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Case Study of Transit in Small and Medium-Sized Cities

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The changing federal involvement in supporting public transit will challenge every transit agency to develop creative solutions to a myriad of problems. Small and medium-sized systems face many of the same difficulties faced by larger systems but often experience proportionately greater funding shortages. There are several reasons for these proportionately greater shortages.

One major reason is federal regulations and mandates that significantly increase transit deficits. A few examples: Buy America requirements, uniform standards for bus design, Section 13(c) labor protection requirements, Davis-Bacon prevailing wage requirements, charter bus restrictions, Section 504 requirements preventing discrimination against the handicapped. The list could go on and on. All of these regulations impose costs and conditions on recipients of federal transit assistance. To the extent that state and local funds are provided to match federal funds, all of the federal requirements clearly must apply to the state and local funds as well. In other words, federal requirements apply to the entire transit system receiving federal assistance, regardless of the amount of funding received. The implementation and administration of these regulations by the smaller systems place a proportionately greater fiscal burden on the smaller systems. However, as the federal funding share of transit budgets continues to shrink, there is little evidence that the federal regulatory machinery is reducing its output.

A second reason for the proportionately greater funding shortfalls of smaller systems is the type of federal assistance received by smaller systems compared with that received by larger properties. Seventy-six percent of the nation's transit usage is concentrated in our 10 largest urban areas. Thereafter

the portion of urban travel that is on public transit declines considerably with declining urban area population. Rural transit, important for those with limited mobility, carries only a small portion of rural travel. Consequently, federal political and fiscal policies have understandably been directed toward fulfilling the needs of the larger urban areas.

Although federal capital and operating funding has decreased over the years under the Reagan administration, the most significant reductions have been in the federal funds available for operating assistance. Operating assistance funding has dropped from $1.1 billion in 1980 to $845 million in 1987. Federal capital assistance, the assistance most needed by the larger systems, has not been reduced a great deal, largely because of the one-cent gasoline tax earmarked for transit. This tax generates well in excess of $1 billion per year for transit and has taken some of the pressure off the general revenues that had formerly been the source of all federal transit assistance. Traditionally, the larger transit systems received, on average, only 14 percent of their operating revenues from the federal coffers. On the other hand, the smaller systems require a much greater federal contribution to their operating ledgers, some approaching 50 percent. Therefore, with the proportionately greater decrease in federal operating revenue, the smaller systems have suffered a proportionately greater hardship.

As a result of reductions in federal operating assistance, the smaller systems have been forced to request additional assistance from state and local governing bodies. This need has created new problems, but it has also generated some enlightening solutions to these complex problems. These solutions are the prime focus of this presentation.

STATE GOVERNMENT SUPPORT OF TRANSIT

Much of the recent federal shortfall has been made up by the states, which have sharply increased their funding levels during the past few years. From fiscal year 1983 to fiscal year 1986, federal transit funding dropped 22 percent from $4.5 billion to $3.5 billion while state funding climbed 30 percent from $2.7 billion to $3.5 billion. As states have become more aware of their increased role in funding transit, they have begun to take a more active interest in how transit subsidy funds are spent. This growing interest has also been fueled by the states' role in administering federal transit assistance for non-urbanized areas. This program was established in 1978 and has been commanding increasing attention as more and more smaller areas have begun to receive and use funds. Two recent initiatives in Pennsylvania offer potential hope to transit systems in other states that are increasingly relying on state transit assistance.

The first Pennsylvania initiative relates to general revenue funding of public transit. In 1980, the Pennsylvania legislature passed a transit funding law that provided for a state contribution of between $66^2/_3$ percent and 75 percent of each system's operating deficit. Because this formula was driven by the size of the transit system's deficit, there was no incentive to control costs or to raise revenues. After more than 18 months of intensive effort, Pennsylvania's transit systems were successful in convincing the governor and the state legislature to enact a major change in the state's mass transit laws. The change, enacted this past July, eliminates the deficit-driven formula and gives transit properties an outright grant based on the size of the system as well as performance measures. The new law also provides an additional \$30 million increase in state transit funding from \$180 million to \$210 million.

The 18-month effort by the Pennsylvania Association of Municipal Transportation Authorities (PAMTA) to achieve this legislative goal was based on one significant issue: the major economic impact of Pennsylvania transit on the economic well-being of the commonwealth. This theme was repeated again and again. State transit systems, both large and small, must collectively present a unified case to their mayors and legislators about the economic impact of transit in their states. Transit agencies can no longer simply issue fancy press releases on the value of transit. They must take specific, verifiable steps to prove to local officials that transit is a vital part of community development.

