# FINANCING OF MASS TRANSPORTATION OPERATIONS

RESEARCH REPORT NO. 135
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FRANKFORT, KENTUCKY

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# FINANCING OF MASS TRANSPORTATION OPERATIONS

Prepared for the

Interim Joint Committee on

Public Utilities and Transportation

By

**James R. Roberts**

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# FOREWORD

The 1976 General Assembly in the Extraordinary Session directed through Senate Resolution 13 that a study be completed on the financing of public transportation operations. This study examines alternatives the state could establish for financing this type of program and estimates the costs. Local government financing is reviewed along with currently established state and federal programs. A survey to determine methods used in other states for financing operations was also completed.

This report has been prepared by Jim Roberts under the direction of Dr. Jim Peyton and Brian Kiernan. The preliminary stages of this study were reviewed by the Subcommittee on Transportation of the Interim Joint Committee on Public Utilities and Transportation with the interim committee approving the printing of this study. The cooperation of the transit authorities of Kentucky, the Kentucky Department of Transportation and various local officials, agencies and institutions was vital to the preparation of the study and greatly appreciated. Every attempt has been made to credit the appropriate source of information specifically in the report. The manuscript was typed by Cheryl Jenkins and edited by Linda Wood.

Vic Hellard, Jr.
Director

The Capitol
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# FINDINGS AND RECOMMENDATIONS

Issues pertaining to public transportation have been addressed in the Kentucky General Assembly with regularity since 1972. Many other states have also studied this problem, and the federal government has allocated a substantial amount of money for public transportation needs,

The primary problem in providing public transportation services is that not enough revenue can be generated from the services provided. Public transportation has thus become dependent upon financial aid from the federal, state, or local government.

Federal aid for the operation of public transportation systems is only available to those local units in excess of 50,000 people. The smaller municipalities are dependent upon funds from state or local sources. In Kentucky public transportation expenses are not funded at the state level; aid must be generated through local sources.

Several states have initiated programs to aid public transportation. The appropriation programs range from formulas involving rates of usage to funding a percentage of the operating deficits. In most cases those states which have established a program to fund public transportation operations have faced increasing commitments to the program in succeeding fiscal years.

Currently nine local mass transportation systems operate within the state. Several municipalities have undertaken studies to determine the feasibility of developing transportation systems. The growth of municipal public transportation systems has not yet stablilized, thus reaffirming the finding that the cost of financing mass transit operations continues to increase annually.

Transit systems are established, managed and financed at the local level. Provisions have been made for localities to earmark revenues for this service, yet only one metropolitan areas has established a long-range program specifically providing for its transit system.

## Recommendations

As a result of these findings the following recommendations have been developed:

1. The Commonwealth has made provisions for transit authorities to obtain earmarked revenues from local governments and should wait until localities have adopted long-term financing before making a financial commitment.

2. If a program to finance operations of public transportation is established, energy, environmental and social problems should be addressed.

3. Because local transportation systems are not the sole providers of transporation services, a subsidy program should not be undertaken which would prohibit or displace services of currently operating

transit systems. Efforts should be made to consider all available transportation services in order to effectively utilize funds to meet passenger needs.

4. The General Assembly should consider legislation to exempt local transportation from paying the motor vehicle fuels tax.

# CHAPTER ONE

## INTRODUCTION

The Senate of the General Assembly of the Commonwealth of Kentucky passed a resolution during the Special Legislative Session in December of 1976 requesting a study on state financing of public transportation. Similar concerns have generated other studies across the United States, with several states having implemented operating subsidy programs. This study will examine the current policies in the Commonwealth, including governmental restrictions which may hamper further legislation, and the policies of other states.

A study on mass transportation is not a new topic to the Kentucky General Assembly. There have been two legislative investigations of this subject in two previous interim periods. A mass transit authority act was passed by the General Assembly during the 1970 Regular Session. Since that time several changes have been made in this piece of legislation, other bills have been introduced and changes have been made in the types of funding.

In Final Report to the Legislative Research Commission, the Transportation Facilities Review Subcommittee of the 1972-73 interim recommended that:

1. The State Department of Transportation develop close coordination in its program for urban areas between demands for mass transit and demands for expressways; and

2. The 1974 General Assembly consider authorizing urban governments in Kentucky to make whatever efforts they determine are needed locally to support and operate mass transit systems.

Consistent with these recommendations, House Bill 679, passed in the 1974 Regular Session, stated:

> that the institution, acquisition, preservation and continuation of mass transportation facilities to serve the general public is vital to the health, safety and material well-being of the citizens and inhabitants of the Commonwealth. . . (KRS 96A.310)

The Subcommittee on Transportation presented additional findings on mass transportation during the 1974-75 interim. The committee reported that local officials had voiced a need for public transportation, but these officials had assigned a low priority to the program because of more urgent municipal needs.

House Bill 31, which promoted the development of eight regional transportation authorities, was prefiled during the 1974-75 interim. This bill was reported favorably from the House Cities Committee but was not passed during the 1976 Regular Session. Legislation which did pass during the 1976 Regular Session concerned the methods of financing available to public transportation authorities. This legislation is discussed in detail later in this report.

The budget which was adopted by the General Assembly during the 1976 Special Session allocated $500,000 for an operating loan fund for transit authorities. These bills, recommendations and studies have resulted in a policy in Kentucky to fund public transportation capital expenses and elderly and handi-

capped programs and to establish an operating loan fund for transit authorities.

## Background Concerns

Certain policy choices must be made as a program for public transportation is developed. Public transportation is now patronized predominantly by low and middle income groups in the urban areas. If services are to be expanded into rural areas of the state and if services are to be patronized by higher income groups, present financing policies must be revised at all levels of government.

Public acceptance, and thus ridership, of public transportation has declined in recent years. Policies developed by federal, state and local governments have contributed to the decline of public transportation. In the 1920s the Federal government enacted motor fuels and license taxes earmarked for a Highway Development Fund specifically for highway construction. By 1950 states had established their own highway development funds and a vast network of roads was developed. The availability of this network of roads to the individual has contributed to a shift from public transit use to private automobile ownership. Another result of the increased development of roads is that many citizens now reside in suburban areas and have become more dependent upon individual transportation. The result of these changes in living patterns is that public transit systems are facing severe financial difficulties. Thus, the growth of the automobile industry has continued.

Historically, when roads were in poor condition and travel was difficult, trains, trolleys, coaches and buses transported the population around the central business areas, thus promoting economic growth. Now that times have changed, the question is whether the development of public transportation subsidy programs assist in solving the new problems facing society.

Some advantages of the widespread use of public transportation today are that the impact of the energy crisis could be decreased; and traffic congestion and air pollution would diminish. However, in order for these potential advantages to become reality, there must be a major change in usage patterns from automobiles to public transportation.

Mass transportation is now promoted almost exclusively for those who have no other means of travel. The disadvantage of this policy is that patrons will probably cease using public transportation when independent means of transportation become available. The result of a further decrease in ridership is that the already financially weak systems would deteriorate further and subsidy programs would be forced to make greater financial commitments.

## Methods of Approach

Informational sources used to analyze the problems of public transportation systems include a survey of literature to establish the history of the problems of public transportation and a review of data from other states. A significant number of states currently operate subsidy programs. A brief questionnaire was sent to eighteen states to obtain information on their pro-

grams. Many states submitted published studies of their particular policies, analyzing their successes and shortcomings.

The Urban Mass Transportation Act (UMTA) of 1964 was analyzed to determine federal policies with regard to planning, oversight and financial assistance. This legislation was also reviewed as a basis for state policy. UMTA was enacted by Congress to provide capital, planning and operating funds to transit systems. This program has been expanded to provide a considerable amount of financial aid to state and local governments. State and local governmental units within the Commonwealth were contacted to determine current state policy. Budgets of transit authorities and localities operating transit systems were analyzed. In addition, the Kentucky Revised Statutes and the Constitution were examined for legal implications. Kentucky Department of Transportation (KyDOT) and appropriate local officials furnished additional information.

## CHAPTER TWO

## STATE AND LOCAL CONCERNS ON PUBLIC TRANSPORTATION PROGRAMS

The financing of mass transportation systems is a problem throughout the United States. The main core of the problem is the inability of transit systems to avoid current operating deficits. Capital expenditure funds are available through federal and state assistance and various loans. However, operating expenses are paid by fare box revenues, assistance from local and state governments, and federal aid. Because of the administrative and formula limitations placed on use of the funds, the total revenues for public transportation may still be grossly inadequate.

