

# Financing Public Transportation

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The last two decades have seen steadily increasing levels of public financial support for urban public transportation systems. The primary sources of this support have been UMTA and a variety of similar assistance programs administered by agencies of state and local governments.

The initial financial involvement of the federal government and several state governments in public transportation was limited to providing grants to assist in the upgrading of capital equipment. This equipment had been allowed to deteriorate by private transit companies as the profitability of transit operations declined. The capital grants were used by local governments to purchase the assets of the private companies and to turn the responsibility for transit services over to public authorities.

When public programs of capital funding began in the late 1950s and early 1960s, many policymakers claimed that transit systems could and should recover their operating costs from the farebox. It became clear a few years later, however, that the transit service and fare levels desired by local elected officials could not be sustained solely by farebox revenue. This recognition gradually led to the provision of operating subsidies by local governments, by the federal government, and by many state governments. In 1980, most transit capital expenditures were financed by 80 percent federal capital grants matched with 20 percent state and local public funds, and more than half of the nation's transit operating expenses were covered by federal, state, and local subsidies (17 percent federal, 13 percent state, and 27 percent local).

The last few years have brought a major rethinking of the government role in financing public transportation services. The Reagan Administration came into office in January 1981 with a proposal to eliminate federal operating subsidies and to reduce the level of federal capital funding for mass transportation. The administration's "New Federalism" proposals call for the federal urban mass transportation program eventually to be turned over to the states. In the meantime, a national recession and political pressures to hold down taxes have placed increasing strains on government budgets at the state and local levels. The resultant budget difficulties threatened to halt and perhaps reverse the steady increases in mass transportation assistance provided by state and local governments over the last decade.

Having concluded that the levels of public subsidy for urban mass transportation systems cannot continue to grow at the 20-30 percent annual rates of recent years, officials at all levels of government are currently undertaking a critical reexamination of financing needs for mass transportation and of the public sector role in meeting those needs. At the federal level, substantial reductions have already been made in projected funding totals by the Reagan Administration and the Congress. With regard to the structure of the federal program, the wisdom of creating strong local incentives for capital pur-

chases by earmarking federal assistance for capital equipment has been questioned recently in a report by a Congressional subcommittee (1). In addition, the Reagan Administration has argued that federal operating assistance should be eliminated because controlling and financing operating costs are properly the responsibility of local transit agencies (2).

At the state level, funding for public transportation increased by 20 percent between 1981 and 1982 to an annual total of almost \$2 billion (3). This growing state involvement has been accompanied by a reassessment of the level and structure of state financing, with particular attention to the incentives created for local recipients. States such as Minnesota, Massachusetts, and Virginia have recently initiated or completed studies of their financial assistance programs for public transportation, with a view to establishing a rational long-range approach to this question. State programs introduced initially as stop-gap measures to cover transit capital needs and (in some cases) operating deficits are now being redesigned to provide levels of assistance that will be compatible with long-run state objectives and budgetary priorities.

Local governments are also reexamining their role in financing public transportation. Cutbacks in federal mass transportation assistance clearly will place increasing responsibilities on state and local governments over the next few years. Although state contributions have been increasing over recent years, they will not be sufficient to offset projected reductions in federal assistance. Consequently, local governments will have to choose among increasing fares, revising services, finding dedicated sources of tax revenues, or increasing contributions from general revenues. All of these options, singly and in combination, can be found in evolving local government policies toward public transportation.

The financing strategies currently under consideration by federal, state, and local governments fall into three general categories:

1. Implementing pricing strategies aimed at raising additional revenues from users and other direct beneficiaries of public transportation services,
2. Imposing dedicated taxes earmarked specifically for public transportation, and
3. Restructuring federal and state programs that provide funding for public transportation.

The following sections review each of these categories in turn, and discuss their potential impacts on the future of urban public transportation. First, however, we will briefly review the general public policy objectives of financing public transportation.

## PUBLIC POLICY OBJECTIVES

Any discussion of options for financing public

transportation should begin with a review of the public policy objectives being pursued. Public transportation systems have been expected to serve a number of different objectives, which have varied in political importance over time: reducing congestion, pollution, and energy consumption by attracting automobile drivers to higher-occupancy modes; assisting the elderly, the handicapped, and other groups without ready access to automobiles; and increasing the economic vitality of central cities. All of these objectives are to be met, of course, in the most efficient manner possible.

