

## State Transit Funding Issues

**John Dockendorf**

Pennsylvania Department of Transportation

### INTRODUCTION

State funding for public transportation now exceeds funding provided by the Urban Mass Transportation Administration (UMTA) for this purpose. From 1983 to 1987 federal public transit assistance declined from \$4.5 to \$3.2 billion. During this same period, state transit assistance increased from \$2.7 to \$4.0 billion. AASHTO indicates that, based on its annual surveys of state public transportation involvement, state funding has exceeded federal funding for public transportation since 1985.

Despite increasing state investment in public transportation, many state transit funding programs merely clone federal transit funding programs. States often limit their role to providing all, or part of, the local (nonfederal) match for these federal program grants and rely on UMTA to establish transit policies and grant program requirements.

However, many states are beginning to reconsider whether their traditional role of just providing matching funds for federal grants is still appropriate given the significant increase in their financial commitment for public transportation. Some states, such as Wisconsin, are considering adopting performance standards to help assure that state funds are more productively used. Other states, such as Pennsylvania, are beginning to require that local transit systems adopt service standards to achieve this same objective. Furthermore, a number of states have increased their financial reporting requirements beyond that required by federal Section 15 to help them monitor the use of state public transportation funds.

At the same time states are beginning to increase their role in the management of public transit funds, the federal government is reducing its role. UMTA has placed a greater emphasis on modified block grant funding, giving local systems more flexibility in the use of these federal monies. Also, UMTA now relies more on local self-certification to assure compliance with federal grant requirements. UMTA previously relied on discretionary grants to more directly manage how federal transit funds were used. Similarly, UMTA directly determined whether grantees complied with federal grant requirements.

This change in the federal role in managing public transportation funds makes it timely for states to rethink their position in the federal, state, and local public transit funding partnership. Should states fill the void left by UMTA and take a more active role in the management of public transportation funds? Or, should states follow UMTA's lead and rely on block grants and self-certification, and pass down the responsibility for managing public transportation funds to local governments? Each approach has advantages and disadvantages, and no single approach is

likely to be appropriate for all states, all transit programs, or all types of transit expenditures.

For example, the appropriate state role for New York, with its substantial financial and human resources, is likely to differ significantly from that of Nevada. The appropriate state role in managing urban transit funds may differ from the appropriate state role in managing nonurban transit funds due to the difference in the maturity of these two programs. Likewise, the appropriate state role in managing transit operating funds may differ from the appropriate state role in managing transit capital funds due to the difference in federal involvement in these two programs.

Therefore, defining the appropriate state funding role is an extremely complex task. There is no single solution. Rather, each state has to make its own decision on a case-by-case basis, taking into account its own past experience and future statewide funding objectives.

## **SOURCES OF TRANSIT FUNDING**

### **Operating Assistance**

The operating revenue received by public transit systems through user fees (fares), plus the miscellaneous revenue from advertising, charter work, school contracts, and other sources, has always been the single most important form of transit income to fund operating expenses. Before 1965, the aggregate amount of operating revenue earned by the nation's transit systems actually exceeded their costs of operation. However, even then, there were a number of individual transit systems that had revenue/expense ratios below 100 percent and needed government subsidies to balance their budgets. Now, every major transit system must supplement operating revenue with government subsidies to cover operating costs. From 1965 to the present, the relative importance of transit operating revenue as a source of overall transit income has diminished almost every year with a couple of minor exceptions. In 1985, aggregate transit operating revenue constituted less than 43 percent of total transit income. As recently as 1983, this figure was as low as 41 percent! (See Table 1). Fortunately, this annual decline in the share of total transit income composed of operating revenue has leveled off in recent years as fares have risen to keep up with inflation.

The second most important aggregate source of transit income for most transit systems is local operating assistance. This assistance made up only 20 percent of total income in 1978, but in 1984 local subsidies accounted for approximately 31 percent of aggregate transit income for the nation's public transit systems.<sup>1</sup>

Until recently, the third largest portion of total transit income for most transit systems consisted of federal operating assistance. Federal aid increased from 8.7 percent of total transit income in 1978 to a peak of 17.3 percent in 1980. Since

---

<sup>1</sup> Urban Institute, The Nation's Public Works: Report on Mass Transit, p. 2.

**TABLE 1 TREND IN TOTAL OPERATING REVENUE  
(IN MILLIONS)**

<u>Calendar Year</u>	<u>Total Transit Operating Revenue</u>	<u>Total Transit Income (Revenue and Subsidies)</u>	<u>Transit Revenue as a Percent of Transit Income</u>
1975	\$2,043.0	\$ 3,450.8	59.2%
1976	2,236.1	3,883.4	57.6
1977	2,353.6	4,257.7	55.3
1978	2,449.9	4,681.5	52.3
1979	2,647.8	5,558.2	47.6
1980	2,805.1	6,510.2	42.7
1981	3,045.2	7,366.0	41.3
1982	3,457.0	8,044.3	43.0
1983	3,504.1	8,525.7	41.1
1984	5,232.7	11,838.1	44.2
1985	5,377.7	12,621.0	42.6

then, this trend has been reversed, and federal operating assistance now makes up only 7.8 percent of total transit income (see Tables 2 and 3). Based on this year's federal budget, it appears this downward trend will continue.