The problems of financing mass transportation in the Commonwealth and the areas to be studied are:

1. Sources of available revenue for transit projects are not adequate to meet project costs.

2. Transit system inability to generate revenue outside user charges make financial administration difficult.

3. Revenue from passengers and the Federal Government is unstable in the long run, and planning and coordination based on these funds are difficult.

4. The Commonwealth has declined to develop statutory, constitutional or revenue policies which provide sufficient relief of operating costs to transit systems.

5. Localities have not made long-term commitments to public transportation in their areas.

These statements cover the basic issues involved in the financing of mass transportation and provide guidelines for alternatives which can be explored.

### Kentucky Constitutional Limitations

There is a total of $4.2 million available for mass transportation during the current biennium in Kentucky. Of this amount, $1.2 million is available annually for capital outlay, which is the purchasing of vehicles and construction of garages; one-half million dollars is available annually as an operating loan fund which is subject to regulations by the Kentucky Department of Transportation; and $200,000 is available annually for the transportation of the elderly and handicapped.

No other sources of funds which can be used for mass transportation have been developed by the Commonwealth except for legislation enabling local governments to issue revenue bonds and allowing transit authorities to obtain specific taxes. Both methods must be approved by referendum.

The Constitution limits localities to two types of major taxes, occupational and property, with a maximum levy that localities can make against property. The next section contains a series of tables which provide details on the maximum assessments.

The Kentucky Constitution further places limitations on the authority of municipalities to tax and borrow. The maximum tax rates established by Section 157 of the Constitution are summarized in Table 1.

TABLE 1

Kentucky Municipality Maximum Tax Rates

| City Population | Maximum Tax Per $100 Assessed |
|---|---|
| Over 15,000 | $1.50 |
| 14,999 - 10,000 | 1.00 |
| Below 9,999 | .75 |
| Counties and other district | .50 |

Source: Kentucky Constitution, Section 157.

The cities which are currently involved in financing mass transportation systems are not near these maximum rates established by the Constitution. A problem occurs with property tax rates because of subsection (6) of KRS 132.010 defining "compensating tax rate." This provision states that the property tax rate cannot exceed the rate established in 1965. Even though current city property tax rates do not reflect the maximum tax allowed by the Constitution, the rates are limited by KRS 132.010, often referred to as the "property tax roll-back law." Table 2 provides the current property tax being assessed in eight Kentucky cities which operate public transit systems.

TABLE 2

Kentucky Municipality Current Property Tax Rates

| City | Population (1970) | Property Tax Per $100 Assessed (1975) |
|---|---|---|
| Louisville | 361,472 | $.555 |
| Lexington | 108,137 | .617 |
| Covington | 52,535 | .780 |
| Owensboro | 50,329 | .465 |
| Bowling Green | 36,253 | .315 |
| Paducah | 31,627 | .622 |
| Ashland | 29,245 | .491 |
| Newport | 25,998 | .896 |
| Henderson | 22,976 | .565 |

Source: Commonwealth of Kentucky, Department of Revenue, 1975.

TABLE 3

Municipality Maximum Debt Restrictions

| City Population | Maximum Indebtedness |
|---|---|
| 1st-3rd class cities exceeding 15,000 | 10% of property tax |
| 3rd-4th class cities | 5% of property tax |
| 5th-6th class cities | 3% of property tax |
| Taxing districts and other municipalities | 2% of property tax |

Source: Kentucky Constitution, Section 158

The constitutional problem of debt limitation can be partially circumvented because of its relationship to the property tax. The municipality could levy a higher propery tax provided that the General Assembly amends KRS 132.010. Such an amendment would allow municipalities to incur a greater total debt based on Section 158 of the Constitution.

## Transit Authority Financial Sources

Although the maximum limits of the Consitution provide no immediate problem to the finances of the municipality, KRS 96A.090 states that no transit authority shall be vested with the power to levy taxes in any amount.

KRS 96A.120 defines the permissible types of financing available to mass transit authorities. The types of financing are:

1. Appropriations from the public body responsible for its creation;

2. Proceeds from general obligation bonds approved by the public bodies;

3. Issuance of revenue bonds in the name of the authority;

4. Issuance of mortgage bonds;

5. Issuance of general obligations bonds issued for the benefit of the authority; or

6. Issuance of revenue and mortgage bonds issued by the authority.

The financing measures provided in KRS 96A.120 are difficult to implement because of the limitations of KRS 96A.090 upon transit authorities to levy taxes. Additionally, the fact that fare box revenues are insufficient to meet operating costs makes it difficult for transit authorities to issue bonds. If the fare box revenues were inadequate to meet operating costs, there would probably be insufficient funds to repay the principal and interest on the bonds. Authorizing a transit authority to borrow without allowing it to tax is impractical. If transit authorities could impose taxes the resulting revenue should be sufficient to meet operating deficits, thus eliminating the need to issue bonds.

Borrowing can result in a transit authority becoming dependent upon the bond market. Interest levels would then continue to mount as the system became involved in a borrowing cycle. If the city or authority then became unable to obtain a loan and other forms of generating revenue could not be developed, the system would face default or severe curtailment of services.

If a transit authority defaults on a bond issue, the bond rating of the city which formed the authority may be adversely affected.

KRS 96A.320 provides three methods for mass transit authorities to generate revenue, all of which are subject to voter approval. The three sources are:

1. Additional levies upon all taxable properties;

2. Levying of occupational license fees not to exceed 1% of salaries, wages, commissions and other compensation; and

3. A 1/2% tax of the gross receipts of any retailer derived from retail sales subject to KRS Chapter 139.

## Constraints on Implementing Legislation

There is a problem with Kentucky law concerning the financing of transit authorities. A sales tax to finance transit authority operations may be unconstitutional. The attorney general issued an opinion in October of 1976 stating that local governmental units do not have the authority to levy a sales tax. (OAG 76-623) The opinion cites Section 181 of the Constitution, which states that local governments can levy only ad valorem, license, and occupational taxes. The Supreme Court has also held that a sales tax does not fall into one of these classifications of taxes. (Driver v. Sawyer) Therefore, a municipal government cannot legally impose a sales tax.

The practice of allowing voters to place a tax on themselves is democratically sound. However, in practice it has served to stifle most types of service. The voters will in many cases tax themselves only if the service which is being provided faces termination. Public transportation systems in Kentucky could incur a fate similar to that of schools that have been shut down in several states because of a lack of money to meet operating expenses and the failure of voters to approve an additional tax to meet those expenses.

Another problem in obtaining voter approval is that the passenger of the public transit system is most commonly of a medium to low-income class and the total program may be viewed as another form of welfare payment for the benefit of the low-income population. Additionally, in approving a tax to support mass transit many citizens would be taxing themselves for a service seldom, if ever, used.

Property tax rates in northern Kentucky are already higher than in most areas of comparable size in the state. Thus voters may be reluctant to substantially increase this form of tax to provide additional support to transit operations. Additionally, the imposition of an occupational tax would not be sufficient in some areas because many residents of northern Kentucky are employed in Cincinnati and thus could not be taxed through occupational withholdings.

The advantage of allowing citizens to vote to establish their own tax rate is that voter approval is an indication of the amount of public support for the service. Public transportation in Kentucky is not provided on a statewide level. The service resides at the local level, and public interest should thus be generated at that level. If the local residents decide that such a service is necessary to the area, a referendum for funds to be generated at that level would likely pass.

The state has the authority to provide the enabling legislation to insure that the public will can be implemented. The state can either initiate an interest in a public transportation system or pass the necessary legislation so that municipalities can develop their own policies for mass transportation.

## Considerations for Further Legislation

Kentucky transit systems have four specific sources of funds:

1. A specific appropriation from the Commonwealth of $4.2 million for the current biennium;

2. Federal assistance;

3. General appropriations from local government; and

4. Revenues generated by the transit systems.

The Northern Kentucky area transit financing is typical of state transit systems and is summarized in Table 4.