In seeking to achieve these objectives, a policymaker might ask why public subsidies are required. The common answer to this question argues that the dominance of the private automobile as an urban travel mode has so eroded the market for public transportation that the level of public transportation service that could be supported solely by fare-box revenues would fall far short of that desired by urban communities. Without subsidies, the levels of automobile congestion, pollution, and energy consumption; the travel problems of the disadvantaged; and the level of decline of central cities presumably would be greater than urban communities would be willing to tolerate.

The financing requirements for reducing the above concerns depend, of course, on what levels of reduction are to be achieved and on the efficiency with which the concerns are reduced. Determining the adequacy of various levels of reduction of these concerns is a task for community decisionmaking through the local political process. The outcomes of this process may vary from one community to another, and in one particular community over time, depending on public perceptions of the importance of the various concerns and the costs of reducing them.

Placing community values on various levels of reduction of automobile-related concerns is extremely difficult analytically. However, assessing alternative ways of achieving these various levels is quite a tractable analytical task. A great deal of transportation research has been devoted to this latter task over the past decade, and some important results have been obtained. The topics of interest in this paper are those concerned with financing public transportation: that is, raising revenues from users and other direct beneficiaries, dedicated taxes, and general public funds.

It is important to note, however, that the way in which public transportation funds are disbursed has a major influence on how much progress is made toward the objectives of public transportation financing. While this paper will not pursue this topic, some issues raised by recent research are worth keeping in mind.

1. Subsidy funds should not necessarily be limited to conventional fixed-route transit; paratransit modes such as shared taxis and vanpools can also contribute substantially to public transportation objectives.

2. A variety of private and public organizations can participate in service provision; subsidy funds should not be limited just to one public-sector provider (as is the case where funds are disbursed directly to one public operating authority).

3. Subsidy funds can be vested directly in the users of services rather than in the providers; discounted tickets and coupons have been used successfully in a number of cities to target subsidies and encourage competition between providers.

4. There is a growing conviction that the productivity of public transportation systems has declined substantially over the past 15 years (2), and that this decline is due in part to inappropriate

forms of public subsidy. Policymakers are now actively seeking methods of disbursing subsidy funds that will encourage productivity improvement.

These issues are receiving increasing attention in policy debates over public transportation financing, and they will have to be addressed in conjunction with any new financing initiatives.

#### PRICING STRATEGIES

Pricing strategies can make an important contribution to reducing the subsidy requirements for meeting a given set of public transportation objectives. Reductions in subsidy levels can be achieved either by increasing the overall fare revenue obtained from public transportation users, or by raising funds from other direct beneficiaries of public transportation services such as employers, human service agencies, shopping centers, and private developers.

Proposals to increase fares often evoke memories of the vicious circle of fare hikes and ridership declines that troubled transit systems during the last years of private ownership and operation. Two major factors suggest that such a scenario need not accompany fare increases in the 1980s, however. First, generous public subsidies throughout the 1970s permitted declines in transit fares over the decade of at least 16 percent in real terms (4). Consequently, increases in the immediate future will simply tend to bring fares back into line with general price inflation. Second, studies of transit price elasticities have helped policymakers to identify the relative sensitivity of various areas of the transit markets to price increases. Targeted fare changes based on this information should have much less deleterious effects on ridership than the across-the-board increases common in the 1950s and 1960s.

If increased fare revenues are to be obtained, fare structures should be designed to minimize accompanying losses in desired passenger trips. This could well involve reducing the subsidy funding directed at certain kinds of trips and increasing the funding directed at other kinds. In effect, policymakers could decide to forego serving certain less desirable trips that require considerable subsidy dollars to retain and to seek other more desirable trips that require fewer subsidy dollars to attract and retain.

Current fare structures offer considerable potential for targeted increases that would result in minimal ridership losses, and for targeted decreases that might offer significant ridership increases. In combination, these strategies could produce significant reductions in subsidy requirements without major losses in desired trips. To achieve these results, fare increases should generally be aimed at long rush-hour trips through distance-based fares with peak surcharges, and decreases should be aimed at off-peak trips made by elderly, low-income, and student riders. Heavily discounted transit passes for commuters tend to be counterproductive, however; substantial revenues are lost, and few new permanent riders are generated. Fare-free policies are also of doubtful value for similar reasons, with the possible exception of those limited to movement within central business districts (5).