The final major source of transit income is state operating assistance, which now accounts for approximately 16 percent of total transit income and represents the third largest aggregate source of transit income. This percentage has steadily increased since 1975 when state transit subsidies made up only 10 percent of total income. This upward trend is likely to continue as the federal government continues to reduce its participation in the transit funding partnership.

The combination of federal, state, and local subsidies has provided almost 60 percent of total transit income since 1980 (see Table 1). The decreases in federal transit assistance have caused state and local subsidies to increase at a faster rate than inflation. While federal transit operating assistance has declined as a proportion of total transit income by approximately 10 percent from 1980 to 1985 (see Table 3), state and local transit operating assistance as a proportion of total transit income has increased by about 10 percent over this same time period (see Table 4). It is not clear how long this trend can continue. If the decline in federal aid does not level off, transit systems may be unable to generate sufficient income to cover their rising operating expenses unless they institute major service reductions to hold down costs. It does not appear that major fare increases can be counted on to generate large enough increases in operating revenue to offset losses in government subsidy money.

**TABLE 2 TREND IN TOTAL TRANSIT OPERATING SUBSIDIES  
(IN MILLIONS)**

(1)	(2)	(3)	(4)	(5)	(6)
Calendar Year	Federal Transit Subsidy	Combined State and Local Transit Subsidies	Total Federal, State, and Local Transit Subsidies	Total Transit Income (Revenue plus Subsidies)	Total Subsidies as a Percent of Total Transit Income (Col. 5 minus Col. 4)
1975	\$ 301.8	\$1,106.0	\$1,407.8	\$ 3,450.8	40.8%
1976	422.9	1,224.5	1,647.3	3,883.4	42.4
1977	584.5	1,319.5	1,904.1	4,257.7	44.7
1978	689.5	1,542.1	2,231.7	4,681.5	47.7
1979	855.8	2,054.6	2,910.4	5,558.2	52.4
1980	1,093.9	2,611.2	3,705.1	6,510.2	57.3
1981	1,095.1	3,225.7	4,320.8	7,366.0	58.7
1982	1,005.4	3,582.0	4,587.4	8,044.3	57.0
1983	827.0	4,194.6	5,021.6	8,525.7	58.9
1984	1,024.0	5,581.4	6,605.4	11,838.1	55.8
1985	980.6	6,262.7	7,243.3	12,621.0	57.4

**TABLE 3 TREND OF FEDERAL TRANSIT OPERATING ASSISTANCE  
(IN MILLIONS)**

Calendar Year	Federal Transit Subsidy	Total Transit Income (Revenue plus Subsidies)	Federal Subsidy as a Percent of Total Income
1975	\$ 301.8	\$ 3,450.8	8.7%
1976	422.9	3,883.4	10.9
1977	584.5	4,257.7	13.7
1978	689.5	4,681.5	14.7
1979	855.8	5,558.2	15.4
1980	1,093.9	6,510.2	17.3
1981	1,095.1	7,366.0	14.9
1982	1,005.4	8,044.3	12.5
1983	827.0	8,525.7	9.7
1984	1,024.0	11,838.1	8.7
1985	980.6	12,621.0	7.8

**TABLE 4 TREND IN NONFEDERAL TRANSIT OPERATIONS ASSISTANCE  
(IN MILLIONS)**

<u>Calendar Year</u>	<u>Combined State and Local Transit Subsidies</u>	<u>Total Transit Income (Revenue plus Subsidies)</u>	<u>Combined State and Local Subsidies as a Percent of Total Income</u>
1975	\$1,106.0	\$ 3,450.8	32.1%
1976	1,224.5	3,883.4	31.5
1977	1,319.5	4,257.7	31.0
1978	1,542.1	4,681.5	33.0
1979	2,054.6	5,558.2	37.0
1980	2,611.2	6,510.2	40.0
1981	3,225.7	7,366.0	43.8
1982	3,582.0	8,044.3	44.5
1983	4,194.6	8,525.7	49.2
1984	5,581.4	11,838.1	47.1
1985	6,262.7	12,621.0	49.6

### Capital Assistance

Unlike federal operating assistance, federal capital assistance has been, and continues to be, the dominant source of funding for transit capital projects. For example, in 1985 UMTA provided approximately \$2.5 billion of the \$4.0 billion, or 60 percent of the funds provided for this purpose.<sup>2</sup> The importance of federal aid in meeting total transit capital funding needs is not likely to change in the near future. However, the absolute amount of federal capital assistance will probably decline as the federal government continues to reduce its annual apportionments for public transit.

Local governments are the next most important source of capital funding. In 1985, local governments provided approximately \$.9 billion, or about 23 percent, of total transit capital assistance.<sup>3</sup> However, the percentage of local funding varies greatly among transit systems. In some states, local governments provide the entire nonfederal share, while in others the state pays the entire local share. In most cases, both the local government and the state government jointly contribute nonfederal matching funds for capital assistance. In some large states, such as New York and California, the local governments provide more than the minimum required nonfederal match for selected projects in the state's larger cities.

<sup>2</sup>Ibid.

<sup>3</sup>Ibid.