Another Pennsylvania initiative that has potential benefits for mass transit involves an issue that many state governments have an interest in addressing: local tax reform. Last month, Pennsylvania Governor Robert Casey convened a special legislative session to find solutions to a major problem facing Pennsylvania taxpayers. The problem is the high and inequitable amount of property, occupation, and various nuisance taxes paid to local governments.

Of prime concern is the property tax. Unlike taxes based on income or corporate profit, the property tax must be paid by homeowners regardless of their economic situation or whether they are living on small, fixed incomes such as Social Security or pensions. Because the loss of federal revenue sharing funds has increased the need for more local funding for programs such as mass transit, local governments are hard pressed to raise property taxes. Property taxes in the state currently account for about 70 percent of the local tax burden. This problem is so intense that the governor budgeted \$140 million for the tax reform effort. He also appointed a special statewide commission to provide tax reform options for the legislature before the start of the special session.

Although the final form of the tax reform legislation will not be known for several months, some clear outlines are emerging. It appears that, in return for reducing or eliminating local property taxes, county governments will be

permitted to enact sales taxes of as much as 1 percent to make up for lost revenue. The tax would be collected by the state but returned to the county. The first 0.25 percent of the sales tax revenues would be shared with municipal governments. Municipalities, in turn, would be permitted to levy a personal income tax of 0.75 percent. The most exciting benefit for transit is a proposal to reduce by 50 percent the amount paid by county and municipal governments to support mass transit. The state would compensate the transit systems for the 50 percent loss in local funding. Thus, because the local transit obligation would be reduced by half, the potential exists for making a case to county and local governments to increase their transit allocation. Because 50 percent of all increases would be covered by state government, local governments have an incentive to improve their local transit systems without seriously jeopardizing other important local programs.

Because many states have been stung by the reduction in federal support programs, especially revenue sharing, a variety of measures for increasing the revenue base is currently under consideration by these states. Consequently, it is important that state transit associations develop coherent strategies to make sure that the best interests of transit are served during the development of these initiatives.

LOCAL GOVERNMENT SUPPORT OF TRANSIT

Increased local government participation in transit funding raises another important issue that must be addressed by each transit agency: public perception.

Federal participation in transit funding is based on standard theories of how a viable mass transit system contributes to the socioeconomic improvement of a community. The theories are all-encompassing. All transit systems, large and small, regardless of geographic location or political persuasion, generally receive their proportionate share of funding based on this universally perceived need. However, it is a different story at the local level.

The local community in which mass transit operates is the proving ground for the previously mentioned theory. How well a transit system operates, or is perceived to operate, can make a substantial difference in the level of support received from local government. Consequently, as transit relies more and more on local tax revenues for its existence, it is imperative that transit agencies provide a level of service that is deemed worthy of these increased local revenues. How the public perceives transit is now a critical issue. This perception transcends passengers and touches local businesses, public and private organizations, and the local governmental units that actually provide transit funding.

This matter of perception is especially important for the smaller transit systems. In the larger urban areas, transit is generally viewed as a critical component of metropolitan existence. Some of the recent transit strikes in our larger cities made clear the immense problems that occur when transit is absent from the streets. But in smaller communities the benefits of public transit are not always as clear. Thus it is incumbent on the operators of the smaller systems to present a comprehensive case to their community leaders on the benefits of local mass transit. They probably already have a fairly good impression of the impact made on the transportation indigent—the elderly, the handicapped, the poor. What is needed is focus on the economic impact made by all riders as well as transit operation. What is the financial impact made when people ride transit to area businesses? What are the subsequent economic multiplier effects, including more jobs and an expanded tax base? What impact is made by the goods and services purchased by the transit system? In Cambria County, we continually stress the value of the $20 million-plus dollars that have been spent within the county during the past 10 years. A recent American Public Transit Association study states that for every transit dollar invested in a community, three additional dollars in business revenues are generated. The community must have this type of information.

Here is a perfect example of the perception principle. Earlier this year, the transit management of Little Rock, Arkansas, changed its operating body from a metropolitan planning organization to an authority in order to provide a legal forum within which to seek a dedicated state sales tax for transit. The need was estimated at 0.25 percent. However, the state legislature failed to pass the required legislation. The reason? Failure of the transit system to convince the public and members of the legislature that transit was a vital component of the community. Because the Arkansas legislature meets only once every 2 years, the measure will not be considered again until January 1989.