In addition to the more traditional pricing strategies aimed directly at the users of public transportation services, policymakers are becoming increasingly interested in ways of raising revenues from sources that benefit from public transportation without contributing directly to passenger fares. The fairly generous public subsidy levels of the

1970s provided little reason for involving such beneficiaries as developers, employers, commercial establishments, and human service agencies in financing public transportation. More recently, however, several examples of such involvement have appeared in U.S. cities: subsidized transit passes provided to employees by a major Seattle bank; direct shopping center contributions to the transit system in Johnstown, Pennsylvania; discounted transit passes for low-income persons supported by local government in Arlington County, Virginia; and employer-sponsored vanpools and transit routes at the 3M Company in St. Paul, Minnesota.

More ambitious proposals to capture some of the property value increases stimulated by major public transportation investments have been discussed in the United States but rarely implemented. Recent U.S. investments in new rail transit systems in San Francisco, Washington, D.C., and Atlanta were fairly well committed before such possibilities were fully explored. By comparison, joint development agreements were negotiated successfully with private interests in Hong Kong, in this case before route and station locations were finalized. Such possibilities deserve greater attention in future U.S. transit investment programs. On a smaller scale, joint development projects seem to be feasible sources of financing for station rehabilitation schemes for older transit systems. These types of projects appear to be receiving increased attention in New York City, for example.

In general, pricing strategies that raise revenues without significantly reducing desirable trips help to finance public transportation while maintaining its public policy objectives. As long as public transportation is not being used as a means of transferring income, there is little reason to charge users and other beneficiaries less than they are willing to pay. Although there are clearly practical and administrative limits to the complexity of pricing strategies, a great deal can be done to obtain increased revenues by more innovative and carefully targeted pricing.

#### DEDICATED TAXES

One increasingly common method of financing public transportation is to enact special taxes dedicated specifically to public transportation systems. A recent survey of 300 transit properties by the American Public Transit Association (6) showed that many of the 135 properties responding were obtaining funding from specific sources such as sales taxes or property taxes, and that in most cases these taxes were dedicated to public transportation (see Table 1). An earlier survey of 139 cities by the U.S. Conference of Mayors (7) found that for 37 of the 101 cities responding, all or part of the revenues from sales, property, and other specific taxes were dedicated to transit.

As shown in Table 1, sales taxes appear to be the most popular source of dedicated tax revenue for public transportation. Several large cities have enacted such taxes to support regional transit systems, for example:

1. The Metropolitan Atlanta Rapid Transit Authority (MARTA) is supported by a 1 percent retail sales tax, expected to generate \$110 million in 1982.
2. In Houston, the Metropolitan Transit Authority is supported by a 1 percent regional sales tax, which provided about 70 percent of the system's revenue in 1980.
3. In November 1980, Los Angeles County passed a 0.5 percent sales tax dedicated to public transpor-

Table 1. Use of various financing mechanisms for public transportation systems.

Financing Mechanism	135 Respondents Using Mechanism (%)	Dedicated (%)
Sales taxes	34	84
Property taxes	34	61
Lottery proceeds	13	100
Gasoline taxes	7	40
Motor vehicle taxes	5	100
Occupational taxes	4	100
Ad valorem taxes	3	50
Tolls	2	100
Miscellaneous	9	58

tation. The tax was upheld by the California Supreme Court in April 1982.

Sales taxes are widely regarded as regressive, in that the tax burdens are most severe for low-income groups. Bates (8) argues, however, that because of the low-fare policy adopted in Atlanta, the income effects of the Atlanta sales tax were progressive.

In both Atlanta and Los Angeles, the sales taxes were successful politically because they combined low bus fares for several years with the ultimate construction of rail rapid transit systems. Whether these sales taxes have provided a rational long-run financing base for public transportation is questionable, however. In each case, low fares represent only a temporary benefit, whereas the funding requirements for rail transit ultimately are likely to create new financing needs for the two cities.

A common criticism of dedicated taxes is that they provide insufficient flexibility for year-to-year budget adjustments. The total revenue from a 1 percent sales tax, for example, probably exceeds the total funding needed in the first few years of its existence, inviting cost inflation and unnecessarily low fares. If the recent past is any guide, however, the sales tax revenue will not increase as quickly over time as the public transportation deficit, leading ultimately to the need for additional public funding (possibly from a new dedicated tax).

A further difficulty with regional dedicated taxes is that they may provoke interjurisdictional disputes over levels of public transportation service provided. In Minneapolis/St. Paul, for example, where a regional property tax is assessed for the metropolitan transit system, one suburb has persuaded the state legislature to pass a bill permitting individual suburbs effectively to "opt out" of the regional financing arrangement. The motivation for this bill was that the suburb concerned believed that the service it was receiving was not commensurate with its tax contributions. Similar tensions exist in the Chicago region.