The last important source of transit capital funding comes from state governments. In 1985, states provided approximately \$.8 billion, or about 16 percent, of total transit capital assistance.<sup>4</sup> However, like local funding, state participation in capital aid varies greatly among states. Some states with large urban area populations such as New York, Massachusetts, and New Jersey, provide the entire 20 percent nonfederal share; in states with relatively low urban area populations, such as Idaho and Wyoming, there is no state capital assistance program. In most states, local and state governments jointly provide the non-federal share for capital projects.

Of the \$2.5 billion of federal capital funding provided in 1985, approximately 90 percent consisted of Section 3 and Section 9 funds, while the remaining 10 percent came from other federal capital grant sources, such as Interstate transfers and the Federal Aid Urban Systems Program (see Table 5). This federal capital funding made up approximately 60 percent of the total government funding provided for this purpose, and this proportion of federal capital funding has remained relatively

**TABLE 5 SUMMARY OF TOTAL FEDERAL CAPITAL ASSISTANCE  
(IN MILLIONS)**

<u>Calendar Year</u>	<u>UMTA Section 3</u>	<u>UMTA Section 9</u>	<u>Other Federal Capital Assistance</u>	<u>Total Federal Capital Assistance</u>
1975	\$1,196.6	\$ 9.1	\$ 81.4	\$1,287.1
1976	1,346.1	32.3	576.5	1,954.8
1977	1,250.0	39.4	434.3	1,723.7
1978	1,400.0	50.1	586.8	2,036.9
1979	1,255.0	255.6	620.9	2,101.6
198-	1,655.0	431.2	701.0	2,787.1
1981	1,925.0	361.1	659.6	2,945.7
1982	1,634.5	297.7	611.8	2,554.1
1983	1,640.9	863.1	657.7	3,161.6
1984	1,096.0	1,339.2	440.8	2,876.0
1985	727.7	1,491.6	291.1	2,510.3

constant since 1975. However, although total UMTA capital grants have consistently accounted for over 60 percent of total capital assistance for the nation's transit systems since 1975, there has been a dramatic change in the composition of federal capital assistance. Section 3 discretionary grants, which made up about 93 percent of total federal capital aid in 1975, now account for only about 30 percent of total federal capital assistance (see Table 6). Federal Section 9 formula capital grant assistance, which accounted for less than 1 percent of federal capital aid in 1975, now accounts for about 60 percent of federal capital aid (see Table 7).

<sup>4</sup>Ibid.

## DISPARITIES IN FEDERAL TRANSIT OPERATING ASSISTANCE

One of the greatest difficulties in defining an appropriate state role for funding public transit is the disparity in the importance of federal transit aid among different size transit systems. This problem is a result of the federal transit assistance formula, coupled with the fact that the federal authorization for transit capital assistance differs significantly from the federal authorization for transit operating assistance. This situation is further complicated by the fact that all transit systems, regardless of size, need operating assistance annually but not all transit systems need capital assistance annually. The result is that most large transit systems tend to place a relatively higher priority on federal capital assistance, and most small transit systems tend to place a relatively higher priority on federal operating assistance. Since state transit funding programs complement federal transit funding programs, this dichotomy in the relative importance of federal capital and operating assistance to different size transit systems makes it difficult for states that have both large and small transit systems to reach a consensus on the optimal state transit funding role.

The forenamed dilemma is primarily a result of the federal transit assistance allocation formula. This formula is mainly based on demographic factors such as population and population-density. Although these variables are partly intended to be proxies for financial need, they primarily serve to distribute available transit assistance to as many urbanized areas as possible. However, the actual need for federal transit assistance is determined mainly by a transit system's level of

**TABLE 6 SUMMARY OF TOTAL FEDERAL SECTION 3 CAPITAL ASSISTANCE  
(IN MILLIONS)**

Calendar Year	(1) UMTA Section 3	(2) Total Federal Capital Assistance	(3) Section 3 Funds as a Percent of Total (Col. 2 - Col. 1)
1975	\$1,196.6	\$1,287.1	93.0%
1976	1,346.1	1,954.8	68.9
1977	1,250.0	1,723.7	72.5
1978	1,400.0	2,036.9	68.7
1979	1,225.0	2,101.6	58.3
1980	1,655.0	2,787.1	59.4
1981	1,925.0	2,945.7	65.4
1982	1,634.5	2,544.1	64.3
1983	1,640.9	3,161.6	51.9
1984	1,096.0	2,876.0	38.1
1985	727.7	2,510.3	29.0

**TABLE 7 SUMMARY OF TOTAL FEDERAL SECTION 9 CAPITAL ASSISTANCE  
(IN MILLIONS)**

<u>Calendar Year</u>	<u>(1) UMTA Section 9</u>	<u>(2) Total Federal Capital Assistance</u>	<u>(3) Section 9 Funds as a Percent of of Total (Col. 2 - Col. 1)</u>
1975	\$ 9.1	\$1,287.1	.7%
1976	32.3	1,954.8	1.7
1977	39.4	1,723.7	2.3
1978	50.1	2,036.9	12.2
1979	255.6	2,101.6	12.2
1980	431.2	2,787.1	15.5
1981	361.1	2,945.7	12.3
1982	297.7	2,544.1	11.7
1983	863.1	3,161.6	27.3
1984	1,339.2	2,876.0	46.6
1985	1,491.6	2,510.3	59.4

service and fare structure—not population or population density. A transit system's need for federal aid can be most accurately determined by measuring the size of its net operating deficit (operating expenses less operating revenue). However, since these figures constantly change, indirect proxies of financial need such as the number of vehicle miles or the number of peak vehicles are often used to estimate the relative funding needed by different size transit systems.

