

A Comparative Study of Financing for the MTA and Other Transit Properties

Permanent Citizens Advisory Committee to the MTA

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EXECUTIVE SUMMARY

Background

Reductions in mass transportation subsidies in the U.S. have created hardships for a number of systems in recent years. The federal government is phasing out operating assistance for transit agencies, and state and local governments have also cut their aid. Three of the largest systems in the country – the New York Metropolitan Transportation Authority, the Southeastern Pennsylvania Transportation Authority, and the Regional Transportation Authority in northeastern Illinois – have been especially affected by the reduced assistance. Each agency has found itself struggling to balance its operating budget and to undertake critically needed capital improvements.

Assistance to the MTA has been cut both in the actual amount of subsidies provided to the agency and in the failure to increase aid to meet its growing needs. The diminished subsidies have especially impacted the MTA's operations. Cuts in operating assistance include:

- A decline in federal transit operating assistance. The annual grant to the MTA fell from approximately \$90 million in 1994 to about \$70 million in 1995 and to \$31 million in 1996. In the period from 1997-1999, the MTA plans to use federal operating assistance for its capital program.
- A reduction in aid from New York State. Traditionally, the MTA has received state subsidies from an annual grant and proceeds from taxes dedicated for the agency's operations. Since 1994, New York has been using proceeds from the taxes to pay for most of its grant. Through 1998, the state will use more than \$600 million of this specially earmarked revenue, in effect cutting its support for the MTA.
- A cut in New York City's reimbursement for free transit fares for school children. In the past, the city had reimbursed NYC Transit for the full costs of the program, but beginning in 1994, it reduced its payment. Under a new formula, the city and state will each contribute \$45 million annually and NYC Transit will absorb the balance, which was \$45 million in the 1995-1996 school year.

Funding for the MTA's capital program has been cut substantially as well. Between 1982 and 1991, New York State provided a total of \$2.4 billion in capital assistance. The state contributed none of its own funds in the 1992-1996 period and will provide only \$96 million for the MTA's current capital program. Other examples of reduced subsidies include:

- Substantially less assistance from the federal government than was expected during the 1992-1996 period. Actual subsidies were approximately \$430 million less than the MTA had anticipated.
- A cut by New York City in its grant for the 1992-1996 period. The city had originally promised to provide over \$1 billion, but in 1994, it slashed the subsidy by half.

Most significantly, though capital spending in the 1997-1999 period will be \$600 million more per year than it was from 1992 to 1996, government assistance is not growing at the same rate. In fact, average annual subsidies during the next three years will be lower than they were in the prior five years: \$910.5 million compared to \$953.3 million.

In response to the reduction in subsidies, the MTA developed operating and capital plans for the 1995-1999 period that are dramatic departures from prior plans. Especially notable is the new paradigm for the agency's capital program. Since 1982, the MTA has invested \$25 billion in rebuilding its infrastructure, performing the work in a series of three five-year programs. Each plan was financed primarily by public funds, but in the 1995-1999 cycle, the MTA will carry a greater share of the burden. In the current capital program:

- The MTA will provide nearly 60 percent of the financing. Between 1982 and 1991, government at all three levels provided 60 percent of the funds.
- A substantial share of the internal funds will be generated by bonds supported by fare revenue.
- The fare-backed borrowing will sharply increase the MTA's debt service expenses. The incremental debt service costs from these bonds will be \$17 million in 1996 and grow to \$183 million in 1999 and \$422.1 million in 2001.

In 1995, the MTA projected that it would run a cumulative budget deficit of \$4.5 billion by 1999 as a result of the increased debt service costs and stagnant growth in operating subsidies. The agency closed this gap through a combination of measures. It raised its transit fare from \$1.25 to \$1.50, a twenty-percent increase, and raised its commuter rail fares by an average of \$0.375 per trip, a nine-percent increase. In addition, the agency enacted \$3 billion in expense cuts. Service on 44 subway, bus, and commuter rail lines was reduced as part of the cost-cutting initiatives. Through these actions, the MTA balanced its budget through 1999.

In the period beyond 1999 the agency could be hard pressed to maintain a balanced budget. Current subsidies are inadequate to meet reasonable growth in the

MTA's operating expenses. The explosive growth in debt service costs in outlying years will place further pressure on the agency's operating budget. In 2000, the MTA's transit and commuter rail divisions will incur a budget shortfall unless additional subsidies are provided or other corrective measures are taken. Another fare increase may be necessary or service could be cut again as part of more cost-cutting initiatives. NYC Transit, for example, may have to raise fares by twenty-five cents in order to close a projected deficit of \$344.4 million in 2001.

The Case for Increased MTA Subsidies

Increasing operating and capital subsidies is critical if the MTA is to be able to continue to provide the level of service appropriate in downstate New York. The New York metropolitan area is the core of the state's economy and a world-class region. In 1994, New York City generated more than forty percent of the personal income in the state and produced nearly a third of the retail sales in the state. Over forty percent of the non-agricultural jobs in the state were located in New York City in 1994. In the broader context of domestic and global cities, New York City is a leader as well, placing high in a 1995 survey by *Fortune* of the best cities to do business.