Despite their problems, however, dedicated taxes appear to be growing in popularity as competing pressures mount on the pool of general tax revenues. Advocates of public transportation are supporting efforts in a number of cities to enact dedicated tax sources that would compensate for shrinking allocations of general revenues. Indeed, for the first time serious efforts are under way to obtain a dedicated source of transit funding at the federal level: at the time, Secretary of Transportation Drew Lewis advocated that 1 cent of a proposed 5-cent equivalent increase in the federal gasoline tax be earmarked for urban mass transportation.

Of all the possible sources of financing for a dedicated tax, those on users of motor vehicles may be the easiest to justify. Increasing automobile ownership and use are largely responsible, after

all, for the various public policy concerns discussed earlier. To the extent that automobile users can be held responsible for these negative "externalities" experienced by urban communities, they can be expected to pay more to the public coffers than just the costs associated with building and maintaining the road system. By comparison, most of the other taxes in Table 1 appear to have little to commend them except the obvious fact that they fall within the realm of political feasibility.

From the federal viewpoint, the gasoline tax must look particularly attractive as a financing source for public transportation for all levels of government. The demand for gasoline is such that small tax increases raise large amounts of revenue (one cent tax per gallon nationwide generates about \$1 billion). Further, unlike property and sales taxes, state and local gasoline taxes are no longer deductible from federal income taxes. So whereas a new local property tax for public transportation automatically draws a matching contribution from the U.S. Treasury, gasoline taxes do not. In this respect, the growing interest in state and local dedicated taxes for public transportation must be viewed with some concern by the federal government: If new state and local taxes are deductible from the federal income tax, the federal government will involuntarily increase its own contribution to public transportation.

#### RESTRUCTURING FEDERAL AND STATE PROGRAMS

After almost two decades of stop-gap additions and modifications to their funding programs, the federal government and many state governments are currently taking a completely new look at their roles in financing public transportation. As discussed earlier, these programs have been criticized for distorting local decisions toward excessive new capital expenditures, and for failing to help stem rapid cost escalation and productivity declines in transit operations. The Reagan Administration has targeted the federal operating assistance program in particular as an inappropriate form of federal financing for public transportation, and has proposed to eliminate it.

The debate over the future of federal and state programs has focused on four main issues: (a) the source of the funding, (b) the level of the funding, (c) the restrictions and conditions on the use of the funding, and (d) the allocation of the funding between urban areas. At the federal level, funds to date for the urban mass transportation program have come from the general fund. As discussed earlier, however, there is a strong movement under way, led by Secretary Lewis, to tap 1 cent of a proposed increase in the gasoline tax for mass transportation. Of the 37 states that provide financial assistance for public transportation, 25 draw from the general fund, 15 from fuel taxes, 4 from sales taxes, 1 from property taxes, and 1 from payroll taxes. Eleven states use other sources as well, including toll revenues, motor vehicles sales and registration fees, and, in one case, a state lottery (3). As budget pressures continue to grow on general funds, it seems likely that more states will look to dedicated sources, and that fuel and other motor vehicle taxes will be the most logical and popular choices.

With regard to the level of federal and state funding, there is already under way a shift in financing responsibility from the federal government to the states. While state funding has been increasing steadily over the last few years, federal funding has begun to decline significantly. After peaking at \$4.6 billion in Fiscal Year 1981, federal funding for Fiscal Year 1982 was reduced during the

1981 budget process to \$3.5 billion from a previously projected level of more than \$5 billion. The U.S. House of Representatives' Public Works and Transportation Committee has reported out a bill (H.R.6211) that recommends a total public transportation funding level for Fiscal Year 1983 of \$3.63 billion, all from general fund revenues. The U.S. Senate's Banking, Housing, and Urban Affairs Committee has reported a bill (S.2606) with a somewhat lower level of budget authority than the House bill. Action on these two bills was still pending at the time of this writing.

The restrictions and conditions on use of federal and state mass transportation funding have been the subject of considerable debate. The federal government and some states got involved in financing mass transportation initially to help replace aging capital equipment, and only later agreed to provide operating assistance. The Reagan Administration is arguing vigorously for the elimination of operating assistance, although it is encountering strong opposition from cities and the transit industry. Neither of the two recent bills passed by Congressional committees incorporate the administration's recommendation: The House bill provides for a continuation of operating assistance at Fiscal Year 1982 levels, and the Senate bill simply extends the current program structure for one year.