There is a wide disparity between the amount of federal aid provided to urbanized systems and their actual need for federal aid. Generally, large transit systems are allocated far less federal assistance relative to their actual funding need, while small transit systems tend to be allocated more federal aid relative to their financial need. In absolute terms, federal aid is insufficient to meet the financial needs of both large and small transit systems, but the gap between resources and needs is wider in the case of larger systems.

This dilemma is further aggravated by the dichotomy in federal limits on operating versus capital assistance. UMTA can pay "up to 50 percent" of the federal deficit for operating assistance but can reimburse transit systems for 75 to 80 percent of project costs for capital assistance.<sup>5</sup> In isolation, this discrepancy in federal funding limitations creates an incentive for transit systems to use available federal aid for capital assistance rather than operating assistance. This federal bias toward capital assistance is intensified by the federal provision of "caps" on operating assistance. Federal law places a ceiling on the amount of federal transit aid that can be used for operating assistance.

<sup>5</sup>The federal share for Section 3 discretionary capital assistance is 75 percent, while the federal share for Section 9 formula capital assistance is 80 percent.

This amounts to a double ceiling on the amount of federal aid that can be used for federal operating assistance. For all but small urban transit systems, the first federal ceiling—the cap on transit operating assistance—is reached before the second federal ceiling—not to exceed 50 percent of the federal deficit limit—is reached. Thus, the imposition of the federal cap impedes many transit systems from using as much federal aid for operating assistance as they would otherwise. The effect is to take away the flexibility in funding choice that a block grant is intended to provide. Fortunately, the 1987 STURA provisions largely removed this obstacle for small urban areas, and the Section 9 program now can function as a block grant for these systems.<sup>6</sup>

### DISPARITIES IN STATE TRANSIT FUNDING

In addition to the forenamed disparities in the federal transit funding program, there is a great deal of disparity among the 50 states in transit funding programs. Last year, in its 1987 Survey of State Involvement in Public Transportation, AASHTO reported that 42 states provided some form of direct state transit assistance in FY 1986-87.<sup>7</sup> The term "direct transit assistance" refers to revenues generated by a statewide tax and returned to local entities in the form of grants from the state. Some of these same states also provided indirect transit assistance, which means revenues generated by a state-level tax and retained at the local level for transit purposes. Generally, direct state transit assistance appears on annual state budgets and requires annual state appropriations by legislators while indirect state transit assistance does not. At times, the distinction between direct and indirect state transit assistance can be rather fuzzy, but, in most cases, state transit aid clearly fits into one category or the other. Table 8 summarizes direct state transit assistance from FY 1981-82 to 1983-84 based on AASHTO's 1984 Survey of State Involvement in Public Transportation. Table 9 summarizes direct state transit assistance from FY 1984-85 to 1986-87.

The form of this direct state transit assistance last year included state aid for at least one of the following purposes: operating assistance for urban and/or nonurban areas; capital assistance for urban and/or nonurban areas; operating and/or capital assistance for intercity bus service; operating and/or capital assistance for specialized transportation service; operating and/or capital assistance for rideshare service; state planning and/or technical assistance; state research and development assistance; and state financial support of administrative costs for the federal Section 16(b)(2) and/or Section 18 programs. Most states participated financially in a number of these transportation assistance programs.

Of the 42 states that provided direct transit assistance in FY 1986-87, 34 provided direct operating and/or capital assistance to urban and/or nonurban areas. In

<sup>6</sup>This federal legislation provided a one-time 16 percent increase in the "caps" for small urban areas in FY 1987-88.

<sup>7</sup>AASHTO, 1987 Survey of State Involvement in Public Transportation, November 1987.

addition, the state of Washington provided indirect state transit assistance for these purposes. Only 15 did not financially participate in at least one of these four transit assistance programs (see Table 10).

As shown in the table, many states were financially involved in all four transit funding programs. A few states, such as Wisconsin and West Virginia, limited their state involvement to operating assistance, while others, such as Georgia and Kentucky, restricted their financial involvement to capital assistance. Likewise, a few states, such as Rhode Island and Louisiana, restricted their state transit programs to urban areas. No state restricted its transit assistance programs to non urban areas. One state, North Carolina, provided capital assistance to both urban and nonurban areas but limited operating assistance to nonurbanized areas. Illinois provided capital assistance to both urban and nonurban areas but limited operating assistance to urban areas. Overall, there is a great deal of variability among the states in terms of which funding programs they were financially involved in last year.

There was also a wide variation in the amount of direct state operating assistance provided for transit operating and/or capital assistance in FY 1986-87. Direct state aid varied from the \$794 million provided by New York to the \$70,000 provided by Montana. Table 11 summarizes the amount of direct transit assistance provided by each state last year based on AASHTO's 1987 Survey of State Involvement in Public Transportation.