TABLE 4

Revenue Source for Transit Authority of Northern Kentucky

| Type | Amount |
|---|---|
| Federal Programs | |
| Operating Assistance | $ 907,306 (maximum elig.) |
| Local Government Appropriations | |
| City of Florence | 95,678 |
| Kenton County | 742,150 |
| Campbell County | 455,116 |
| Advertising | 360 |
| Capital Surplus | $ 40,311 |
| TOTAL | $2,240,921 |
| Transit System Generated Revenue | |
| Fare Box Revenues | $1,558,390 |
| Interest Income on Working Capital | 23,469 |
| Charter Service | $ 36,720 |
| TOTAL | $1,618,579 |

Source: TANK Section 5 Request, 1976

These revenues are dependent upon the acceptance of the Federal Government of a grant application, the local government assessment of $.06 on $100 assessed of local property and the number of transit system passenger. Only the local government share of the revenues can be predicted with accuracy. Changes in federal legislation and consumer patterns can change revenue from the other sources. However, the operating expenses based on routes, salaries, fuels, and other necessary operating expenses are predictable and will increase annually unless cutbacks are made in services or personnel.

The current policy of the Commonwealth is to not finance operating costs for mass transportation. The programs currently provided by the state are capital outlay financing, operating loan fund, and programs for the handicapped and elderly.

The Commonwealth has been hesitant to develop a policy on providing operating costs because of the amount of state supervision which might be required and the fact that a commitment by the state to public transportation on a recurring basis would become necessary.

The Commonwealth of Kentucky would be obligated to establish performance criteria of transit systems if money were appropriated to individual systems, and thus some supervision by the state would become necessary. The evaluation of a transit system could be as simple as the submission of a revenue and expenditure statement, or as complex as providing criteria for the level of service, routing, scheduling, and fare charges. This would mean that additional manhours would be spent at the state level evaluating the performance of local public transportation. This expense and evaluation may be unwanted by the state department which is assigned the task. An additional problem may be a lack of readily available expertise or funds for additional personnel.

Another problem to the Commonwealth resulting from the appropriation of money to individual transit systems is that the expenses to the state would be recurring. To provide funds for operations and fail to make a continuing commitment may damage the service to a greater degree than the initial appropriation over the short term would help. If the state is to provide an annual appropriation, it must find a stable source of revenue to meet these expenses. Because the source of funds would be subject to legislative approval, this method of financing may be an unstable source of revenue as other state priorities may develop.

This long term cost consideration is extremely important in developing a sound financial policy for mass transit. In most cases sectors of government have found that in financing public transportation the costs have not only been recurring, but have increased. However, if the state were to become involved in mass transportation, its impact could possibly create a greater efficiency and higher service levels, thus improving the total program.

# CHAPTER THREE

## FEDERAL AND STATE FUNDING METHODS FOR PUBLIC TRANSPORTATION

The public transportation program on the federal level was initially enacted in 1964 as Title 49, Chapter 21, Section 1601 of the United States Code. This act is generally known as the Urban Mass Transporataion Act (UMTA) and now encompasses Sections 1601 through 1613 of the Code. Matching grants are available for both capital and operating expenses for existing systems. The matching funds cannot be taken from the basic sources of transit system revenues: passenger fares, advertising, concessions, and property leases.

Section 1602 of UMTA provides the guidelines for federal assistance and contains a provision for diverting capital expense funds to operations; Section 1603 provides the appropriations. These appropriations are made by the United States Department of Transportation (USDOT) and are commonly referred to as Section 3 funds. Section 3 grant awards are 80% for capital expenses and 50% for operating expenses.

The Section 3 50% operating grants are available for only one year. The local unit must then continue the grant program for an additional year with no federal grant assistance. Only New York City has received funds under this provision. The provision may be deleted because of lack of participation.

UMTA guidelines for operating deficit grants are contained in Section 1604; Section 1605 provides the appropriations referred to as "Section 5" funds. Section 5 grants are awarded for a maximum of 50%. The grant amount is determined by a formula based on the population times a density factor of the area.

Only urbanized areas, those which have a population in excess of 50,000, are eligible for UMTA funds. The cities of Frankfort, Maysville, and Henderson operate transit systems but do not have adequate population to be designated as an urbanized area and thus are not eligible to receive to UMTA grants. Systems which are eligible for assistance usually receive less than the maximum 50% grant because of the density formula. Some municipalities are not eligible to receive UMTA funds because they do not meet requirements for elderly and handicapped programs.

### Planning and Research Grants

The Commonwealth of Kentucky receives UMTA funds for state planning and research, and development. These funds are received by the state Department of Transporation (Ky DOT) and are utilized by municipalities to organize and develop mass transportation systems. The state either channels funds directly to a city to hire consultants for its study, or the Kentucky Department of Transportation provides staff members to the municipality for organizational and planning purposes. Currently several Commonwealth cities are planning transportation systems with the use of these funds.

## Synopsis of Total Federal Program

The federal program for mass transit planning and implementation specifies the procedures for establishing a transit system. First a five-year transportation plan is developed with federal funds channeled through the state. The plan and implementation procedures are then submitted to the United States Department of Transportation.

An approval will enable a municipality to apply for a federal 80% capital outlay grants. A municipality over 50,000 people is eligible for 50% matching funds under Section 5 for operating expenses. Senate Bill 662 has been introduced in the 95th Congress. This bill proposes that $500 million operating aid be made available to transit systems in areas of less than 50,000 population. The proposed legislation also includes a provision to upgrade the systems to aid accessibility and costs for the elderly and handicapped. The formula of Senate Bill 662 for operating assistance is identical to the formula of Section 5 for urbanized areas. Senate Bill 662 is assigned to the committee on Banking, Housing, and Urban Affairs. The impact this bill may eventually have is uncertain but if passed could provide operating aid to those cities with a population less than 50,000.

Federal UMTA grants provide only a portion of transit operating deficits. A public transportation system must receive financial support from state or local governments if it is to remain financially stable.

## State Financing of Public Transportation

Surveys were sent to eighteen states which have developed methods of financing or expressed interest in financing mass transportation. Of these eighteen states, fourteen responded. The survey contained several questions directed toward determining the state policies on transportation. The survey results showed that two states did not directly appropriate money for operating expenses, one state had legislation pending to provide operating funds, and eleven states were already directly involved in providing funds for operations. A discussion follows of four diverse funding programs established in Montana, New York, Pennsylvania and Wisconsin. The discussion is followed by Table 6, which provides a breakdown of the survey results.

### Montana

Montana currently provides operating assistance for public transportation through gas tax revenues. The total allocation which the transit system is eligible to receive is determined by a formula with the total deficit and rate of usage as the variables. Montana can use this formula without an overload of administrative duties because only three transit systems operate within the state. A limitation of the use of the formula allocation is that as more public transportation systems are established, the administrative oversight will become increasingly time consuming.

The operating funds that each system receives is based on an exact formula, and a system cannot receive more than half of any annual operating deficit from the state. State law 11-4513 states:

the proportion of the operating deficits of all municipal public transportation system in the state represented by the operating deficit of the applicant city, multiplied by the rate of usage based on bus passengers per mile in the applicant city, where full usage of the system would have a value of one (1).

The Montana method seems to be simple to administer and provides incentives for usage, but there are some problems with the allocation formula. The rate of usage formula is:

$$R = \frac{P}{MXC}$$

R = rate of usage
P = annual number of passengers
M = annual rates traveled
C = capacity of bus.

The amount of state aid is based upon the rate of usage formula; a greater rate of usage would enable a transit system to obtain a greater amount of state aid. A difficult problem could arise in the ability of a state to monitor the annual number of passengers, annual rates traveled, along with the bus capacity and to insure that the transit system does provide the service as stated.

The formula penalizes the larger bus systems. An example of this could be if a bus traveled two miles with a capacity of fifty passengers and each passenger left the bus at the end of the two miles the rate of usage would be .5. This figure is computed by dividing fifty by the product of two times fifty. Whereas, if the same bus traveled one mile with a capacity of fifty passengers and each passenger left the bus at the end of the mile, the rate of usage would be 1. This figure is computed by dividing fifty by the product of one times fifty. Thus, use of this formula, penalizes transit systems serving larger geographical areas.

The Montana method of allocating operating expenses has some advantages. Incorporated into the formula is an incentive program which provides that funds to be awarded vary, based upon the rate of usage. The system provides a matching source for federal funds. An additional advantage of the Montana law is that a stable source of revenue is made available to the local systems, enabling them to plan more effectively. Finally, the formula places a ceiling on the total state expenditures of the program.

There are two major disadvantages to use of this formula. The first is that a state must manage a large administrative oversight program to compute the number of miles traveled and the number of passengers. The second disadvantage is that use of the formula results in some larger transit systems with longer routes and thus a smaller rate of usage figure not being eligible to receive the maximum 50% of annual operating deficit allowed by state law. At the same time, some smaller transit systems with shorter routes and thus a larger, rate of usage figure, would apparently be eligible to receive a larger amount than would be allowed by the state law establishing a ceiling of 50%.

