

Case Studies on Increasing Transit Revenues: Northeastern Illinois

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Many large urban centers are facing the challenge of regionalizing their transit services; this involves developing and financing organizations that can meet expanding needs. The plans developed are frequently measures designed to meet financial crises, are specific to the area, and are usually negotiated and approved by a state legislative body. Such a situation led to development of Chicago's Regional Transportation Authority (RTA). In the spring of 1972, the governor of Illinois created the Transportation Task Force to examine the problems and develop a solution for legislative consideration.

The six-county Chicago metropolitan area has a population of about 7 000 000. In 1970, slightly more than half (51.8 percent) lived outside of Chicago, while 3 367 000 lived in the city. Nearly 60 percent of the suburban population lived in suburban Cook County, with the remainder residing in surrounding Lake, DuPage, Kane, Will, and McHenry counties. The characteristics of the existing transit service in the six-county area are tabulated below.

Service Provider	Vehicles	Weekday Ridership (000s)	Ridership as a Percentage of Total Transit Passengers
Chicago Transit Authority		1000	86
Rail cars	900		
Buses	2200		
Commuter rail	1000	265	11
Suburban bus	360	60	2.5
Satellite bus	75	13	0.5

The Chicago Transit Authority (CTA) is the principal mass transportation carrier in the area. It serves all sections of Chicago and many surrounding suburbs. The CTA operates seven rail rapid transit routes and about 133 bus routes. The commuter railroads, which are operated by eight carriers, serve 12 radial corridors with more than 200 stations in the six-county area. Suburban bus service is offered by four major public and private intersuburban carriers operating primarily in suburban Cook County and DuPage County. In addition, some 14 municipalities either provide or contract for intrasuburb feeder or local bus service. Satellite bus service is operated in four well-established older municipalities, each about 65 km (40 miles) from Chicago's central business district (CBD).

Fares and miscellaneous nonoperating revenues (rents, advertising, concessions, and so on) financed most transit costs, especially operating costs, until the mid-1960s. Capital costs in northeastern Illinois have been financed by equity investments and loans from private sources, public funds for both capital improvements and retirement of long-term debt, trade credit, and operating revenues.

CTA's capital facilities have been funded by revenue bonds and equipment trust certificates, accumulated revenues (depreciation and other reserves) from the city of Chicago, and state and federal grants. The city of Chicago also furnished limited operating subsidies

from state motor-fuel tax proceeds.

Commuter railroads operate as divisions of larger corporations that, with two exceptions, are financially sound. However, all but one of the commuter divisions were operating at a loss in the early 1970s and these losses were being absorbed by the parent corporations. As these losses grew, the carriers periodically sought permission to raise fares or to reduce or abandon service. As deficits mounted, railroad commuter service became increasingly dependent on state and federal grants.

FINANCIAL NEEDS

There was general concurrence that simply funding existing deficits would fall short of achieving a workable system of regional transit in northeastern Illinois. The improvements most frequently considered included reducing bus fares in the off-peak periods, extending suburban bus services, coordinating services through purchase-of-service agreements or outright purchase and operation, instituting innovative services in low-density areas, and operating specialized services for the elderly and handicapped. Other proposed regional improvements included standardizing and increasing the frequency of service on many of the commuter railroads and developing a universal transfer between carriers and between modes. Also needed was an authority staff with a strong orientation toward consumer needs, including regional public information and marketing programs.

Alternative programs for operating funds ranged from a low of \$144 million/year (recommended by the legislative study commission) to a central city recommendation of nearly \$360 million. A compromise program for fiscal year 1975 of \$171 million in nonfare revenues was adopted. Capital needs were estimated at about \$240 million/year through 1980. On the basis of matching funding under section 3, this would require about \$48 million/year.

A wide range of alternative revenue sources were seriously considered by the Transportation Task Force and at various public hearings. They included:

1. Fares—The usual market solution of raising fares to meet revenue needs was rejected by almost everyone on the basis of the recent experience of carriers who had increased fares and curtailed service with a resultant loss of passengers. Resolution of this situation in the private market could only be met with further increases in fares and cuts in service ad infinitum. This alternative had little support, even in the outer areas of the region that had minimal public transportation.

2. Motor-fuel tax—A tax on motor fuel was one of the more commonly suggested sources of revenue for subsidizing public transportation. In many of the public hearings, automobile-related taxes were recommended as high priority sources of revenue to be considered by the legislature. It was estimated that a 1-cent tax in fiscal year 1974 would raise \$37 million, \$17 million

from Chicago and the rest from the suburban areas. Motor-fuel taxes are currently collected from distributors rather than from retailers, many of whom sell to retailers both within and outside the six-county region. Thus, a tax directly on the retailer would require additional accounting procedures and would add to administrative costs.

