1. Lower operating costs and subsidies
2. Contain cost increases
3. Obtain capital grant savings
4. Establish innovative services
5. Effectively control service quality

There is a large potential supplier market of private bus operators, from which services may be purchased by public transit authorities. These suppliers include operators of charter, airport, intercity, transit service, and school bus service.

In the New York City area private operators pay the same wage scale as the New York City Transit Authority. More than 600 buses are in daily service, and total subsidies are less than the gross receipt taxes which are paid to the city.

In Los Angeles private bus companies provide subscription services to major employment centers. More than 100 such buses carry almost as many passengers as the Southern California Rapid Transit District park-and-ride services. A study by the Southern California Association of Governments indicated that contracting of public park-and-ride services to these private operators whould achieve cost savings of 50 percent, and subsidy savings of 97 percent. The savings would actually be more, because the private costs included vehicle capital costs, while the public costs did not.

In Chicago private subscription services were established in response to substantial commuter rail fare increases. Now, about 75 buses are in operation without public subsidy. Private transit operators are also providing similar service in Washington, Boston and other areas. Private bus operators can provide effective contract service in various public transit markets.

No public transit service is more costly than commuter express. These are usually operated only during peak hours, and thus incur substantially high labor costs in relation to the service hours provided. For example, in Los Angeles about 45 minutes of service is obtained for each pay hour on all day services. However, on services which operate only during peak hours, such as commuter express, only 21 minutes of service is obtained.

Even in the face of this evidence some transit agencies continue to consider commuter express service as relative revenue producers rather than the deficit producers which they are. This results from using average costs, which are insensitive to the high costs of peak service. Peak period commuter express services are far more costly than the system average.

Even with premium fares, the subsidy per passenger tends to be far above the system average, commonly $2.00 or more. Comparison of these high subsidies to the much lower subsidies on high demand local services raises a question of equity. A Los Angeles study showed that commuter express services are subsidized at rates seven times greater than central city local services. What makes this equity question even more compelling is that public agencies can purchase such service for much less than they can produce it. Contracting for commuter express service can free funding for transit service to other markets.

Private bus operators are providing contracted commuter express services in Los Angeles, Chicago, Boston, Kansas City, San Francisco, San Diego, Minneapolis and other areas.

Local services can have very substantial deficits where passenger demand is light. Private bus operators can assist in reducing that deficit by providing less costly service, while serving the same passengers, as the following examples indicate:

- In Yolo County, California the entire local bus network is contracted to a private operator. Savings of more than 35 percent are being achieved, and the private operator is supplying the vehicles.

- In Carson, California a new bus system has just been contracted to a private operator. This system will operate for $17 per service hour, about 70 percent less than the cost of the regional operator and 50 percent less than the costs of the municipal public carriers in the Los Angeles area.

Local services are also being contracted in San Diego, the Antelope Valley, California, Minneapolis, Beaver County, Pennsylvania, Sonoma County, California, and in other areas.

Public transit has had relatively little impact upon the large and still expanding suburban employment centers, such as Route 128 (Massachusetts), El Segundo (California), and other areas. The land use patterns of these centers, and the dispersed residential locations of employees render conventional transit approaches impotent. Yet commuting traffic has made access to these locations at least as difficult as is automobile access to downtown areas. To address this situation, companies and employer associations have established bus services for their employees, with planning assistance from public agencies. In El Segundo the Hughes Aircraft Company has contracted with a private bus operator to supply a comprehensive bus transportation system for its employees. This service is a model for other suburban centers.

In summary, private bus operators can assist public transit authorities by providing cost-efficient and market-oriented service under contract. The market of potential suppliers is large. Private bus operators are currently providing commuter express and local services. They are also serving suburban employment centers. The resourcefulness of these operators can be marshalled to public benefit through contracting.

## III. CREATIVE FINANCING MECHANISMS

Gary L. Brosch, Rice Center

### A. Non-Federal Funding Alternatives

The panel discussion focused on the potential of public-private partnerships as an alternative to federal funding. The general consensus was that the future for partnerships is very promising, although they should not be expected to completely replace more traditional revenue sources. Examples of partnerships were presented by panel members throughout the workshop discussion.