The administration also proposed major changes in the Section 13(c) labor protection clause, moving authority from the U.S. Department of Labor to the U.S. Department of Transportation for discretionary grants, and eliminating 13(c) altogether for formula grants. Neither of the Congressional bills makes any changes in the 13(c) provision, however (9).

The methods for allocating financial assistance between cities have also been subjected to a great deal of scrutiny over the last three or four years. States like Minnesota that began providing operating assistance essentially as a deficit coverage device have had to develop formulas to provide predictable and equitable levels of state funding for future years. Minnesota has chosen to match local farebox and other revenues with matching ratios that vary by city size, ranging from a 45 percent state contribution for large urbanized areas to 60 percent for small urban areas and 65 percent for rural areas. Other states like New York and Pennsylvania use such factors as passengers and vehicle miles of service in an attempt to tie part of their state assistance to the performance of local public transportation systems.

At the federal level, there has been growing dissatisfaction with the population/population density factor used to allocate the Section 5 formula funds. This particular allocation formula results in much higher shares of operating costs being covered in low-density cities with limited transit services than in higher-density cities with extensive transit. Two different proposals have been advanced in the current legislative cycle to deal with this problem. The House Subcommittee on Investigations and Oversight and the Reagan Administration have proposed allocating federal funds in proportion to non-federal operating revenues, including fares and state and local subsidies, rather like the Minnesota scheme. The House bill has introduced a new formula for areas that have more than 200 000 population based on bus and rail service miles, with small incentive tiers based on bus and rail passenger miles and operating costs. The House bill retains the population/population density formula for areas under 200 000. The administration's bill sets aside 10 percent of the total funding for a discretionary capital program, while the House bill sets aside 25 percent.

The House bill reflects the desire discussed earlier to link mass transportation financing in some way to system output and performance. In seeking this goal, however, the House bill has tied funding to bus and rail services to the exclusion of other services such as vanpools and shared taxis, and has introduced an extensive set of data requirements on service and passenger miles for bus and rail systems. The conceptual problems and the administrative complexity of this proposal have created a good deal of skepticism among researchers and leaders of the transit industry.

A further new financing provision at the federal level is so-called safe harbor leasing, whereby transit systems can sell depreciation rights on new vehicles to private corporations. Originally adopted as part of the Economic Recovery Tax Act of 1981, safe harbor leasing for transit received much of the same criticism as similar provisions for transferring depreciation write-offs and investment tax credits between private corporations. The recent tax bill signed by President Reagan limits transit benefits to vehicles placed in service by January 1, 1988. Since only non-federal capital expenditures qualify for this provision, the benefits accrue primarily to large cities like New York, which devote considerable state and local funding to capital purchases. Cities that have relied on 80 percent federal matching funds for their capital programs have relatively little to gain from safe harbor leasing.

Further, until the gasoline tax question is resolved, federal mass transportation legislation apparently will be concerned only with extending the federal program through fiscal year 1983. If something close to the House bill is adopted, a major change will have been effected in the allocation formula. If the Senate proposal is adopted, the current program structure will be extended for another year.

Although no new federal legislation has yet been enacted, the proposals from the administration and from the House and Senate committees illustrate the issues currently at the forefront of the legislative debate. The issues of funding sources, funding levels, use restrictions, and allocation formulas are all currently open for legislative action. New legislation scheduled for enactment next year may well be a watershed for federal financing of mass transportation. It is therefore especially important that all four of these issues be exposed to extensive and thoughtful debate during the next six to nine months.

Decisions on the federal legislation are likely to have a substantial influence on state financing programs. An increase in the federal gasoline tax might influence state thinking (one way or other) about using state gasoline and motor vehicle taxes for mass transportation, and the level of federal financing will obviously affect the levels of state financing sought by cities with mass transportation systems. Restrictions of federal funds to capital expenditures would probably influence state programs to compensate by leaning toward financing operating assistance. Finally, the allocation formula adopted at the federal level will also influence state programs: States might choose identical or similar formulas if they accept the federal rationale, or somewhat compensating formulas if they do not. These likely impacts on state financing are further reasons why the decisions soon to be made on the federal legislation are so important.