New York State

New York State is experiencing problems which are similar to the service and financing problems of other states. The problems are further complicated by the number of transportation modes offered - subway, commuter rail and bus - and the total amount of ridership. Approximately 17% of the state population regularly patronizes some form of mass transportation. Public transportation is regarded as an essential public service in New York and the state provides operating funds for this service.

The New York State program has divided public transportation into two types of systems which are eligible to receive funds. The Regional Transportation Authorities enumerated in Table 5 are classified as specified systems, for which $93.1 million is currently available from the Local Assistance Fund. The remainder of the transit systems are considered unspecified, for which $8.9 million is earmarked.

The difference between the specified and unspecified systems is that the regional transit authorities of the state receive a specific amount from the state legislature for the specific systems, while unspecified systems funds are developed on a formula basis. Table 5 is a schedule of the appropriation received by the New York State transportation systems.

TABLE 5

New York State Appropriation to Public Transporation

| | |
|---|---|
| Metropolitan Transit Authority (NYC) | $ 90,000,000 |
| Capitol District Transit Authority (ALBANY) | 740,000 |
| Central New York Regional Transit Authority | 640,000 |
| Rochester-Genesee Regional Transit Authority | 950,000 |
| Niagara Frontier Transit Authority | 1,770,000 |
| All other Public Transportation Systems (Unspecified) | 8,900,000 |
| Total | $103,000,000 |

Source: Public Transportation Operating Assistance; Programs in New York Annual Report 1976.

Unspecified Systems. Unspecified system funds are subject to a formula allocation under various chapters of New York State law. Chapter 118, enacted in 1974, a formula by which those systems could receive funds. The formula is as follows:

> 1.4 cents per quarterly revenue passenger, plus 9.0 cents per quarterly vehicle mile of revenue service plus, 10.4 (quarterly) per

urban resident serve (applies only to public owned and operated system)

Chapter 56, Section 2, enacted in 1975, established a second formula which unspecified systems could use to obtain funding:

> 2.0 cents per quarterly revenue passenger, plus 7.0 cents per quarterly bus vehicle mile of revenue service, plus 8.0 cents per quarterly subway/rapid transit vehicle mile of revenue service; and 25.0 cents per quarterly commuter rail vehicle mile of revenue service.

During the fiscal years 1975-76 and 1976-77, the transportation system selected the formula which would maximize the appropriation it was eligible to receive.

State Administration. New York State regional transportation authorities and other public transportation systems are required by state statute and by the New York State Department of Transportation (NYDOT) regulations to file with the state the budgetary and financial data and the total number of vehicle miles. It is possible that after these funds are appropriated to the systems a surplus of funds may develop. In such cases a plan to dispose of these surplus funds must be submitted by the system to the Commissioner of NYDOT.

New York statutes authorize the Commissioner to prescribe appropriate rules and regulations, a uniform system of accounting, definitions of terms, and to perform audits on both public and private operators involved in the program. State funding of operating expenses and capital grants, as well as required NYDOT approval of all applications for federal transportation funds, give the state a voice in decisions made by public transportation systems. The state has no involvement in day-to-day management of operations of public transportation systems.

State/Local Matching. The counties and municipalities of New York State must provide a 50% matching fund for state appropriations. However, Section 5 of the Federal UTMA program provides a 50%/50% federal/non-federal matching program. The actual expenditures for operating costs, if both federal and state funds were utilized, would be 50% federal, 25% state, and 25% local. Public transportation systems which are not eligible for Section 5 funds would receive 50% state funds.

Evaluation of New York System. In most states the operating assistance has been allocated on the basis of a formula without regard to service quality. This situation can create problems in future state appropriations to public transportation. A potential problem is that if a state provides funds for half an operating deficit, as the deficit increases the state financial burden increases. Thus, a resulting increased deficit in the operations of public transportation systems is highly probable.

New York State provides the unspecified systems with financial aid and incentives to promote use of the system and increase their services. Public transit systems can increase their appropriations from the state by increasing

the number of passengers and the total vehicle miles. If state funds per passenger and vehicle mile were kept at a moderate level, unwise or unplanned expansion by the transit systems would be prohibited.

The problem with this system and its implementation in Kentucky would be the administrative oversight required to review passenger and vehicle miles, the increased workload necessary to screen and review operations, and the burden of auditing each system's revenues and expenditures. However, an incentive element in the program may aid in insuring that the state would not become overly committed to pay deficits of public transportation systems. The state could continue to plan in advance for transit operating expenditures by using such a formula.

## Pennsylvania

Pennsylvania is currently funding the operation of mass transportation systems. In addition to providing funds, the state has participated in establishing guidelines for the efficient operation of the transit systems.

Formula for Appropriations of Funds. During fiscal year 1976-1977 the General Assembly of Pennsylvania appropriated a lump sum of $74.2 million for mass transportation operations. The legislation limits state funds to two-thirds of the transit agency operating deficit. The money was allocated from the state's general fund, to be awarded by the Pennsylvania Department of Transportation (PennDOT). The appropriations are made after an extensive examination by PennDOT of the applicant's performance. Additional funds are provided by the Pennsylvania state lottery to reimburse transit systems for free fares for the elderly.

State Involvement in Transit Operations. PennDOT is involved in (a) operating guidelines and standards; (b) data collection and analysis; (c) financial guidelines and standards; and (d) technical studies and policy development of the transit agencies. The purpose of this involvement is to improve service quality, to increase operating efficiencies, and to increase productivity in return for the public tax dollars committed in support of transit systems.

(a) Operating Guidelines and Standards. In 1973 PennDOT adopted operating guidelines and standards that specify elements of service such as speed, reliability of service, area coverage, fare structure and capacity. The guidelines and standards also direct transit agencies to improve public information; establish a marketing program; and collect certain technical, financial and operating data. These guidelines have proven to be useful in assisting transit authority board members and management in making sound operating decisions.

The PennDOT guidelines and standards include criteria for guiding mass transit operating and planning studies, aiding PennDOT management in evaluating requests for financial assistance, and identifying areas to be changed. The PennDOT staff also conducts field examinations of the transit systems and make recommendations on ways to improve service and to improve efficiently.

(b) Data Collection and Analysis. Pennsylvania has developed a standardized reporting system for operations. The state has also compiled financial data on revenue sources and amounts. PennDOT annually compiles this data and publishes a mass transit statistical report which presents comprehensive data on all of the state's major transit operators. These statistical reports for each transit agency provide insight into the performance of the system on a comparative year basis.

(c) Financial Guidelines and Standards. Financial guidelines have been prepared to systematically compare the financial data of individual properties with industry-wide performance. The key to this type of analysis is a set of guideline relations providing comparisons which may be made between transit operating expenses and transit operating and financial characteristics. PennDOT expects this program to help transit agencies identify areas where the transit management can improve the efficiency of their systems.

(d) Technical Studies and Policy Development. PennDOT offers both financial and technical assistance to transit agencies in areas such as operations planning, feasibility studies, management evaluations and policy formulation. In addition, PennDOT has proposed several management assistance projects for 80% federal matching funds. The management assistance program is intended to assist operating agencies develop their own management capabilities in all areas of operations and services and develop specific in-house management capabilities necessary to administer the Pennsylvania grant program.

Evaluation of the Pennsylvania System. The Pennsylvania program removes from the local sector the burden of providing matching funds for federal grants. In addition, because the state statute provides that two-thirds of the operating deficit be met by the state, transit systems can plan with a greater degree of certainty.

The administrative oversight role of the Pennsylvania systems would involve a great deal of expense in time and effort to obtain the information needed if it were implemented in Kentucky. Although this program may promote greater efficiency and productivity, the actual total program does not provide an incentive for efficiency. For instance, with the state providing two-thirds of the operating deficit, the greater the deficit, the more the state appropriations to public transportation would increase. However, if the state were to devise a system where efficient practices in recovering expenses from fare box revenue could be implemented, the state share may not increase as quickly.

## Wisconsin

The information reported in this section is reported in Wisconsin Urban Transit Report; Report #5. Wisconsin provides operating assistance for both urban public transportation systems. The total cost of the program is $35 million, which was appropriated from the General Purpose Revenue Fund in fiscal year 1974-76. The program costs will be appropriated from the highway fund for fiscal year 1977. The appropriations to the cities are established by use of a single formula based upon the total operating deficit of the system.