The services provided by the MTA are a central factor in the success of the New York metropolitan region. The agency is the largest mass transportation system in the U.S., carrying 1.7 billion riders annually and serving 13.2 million people in a 4,000-square-mile area. A diminished MTA would add to the existing mobility problems in the area. Residents and businesses might relocate if travel becomes too difficult or the quality of life declines substantially because of increased traffic congestion and poorer air quality. Reducing critically needed subsidies is a shortsighted policy that could have long-lasting and severe consequences for downstate New York and the state as a whole.

In an era of reduced government spending, finding additional funds for the MTA will be difficult, but as this report shows, other regions provide a high level of support to their primary mass transportation systems. Examples include:

- State subsidies to the Massachusetts Bay Transportation Authority (MBTA). In 1995, general contract assistance to the agency covered over 30 percent of its operating expenses. By comparison, New York State's general grant to NYC Transit and the commuter railroads in 1995 paid for less than 5 percent of their combined operating costs.
- Debt service assistance provided to the MBTA. Massachusetts pays for 90 percent of the debt service expenses on the agency's capital bonds. This aid has enabled the agency to undertake an ambitious expansion program that is bringing service to previously unserved areas.

- A state-funded match to federal capital subsidies in Pennsylvania. Overall, the Southeastern Pennsylvania Transportation Authority (SEPTA) has been hard hit by cuts in subsidies in recent years, but the state provides the largest share of the agency's match to federal capital grants. As noted, New York State contributed no direct capital funds.

Of the systems studied in this report, the MTA is the least subsidized on a percentage basis. In 1994, it received slightly more than 40 percent of its total operating funds from subsidies. The system closest to the MTA was SEPTA, which received approximately half of its operating funds from subsidies in 1994. The Regional Transportation Authority in Chicago and Bay Area Rapid Transit in San Francisco are supported at about the same level as SEPTA. The MBTA and the Los Angeles Metropolitan Transportation Authority are substantially funded by public assistance.

Alternatives

Several options are possible for increasing the MTA's subsidies. The most straightforward approach is for New York State to provide more direct aid and to support the agency at a level similar to how other states fund their chief public transportation systems. New York, for example, could provide subsidies equal to 10 percent of the MTA's operating and capital expenses. In recent years, though, the state has not shown a willingness to support the MTA at an appropriate level, and as noted, has reduced the amount of revenue available to the agency. Traditionally, New York has used its own funds to finance an annual subsidy to the MTA and has provided additional aid through tax proceeds earmarked for the agency. Since 1994, New York has been using the tax proceeds to pay for most of its grant, in effect cutting the MTA's state subsidies.

If New York remains unwilling to increase its support, other alternatives would be necessary. Additional fare increases or service reductions are not feasible. Transit and commuter rail fares are already at a high level and the quality of service has declined noticeably because of the cuts in 1995.

The only other means for stabilizing the MTA's finances would be to generate more funds through some form of new or increased taxes. Taxes are not the ideal or preferred solution and will be unpopular. Customers of the MTA, though, pay more every time they use the system because of the 1995 fare increases. Higher taxes will be less costly than continually climbing fares as well as more equitable since the entire region and state benefit from the services provided by the MTA. A carefully structured program could minimize the amount of each specific tax and spread the burden among different groups by combining various techniques. Four alternatives in lieu of increased state aid are discussed:

- Establishing a quarter-percent sales tax in New York State that would be dedicated for public transportation. Within the MTA region, this surcharge

would be added to a sales tax surcharge that currently supports the agency's operations. The program would be patterned after a similar initiative in California, with proceeds returned to counties according to the amount collected within their jurisdiction. The surcharge would generate more than \$270 million annually for the MTA in upcoming years.

- Converting the motor vehicle registration fee in New York State to a tax assessed against a vehicle's value. Unlike the current system, this "ad valorem" tax would allow for growth in collections and could be used flexibly to support mass transportation. A handful of states, including California and Washington, use an ad valorem motor vehicle registration fee. Implementing the tax would be difficult since previous attempts to do so have failed.
- Special taxation districts. Properties in specially designated areas would contribute to mass transportation programs in one of two ways. Either they would pay a property tax surcharge, or a portion of their existing property taxes would be allocated for transit purposes. Districts could be used to support the MTA's station rebuilding efforts.
- Innovative financing techniques. Through various initiatives, additional funds could be generated for the MTA's capital program. One approach is a type of lease-purchase arrangement that would actually generate income for the MTA. The income could be applied to other capital projects.