3. Sales tax—Retail sales, service, and use taxes provide a broad tax base and a relatively low rate can produce substantial revenues. A 0.5 percent regional sales tax would generate nearly \$91 million, 61 percent of which would be generated outside of the city of Chicago.

4. Sales tax on gasoline—This approach posed a variable tax rate of up to 5 percent on gasoline. Since the RTA board, not the legislature, would impose this tax, it was more attractive to the General Assembly because the issue of accountability was left squarely with the RTA board. The estimated yield from this tax for fiscal year 1975 was about \$60 million. It was estimated that about 37 percent of this tax would come from Chicago residents, 38 percent from those living in suburban Cook County, and 25 percent from those in the other surrounding counties. One of the advantages of this tax over the standard motor-fuel tax (the cents-per-liter approach) would be that the revenue yield would increase as the cost of gasoline increased.

5. Income tax—Relative ease of collection, limited regressivity, strong rate of growth, and an ability to generate sizable revenues made an income tax an attractive potential source of funds. The estimated yield was approximately \$83 million for a 0.33 percent tax in the six-county area. Its principal disadvantage was that it lacked political acceptability.

6. City contribution—This was especially acceptable to the suburban and downstate legislators who felt that, since most of the subsidy was needed by the CTA, the city of Chicago should make a financial contribution.

7. Parking—A tax on parking space was another automobile-related tax that was proposed to be imposed by the RTA board rather than by the General Assembly. The primary purpose would be to tax all-day parkers who commuted to Chicago's CBD. It would yield an estimated \$10 million/year. In addition to producing revenue, the intent of the tax would be to discourage the use of automobiles, lessen pollution, and ease traffic congestion.

8. Utility tax—Although this source would bear little relationship to the benefits-received or ability-to-pay principles of taxation, it was regarded by some as a highly lucrative source of funds. A one percent tax, it was estimated, would generate \$38 million in the region.

9. State lottery—At the time the RTA and companion legislation was being considered by the legislature, Illinois did not have a lottery. It was estimated that a lottery would generate about \$60 million/year, half of which might go to public transit.

Many legislators agreed that, regardless of the source of funds, the preservation and improvement of the region's public transportation system would require sizable amounts of public funds. There was fairly substantial agreement that the proposed RTA should have significant revenue-collection powers of its own and that these powers should be indigenous to the areas served.

KEY PROVISIONS OF THE RTA ENABLING ACT

After considerable legislative input, the General Assembly passed the RTA act at its third special session in the fall of 1973. The fact that approximately half of

the metropolitan area's residents lived in Chicago and the other half in the suburbs minimized the potentially explosive issue of control of the RTA board by any one subregional faction.

On the basis of the principle of proportional representation, four directors are appointed to the board to represent Chicago and four to represent the suburban areas. The four Chicago directors are named by the mayor and city council, while two of the suburban directors are appointed by the Cook County commissioners from outside Chicago, and the other two by the chairmen of the five county boards outside of Cook County. These eight part-time members elect, by a three-quarters majority (six votes), a ninth full-time member to serve as chairman and chief executive officer of the RTA. On such key issues as adopting an annual budget and program and passing board-imposed taxes, a two-thirds vote of the directors (six votes) is required for adoption. This is intended to prevent any single regional faction from dominating the RTA.

The legislation gives the agency strong budgeting powers as well as a statutory requirement for short-range transit planning. The act required a special referendum to be held with the regular primary election in March 1974. The referendum passed, but by less than one percent of the 1 356 000 votes cast in the region.

The financing package that finally evolved includes a diversion of certain existing state revenues to the new RTA and the imposition of two new taxes that would require the affirmative vote of two-thirds of the board. In addition, the act designated the RTA as the primary public body in the region to apply for and receive grants, loans, or other funds relating to the area's public transportation systems. Specific revenue sources and anticipated revenues are shown below.

Funding Source	Estimated Revenue in Fiscal Year 1975 (\$000 000s)
Diversion of existing state or local revenues	
$\frac{3}{2}$ of net revenue from sales tax raised in the six-county area (state diversion)	80
\$14 from each motor vehicle registered in the city of Chicago (state diversion)	16
Contributions from city of Chicago and Cook County	5
Subtotal	101
RTA board-imposed taxes	
5 percent sales tax on motor fuel sold in region	60
Long-term (all-day) parking tax	10
Subtotal	70
Fares	252
Total	423

Diversion of state revenues was initiated shortly after the referendum was passed. The parking tax has not been implemented. In addition to being controversial, the parking tax would not generate a significant amount of revenue. Imposition of the gasoline tax has also been very controversial. About 2 years after the board went through its initial organizational processes, there was an effort to implement this tax. Suburban members were reluctant to pass the tax because most felt that, while the revenues would be generated primarily in suburban areas, they would be spent largely on services in Chicago. However, when the board faced a serious financial crisis in the spring of 1977, the tax measure was passed with the stipulation that considerable suburban services would be implemented and also that the tax would expire in 2 years, permitting further board review. The tax went into effect December 1, 1977.