The state of Wisconsin pays to the eligible cities two-thirds of the remaining deficit not covered by operating revenues and the UTMA Section 5 program. The operating deficit is defined as the difference between operating expenses and operating revenues incurred by the mass transit system. The total deficit is funded one-half by the federal government, one-third the state, and one-sixth by the localities for urbanized areas under the Wisconsin law.

The non-urbanized areas, or those municipalities under 50,000 people, operating public transportation systems receive operating expenses from the state. The formula to fund these operating expenses is two-thirds from the state, while the locality provides one-third of the funds. These cities are not eligible to receive operating expenses through the UTMA program.

Wisconsin has become actively involved in the administrative oversight of the management of transit systems. The Department of Transportation aids each participating system in determining the actual operating deficit, provides assistance in planning, aids in preparation of grant applications, and aids in making decisions about service levels and in establishing fare rates. This extensive participation by the state would add to its expense because of the man-hours involved in the assistance and audit programs.

The advantage of the Wisconsin program is that it provides the local government with a reliable source of revenue for federal matching funds. With the detailed oversight provided by the state, it may also insure greater efficiency on the part of the transit system. However, the Wisconsin policy provides no incentives for either reducing deficits or increasing ridership or for developing programs which may promote better service.

The possibility of greater deficits to the transit systems is a major problem. By adopting this type of program, the municipalities involved in providing the service provides only a small part of the funds and can decline making any hard policy statements regarding mass transit.

The next section of the study will evaluate the costs and possibilities of implementing these state operations in the Commonwealth. The cost figures which will be generated are estimates, but should provide enough information in analyzing the feasibility of Kentucky's involvement in financing the operations of public transportation.

TABLE 6

Transit Financial Assistance in Other States*

| STATE | DOES STATE PROVIDE OPERATING FUND | FORMULA FOR DETERMINATION OF FUNDS | STATE FUNDING SOURCE | OVERSIGHT PROVIDED BY STATE | REQUIREMENT OF LOCALITIES TO SUBMIT FUNDING POLICIES | USUAL LOCAL SOURCE OF FUND | GOVERNMENT BEARING OPERATING DEBT | GOVERNMENT BEARING BOND DEBT | REQUIREMENT OF TRANSIT SYSTEM TO SUBMIT FINANCE STATEMENT | NUMBER OF SYSTEMS IN THE STATE |
|---|---|---|---|---|---|---|---|---|---|---|
| California | No | N/A | N/A | Technical Assistance by Request | No | 1. Local Sales<br>2. Property<br>3. Bridge Tolls<br>4. General Funds | 1. Municipality<br>2. Transit Authority | 1. Municipality<br>2. Authority | Yes | 11 or more |
| Illinois | Yes | 1. 3/32 sales Chicago<br>2. 2/32 sales E. St. Louis<br>3. 1/32 sales Downstate<br>4. 2/3 of operating debt | General | Downstate Authorities Funded After Review of Operation | No | 1. Municipal Appropriation<br>2. Property Tax | 1. State<br>2. Local<br>3. Authority | 1. Locality<br>2. Authority | No | 11 or more |
| Massachusetts | Yes | 1/2 of Debt After Section 5 Assistance | General | Technical and By Request | No | Property Tax | 1. State<br>2. Municipal | 1. State<br>2. Municipality | Yes | 11 or more |
| Michigan | Yes | N/R | General and Gas Tax | None on Existing Systems | Yes | 1. Property Tax<br>2. License Fee<br>3. Local Appropriation | Transit Authority | Transit Authority | Yes | 11 or more |

* LRC Survey N/A= Not Applicable N/R= No Response

| STATE | DOES STATE PROVIDE OPERATING FUND | FORMULA FOR DETERMINATION OF FUNDS | STATE FUNDING SOURCE | OVERSIGHT PROVIDED BY STATE | REQUIREMENT OF LOCALITIES TO SUBMIT FUNDING POLICIES | USUAL LOCAL SOURCE OF FUND | GOVERNMENT BEARING OPERATING DEBT | GOVERNMENT BEARING BOND DEBT | REQUIREMENT OF TRANSIT SYSTEM TO SUBMIT FINANCE STATEMENT | NUMBER OF SYSTEMS IN THE STATE |
|---|---|---|---|---|---|---|---|---|---|---|
| Montana | Yes | Analyzed in Text | Gas Tax | Technical Aid | No | 1. Local Fund<br>2. Direct Dist. Taxing Authority | 1. State<br>2. Municipality<br>3. Transit Authority | Municipal | No | 0-3 |
| Rhode Island | Yes | Amount Equal to Section 5 Funding | General | RIDOT Reviews Request Legislation Adopt Budget | No | None | State | Authority | Yes | 0-3 |
| Nebraska | Yes | 50% of Deficit After Section 5 | General | Technical | Yes in Application for Funds | 1. Local Tax<br>2. Omaha Authority Can Tax | 1. State<br>2. Municipal<br>3. Authority | Municipal Authority | Yes | 11 or more |
| New Jersey | Yes | Legislative Appropriates by Request | General | Not at Present | No | None | 1. State 99.5%<br>2. Local .5% | State | Yes | 11 or more |
| New York | Yes | Analyze in Text | General | 1. Budget & Finance Data<br>2. Grant App.<br>3. Technical student | Yes | 1. Property 2.1% Mortgage Tax Collected in Counties | 1. State<br>2. Locality<br>3. Authority | N/A | Yes | 11 or more |

* LRC Survey N/A= Not Applicable N/R= No Response

| STATE | DOES STATE PROVIDE OPERATING FUND | FORMULA FOR DETERMINATION OF FUNDS | STATE FUNDING SOURCE | OVERSIGHT PROVIDED BY STATE | REQUIREMENT OF LOCALITIES TO SUBMIT FUNDING POLICIES | USUAL LOCAL SOURCE OF FUND | GOVERNMENT BEARING OPERATING DEBT | GOVERNMENT BEARING BOND DEBT | REQUIREMENT OF TRANSIT SYSTEM TO SUBMIT FINANCE STATEMENT | NUMBER OF SYSTEMS IN THE STATE |
|---|---|---|---|---|---|---|---|---|---|---|
| Minnesota | Yes | 2/3 Operating Deficit | General | Upon Request | No | 1. Local Funds<br>2. Federal Revenue Sharing | 1. State<br>2. Municipality | N/A | Yes | 11 or more |
| Oregon | No | N/A | N/A | Technical | No | Power to Levy Tax with Voter Approval | 1. Municipal<br>2. Authority | Municipal Authority | No | 7-10 |
| Pennsylvania | Yes | Analyze in Text | General | Analyze in Text | Yes | Local Appropriations | 1. Transit Authority | Municipal | Yes | 11 or more |
| Utah | No | N/A | N/A | No | No | 1/4 Sales Tax with Legislative Approval | 1. Authority | Authority | No | 0-3 |
| Wisconsin | Yes | Analyze in Text | '76 General<br>'77 Highway | Analyze in Text | Yes | Local Fund Property | 1. State<br>2. Municipality | Municipality | Yes | 11 or more |

* LRC Survey N/A= Not Applicable N/R= No Response

## CHAPTER FOUR

## MUNICIPAL REVENUE SOURCES AND MASS TRANSIT APPROPRIATIONS

The revenue sources available to municipalities are essentially the same for all cities in the Commonwealth. The two major sources of funds are occupational withholding tax and general property tax, which constitute more than half of the municipality total revenue sources. Other sources of revenue are available, such as fines, and fees for various services.

The five municipalities operating transit systems for which budgets were obtained were examined with respect to sources of revenue, total operating revenue, and the percent of the total such sources will generate. The following table summarizes these findings.

TABLE 7

Local Sources of Revenue

| City | Taxing Service | Revenue $ | Revenue $ Required | % of source to total Revenue |
|---|---|---|---|---|
| Owensboro | General Property | 2,034,779 | 9,993,675 | 20.4% |
| | Occupational | 1,470,000 | | 14.7% |
| Frankfort | Occupational | 1,079,240 | 2,392,726 | 41.1% |
| | General Property | 360,000 | | 15.0% |
| Covington | Occupational | 3,100,000 | 8,159,285 | 38.0% |
| | General Property | 1,734,313 | | 15.0% |
| Lexington | Occupational | 16,487,000 | 36,192,000 | 45.6% |
| | Property Tax | 9,719,000 | | 26.9% |
| | Inter-governmental | 7,915,000 | | 19.4% |
| Louisville | Occupational | 22,442,000 | 65,683,000 | 34.2% |
| | Property Tax | 16,096,000 | | 24.5% |
| | Inter-governmental | 14,350,000 | | 21.9% |

Source: Kentucky's Localities Annual Budgets

These figures are extremely important in developing new program policies or substantially increasing existing programs for localities. The fact that most of the five cities are dependent upon two specific revenue sources is apparent. Louisville and Lexington are also dependent upon revenue sharing as a necessary source.