Raising taxes in today's political climate will be difficult. A quarter-percent sales tax, though, would add only minimally to the purchase price of goods. In addition, a form of special taxation districts has become prevalent in New York City in recent years. Businesses form voluntary associations referred to as business improvement districts and pay a fee that supports services beyond those provided by the city. Establishing special taxation districts for the MTA would be an extension of this concept and pay for other needed programs. The MTA has already used innovative financing for its capital efforts and would gain substantially in the 1995-1999 period from expanding its use of these techniques. Without additional sources of revenue, the MTA will be hard pressed in future years to meet its operating and capital needs. Finding these funds is critical to the long-term vitality of downstate New York and the state as a whole. The failure to do so could have far-reaching consequences.

INTRODUCTION

The Metropolitan Transportation Authority is the largest mass transportation system in the U.S. Its transit and commuter rail divisions serve 13.2 million people in a 4,000-square-mile area and carry 1.7 billion riders annually.¹⁰⁰ The agency operates more than 300 train lines and bus routes on a network of nearly 3,500 route miles.¹⁰¹ Its operating budget, excluding its bridge and tunnel operations, exceeds \$4 billion. The system closest to the MTA is the Regional Transportation Authority in northeastern Illinois, with expenses of \$1.2 billion in 1994.

The MTA's reach reflects the region that it serves. Downstate New York is the most populous urban area in the country and an economic leader. In 1994, New York City accounted for over forty percent of the personal income in New York State and generated almost a third of the retail sales in the state. Over forty percent of the state's non-agricultural jobs were based in New York City in 1994.¹⁰² The city is vital on a national and global scale as well. Its \$100 billion market for goods and services would place it among the top twenty national economies in the world.¹⁰³ More *Fortune 500* businesses are headquartered in New York City than in any other city in the U.S.¹⁰⁴ In a survey by *Fortune* magazine in 1995 of the best places to do business, New York City scored fourth among U.S. cities and fourth among international cities.¹⁰⁵

The MTA contributes to the vitality of downstate New York by moving vast numbers of people through the region. The system carries more than five million riders each weekday. Without this outlet, travel in the area would be impossible. Traffic congestion and poor air quality are endemic as is. A report by the MTA in 1990 estimated that traffic delays caused a loss of more than 350,000 work hours each day.¹⁰⁶ The cost of lost time due to congestion is \$1.1 billion annually for the region and

¹⁰⁰ *1995 Annual Report*, Metropolitan Transportation Authority, April 1996, p. 7.

¹⁰¹ *Ibid.*, pp. 46 and 47.

¹⁰² *Five-Year Pocket Summary of New York City and New York State Finances: Fiscal Year 1996-1997*, Citizens Budget Commission, September 1996.

¹⁰³ *New York City: Where the World Does Business*, New York City Economic Development Corporation, May 1995, p. 3.

¹⁰⁴ *Ibid.*, p. 2.

¹⁰⁵ Suzanne Barlyn, "The Business Life: Where to Work," *Fortune*, November 13, 1995, p. 85.

¹⁰⁶ *MTA Capital Needs & Opportunities: 1992-2011*, MTA, May 1990, p. 8.

\$4.5 billion per year for motorists.¹⁰⁷ A strong MTA is critical to the continued well-being of New York City and New York State.

In the early 1980s, the system was in a state of near collapse because of decades of deferred maintenance. A shortage of operable transit and commuter rail vehicles, worn-out sections of track, and aging signal and electrical systems severely compromised the ability of the MTA to provide adequate service. Ridership plummeted because of the dilapidated conditions.

With substantial government support, the MTA began an extensive rebuilding program in 1982. The agency has spent nearly \$25 billion in the last fifteen years and dramatically improved its network. It has reconstructed all its main-line rail track, overhauled or replaced its entire fleet of transit and commuter rail vehicles, and significantly upgraded its power systems. The investment has yielded sharp gains in the quality of service and ridership.

Extensive public assistance made the rebuilding effort possible. Government at all three levels contributed funds and financed nearly 60 percent of the work. The largest share of the subsidies came from the federal government, which provided almost \$9 billion. New York State and New York City supplied approximately \$5.5 billion in funds.¹⁰⁸

In recent years, though, the level of support has been declining. Aid from New York State between 1982 and 1991 totaled \$2.4 billion, but in the MTA's capital program for the 1992-1996 period, the state provided no direct assistance. In addition, subsidies from the federal government and New York City for the cycle fell far short of expectations. Federal transit aid was approximately \$430 million less than anticipated and New York City cut its projected grant by \$500 million.

The pattern of reduced support will continue during the 1997-1999 period. Annual spending during the three years will be \$600 million higher than it was from 1992 to 1996, but government assistance is not growing to keep pace with the increased costs. In fact, average annual subsidies from 1997 to 1999 will be lower than they were in the prior five years: \$910.5 million compared to \$953.3 million.

In response to the diminished aid, the MTA developed a new five-year plan that relies primarily on internal funds. The program is a combination of the last two years of

¹⁰⁷ *Win-Win Transportation: A No-Losers Approach to Financing Transport in New York City and the Region*, Charles Komanoff and Brian Ketcham, 1993, p. 4.