#### CONCLUSION

A growing recognition that public subsidy levels for

urban public transportation cannot continue to grow at 20 to 30 percent annual rates has forced a comprehensive rethinking of the entire financing question. Increased efforts are being made to maximize the revenues that can be obtained from the users and other direct beneficiaries of public transportation. To the extent that public subsidies are required to achieve certain public policy objectives, they will undoubtedly be continued, but with much greater attention to disbursement practices that will maximize the community benefits achieved. Increased interest can be expected in encouraging diversity in the services offered and in the range of public and private service providers. A great deal of effort is also likely to be directed at reversing the trend of declining productivity experienced by conventional transit systems over the last 10 years or so.

While more carefully targeted pricing strategies and improved disbursement practices can significantly improve the financing picture for public transportation, substantial funding from other sources will continue to be required if services are to be maintained at something close to current levels. Reductions in federal funding levels are placing greater demands on state and local funding sources, though the ultimate level and structure of federal financing for the next four years is currently uncertain. The resolution of the federal financing role probably is a necessary pre-condition for the development of longer-range funding policies at the state and local levels.

The reductions in federal funding levels already in effect have heightened interest at the state and local levels in the enactment of dedicated taxes for public transportation. Many cities and states already have such taxes, and more are considering them. While dedicated taxes provide some relief from financing pressures, they create problems of their own. Many of the taxing sources being chosen by state and local governments are difficult to justify except on the basis of political expediency, and several will produce tax revenue losses at the federal level. Further, the level of revenues from dedicated taxes is usually controlled by factors that have little relationship to the financing needs of public transportation, and regional taxes can lead to divisive arguments between local jurisdictions over the relationship among fares, service levels, and tax contributions.

In summary, the major issues surrounding the future of public financing are illustrated by the questions currently under consideration in regard to the federal legislation: What should the source of funding be--general revenues, gasoline taxes, or other earmarked taxes? What should the level of funding be over the next four years? What restrictions should be placed on the use of public funding? and How should state and federal funds be allocated among cities? Since these questions must be resolved soon for the federal legislation, and the outcome will greatly affect state and local financing policies, the next six to nine months provide an extraordinary opportunity for setting new directions for public transportation financing. It is hoped that the full weight of current knowledge and experience will be brought to bear on these issues as new legislation is developed.

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## Does This Bus Go to the Future?

### Some Thoughts on the Future of Urban Public Transit

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The evolution of urban public transportation in the United States has been largely influenced by four factors: nature of urban travel demand (markets), competition from other modes, costs of providing transit services, and mechanisms for financing costs not paid directly by users. About 80 years ago, mechanized transit could efficiently and competitively serve concentrated travel markets, paid for (with little profit) out of user charges. At that point in time, transit began to become the primary means of urban passenger movement.

The automobile, urban sprawl, increasing incomes, and other factors made transit over the last 40 years less competitive in terms of both service and costs and its function shifted from being the primary means of travel to a mode that competed successfully only in specialized, high-density markets, i.e., CBD-oriented radial corridors. In the last 20 years, transit has been focused more sharply on the welfare function, meeting the needs of those without access to automobiles and, to a lesser extent--in times of emergency--serving as a backup for automobile travelers. In a relatively small number of markets, of course, transit continues to compete successfully with the automobile for CBD peak-period trips. The fraction of total travel carried by transit under such circumstances is very small, but the cost-saving impacts for all travelers of this function of transit are quite important.

The nature of the industry itself has changed rather significantly in the past 20 years, largely because it has rolled over from the private to the public sector, with the help of federal subsidies. This change has reduced the concern for covering

costs out of the farebox, for cost control and efficiency, and for timely maintenance of the physical plant. Indeed, it can be argued that federal subsidies, first for capital additions and later for operating costs, have encouraged overinvestment in public transit to far beyond the level at which market revenues can sustain services. Public takeovers and subsidies at all levels have resulted in emphasis on the welfare role of transit and have tended to perpetuate managerial myths about the industry that have led to increasingly nonviable actions. Examples of the latter include the myths that (a) decreasing fares will increase revenues, (b) holding fares steady in the face of increasing costs would benefit the industry, (c) new transit services can attract major shares of the automobile travel market, and (d) significant, incremental land development impacts can be readily generated from transit investments. For a while at least, money was easy to come by, and any and all justifications for expenditures became acceptable to pump up our transit systems.

Today, the environment in which urban public transit operates is changing radically again. Rapidly escalating costs, the certainty of federal subsidy cutbacks, and the decreasing ability and willingness of local governments to pick up the subsidy burdens all portend a new era. Markets continue to disperse and renewed competition from the automobile is emerging. Some of our most transit-intensive cities are in a state of economic decline. In the future, we might expect much greater concern for the cost effectiveness of services and a decreased emphasis on the welfare function, at least