In order to get the board-imposed taxes approved by

the legislature, the legislation required that two-thirds of the taxes collected within each area (Chicago, suburban Cook County, and each of the five outlying counties) had to be returned to that area. As a result of amendments after the RTA referendum, this provision was further strengthened, and the two-thirds return figure was changed to 100 percent.

In addition to diverted state revenues and those imposed by the board, the RTA has significant power to issue bonds. The enabling legislation permits the board to sell bonds up to a maximum of \$500 000 000 outstanding. These bonds are not backed by state revenues, however, but by first lien on RTA revenues. In addition, as a sweetener to the suburban areas, there is a \$75 000 000 provision for bonds for facilities outside of the city of Chicago. The latter are backed by state revenues and would be general obligations of the state of Illinois.

Although the RTA is still in its infancy, it has made

some dramatic improvements in sustaining, coordinating, and improving transit in the six-county region. Although it is still a subject of considerable controversy, it has instituted purchase-of-service agreements or other arrangements with each of the commuter rail services, standardized local and regional fares, implemented new suburban bus and rail services, and established universal transfer between all bus and rapid transit services. Extension of the transfer privilege to the commuter rail services is currently under study. Marketing has been vastly improved, and ridership has improved as a result of these very positive steps.

Financing continues to be a critical issue, however, as it is with most transit agencies. The RTA, like other U.S. transit agencies, will be concerned, on the one hand, with productivity analyses on the use of funds from present sources and, on the other, with a continued physical improvement of the region's transit system and additional sources of revenue to finance these improvements.

Case Studies on Increasing Transit Revenues: Baltimore

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Baltimore is in a unique situation in the country, because it is probably the only operating transit property that is owned by a state department of transportation. The Maryland Department of Transportation is unique among state departments of transportation in that it is an operating transit agency. It is also an operating agency with regard to the Baltimore-Washington International Airport, the Port of Baltimore, and a number of other things.

Traditionally, departments of transportation are highway departments with a new name on the door; some small subdivisions are created within the department to give financial aid to other modes of transportation. This is not the case in Maryland. The Metropolitan Transit Authority of Baltimore was absorbed into the Maryland Department of Transportation in 1971, the year of the department's creation.

The department's financial structure rests on a consolidated transportation trust fund. These are special funds of the state of Maryland, not the general funds. All transportation taxes and revenues and fees are budgeted into this transportation trust fund. It consists of such varied types of income as fares from the transit system, gas taxes, titling taxes, drivers' license fees, port fees, airport fees, and anything else that is related to transportation by tax or by direct charge.

Against this, of course, are budgeted all of the operating costs of the various modal administrations and the department as a whole. In fiscal year 1977, the transit operations have an operating budget, excluding capital programs, of about \$49 million to run the bus system in the Baltimore area. This covers 970 buses, a 2600-km² (1000-mile²) service area, and 1428 bus drivers, who carry about 91 to 93 million passengers a year. Revenue from the fare box, advertising, charters, and so forth is about \$31 million.

Under the Metropolitan Transit Authority, in 1970 and 1971, operations were making a profit. Somewhere

between the first and second quarter of 1972, when the Department of Transportation came into being, transit crossed over from the black to the red, and it has been in the red since. Of course, transit revenue is a component of a larger system. Baltimore does not really have a separate balance sheet for transit but, for house-keeping and management purposes, there is, in effect, an operating balance sheet.

How can revenue be increased in transit operations? One way is to increase ridership. This, of course, is only one side of the coin, and good management practice would dictate keeping an eye on how much costs would go up in the effort to increase ridership; the net effect could be either an increase or decrease in the deficit.

In October 1968, while the Baltimore Transit Company, was under private ownership, there was a 26-day transit strike. Fares were increased after the strike to a base fare of 30 cents, and that fare has been maintained. An increasing deficit led to the determination in late 1975, about the time the section 5 program began to come into effect, that it was time for a fare increase. Certain goals had been set in anticipation of receiving some section 5 money in the form of an allocation that would increase over a period of years. It was hoped that the net deficit to the state could be stabilized without further fare adjustments.

Although the base fare was 30 cents, there were some zone fares, but the system was very ragged and inconsistent. Most transit trips are oriented to the downtown area, and it was basically inequitable for people who lived in one suburban area to pay less than people in another area for a trip downtown of equal distance. A new tariff system was proposed that was based on a concentric-ring zone system. The new zone-fare system is based on distance from the edge of the central business district (CBD), which is fairly square in shape. Zone 1 is within a circle whose radius is 8 km (5 miles) from the periphery of the CBD. There is another zone