¹⁰⁸ *Review of the Operating and Capital Plans for NYC Transit and the Commuter Railroads*, Office of the New York State Comptroller, March 1996, p. 10.

the 1992-1996 plan and additional projects for the 1997-1999 period. Self financing will provide nearly 60 percent of the funds from 1995 to 1999, marking the first time since the inception of the capital rebuilding effort in 1982 that subsidies will cover less than 50 percent of the costs.

The most significant element of the financing pattern during the 1995-1999 period is the amount of bonds that the MTA will use. Borrowing will total over \$5 billion and underwrite over 40 percent of the program.¹⁰⁹ Part of the new debt will be backed by bridge and tunnel toll revenue and by receipts from a tax on the sale of petroleum products in New York State.

A large share of the bonds will be supported by transit and commuter rail operating revenue. This fare-backed borrowing will sharply increase the debt service costs already paid through transit and commuter rail operating revenue. Debt service payments on existing fare-backed bonds totaled nearly \$170 million in 1995.¹¹⁰ The new bonds will generate additional debt service expenses of \$16.6 million in 1996, \$34.8 million in 1997, and \$89.7 million in 1998. The costs will rise explosively in later years, climbing to \$182.9 million in 1999 and \$422.1 million in 2001.¹¹¹

The growth in debt service expenses will place pressure on the operating budgets of NYC Transit and the commuter railroads. The fare increases in 1995 will help to pay for debt service costs through 1999, but beyond that point, the agencies will incur operating deficits unless budget-balancing measures are taken. In 2001, NYC Transit and the commuter railroads will face revenue shortfalls of \$344.4 million and \$117.4 million, respectively. Another fare increase or additional service cuts may be needed in order to close the deficits. NYC Transit, for example, may have to raise its fare by twenty-five cents to balance its budget.

Also impacting the MTA's operations are stagnant operating subsidies. In the initial 1995-1999 financial plan, NYC Transit and the commuter railroads were expected to incur a cumulative budget deficit of \$1.9 billion by 1999.¹¹² Costs were expected to

¹⁰⁹ Data supplied by the MTA, Budget Office.

¹¹⁰ The amount of debt service payments in 1995 is based on financial statements in bond offerings for two series of revenue bonds issued in 1996.

¹¹¹ Data supplied by the MTA, Budget Office.

¹¹² The MTA projected a cumulative operating deficit of \$4.5 billion by 1999. The \$1.9 billion cumulative deficit was calculated based on information in the MTA's Section 17-A submission cited in the previous footnote. In calculating the projected deficit, a subsidy from a business tax surcharge in the MTA region was included with operating funds. The incremental debt service costs attributable to capital program

rise by nearly 15 percent over the period, but operating assistance was anticipated to grow by only 6 percent. Contributing to the slow growth in subsidies is the elimination of federal support for mass transportation by 1998. New York State has not increased its annual grant in recent years. Most significantly, the state has effectively reduced its subsidy by funding a portion of its grant through proceeds from taxes earmarked for MTA operations. The state will appropriate a total of \$602.0 million from these receipts between 1994 and 1998. Even with full funding from the taxes, the MTA's budget deficit for the 1995-1999 period would have totaled \$1.3 billion.

The fare increase in 1995 was one of the measures the MTA used to close its projected deficit. The agency also reduced costs through various actions that included the reduction of service on 44 subway, bus, and commuter rail lines. The initiatives needed to develop balanced operating and capital budgets for the 1995-1999 period illustrate the inadequacy of subsidies available to the MTA. One of the rationales for reducing operating assistance to mass transportation systems is that providing funding on an as-needed basis discourages agencies from containing costs and operating efficiently. The growth in the MTA's operating expenses, though, was consistent with or lower than increases in inflation. If New York State had increased its subsidy to match the growth in the MTA's costs, it would have supported the agency's reasonable needs and not have encouraged inefficient spending.

Providing additional assistance for the agency's capital program is justified as well. The MTA faced the choice of slowing its rebuilding efforts or relying heavily on bonds. Reducing the program is not feasible because even at the current pace a state of good repair will not be reached for all MTA systems until after 2020. Any reduction in the scope of the capital program would delay the achievement of this target even further and could lead to the MTA losing some of the ground it has gained since 1982.

It is shortsighted to reduce subsidies to the MTA considering the economic importance of downstate New York. The quality of service has declined noticeably as a result of the cutbacks in 1995. The wait to buy tokens has increased significantly because of cutbacks in token booth staffing. Service on some routes has been decreased or in some cases eliminated. If the MTA had chosen to downsize its capital program, it would have risked another decline in the state of its infrastructure. The increased borrowing carries its own risks and could lead to substantially higher fares or to further service reductions. The MTA may eventually have to slow its rebuilding efforts if additional capital support is not available in the 2000-2004 period.

