurisdictional gap. The single-purpose, multijurisdictional authority that has some separate sources of financing, which could be considered either autonomous or semiautonomous, is a fourth type. These authorities usually have various kinds of borrowing power. Most of their borrowing does not require a separate referendum but does require legislative concurrence. In many cases in which these authorities are established by states, state legislative approval would be necessary.

The last category is the multipurpose, multijurisdictional agency that is largely self-financing. The most famous examples, of course, are port authorities that have toll crossings that provide the major cash flow. There are places in which the same thing can be done with surplus revenues from airports and seaports.

The next section of the report will deal with key local policies, and the first part of the discussion will be on transit fares—not from the standpoint of their structure and level, which are being dealt with in a number of other UMTA reports, but from the standpoint that setting overall fare policy is the first step in determining what the deficit is and how much of a subsidy is required. After the deficit has been determined, the remainder of the budget must be accounted for either by financial assistance from outside the transit authority or, if that is inadequate, by going back to management to get decisions on cost reductions. That means that management action both to reduce costs at given service levels and, more usually, to reduce service have to be considered by the operating authority. These choices will not be detailed in this section, but they are offered as a range of policy alternatives that can be worked through in a systematic fashion. The major cost reduction alternatives will be outlined.

The next section of the report will be on nonfare