As noted in the table, most of the direct state transit assistance provided in FY 1986-87 was provided by six states—New York, Pennsylvania, New Jersey, Massachusetts, Maryland, and Illinois. It should be noted that California provided an extremely large amount of indirect state transit assistance (\$444 million) last year. Over one-half of these 34 states, 20 states, provided less than \$10 million of total direct state transit assistance last year, and many of these states provided less than \$1 million of direct state transit assistance in FY 1986-87. However, the absolute level of direct state transit assistance is not necessarily an indicator of state commitment to fund public transit, since these states differ tremendously in terms of size, wealth, population, and population density. Also, the amount of local transit funding varies greatly among these states, as many large cities have dedicated funding sources to supplement available direct state transit assistance. Tables 10 and 11 show that states vary greatly in terms of the transit funding programs they use and the degree of their financial participation in these programs. This variability makes it extremely difficult for states to agree on funding programs and policies.

### **SOURCES OF STATE TRANSIT OPERATING ASSISTANCE**

In 1987, most of the states that provided direct and/or indirect transit assistance last year provided state operating assistance. The Wisconsin Department of Transportation did a survey of these states last year and found that, of the 30 participating states, 15 exclusively used general fund proceeds, while 6 more used a

**TABLE 8 SUMMARY OF HISTORICAL AMOUNT OF  
DIRECT STATE TRANSIT FUNDING—PART I  
(IN MILLIONS)**

	<u>FY 1981-82</u>	<u>FY 1982-83</u>	<u>FY 1983-84</u>
Alabama	--	--	--
Alaska	3.7	2.0	--
Arizona	--	--	--
Arkansas	--	--	.2
California	65.2	69.9	88.0
Colorado	--	--	--
Connecticut	56.7	55.6	61.9
Delaware	4.2	4.3	4.1
Florida	36.9	31.8	33.6
Georgia	1.2	.7	.8
Hawaii	--	--	--
Idaho	--	--	--
Illinois	66.3	65.2	173.8
Indiana	10.3	9.9	10.8
Iowa	1.7	2.0	1.9
Kansas	--	--	--
Kentucky	.5	.5	.5
Louisiana	12.5	8.6	8.6
Maine	.4	.4	.4
Maryland	87.1	111.8	115.8
Massachusetts	158.7	166.9	174.7
Michigan	58.9	62.4	88.5
Minnesota	20.3	18.0	23.0
Mississippi	--	--	*
Missouri	1.1	.9	.9
Montana	.2	.2	.2
Nebraska	2.9	2.8	2.8
Nevada	.4	.4	.4
New Hampshire	*	*	*
New Jersey	104.5	124.0	149.0
New Mexico	--	--	--
New York	342.3	672.3	800.0
North Carolina	1.3	1.3	1.3
North Dakota	--	--	--
Ohio	17.9	16.2	31.2
Oklahoma	--	--	--
Oregon	1.0	1.0	.2
Pennsylvania	178.2	201.3	223.7
Rhode Island	6.6	7.2	8.3
South Carolina	.4	.6	1.0
South Dakota	--	--	--
Tennessee	1.8	1.8	1.9
Texas	14.0**	14.0**	14.0**
Utah	.5	.5	.6
Vermont	--	--	.1
Virginia	15.8	31.8	31.8
Washington	.9	1.1	1.1
West Virginia	--	.5	1.1
Wisconsin	24.6	40.8	36.2
Wyoming	.1	.1	.1

\* Some direct transit provided but equalled less than \$.1 million when rounded.

\*\*Annual average of 2-year appropriation.

Source: AASHTO, 1984 Survey of State Involvement in Public Transportation,  
September 1984.

**TABLE 9 SUMMARY OF HISTORICAL AMOUNT OF  
DIRECT STATE TRANSIT FUNDING—PART II  
(IN MILLIONS)**

	<u>FY 1984-85</u>	<u>FY 1985-86</u>	<u>FY 1986-87</u>
Alabama	--	--	.5
Alaska	--	--	--
Arizona	--	--	--
Arkansas	.2	.3	.3
California	167.0	104.1	93.9
Colorado	--	--	--
Connecticut	64.9	71.5	76.2
Delaware	4.8	4.3	7.5
Florida	34.8	11.9	9.8
Georgia	.7	1.2	1.0
Hawaii	--	--	--
Idaho	--	--	--
Illinois	174.6	173.4	173.0
Indiana	11.9	12.4	13.0
Iowa	1.9	2.9	3.6
Kansas	--	--	--
Kentucky	.6	.7	.9
Louisiana	7.2	7.0	3.5
Maine	.4	.4	.4
Maryland	158.7	204.0	212.0
Massachusetts	201.0	239.7	300.7
Michigan	90.7	89.4	98.4
Minnesota	32.5	27.9	24.6
Mississippi	**	**	**
Missouri	.9	1.0	1.1
Montana	--	--	.1
Nebraska	2.8	1.0	1.4
Nevada	.4	.4	.4
New Hampshire	--	**	**
New Jersey	224.0	221.7	290**
New Mexico	--	2.6	1.6
New York	805.2	826.9	800.8
North Carolina	1.3	1.6	1.7
North Dakota	--	--	--
Ohio	31.8	32.4	33.5
Oklahoma	.2	.3	.2
Oregon	.2	3.0	5.9
Pennsylvania	345.0	310.0	343.2
Rhode Island	8.8	9.9	11.6
South Carolina	1.1	1.3	1.1
South Dakota	--	--	--
Tennessee	1.9	2.2	7.6
Texas	14.0	4.9	4.9
Utah	.6	.6	.4
Vermont	.1	.1	.3
Virginia	31.8	31.8	43.6
Washington	.9	1.2	1.2
West Virginia	1.3	1.2	1.2
Wisconsin	39.8	46.7	47.9
Wyoming	.1	.1	.1

\* Funding includes all state transit assistance—not just operating and capital assistance—for urban and nonurban areas as reflected in Table 11.