Diminished public transportation in the New York metropolitan region would have far-reaching impacts. As MTA service becomes less accessible and convenient, customers could leave the system in favor of driving, compounding existing mobility

borrowing were excluded in order to capture only operating expenses.

problems. Increased traffic congestion and air pollution would worsen the quality of life in the region. In addition, businesses and residents may choose to relocate where travelling is easier and less expensive. The New York City economy could shrink substantially, hurting the well-being of both the city and state. Investment in the MTA is critical to the continued vitality of downstate New York and the state as whole.

In an era of reduced government spending, finding additional funds for the MTA will not be easy. Other large metropolitan regions could offer clues in the way that they finance and support their mass transportation systems. This report examines the funding for five of the largest mass transportation systems in the country in order to identify possible ways of raising new revenue for the MTA. The agencies studied are the Massachusetts Bay Transportation Authority (MBTA), serving the area around Boston; the Southeastern Pennsylvania Public Transportation Authority (SEPTA), serving Philadelphia and surrounding counties; the Regional Transportation Authority (RTA), serving northeastern Illinois; Bay Area Rapid Transit (BART), providing service in the San Francisco Bay Area; and the Los Angeles Metropolitan Transportation Authority (MTA), the transportation agency for Los Angeles County.

OPERATING FUNDING

Introduction

The systems studied are financed through a mix of internal revenue and public funds. Internal revenue includes fare receipts, income from advertising, concessions, and other business-related activities, and reimbursement for the provision of reduced fares to various groups of customers. Public funds are provided at all three levels of government and include operating grants and proceeds from revenue specifically earmarked for public transportation. The level of support provided to the agencies ranges from high, with the MBTA and the Los Angeles MTA receiving the greatest amount of subsidies, to low. Systems in the latter category are the New York MTA, which receives the lowest level of outside aid, and SEPTA. In each case, though, the amount of subsidies has declined in recent years.

The most significant issue facing the agencies is the elimination of federal transit operating assistance. Federal aid is provided through the Intermodal Surface Transportation Efficiency Act of 1991. Through the Federal Transit Administration, urban areas receive a formula-based block grant that is distributed to the public transportation agencies in the region for operating and capital programs. The size of the award is based on various measures, including population and the amount of service provided. Only a small percentage of the grant may be used to subsidize operations. In 1996, for example, the New York MTA received approximately \$286 million of formula-based assistance, with only \$42.7 million used for operations.

In recent years, the federal government has been reducing operating assistance in anticipation of completely eliminating the aid by Federal Fiscal Year 1998. The cuts have impacted all of the agencies, with the exception of BART, which does not apply for federal subsidies. The 1996 award to the New York MTA was 57.4 percent lower than the 1995 grant and 65.9 percent lower than the 1994 grant. The RTA is also receiving substantially less federal aid. Its projected subsidy for 1996 was 57.6 percent lower than its award in 1994.

Another critical issue for some agencies is a drop in state assistance. The system most impacted by declining state aid is the New York MTA. Part of the MTA's subsidies comes from dedicated tax proceeds. In the 1994-1998 period, New York State will use a total of \$602.0 million of these funds to pay for its operating grant to NYC Transit, reducing the amount of aid that would otherwise be available to the agency. Pennsylvania is freezing its 1997 grant to SEPTA at the 1996 level and the RTA is receiving progressively less in reimbursement from Illinois for the cost of providing reduced fares to school children and elderly or disabled riders.

With the loss in subsidies, the New York MTA is relying more heavily on system-generated revenue to finance its operations. In 1995, it increased its fares to raise

money both for its operating and capital programs. Of the systems studied, the agency receives the highest level of its operating funds from internal sources, a trend that will continue with the recent fare increase. The MTA received 58.3 percent of its total revenue from operations in 1994. The agency closest to the MTA is the Southeastern Pennsylvania Transportation Authority, with system-generated revenues accounting for 51.1 percent of its total operating funds in 1994. Examined from the reverse angle, the MTA and SEPTA are the two systems that are least supported by outside assistance.

The MBTA and the Los Angeles MTA receive the highest level of support from public funds. Including debt service assistance on capital program bonds, subsidies account for approximately three-quarters of the MBTA's total revenue. The Los Angeles MTA receives roughly two-thirds of its operating funds from subsidies. The sources of subsidies for the agencies illustrate the various techniques used to finance the systems studied.

Assistance to the MBTA is provided primarily through grants from the state government. The seventy-eight towns and villages in the agency's service district pay annual assessments that are based on population and service measures. The MBTA is also the beneficiary of federal operating aid. In Los Angeles, two half-percent sales taxes provide the largest share of the MTA's subsidies. Portions of the California sales tax and the state gasoline and diesel fuel taxes are earmarked for the agency as well. Local sources and the federal government provide the balance of the MTA's subsidies.