Occupational withholding tax and general property tax revenues are only sufficient to continue existing programs at present operating levels. It is

emphasized that any substantial increase in appropriations to existing programs or the establishment of new programs must be compared with the amount of municipal revenue sources.

The occupational and property taxes are examples of local government inability to obtain sufficient revenue to increase transportation services. Both forms of taxation are designed to keep pace with the impact of inflation but do not provide sufficient revenue to increase existing programs.

The occupational tax is the more flexible of the two taxing methods. As cost of living pay increases are given to individuals, the individuals pay a greater amount of tax. However, at the same time it receives some tax revenues, the locality must also absorb its own increasing costs because of inflation. Thus, occupational tax revenues will only keep pace with inflation to continue services at an existing level.

The property tax, because of its method of implementation, is not adjusted by inflation. The property is assessed a true value and then a millage rate is charged to the assessment. For instance, property is assessed at $30,000 and a millage rate of X per $100 assessed value is added to obtain the actual taxes due.

Two types of reassessment could be made to adjust property tax for inflation. The property could be reassessed each year to adjust for inflation. In most cases localities do not have the manpower to reassess property in a short period. The second method would be an adjustment of the millage rate subsequent to an amendment of KRS 132.010. The disadvantage of this method would be that state residents would view this as a tax increase and the additional money would not necessarily be used for public transportation operations.

Property tax cannot be simply or practically adjusted for inflation. Thus, municipal expenditures usually increase at a faster rate than revenues from property taxes. Even if an inflation adjustment could realistically be made in the property tax, the additional revenue received would only be sufficient to maintain services at an existing level.

Mass transportation is often viewed as a local service. However, the state should become concerned with its localities and aid public transportation programs that will add to the vitality of the cities and counties.

Most transit systems cannot function adequately on the fare box revenue. The previous section included a discussion of some of the methods that other states have developed to aid public transportation. Most transit systems cannot function adequately on the fare box revenues. The previous section included a discussion of some of the methods that other states have developed to aid public transportation. Table 8 contains financial and operating data which focuses on the public transit needs of systems already existing in the Commonwealth and the cost which Kentucky might incur through the adoption of transportation systems of other states.

Financial View of Local Transit Program

TABLE 8

| SYSTEM | FISCAL YEAR | FARE-BOX REVENUES | UMTA SECTION 5 MONEY | TOTAL DEFICIT & CURRENT LOCAL SHARES | TOTAL VEHICLE MILES | COSTS PER VEHICLE MILE | REVENUE PER VEHICLE MILE | REVENUE PASSENGERS | COST PER PASSENGERS | REVENUE PER PASSENGERS | % OF EXPENSES RECOVERED FROM FARE BOX | TOTAL EXPENDITURES |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| TARC (Louisville) | 75/76 | 3,227,044 | 2,976,273 | 3,044,194 | 6,185,000 | 1.50 | .52 | 12,550,000 | .74 | .26 | 34.9 | 9,247,511 |
| TANK (N. Ky.) | 76/77 | 1,659,250 | 907,673 | 1,292,577 | 2,956,081 | 1.31 | .56 | 6,277,000 | .68 | .26 | 43.0 | 3,859,500 |
| LEX-TRAN (Lex.) | 76/77 | 878,127 | 351,294 | 536,621 | 1,596,440 | 1.11 | .55 | 3,613,746 | .49 | .24 | 49.7 | 1,766,042 |
| Owensboro | 75/76 | 48,627 | 39,750 | 39,613 | 225,502 | .56 | .22 | 184,681 | .69 | .26 | 38.0 | 127,990 |
| Ashland | 75/76 | 59,099 | 46,166 | 51,969 | 255,000 | .62 | .23 | 166,292 | .95 | .36 | 37.6 | 157,234 |
| Frankfort | 75/76 | 12,849 | NA | 17,711 | 77,335 | .40 | .16 | 61,185 | .50 | .21 | 42.0 | 30,560 |
| Maysville | 75/76 | 17,024 | NA | 21,205 | 53,274 | .72 | .31 | 72,636 | .71 | .23 | 44.5 | 38,299 |
| Henderson | 75/76 | 21,000 | NA | 31,000 | 105,000 | .50 | .20 | 80,000 | .65 | .26 | 40.3 | 52,000 |

From this table it is possible to develop cost figures for various methods from state financing of public transportation. One method would be to provide an appropriation on the basis of the amount of operating deficit. The key to this approach would be the definition of the operating deficit. Two basic definitions have been developed and used by other states. The first definition defines operating deficit as those expenses which have occurred, excluding expenses dealing with capital improvements, vehicle purchases or any other activity which takes place outside the day-to-day operations of the transit system. The second definition incorporates the same points and then adds a provision that the deficit amount to be covered by state funds will be reduced by the amount of federal aid received.

Some states have encountered a problem by defining operating deficit and providing a subsidy in this amount to transportation systems. Since most of the operating costs of a transit system are labor related, increased salaries would increase the system deficit, which would then be paid with state funds. Union negotiators note that a part of any deficit could be funded by the state and often taken firmer stands in salary negotiations. Threats of strike are of concern; if a strike occurs, greater deficits are incurred and the state could suffer further funding commitments as a result.

Another method of determining appropriations to public transportation would be to pay a fixed amount per passenger or per vehicle mile. This method is similar to the New York State method of funding. Table 9 provides projected cost figures for utilization of this method in Kentucky.

TABLE 9

State Subsidy Program Cost
Based on Service Levels

| Method | Total State Numbers | Subsidy | State Funds Required |
|---|---|---|---|
| 2/3 of average passenger deficit | 23,005,540 riders | $.17 p/pass | $3,910,945 |
| 1/2 of average passenger deficit | 23,005,540 riders | .13 p/pass | 2,990,720 |
| 2/3 of average mileage deficit | 10,899,020 miles | .33 p/mi | 3,596,680 |
| 1/2 of average mileage deficit | 10,899,020 miles | .25 p/mi | 2,724,755 |

Source: LRC Generation from Table 8

Establishing a subsidy based upon service levels would enable the state still to place a ceiling on the total amount to be appropriated to each

system. A problem could occur with an individual system receiving grant funds in excess of expenditures. For instance, if Henderson were to receive a subsidy based upon annual vehicles miles of $.33 per mile, its total subsidy would be $34,650. The actual operating deficit is $31,000; thus, Henderson would receive a total surplus of $3,650. By further limiting the state appropriation to half of the total operating deficit, Henderson would be eligible only to receive $15,500, forcing some local funds to be allocated and thus reducing the total obligation of the state.

The problem with these designed methods of financing is that there have been no incentives included to decrease deficits and increase service, although subsidizing on the basis of passengers and miles results in a built-in incentive to expand service and obtain passengers. However, if the expanded service were to create a greater financial deficit in the effort to expand service, the subsidy method would be self-defeating.

The final column of Table 8 indicates that in no case is a public transportation system recovering 50% of its operating expenses from fare box revenues. The recovery rate varies from 49.7% in Lexington to 34.9% in Louisville. Incentive to improve operating efficiency could be added by development of a system geared to expense necessary.

An increase in the recovery of revenues could be created by cutting back service in uneconomical areas, but this effect would be undesirable and would not promote the addition of new routes or services. An example of basing a subsidy to operating revenue recovery would be to fund two-thirds of the operating deficit if the system returned 50% or more of its revenue through the fare box. One-half of the deficit would be funded if 50% to 30% were funded through the fare box and one-third of the deficit funded if less than 30% were funded through the fare box. Table 10 provided some cost figures to the state.

TABLE 10

Aid Program Based upon Recovery of Expenses

| System | % Expenses Recovered | State % Deficit | Total Appropriation |
|---|---|---|---|
| TANK | 43.0 | 1/2 | $ 646,228 |
| TARC | 34.9 | 1/2 | 1,522,095 |
| LEXTRAN | 49.7 | 1/2 | 268,310 |
| OWENSBORO | 38.0 | 1/2 | 19,806 |
| ASHLAND | 37.6 | 1/2 | 25,984 |
| FRANKFORT | 42.0 | 1/2 | 8,855 |
| MAYSVILLE | 44.5 | 1/2 | 10,002 |
| HENDERSON | 40.3 | 1/2 | 15,500 |
| TOTAL | | | $2,517,445 |

Source: LRC Generated from Table 8.