\*\* Direct state transit assistance equalled less than \$.1 million when rounded.

\*\*\* Corrected survey figure.

Source: AASHTO, 1987 Survey of State Involvement in Public Transportation, November 1987.

**TABLE 10 URBAN AND NONURBAN OPERATING CAPITAL ASSISTANCE INCLUDING REDUCED FARE PROGRAMS**

<u>State</u>	<u>Urban Operating Assistance</u>	<u>Urban Capital Assistance</u>	<u>Nonurban Operating Assistance</u>	<u>Nonurban Capital Assistance</u>
Alabama		No Direct Financial Participation		
Alaska		No Direct Financial Participation		
Arizona		No Direct Financial Participation		
Arkansas		X	X	X
California	Indirect Financial Participation in All Four Programs/Direct Financial Participation in Urban Capital Assistance			
Colorado		No Direct Financial Participation		
Connecticut	X	X	X	X
Delaware	X	X	X	
Florida	X	X	X	X
Georgia		X		X
Hawaii		No Direct Financial Participation		
Idaho		No Direct Financial Participation		
Illinois	X	X		X
Indiana	X	X	X	X
Iowa	X	X	X	X
Kansas		No Direct Financial Participation		
Kentucky		X		X
Louisiana	X	X		
Maine	X	X	X	X
Maryland	X	X	X	X
Massachusetts	X	X	X	X
Michigan	X	X	X	X
Minnesota	X		X	
Mississippi		No Direct Financial Participation		
Missouri		No Direct Financial Participation		
Montana	X			
Nebraska	X	X	X	
Nevada		X		X
New Hampshire		No Direct Financial Participation		
New Jersey	X	X	X	X
New Mexico	X	X		
New York	X	X	X	X
North Carolina		X	X	X
North Dakota		No Direct Financial Participation		
Ohio	X	X	X	X
Oklahoma		No Direct Financial Participation		
Oregon		X	X	
Pennsylvania	X	X	X	X
Rhode Island	X	X		
South Carolina	X	X	X	X
South Dakota		No Direct Financial Participation		
Tennessee	X	X	X	X
Texas		X		X
Utah		No Direct Financial Participation		
Vermont	X	X	X	X
Virginia	X	X	X	X
Washington	Indirect Financial Participation in All Four Programs			
West Virginia	X		X	
Wisconsin	X		X	
Wyoming		No Direct Financial Participation		

Source: AASHTO, 1987 Survey of State Involvement in Public Transportation, November 1987. (Tables were modified in some cases to reflect updated information received by telephone.)

combination of general fund revenues and dedicated transportation fund revenues.<sup>8</sup> The remaining 9 states used dedicated transportation funds and/or miscellaneous other dedicated funds, and, in one case, tolls, to finance their state operating assistance programs. Table 12 summarizes these alternative funding sources for state transit operating assistance last year.

It is anticipated that more states will establish dedicated transportation funding sources to substitute for, or supplement, general funds to finance transit in the future. This will be largely due to the increased demand in state transit assistance funds both to keep up with inflation and to make up for reduced federal transit funding. Proposals to create dedicated state transit funding sources are already receiving serious discussion in some states, such as Pennsylvania and New Jersey.

Another important reason for the increased demand for state transit funding relates to the nation's serious infrastructure problem. In 1985, AASHTO reported in its Study on Future Directions report that anticipated transit capital needs are more than double authorized capital funding levels.<sup>9</sup> Due to a combination of reduced federal transit assistance, and progressively increasing capital needs as transit capital facilities deteriorate, the gap between future capital needs and available transit financial resources grows each year. If these trends continue, a transit funding crisis is highly likely in the next decade since failure to replace or restore these capital assets will have a major impact on transit service, especially commuter rail service.

A current example of this problem can be seen in Philadelphia. SEPTA projects that its current capital needs for the next 8 years will be approximately \$2 billion—about \$250 million per year. SEPTA anticipates approximately \$90 million in combined Section 3 and Section 9 federal capital funding this year, which, when matched by state and local funds, will result in approximately \$110 million.<sup>10</sup> Therefore, the expected capital funding will cover only about 40 percent of SEPTA's current capital needs this year. Although the capital funding situation in many of the nation's larger cities may not be quite this severe, virtually all of these cities are experiencing a serious capital funding problem.