The other systems are financed by a range of sources as well. The most basic form of assistance is operating aid provided through general state and local funds. The New York MTA and SEPTA receive direct operating grants from state and local sources. Revenue earmarked specifically for mass transportation is a widely used financing mechanism. In New York, for example, surplus toll revenue collected by the MTA's bridge and tunnel authority is allocated for transit and commuter rail operations. A series of dedicated taxes support these purposes as well, with levies including real estate taxes, a tax on the sale of petroleum products, and a quarter-percent tax assessed on retail sales in the MTA service region. The RTA and BART receive a substantial share of their subsidies from local sales taxes and capital costs financed in SEPTA's operating budget are partially offset by a series of taxes implemented in 1991.

As noted, subsidies for most of the agencies are declining, and in general, the various systems are coping with budget pressures that have prompted fare increases. In recent years, the New York MTA, the RTA, the Los Angeles MTA, and BART have raised their fares. SEPTA had planned a fare increase to close a projected deficit for 1997, but it postponed the action by adopting other budget-balancing measures. This part of the report discusses the methods used to finance the operating programs for each system and the pressures that the agencies are facing.

System Summaries

The New York MTA

Operating Assistance

Sources of Operating Assistance

The various MTA agencies receive operating assistance from a range of government programs. The biggest single source is dedicated tax revenue that is distributed by New York State. Aid is also provided from state general revenues as well as from federal and local sources. This section describes the different programs under which the MTA receives operating assistance. A more detailed discussion of each agency, including a review of historical operating results, follows in the next section.

Federal Assistance

The Federal Transit Administration provides operating assistance to the MTA through the Intermodal Surface Transportation Efficiency Act of 1991. The New York and New Jersey metropolitan region receives a block grant under Section 9 of ISTEA Title III. Downstate New York receives 77 percent of the funds allocated to the region and the MTA receives 90 percent of that 77 percent. Historically, the MTA has allocated 79 percent of its share to NYC Transit and 21 percent to its commuter rail operations. Funds are used for operating and capital purposes, though only a small percentage can actually be used to subsidize operations. In Federal Fiscal Year 1996, the MTA received approximately \$286 million of Section 9 assistance, with only \$42.7 million being used to subsidize operations.¹¹³

Federal operating assistance for mass transportation has been declining in recent years. Grants to NYC Transit and the commuter railroads were 22 percent lower in calendar year 1995 than they were in 1991, dropping from an annual total of \$92.5 million to \$71.8 million. The MTA received \$31.0 million in 1996.¹¹⁴

Of the funds allocated to the MTA, NYC Transit received \$71.5 million in 1991, \$71.1 million each in 1992 and 1993, \$69.2 million in 1994, and \$55.5 million in 1995. The agency received \$24.8 million in 1996. The commuter railroads received nearly \$21.0 million total in 1991, 1992, and 1993; \$20.3 million in 1994; and \$16.3 million in 1995. They received a total of \$6.2 million in 1996.

¹¹³ *Request for Federal Financial Assistance for Capital Improvement Projects and Operating Assistance Projects*, MTA, June 1996, p. 3.

¹¹⁴ All financial information for the MTA is based on annual reports that the agency submits to New York State under Section 17-A of the State Transportation Law and under section 15 of the Federal Transit Act.

State Assistance

State operating assistance to the MTA is provided primarily through two funds. A small percentage of aid comes through the State Transit Operating Assistance account, which was established in 1975 and is funded through appropriations from the state's general revenues. In recent years, grants from the program have accounted for just under 30 percent of state subsidies.

The majority of state operating assistance comes through a dedicated pool of taxes, the Metropolitan Mass Transportation Operating Assistance account (MMTOA). Established in 1980, the program provides aid to upstate and downstate transportation operators and is funded through the proceeds from a series of taxes. The following is a description of the taxes that comprise the fund.

1. Sales Tax: a quarter-percent tax on sales within the MTA region, which is comprised of New York City and Nassau, Suffolk, Dutchess, Orange, Putnam, Rockland, and Westchester counties. Proceeds from the tax have increased steadily since 1991, growing from \$233.3 million to \$284 million in 1995.

2. Business Tax Surcharge: a 17-percent surcharge on business taxes paid within the MTA region. The amount due is calculated based on the portion of business taxes attributable to operations within the region. When the surcharge was established in 1982, it was intended as a temporary tax. It has been extended six times and is scheduled to expire at the end of 1997. The MTA expects the surcharge to be renewed. The tax provides the largest share of MMTOA proceeds, with collections in 1995 amounting to \$557.7 million.

3. Petroleum Business Tax: a tax on petroleum products that are refined or sold in New York State or that are imported for sale or use in the state. A portion of the proceeds – 17.7 percent – is allocated for mass transportation operating assistance. Of that 17.7 percent, 55 percent is deposited in the downstate portion of the MMTOA fund, with the balance going to transportation systems upstate. In recent years, the downstate share of PBT proceeds has ranged from \$90 to \$100 million.