A transit service could, if it were utilizing this system, cut back service in uneconomical areas, thus increasing its expense recovery rate, thereby making it eligible to receive a two-thirds appropriation from the state. However, if this system were implemented in Kentucky, a more practical method might be to take a base service level and have the system maintain that level while increasing its expense recovery to obtain the two-thirds funding.

LexTran currently is serving annually 1,596,440 miles and 3,613,746 passengers, at a 49.7% recovery of expenses. If a funding system were implemented in the state whereby Lextran received a 50% recovery of expenses, the system would have to maintain the same base miles of service and number of passengers. Otherwise, the system would be eligible for a 50% appropriation. The difficulty of implementing this method would be the complexity and the amount of administrative oversight required.

The final approach to a direct subsidy method would be to base an appropriation solely on the fare box revenue received. The advantage of this system would be that it would promote increased ridership and might promote a small increase in fares. To provide a subsidy on this basis would result in the total appropriation being more easily controlled than it would be under the method of providing a subsidy based upon the operating deficit.

The operating deficit of public transportation systems will continue to increase unless a drastic change is made in the public perception of mass transportation. The deficit is now projected to increase at a faster rate than ridership is expected to increase. If a subsidy is based on the revenue generated, the state share should not increase as fast. Further, if the state

share did increase, it would mean that either more passengers were using the system or that fares had been raised without a substantial reduction in the number of customers.

Table 11 provides an overview of a program which could be based upon a percentage of revenue received. Under this program the state would provide 50% of the total revenue generated by each system.

TABLE 11

State Subsidy Program Based on Revenue Generation

| System | Revenue Generated | State Appropriation |
|---|---|---|
| TANK | 1,659,250 | $ 829,625 |
| TARC | 3,227,044 | 1,613,522 |
| LEXTRAN | 878,121 | 439,064 |
| OWENSBORO | 49,627 | 24,314 |
| ASHLAND | 59,099 | 29,550 |
| FRANKFORT | 12,849 | 6,425 |
| MAYSVILLE | 17,024 | 8,512 |
| HENDERSON | 21,000 | 10,500 |
| TOTAL | | $3,361,512 |

Source: LRC Generated from Table 8.

Problem areas encountered in the development of a subsidy program include determining state administrative oversight, establishment of adequate service levels, establishment of incentives for improvements and the scope of future appropriations. All the methods discussed seem to be the most practical of available solutions yet contain at least one of these problem elements. The next area of concern is indirect methods of tax relief to transit authorities.

## Indirect Aid to Public Transit

Kentucky public transportation authorities must pay quarterly a $.09 per gallon tax on its motor vehicle fuel purchased. Approximately $.07 per gallon is refunded. Changes in the present motor fuel tax could aid transit systems without providing a direct subsidy. Either the tax could be eliminated, or the tax could be reduced to $.02 per gallon. This second method would free some money for operations which would under the current system be encumbered to the state. This amount which would be unencumbered would have totaled

$185,957 in calendar year 1976 for the three transit authorities in Kentucky.

The three transit authorities in Kentucky in calendar year, 1976 purchased 59,883 gallons of motor fuel and 2,596,650 gallons of diesel fuel. Obligations to the state on these purchases were $239,088, approximately, $185,957 of which was later refunded.

Another indirect approach of funding would be to relax the property and occupational taxes which a municipality can levy. By relaxing the constitutional restrictions on the allowable local tax levies, the municipalities which need funds for transit could levy an increase. This approach would force local governments to make commitments to public transportation and relieve a policy burden from the Commonwealth.

The idea of passing a less restrictive property and occupational tax has some limitations. First of all, if a municipality passes an increase, there would be no guarantee that funds would be earmarked for transit. An additional problem with allowing a less restrictive property tax levy is that to do so would require the passage of a constitutional amendment, which may be cumbersome and difficult to pass.

An indirect subsidy program, such as one to exempt transit systems from the motor fuels tax, would not financially commit the state. The advantage to such a program would be to lift the restrictions on localities and free them from financial commitments which may eventually be refunded. The exemption from the motor fuels tax would relax previously committed funds, and less restrictive tax structure could force localities to make a decision on public transportation. Neither of these alternatives would have to involve appropriations from state funds.

Table 12 provides an overview of the cost in current dollars for implementing particular programs to fund public transportation operation. Each program included in Table 12 has been discussed within the text. Annual program costs range from $2.5 million to $4 million.

TABLE 12

Estimated Costs of Alternatives
for Financing Public Transportation

| METHOD | COST |
|---|---|
| $.17 per passenger | $3,910,945 |
| .13 per passenger | 2,990,720 |
| .33 per mile | 3,596,680 |
| .25 per mile | 2,724,755 |
| Funding 1/2 Operating Deficit | 2,517,445 |
| Funding 1/2 Revenue Generated | 3,361,512 |
| $.07 Exemption on Motor Fuels | 185,957 |
| $.09 Exemption on Motor Fuels | 239,088 |

LRC Generated From Table 8

# CHAPTER FIVE

# ALTERNATIVES FOR TRANSIT SUPPORT

## Evaluation of Transit Problems

Public transportation as it currently operates may aid in compounding its problems. Funding is a basic problem. The expenses involved in operating a transit system are much higher than they were during the early 1900s. Public transportation has large labor cost; in Boston the revenue generated is not even enough to pay the salaries of the drivers, much less the maintenance and capital costs.

Another problem is acceptance of the belief that the public is generally supportive of public transportation. First of all, the concept of mass transit is misleading. Each rider uses the transit system because of a personal desire to do so and does not want to be treated as part of the masses. This is an important concept, and transit systems need to promote themselves as personalized systems in order to compete with individual modes of transportation.

Voter perceptions in passing bond issues may serve as an example of this difficulty. Many bond issues for public transportation have been passed throughout the country, but this may be a misleading sign of support. The "yes" vote for the bond issue may be because the voter sees the car in front or behind him as eliminated, but does not see himself as a transit customer. This belief will pass bond issues, but not promote public transit.

A second concept which promotes the existence of public transportation is that it is needed because of the people who have no other means of transportation. In using this rationale, mass transit is a last resort as a mode of transportation. The transit user will leave the system if other means become available, and the image of transit becomes that of another welfare system and thus is less attractive to potential users of other income groups.

At this time throughout the country transit systems cannot break even and promote adequate service. Systems could only break even by paying employees less, eliminating all service which does not at least meet its cost through fare box revenues, or through a system of attracting enough riders to improve the total conditions. These are not immediately viable solutions because of various constraints.

There are many functions of local governments which do not break even but are offered because of their merit. The transit management must be aware of the economic issues, social concerns, and the potential market for ridership. If transit is run as a business, if the customer is satisfied, and if public relations are good, the system can be strengthened.

Research, product design and good promotion are needed. Attractive services, such as express travel from a point near residence to work, route analysis, public relations, and marketing techniques are necessary. Overall improvements on terminals, provision of parking facilities, and improvements in the buses may also promote greater use. These changes can only take place after a commitment by the individual community and transit management based upon a promise of customer satisfaction.

Local governments must first develop and fund their transportation needs. A result of this action will be to provide incentives for both the public and the management to develop an efficient transportation network. The state would then provide planning and promotion at the request of local governments.

There are three viable alternatives to Kentucky state support of public transportation. The first is to establish a policy to continue current services; the second is to establish indirect aid for transportation; the third is to establish a direct subsidy for mass transportation operations. Each of these alternatives merits consideration.

## Continuation of Current Policy

A continuation of current policy would reinforce the idea that public transportation in Kentucky is a predominantly local service and operating problems should be faced and solved at that level. Only a few municipalities in the Commonwealth operate public transportation systems, and expanded programs to meet these needs may not be in the interest of the Commonwealth.

Another concern which promotes a status quo policy is the economic viability of public transportation. Currently there is little support in ridership, and voting to impose additional levies has been limited to only one area. Many citizens view public transportation as another type of subsidy program to lower income groups. To provide a subsidy where this belief is predominant would be detrimental to an effort to expand the passenger base to other groups.