#### **FUTURE OPTIONS FOR STATE TRANSIT FUNDING**

Given the disparity in federal government funding of public transit operating and capital costs and the diversity among states in funding these programs, it is clear there is no simple way for states to develop a uniform funding program that would

<sup>8</sup> Wisconsin Department of Transportation's Division of Budget and Planning, An Overview of State Mass Transit Assistance Programs: Financing and Distribution Methods, November 1987.

<sup>9</sup> AASHTO, Study on Future Directions of Public Transportation in the United States, February 1985.

<sup>10</sup> SEPTA, Staff Report on SEPTA Capital Needs and Available Funding, March 1988.

**TABLE 11 SUMMARY OF THE APPROXIMATE AMOUNT OF DIRECT STATE FUNDING PROVIDED FOR URBAN AND NONURBAN OPERATING AND CAPITAL ASSISTANCE INCLUDING REDUCED FARE PROGRAMS (ALL FIGURES ABOVE \$1.0 MILLION ROUNDED TO NEAREST MILLION)**

State	Approximate Amount of Direct State Assistance (in millions)
New York	\$ 794
Pennsylvania	318
New Jersey	292
Massachusetts	245
Maryland	210
Illinois	173
California	94*
Michigan	89
Connecticut	76
Wisconsin	43
Virginia	42
Ohio	32
Minnesota	19
Indiana	13
Rhode Island	11
Florida	9
Tennessee	7
Texas	5
Delaware	5
Iowa	4
Louisiana	4
Oregon	3
Nebraska	1
North Carolina	1
South Carolina	1
Georgia	.9
Kentucky	.9
West Virginia	.6
Maine	.4
Nevada	.4
Arkansas	.3
Vermont	.2
New Mexico	.1
Montana	.1
Washington	**

\* In addition to this direct aid, California provided approximately \$444 million of indirect state assistance for these programs.

\*\* Although no direct state aid was provided for these programs, Washington provided \$85 million of indirect state assistance.

Source: AASHTO, 1987 Survey of State Involvement in Public Transportation, September 1987. (Tables were modified in many cases to reflect updated information received by telephone.)

**TABLE 12 SUMMARY OF WISCONSIN SURVEY OF SOURCES  
OF STATE OPERATING ASSISTANCE  
(INCLUDED MOST STATES THAT PROVIDED EITHER DIRECT AND/OR  
INDIRECT STATE OPERATING ASSISTANCE IN FY 1986-87**

<u>State</u>	<u>Source(s) of State Operating Assistance</u>
Arizona	General lottery fund proceeds
California	General sales tax funds
Connecticut	Fuel tax and vehicle registration fee proceeds
Delaware	Turnpike toll revenue
Florida	Fuel tax proceeds
Illinois	General funds and general obligation bonds
Indiana	General sales tax proceeds
Iowa	Motor vehicle sales and use tax proceeds and oil overcharge funds
Louisiana	General funds
Maine	General funds
Maryland	Vehicle title fees
Massachusetts	General funds, fuel tax, and cigarette tax proceeds
Michigan	General funds, fuel tax, and vehicle registration fee proceeds
Minnesota	General funds, including proceeds from motor vehicle excise tax
Montana	Fuel tax proceeds
Nebraska	Fuel tax proceeds
New Jersey	General funds
New York	General funds plus proceeds from a number of selected taxes
Ohio	General funds
Oregon	General funds, including lottery fund proceeds
Pennsylvania	General funds
Rhode Island	General funds using proceeds from motor fuel tax
South Carolina	General funds
Tennessee	Fuel tax proceeds
Texas	General funds
Vermont	Fuel tax and vehicle registration fee proceeds
Virginia	General funds and earmarked sales tax and vehicle registration fee proceeds
Washington	General funds using proceeds from dedicated vehicle excise tax
West Virginia	General funds
Wisconsin	Fuel tax and vehicle registration fee proceeds

Source: University of Wisconsin, Division of Planning and Budget, An Overview of State Mass Transit Assistance Programs: Financing and Distribution Mechanism, November 1987.

satisfactorily meet transit funding needs. The constraints of the federal public transportation program complicate and greatly restrict what states can do to address this problem. Furthermore, the demographic variations among states make it difficult for them to develop a single concept for an appropriate state role for public transportation.

However, one option that appears to have merit for all states is greater reliance on block grants. One current opportunity that most states have to apply this concept is management of the governor's apportionment. Unlike federal aid to large- and medium-size urban areas, which is provided directly to local designated recipients, each state's governor is the designated recipient for federal aid to small urban areas. The governor has the authority, after consultation with local officials and publicly owned transit systems, to make apportionment decisions for this block of funds. States are not obligated to apportion funds to urban areas based on the traditional federal bus-vehicle-mile, population, and population density formula published annually in the Federal Register. Also, the individual operating assistance caps published for each urbanized area are not applicable on a syshas been greatly enhanced by the recent 16 percent national increase in caps for small urban areas. In most states, the statewide cap on this block of funds is a high percentage of the total statewide apportionment.

Another option, which is related to the governor's apportionment, is to transfer funds from this block grant to larger urban or nonurban areas. Like the transfer of funds within the governor's apportionment, consultation with local officials and public transit systems is required.<sup>11</sup> The authority to transfer funds to urban areas with populations over 300,000 is a relatively new feature of the Section 9 program. States have had the ability to transfer funds to nonurban areas for a number of years.