4. Long Lines Tax: primarily a tax on the telecommunications industry, though certain transportation companies are taxed as well. The taxes consist of an annual tax based on the amount of a company's issued capital stock and an annual tax on a company's gross earnings in New York State.¹¹⁵ Of the proceeds, 40 percent is allocated to the MMTOA account.¹¹⁶ In 1995, the MMTOA's share of the receipts was

¹¹⁵*Official Statement: \$204,355,000 Metropolitan Transportation Authority Transit Facilities Revenue Bonds, Series 1996A, MTA, May 1, 1996.*

\$72.3 million, down slightly from \$76.2 million in 1991.

Receipts in the MMTOA account are allocated to upstate and downstate mass transportation operators, though virtually all the proceeds go to downstate operators. Traditionally, 64 percent of the downstate portion has been distributed to NYC Transit, with 25 percent going to the commuter railroads and the balance to other operators. Total MMTOA collections have fluctuated in recent years, dropping to as low as \$888.9 million in 1993 and amounting to as much as \$969.3 million in 1995. In 1995, the downstate share was \$925.8 million.

In 1993, 1994, and 1995, funds from the MMTOA account were augmented by additional proceeds from the Petroleum Business Tax that had been earmarked for the MTA's capital program. Originally, sales of petroleum products were taxed through a different levy – the Gross Receipts Tax – but in 1993, the State Legislature initiated the PBT and eliminated its predecessor. There are two components to the current tax: a basic rate and a supplemental rate. Proceeds from the basic rate are distributed to three funds. As noted, 17.7 percent of the receipts is allocated to mass transportation operating assistance, with 54 percent going to a broader transportation fund and the remaining 28.3 percent going to the state's General Fund. All of the proceeds from the supplemental rate are deposited into the broader transportation fund, which is used for highways and bridges and mass transportation.¹¹⁷

The MTA's share of the broader transportation fund is 34 percent, with 85 percent of that amount allocated to NYC Transit and 15 percent to the commuter railroads. Monies from the account were to have been used to secure bonds for capital programs, but the MTA did not receive approval to issue bonds against the proceeds until July 1996. In the interim, NYC Transit and the commuter railroads used the funds to pay for operating expenses. Once bonds are issued, the proceeds will pay for debt service and will be available for operating assistance only if a balance remains. NYC Transit's share of the proceeds was \$73.2 million in 1993, \$164.6 million in 1994, and \$194.1 million in 1995. In that period, the commuter railroads received \$12.9 million, \$29.1 million, and \$34.3 million, respectively.

A third source of dedicated tax revenue is two mortgage recording taxes (MRT), though in recent years, receipts from the levies have been used almost entirely to pay debt service on capital bonds. The first tax is one-quarter of one percent of the face

¹¹⁶ *Issues in Focus: MTA Funding Sources*, Senate Research Service, Report #92-65, May 4, 1992, p. 4.

¹¹⁷ The description of the allocation of PBT receipts is based on a flow chart provided by the Transit Program & Evaluation Bureau of the New York State Department of Transportation.

value of nearly all mortgages recorded within the MTA region. The first \$10,000 on 1- or 2-family dwellings is exempt.¹¹⁸ The second tax is also on properties within the MTA region and is one-quarter of one percent of the face value of mortgages recorded for 1- to 6-family homes. Taxes are collected at the time that mortgages are recorded, whether the mortgage is for a new sale or for a refinancing.

Proceeds from the first mortgage recording tax are used first to pay for MTA headquarters expenses and then are divided between NYC Transit and the commuter railroads at a 55/45 percent split. NYC Transit's share is used first to pay debt service on bonds backed by the tax receipts, with any remaining balance available for the agency's operations. A small portion of the commuter rail share is paid into a fund for suburban highways. Net receipts are then used to cover bond debt service; any remaining balance is used to pay for operating expenses.

The first \$5 million from the second mortgage recording tax is paid to Dutchess, Orange, and Rockland counties. The remaining balance is allocated by the MTA to cover debt service on MRT bonds and is generally divided between NYC Transit and the commuter rails at an 85/15 percent split. Any left-over funds may be used for operating expenses.

In recent years, the MTA's share of MRT proceeds has gone almost entirely to debt service. For its operating budget, NYC Transit received \$3.1 million in MRT funds in 1994 and no money in 1995. The agency expects to receive no MRT operating assistance in upcoming years. No MRT proceeds have been available for commuter rail operations in recent years and the MTA expects that trend to continue in future years. In fact, other than to cover debt service on existing bonds, the MTA does not even anticipate that it will be able to use MRT funds for its 1995-1999 capital program.

Lastly, the Connecticut Department of Transportation pays a subsidy to offset a portion of Metro-North Railroad's operating deficit on the New Haven line. The subsidy covers 60 percent of the deficit and is made pursuant to an agreement that will expire at the end of 1999 (the agreement is renewable). Payments were \$48.0 million in 1994 and \$42.9 million in 1995 and the MTA forecasts similar receipts in upcoming years.

¹¹⁸ *MTA Funding Sources*, p. 5.