Panel members viewed the definition of "public-private partnerships" from slightly different perspectives. Heidi Zukoski of the Rice Center viewed partnerships as negotiated agreements concerning special benefits to private businesses and corporations, with the value of the benefits varying by the type and value of a particular facility or service and by the characteristics of the site. From an absolute dollar standpoint, the most lucrative partnerships tend to involve rapid rail systems. However, from a percentage standpoint, even cities which operate bus systems may benefit from partnerships.

Erskine Walther of the North Carolina A & T State University suggested that partnerships fall

into two broad classifications: (1) power-of-state taxes and fees and (2) payment-by-benefits-received taxes and fees. He also noted that the term partnerships implies that both sides benefit equally from the agreement, otherwise there would be no partnership. If so, he recommended that the public sector develop the expertise to evaluate the value of benefits flowing to the private sector in order to obtain a fair agreement.

Marilyn Skolnick of the League of Women Voters of Pennsylvania, and Bob Reinshuttle of the Council of State Governments both stated that the full range of partnerships is still new to many state and local officials. They recommended dissemination of information about the different types of partnerships and the methods for evaluating their use to individual transit agencies.

In summary, the panel agreed that public-private partnerships are important to the future of transportation financing. However, they should be viewed as supplemental revenue sources. While partnerships can be the determining factor in whether a project is financially feasible, partnerships cannot be expected to replace federal, state and local taxes and subsidies.

### B. Administrative Impacts of Private Financing

For this workshop Duane Windsor of Rice University made a substantive presentation of his year-long study, "Administrative Impacts of Private Financing Techniques for Urban Transportation." The purpose of the study, funded by the U.S. Department of Transportation, was to examine the changes needed in federal policies and local administrative practices to encourage greater use of private enterprise, investment, and participation in the provision of public transportation services.

The study found that the U.S. Department of Transportation's use of federal grants instead of loans to support local transportation services has resulted in local agencies developing procedures and practices to suit the federal grant process that inhibit consideration of private sector involvement in public transportation services. The overall recommendation was that the federal government should establish a set of incentives that explicitly and systematically encourage transit agencies to operate financially viable services. Such incentives should encourage greater use of innovative financing techniques which, in turn, should reduce the need for federal subsidies.

The question and answer period focused on the role of federal policy today and the flexibility of existing laws to encourage greater use of innovative financing techniques. Most agreed that local agencies are not adequately prepared for immediate elimination of federal subsidies, nor is it likely to occur in the near future, and that revamping the federal grant process to reward financial innovation and reduce dependence on federal monies is a difficult long-term task. There was also concurrence with the recommendation that more information is needed by state and local officials concerning the negotiating process associated with joint development projects.

In brief, the conclusions and recommendations of the study are listed below.

Conclusions:

1. There is definite interest by state and local agencies in innovative financing techniques.

2. State and local efforts to use innovative financing are haphazard due to lack of information and experience and substantial administrative barriers.

3. Substantial volumes of private investment are unlikely in the immediate future due to fragmentation and disorganization of private credit markets.

4. The critical test of private sector participation is its impact on provision of high specific facilities and services that create special benefits, and on the efficiency and effectiveness of local agency operations.

Recommendations:

1. Incorporate a new objective in the Urban Mass Transit Act to develop non-federal, both public and private sources of transit financing.

2. Support this new objective by a) enforcing Urban Mass Transit Act planning provisions for private participation in provision of mass transportation services, and b) replacing the existing formula grant strategy with a federal subsidy system which rewards financial innovation and viability.

3. Develop federal incentives, state legislation, and administrative procedures that encourage use of innovative financing techniques before eliminating federal subsidies.

4. Encourage use of federal loans over grants.

5. Incorporate incentives in the federal subsidy strategy for local agencies to achieve more effective operations.

6. Moderate labor-managment provisions to permit negotiation on productivity standards and use of private transportation services.