Currently, some states exercise this discretion in managing the federal governor's apportionment block grant. For example, Wisconsin and Ohio do not use the conventional Section 9 formula in apportioning these monies. Each of these states has developed its own apportionment methodology in distributing federal funds to small urban areas to help overcome some of the inequities and disparities in the federal transit funding program. In addition, Wisconsin routinely transfers funds from small urban to nonurban areas to help overcome Section 18 funding shortfalls.

The benefits of increased funding flexibility and increased local option are applicable to all government transit assistance, not just the governor's apportionment. For example, UMTA's Section 9 program gives large- and medium-size urban areas more discretion in the allocation of federal formula funds. Unfortunately, the current caps on federal operating assistance greatly impede areas from exercising as much discretion as is afforded small urban areas. States should consider providing more funding flexibility in their transit assistance programs, as

---

<sup>11</sup> States may unilaterally make governor's apportionment transfer decisions if affected funds are within 90 days of lapsing.

UMTA has done to some degree with its transit funding programs. A few states, such as Indiana, Iowa, and South Carolina, currently allow grantees to use a significant portion of their state transit funding for operating or capital assistance.

Besides the pragmatic advantages of block grant funding, there is strong theoretical justification for this concept. Transit operating and capital assistance should complement each other. It is inappropriate to artificially place a higher priority on capital assistance than on operating assistance through a higher matching ratio as the federal government has done. The removal of as many of these arbitrary obstacles as possible would enhance the optimal use of available financial resources for transit assistance.

Most of the other options for the administration of state transit assistance programs depend on whether a state desires to increase direct oversight of its program or decrease direct oversight by passing more administrative responsibility to grantees or local governments. Those states that prefer the latter approach may want to consider more self-certification by grantees that applicable grant policy conditions and legislative requirements are met. This could potentially reduce the grant administration expenses for these state agencies as well as expedite the release to state grant funds.

States that want to increase their role in administering public transit funds have the option of imposing more state grant conditions of their own now that selected federal grant conditions have been relaxed. Among the alternatives these states may want to consider are increased state financial reporting beyond the level required by Section 15, basing some state transit funding on the achievement of financial and/or operating performance standards such as minimum revenue/expense ratio standards, or basing some state funding on demonstrated improvement in selected financial and/or operating performance standards. There is a significant amount of state experience with these alternatives that other states can draw upon if they wish to do so.

## **CONCLUSION**

Unfortunately, it is difficult for states to make these deliberate choices as long as the current federal/state/local transit funding partnership remains unstable. The continued reduction of federal transit funding forces states to respond in a crisis environment. States must not only increase transit funding to cover ongoing annual inflationary cost increases but also must make up, at least in part, reduced federal funding to avoid further fare increases and/or service decreases. It is not clear how long states can meet this challenge. Already, some states, such as Louisiana, have reduced their state transit funding programs due to their inability to keep up with these funding pressures. It is essential for the federal government to accept its traditional funding role in the transit funding partnership to stabilize this situation and head off the potentially devastating spiral of higher fares, reduced ridership, and reduced service that led to federal transit funding in the first place.

Both the changing federal role in its funding and administration of public transit programs and the large increase in state funding of these public transit programs provide states with a need to reexamine their role in administering public

transportation funding programs. States have the option of increasing their involvement in public transit funding through greater financial reporting requirements, establishing service standard criteria, and providing more direct technical assistance. On the other hand, some states may want to emulate the federal program and pass more administrative responsibility to grantees or local governments and reduce their own direct involvement in these programs. There are important pros and cons with each approach, and there is no right answer as to which role is most appropriate for a given state. Rather, each state must define its own appropriate state role in funding public transportation on a case-by-case basis, taking into account the trends, their own experience, and the experience of other states in administering state transit funding programs. Some of the major policy issues each state should consider are listed below.

### STATE FUNDING POLICY ISSUES FOR DISCUSSION

- Should states provide transit funding in the form of a block grant to be used for operating or capital assistance at the grantee's discretion or should states earmark a portion of transit funding for operating assistance and a portion for capital assistance?
- Should the state share for transit operating assistance grants be different than the state share for transit capital assistance grants? If so, what should the state match for each type of grant be?
- Should states provide the entire nonfederal match for federal capital grants or should local governments be expected to provide a portion of the nonfederal match for these capital grants?
- Should states directly monitor the compliance of grantees with state transit funding program requirements or should states have grantees certify their compliance with these requirements as is generally done by UMTA in administering federal transit funds?
- Should states take an active role in managing the governor's apportionment and allocate these funds its own way or should states treat small urban areas as it does other urban areas, and accept the federal formula allocation of funds to these systems as specified each year in the Federal Register?
- Should states base the level of transit funding to grantees on more complicated (but more accurate), determinants of financial need, such as a portion of transit operating expenses or a portion of transit operating deficits, or base the amount of state transit funding on less accurate (but simpler and more predictable) determinants of financial need, such as population, number of vehicles, or the historical share of past state funding?
- Should states take the amount of federal funding into account in determining the amount of state grants for grantees or should the state base its funding independently of the amount of federal transit aid?

- Should states require revenue to cover at least a minimum percentage of expenses as is done in some states or should local governments have total discretion in setting fare levels?