An additional problem with a subsidy program is that to provide funds would be to show an acceptance of current operations. Deficits have increased throughout the country, and states which have developed policies to meet these deficits have increased their commitments to these programs. Embarking upon a funding program may force the Commonwealth into a deeper commitment than anyone could have anticipated.

The disadvantages of an operation subsidy program have been discussed; yet, the Commonwealth does provide aid to public transportation in other areas. Capital assistance, aid in preparing federal grant applications, planning and technical assistance are all part of the current commitments of the Commonwealth. Kentucky would not be prevented from continuing these programs if a state subsidy program were developed. The Commonwealth could provide assistance upon request in planning, marketing, public relations and other efforts to make public transportation a more economically viable system.

## Indirect Support

A policy of indirect support is designed to free funds currently earmarked for another operating use. An example of such indirect support would be an exemption for transit systems from the motor fuels tax.

Indirect support programs would allow the state to support public transportation without becoming overly involved with financing and administrative oversight. The programs may not provide funds necessary to erase the deficit but would force localities to make a commitment before the state becomes deeply involved.

Direct Appropriations to Transit Systems

An appropriation by the Commonwealth to public transportation systems could be made by one of many different methods. Various methods discussed in this study have shown that transit subsidies have been based upon total operating deficits, vehicle miles traveled, number of passengers using the system, and percentage of cost recovered from the fare box. Any system which is devised should provide some type of incentives for the system to increase service levels and reduce deficits.

Providing a subsidy at this time could be construed as an acceptance of the current operations of transit programs, and long-term commitments could be greater than the state or even the transit system could have anticipated. If the commitment becomes too great, other programs of equal importance may have to be ignored or subsidies to transit systems may be decreased. The establishment of a state transit aid program could result in transit system dependency upon the Commonwealth; any decrease of an established program would further hamper the operations of public transportation.

Finally, it is evident that if a subsidy program is developed, state support would increase. Some Kentucky municipalities have begun to study the possibility of providing a public transit system, and as these systems come into existence, greater support would occur because of the subsidy program. Furthermore, it could serve to promote the proliferation of transit systems. Municipalities which may not need public transportation may become involved because of the availability of funds. The spillover effects would be difficult to determine, but undoubtedly would not serve to diminish the state's direct appropriation.

Direct subsidy programs could be developed so that they incorporate rewards if the transit authority reduces deficits. If the Commonwealth takes such an action, it must do so with a policy that even though support is given, the current situation is not acceptable. However, the management of transit systems may appreciate financial aid, but may not welcome administrative oversight. If no program is developed to increase returns on service and promote innovation, a subsidy program would become, at best, costly and self-defeating. If innovations and experiments can occur and a positive attitude toward the use of public transportation takes place, the initial state obligation may decrease.

# CHAPTER SIX

## STUDY FINDINGS AND RECOMMENDATIONS

### Major Findings

States which have established a policy for financing public transportation deficits have developed some common problems which should be noted. An analysis of programs in various states has identified these problems to be as follows:

1. Most of those states which have developed a subsidy program have incurred an increased commitment to the program in succeeding fiscal years.

2. Those states which currently appropriate funds based on the transit system operating deficit face increased commitments in future years because of increasing deficits.

3. A few states have allocated money from their highway fund or gas tax revenues to finance public transportation.

An analysis of the information obtained from other states makes it apparent that state commitments to operating expenses will increase if once made. Methods to finance these increases in most states are appropriated from general fund money. However, a few states have followed the lead of the federal government and use highway fund money to meet these expenses. If Kentucky begins to fund transportation operating expenses, it will probably face problems similar to those of other states currently making such allocations.

The current status of transportation programs in Kentucky is:

1. Kentucky currently appropriates a percentage of public transportation capital expenses, establishes an assistance program for the handicapped and elderly, and provides a revolving loan fund for public transportation operations.

2. The Kentucky Mass Transportation Authority Act (KRS 96A) establishes three methods which localities can adopt to provide funds for public transportation.

3. Only one transit authority has passed a long-term levy earmarking funds for its operation.

4. Localities may not be able to levy taxes on retail sales because of constitutional restrictions.

### Study Recommendations

The energy situation, environmental concerns and the continuation of human service programs may warrant the establishment of a subsidy program. However, non-support of public transit by the general public should be considered in the development of a policy. These concerns are only a part of the

public transportation problem which must be considered before making recommendations. The following recommendations are suggested as solutions to the problems discussed in this report:

1. The Commonwealth has made provisions for transit authorities to obtain earmarked revenues from local governments and should wait until localities have adopted long-term financing policies before making a financial commitment.

2. The development of a program to finance operations of public transportation should be undertaken to help solve the energy, environment, and social problems facing the Commonwealth.

3. Because local transportation systems are not the sole providers of transportation services, a subsidy program should not be undertaken which would prohibit or displace services of currently operating transit systems. Efforts should be made to consider all available transportation services in order to effectively utilize funds to meet passenger needs.

4. The General Assembly should consider legislation to exempt local transportation systems from paying the motor vehicle fuels tax.

## Final Considerations

The first recommendation states that the Commonwealth should wait until local governments adopt a policy for their public transportation systems before the state makes a financial commitment. The following is a summary of the alternatives for the implementation of a subsidy program, if such a policy is in the interest of the state.

Two methods for subsidizing public transportation could be established. The first method would be to provide additional appropriations to public transportation by a direct subsidy program. The second method would be to establish an indirect subsidy program to provide relief for transit systems from state taxes or to change the Constitution to provide the localities with greater taxing powers. These differ in the feasibility of implementation methods but could be used simultaneously.

## Direct Subsidy Programs

A direct subsidy program would earmark money from state funds to the public transportation systems. In Chapter Four, various alternatives were explored as possible funding methods. Three alternatives are reviewed below.

### Alternative 1: Subsidy Based on Fare Box Revenue Received

This type of program would have the Commonwealth of Kentucky provide one-half of the total that transit companies obtain in fare box revenues. For instance, for each $1.00 that the companies collected through the fare box, the state would provide $.50. It should be mentioned that this type of program should not be construed as advocating charging of fares to the elderly or handicapped population.

The safeguard to this type of program is that fares would not be increased to the point of diminishing returns for the system. The transit system would be helped in the long run by developing programs which would entice increased use and promote greater revenue returns. This type of program would aid in promoting service to all groups and areas by offering citizens some choices for their transportation needs.

Alternative 2: Subsidize Transit's Operating Deficit

The federal program for mass transportation is based on funding a percentage of the operating deficit. Problems have developed with labor negotiations in using this method, because union representatives realize that salary costs require only a percentage of the salaries be paid by the locality. Implementation of this alternative could result in the demands at the bargaining table being escalated. This problem becomes further complicated because a large percentage of transit system operating costs are primarily for labor.

States which have based their subsidies on degrees of deficits have been forced to increase their commitments because of greater losses by transit systems. A program of funding the operating deficits does not provide incentives to increase transit usage. The advantage to implementation of this method would be that it would provide a reliable source of income to public transportation to meet a portion of its expenses.

Alternative 3: Subsidy Based on Service Levels

The New York State subsidy provides funds based on passengers served and vehicle miles. Implementation of a similar program would provide incentives to promote greater ridership; but if service were expanded to uneconomical areas, the program would be ineffective.

Implementation of this type of program may require more oversight and paperwork on the state and local level. Records would have to be kept and forms submitted on service levels, and periodic checks would have to be made on the accuracy of these figures.

## Indirect Subsidy Programs

The indirect aid to public transportation could be implemented along with, or separate from, a direct subsidy program. Implementation of indirect aid programs would relax restrictions enforced by the Commonwealth to create additional funds for transit programs. One method for providing indirect aid has been stated as the fourth recommendation, but there are other methods which may be considered. These methods are discussed in this report and are summarized as follows:

1. The Commonwealth of Kentucky could provide a total exemption for transit systems from the motor fuels tax.

2. The General Assembly could present to the people of the Commonwealth a constitutional amendment allowing a less restrictive ceiling on property tax levies.

3. The General Assembly could present to the people of the Commonwealth a constitutional amendment allowing localities to levy an ad valorem sales tax which could be added to the state tax.

Any type of aid program will need to be coordinated with attempts to more effectively manage our transit systems. None of these subsidy methods will alleviate public transportation problems until the population views transit as an economical and convenient alternative to other modes of transportation. A subsidy program which is not designed to increase patronage will provide only temporary relief, and the problems may reoccur with possibly greater complications.

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