7. Prepare a model state transportation act that encourages use of innovative financing techniques.

8. Disseminate information about innovative financing techniques.

9. Disseminate information about joint development as a revenue source, particularly about the negotiating process.

10. Retain safe harbor leasing.

11. Recognize in federal policies that auto transportation is underpriced relative to its real resource cost.

12. Clarify federal policy on disposition of property and other assets acquired with federal grants.

13. Investigate methods for improving the private credit market for transportation services.

C. Benefit Assessment District

The panel discussion focused on the potential of benefit assessment districts as a revenue source for transit agencies. Spence Ballard of the Metro-Dade Transportation Administration, Miami and David Nutter from Denver described their ongoing experiences with assessment districts, and Mike Lewis of the Southern California Rapid Transit District (SCRTD) described the plans of the SCRTD to establish benefit assessment districts along the new rapid transit line. These three experiences are briefly summarized below.

Miami A benefit assessment district has been formed in downtown Miami to finance $27 million of the cost of constructing the Downtown People Mover (DPM). The total cost of the DPM is estimated to be $69 - $100 million. The district will repay the bonds at a fixed rate over a fifteen year period. Assessment rates are less than 20¢ per square foot of net leasable office space. The district includes 700 properties. Churches and federal buildings are exempt from the assessment.

Denver Maintenance of the fourteen block transit mall in downtown Denver is being funded through a special assessment charged to property owners immediately adjacent to the mall corridor. The assessment and maintenance are being supervised by The Denver Partnership, Inc., which represents a group of downtown businesses. Assessments are 5¢ to 45¢ per square foot of land area, depending on the distance from the mall. In 1983, $1.5 million was collected.

Los Angeles The California State Legislature passed a law enabling SCRTD to establish assessment districts around each of the eighteen stations on the planned rapid rail line connecting downtown Los Angeles and the San Fernando Valley. No districts have been established yet. Assessments are anticipated to provide five percent of the total system cost.

Most of the discussion concerned practical questions about the feasibility of establishing a district. The role of the private sector was discussed at length. It was noted that political opposition and legal challenges can be minimized by involving the property owners in the early planning stages. For example, in Miami the County Manager commissioned a private sector task force to study the downtown people mover's financing; the task force recommended the district technique to the Board of County Commissioners, which passed an enabling ordinance in 1983. In Los Angeles the SCRTD will involve property owners in the design of the station sites.

It was also noted that political opposition and legal challenges that could result in the dismantling of the district reduce the confidence of investors in bonds to be repaid by assessment revenues. In Miami the county pledged to retire the DPM bonds if the assessment revenues prove to be insufficient. This pledge reduced the cost of the debt service by 25 percent.

In general, the conclusion of the panel was that benefit assessment districts provide a lucrative revenue source for capital and operating costs of mass transportation facilities.

D. Innovative Loan Instruments

A panel discussion focused on opportunities to blend public and private resources to help transit agencies meet their capital and operating assistance requirements.

Opportunities to generate additional revenues and smooth cash flow cycles through the use of safe harbor leasing and grant anticipation financing were extensively discussed. A survey conducted by David Yudin, under contract to the Rice Center, pointed out the wide variation in loan arrangements transit agencies have used to meet their cash flow requirements. Joe Scatchard of SCRTD was able to advise smaller transit systems on how they could benefit from safe harbor leasing and grant anticipation financing on their own, as well as through pooling arrangements sponsored by the states.

A large portion of the session was devoted to exploring the credit value of UMTA's multi-year commitments. Based upon experiences in Allegheny County, Pennsylvania, it was felt that an opportunity for cost savings on the order of ten to fifteen percent of total project costs could be achieved if transit agencies could borrow against future year federal commitments in order to build their projects on an efficient time schedule. The importance of this concept was reinforced by representatives from Los Angeles and Seattle, who are preparing to begin major transit investment projects.

An example of public-private cooperation identified in the discussion was research on transit finance opportunities sponsored by Blyth Eastman Paine Webber, Inc., related to the Advance Construction Notes desired by the Port Authority of Allegheny County.

The service contract approach to financing transit investments was also discussed as an important mechanism for allowing transit agencies to receive funds on a predictable basis, without the need for holding a referendum. This approach has been pioneered by the New York Mass Transit Authority potentially has broad application. The service contract concept may also serve as an important mechanism for allowing privitization of transit capital projects, using the model developed in the waste water treatment field.

The most important recommendation to arise from the session was the need for additional information and training on innovative finance techniques. Both transit agency staff and board members expressed the concern that there was simply not enough written background on the subject of transit finance so that they could make timely and accurate decisions and that a conference or series of training meetings on this subject was needed.