The people in Little Rock have learned from their mistakes. They have budgeted $170,000 a year for the next 2 years to hire a marketing consultant to assist in the structuring of a positive public image campaign. They realize that transit's value in the community is not always self-evident. They have to blow their own horn, so to speak.

Back in Pennsylvania, the Lehigh and Northampton Transit Authority (LANTA) pursued a similar course. In the early 1980s when the Reagan administration took office, the LANTA Board of Directors and management made two important decisions. First, in anticipation of the fiscal philosophy of the new administration, they decided to revise their transit service area so that it could eventually sustain cuts without substantially affecting the level of service. Second, they decided to make a consistent effort over a period of 18 months to contact every community leader and organization within their service area in order to explain the value of transit. The community's realization of transit's value was perceived as a vital step in the event LANTA

needed to approach local governments for increased subsidies as a result of losing federal revenue. The authority reasoned that local governments that perceived transit in a positive light would be more inclined to support transit when the time came to distribute scarce fiscal resources. Like cream, transit would rise to the top of the local money barrel. LANTA presented its case to more than 50 service clubs and organizations. Hundreds of community leaders were contacted. The result? Today, mass transit in Lehigh and Northampton counties is perceived as absolutely vital to the economic and social welfare of the area.

Keep in mind that LANTA's actions were taken in anticipation of future fiscal difficulties. LANTA did not wait until the day of financial reckoning to embark on a crusade. By making its case before the actual need for additional revenue arose, LANTA was in an opportune position to receive additional funding when the need actually arose. The lesson to be learned from the LANTA experience is the value of consistently making the community aware of the presence of transit, in good times and bad. Then, when transit has to seek additional monies, the groundwork has been done. A solid foundation has to be built. When this foundation has been established, a variety of approaches can be pursued to increase the local funding base.

One avenue is the sales tax. I mentioned previously how the tax reform measures under consideration in Pennsylvania will probably result in local sales taxes. Although these sales taxes will not be dedicated directly to transit, they will alleviate other financial pressures and so, it is hoped, permit local governments to increase their transit contributions.

In the state of Florida, statutory authority already exists that allows local governments to enact dedicated sales taxes. For example, the Hillsborough Area Regional Transit (HART) authority, which serves the Tampa area, is currently preparing a feasibility study that will address the issue of sales taxes and other revenue to support the construction of a commuter rail system. At present, HART receives about $7 million a year through a half-mill levy on real estate that is dedicated to transit. However, construction of the rail system is estimated to cost $800 million, an amount that far exceeds that which can be supported by real estate taxes.

It is interesting to note that HART pursued a course quite similar to the one undertaken by LANTA in Pennsylvania. When HART was formed in 1980, it created a Transit Development Program (TDP) that emphasized the merits of assuring that local government played a vital role in providing transit funding. As was the case with LANTA, they could see the handwriting on the federal fiscal wall. Their 5-year TDP reflected this realism. Consequently, they immediately prepared the groundwork for creating support for a referendum for the half-mill real estate tax previously mentioned. After passage of the tax, HART immediately began to study future alternatives for transit funding to pay for

the inevitable expansion of transit service dictated by the rapidly growing population base. In only 5 years, HART grew from a 175-bus system to a 300-bus system. The next major step is the rail system that will serve three corridors. HART management is realistic enough to understand that they cannot expect to receive federal rail start money for the project. Therefore they are following a policy of demonstrating an ability to raise money locally in order to show their federal partners that there is a strong local commitment to the project, that the local government and the public are willing to "put their money where their mouth is." HART believes that after this commitment is demonstrated it will be in a much better position to lobby Washington for rail dollars.

OTHER FUNDING SOURCES

Another funding avenue under consideration by large and small transit systems alike is the developer impact fee. For example, the HART system in Tampa currently raises more than one-half million dollars a year in such fees. As the rail system goes on line, these fees will increase substantially.

Sarasota County Area Transit (SCAT), also located in Florida, is presently developing a TDP that will focus on developer impact fees. Although the first draft of the TDP is still 4 months from completion, SCAT has floated some trial balloons on the issue of impact fees. Apparently developers support the idea of making capital contributions for facility improvements such as transit terminals and bus stops but balk at the suggestion that they contribute to annual operating expenses. SCAT believes that in order to obtain developer support for operating impact fees, it will have to assure that passenger levels in the service area will be maintained at specific levels. This assurance will provide developers with a predictable customer base for attracting retailers to and keeping them in the development.

Another method of raising local funding is closely related to the developer impact fee. This method is joint public-private development. For example, the HART Board of Directors in Tampa has adopted a policy of evaluating all transit property to determine the potential for joint development projects. Tampa has a downtown transit-way with transit terminals located at both ends. The southern terminal, located in a major development area, has air space above it that has been leased to a developer. In another Tampa example, a local developer has entered into an agreement with HART to build a people mover between Tampa and Harbor Island, an off-shore residential development. Because HART owns the transit rights-of-way in this area, such an agreement was required. The developer will build and maintain the system, but, after a period of 15 years, HART can purchase the system for $1.00.

HART has provided another creative example of joint development. To establish an effective park-and ride express service, it obtained state funding

to purchase parking lots. Most of the park-and-ride lots had to be created in residential areas, so HART entered into agreements with local churches to build the lots on church property. In return, the churches agreed to maintain them and to use them on Sundays for church parking when the lots are not used by transit commuters.

In addition to the various approaches just described for increasing the level of local support of transit, another alternative, which potentially offers appreciable cost savings to transit systems, must be seriously examined. Federal dollars have become scarcer, and local budgets have come under a growing strain because of rising demands for services, local tax limitations, and public resistance to new spending initiatives. Efficiency has now become an acknowledged goal of transit management. Public opinion has come to recognize that there are practical limits to how much money state and local governments can devote to local transportation. This realization, in turn, has led to a growing acceptance of a different type of public-private joint development more popularly called privatization. Realization of the necessity of seriously examining this alternative has been reached with varying degrees of reluctance and enthusiasm, but the remarkable thing is that few people dispute the need for closer public-private cooperation.

Business leaders have come to understand that they must, in their own self-interest, assume a more active role in dealing with local transit problems in order to overcome obstacles to orderly economic growth. Corporate interests realize that they cannot ignore the health of the community in which they operate and that a viable transit system is essential to that vitality. Private developers, no longer able to rely fully on public funding and aware that transit accessibility is essential to the viability of their real estate ventures, are increasingly prepared to share the cost of necessary transit improvements. Therefore, it is only reasonable that private transportation operators would sense new opportunities in this changing climate to develop cooperative service ventures in the community.

Remember that the focal point of this discussion is the need for greater local government involvement in supporting community transit services. Local government has strong motivation to seek expanded private-sector involvement. By allowing the business community a greater voice in local transportation decision making, local public officials increase the likelihood of private-sector support. They thus gain an influential ally in their efforts to keep public opinion behind new capital improvements to the transit system. And, by contracting for service with private providers, transit systems can often improve the efficiency of service delivery and thus lower the cost of public transportation.

In short, there is a growing recognition on the part of both the private and the public sectors of a strong interdependence and mutuality of interest in

public-private cooperation. The form of this new partnership varies from place to place. In most communities, the public sector is likely to retain the principal role. In other places, the private sector may become an important partner. However, regardless of how the responsibility is eventually allocated, one thing already appears to be certain: because of a stronger private-sector role, communities will be enjoying a wider diversity of services and of service providers, a greater variety of financing arrangements and funding sources, and a more competitive, market-oriented approach to transportation.

Finally, I want to briefly mention an idea that will not have a large impact on reducing operating deficits but does have the potential of enhancing the positive public image principle previously discussed. It is an idea to which several transit systems, including that of Cambria County, are giving serious attention. In Cambria County we call it the Transit Heritage Fund.

The Transit Heritage Fund is a mechanism for inducing as many individuals, organizations, and corporations as possible to provide financial support that will be used to maintain and enhance the heritage of public transit in the community. For example, in Cambria County, which has a rich transit heritage dating back to 1893, plans are under way to create a permanent transit room in the Johnstown Flood Museum. We also periodically sponsor special excursions on an antique bus. Our Inclined Plane, a facility dear to the hearts of many local residents, is registered as a national historic site. Plans have been outlined for using the Transit Heritage Fund to help maintain the historical integrity of the Incline. Plans have also been developed in conjunction with the local university to produce a videotape on the history of local transit. This endeavor includes recording old film clips, pictures, and personal interviews with the old-timers who operated the trolleys and buses of a bygone era.

These and various other activities require financial support that previously came from operating revenues. But, by taking advantage of the considerable local interest in preserving our transit heritage, we can fund these ventures with donations made to the independent Transit Heritage Fund established by the transit authority. These various preservation activities will also engender a considerable amount of local media coverage and support, thus providing another boost to our positive public image.

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