Local Assistance

Local operating assistance is provided through a number of sources, most notably through surplus toll revenue from MTA Bridges and Tunnels. In calculating the amount available for transfer to the agencies, the MTA adjusts the surplus to account for certain costs, including debt service owed by Bridges and Tunnels. In addition, \$24.0 million of the surplus is reserved for NYC Transit. The remainder is divided equally between NYC Transit and the commuter railroads. Before any money is transferred to the agencies, debt service on capital bonds is deducted from their respective shares. In 1995, NYC Transit received \$91.8 million and the commuter railroads received a total of \$146.0 million.

From 1968 through 1971, NYC Transit received the entire surplus, and when the current system was implemented in 1972, the intention was that the agency would receive two-thirds of the excess. Over time, however, the amount of the surplus has increased and NYC Transit's percentage share has declined to slightly more than 50 percent.¹¹⁹ The near-equal distribution has become an issue of contention. New York City politicians, including the Mayor, have argued that NYC Transit should receive a larger portion of the surplus since the majority of motorists who use the bridges and tunnels are city residents. It is unlikely, though, that the State Legislature will vote to change the formula.

In addition to the toll surplus, local assistance is provided through general revenues and other sources. State law requires that local governments provide money from general revenues that matches the state contribution dollar-for-dollar. In 1995, for example, New York State provided \$158.0 million to NYC Transit from its general revenues and New York City matched that amount. The commuter railroads received \$29.3 million in state general revenues and an equal amount from local governments.

The remaining local subsidies are specific to the agencies. NYC Transit receives operating assistance from two real estate taxes assessed in New York City. One is a mortgage recording tax equal to five-eighths of one percent of the value of certain mortgages¹²⁰ and the other is a one-percent tax on the price of real property sales over \$500,000. Revenues from the taxes dropped sharply after the real estate market collapsed in the early 1990s, but receipts have increased in recent years. In 1994, NYC Transit received \$47.7 million from the taxes, and in 1995, the agency received \$38.6 million.

In addition to providing the tax-supported subsidies, New York City reimburses

¹¹⁹ *1995 Legislative Agenda*, MTA..

¹²⁰ *1995 Annual Report*, Financial Statements, Note 2, p. 69.

NYC Transit for costs associated with providing reduced fares to school children. The city had paid for the full costs of the program prior to 1994, but beginning that year, it cut its contribution. In the 1995-1996 school year, the city paid \$45 million of the approximately \$135 million cost. New York State provided an additional \$45 million and the MTA absorbed the balance of the costs. New York City and New York State have each committed to providing \$45 million per year through 1999.¹²¹ In its budget, NYC Transit classifies its reimbursement from New York City for reduced fares as operating revenue.

Long Island Rail Road and Metro-North Railroad receive payments from New York City and the seven counties in the MTA district for the costs associated with the operation, maintenance, and use of stations. Through 1993, each of the jurisdictions was billed on an actual-cost basis, but as of 1994, the counties outside New York City are billed an amount fixed by statute and adjusted annually to account for inflation. New York City continues to pay on an actual-cost basis. In 1994, the railroads received \$102.7 million, and in 1995, they received \$110.2 million.

Funds Allocated

Government subsidies to the MTA declined sharply in 1995 and the trend of reduced aid is expected to continue in future years. Already among the least subsidized mass transportation systems in the country, the MTA agencies found that they had to raise fares and trim costs in order to cope with the cuts. NYC Transit was especially hurt by reduced aid and enacted a 20-percent fare increase as part of its austerity measures. That increase further widened the gap between the agency's proportionally high price and other systems' fares. A discussion of government subsidies to each of the MTA agencies follows.

NYC Transit

Historically, NYC Transit has received approximately 64 percent of the downstate share of the MMTOA account, but New York State has been appropriating proceeds from the fund and using the money as part of its grant to the agency. In its 1994-1995 budget, the state appropriated \$90 million from the fund, and in 1995-1996, the state appropriated \$128 million from the fund. If NYC Transit received its historical share of MMTOA revenue in 1995, it would have received \$593.5 million from collections. It instead received \$470.8 million from collections. The state will continue to appropriate money from the fund through 1998. In effect, by transferring money from the fund, New York State is cutting its subsidy to NYC Transit, though beginning in 1999, the state plans to cease using MMTOA proceeds to fund its operating assistance to NYC Transit.

¹²¹ *Ibid.*, p. 70; NYC Transit, Office of Management and Budget.

Subsidies from the federal government have been reduced as well. In 1994, NYC Transit received \$69.2 million in federal operating assistance, and in 1995, it received \$55.5 million. The grant fell to \$24.8 million in 1996. Assistance from local sources declined sharply in 1995, though the drop is attributable to less receipts from surplus toll revenue. NYC Transit received \$116.8 million in excess toll income in 1994 and \$91.1 million in 1995. In terms of allocations from general local funds, New York City is required to match state aid dollar-for-dollar and cannot reduce its contribution unless the state cuts its own grant. The city did provide more money than the state in 1993, giving NYC Transit \$183.9 million from its general revenues, though in 1994 and 1995, it matched the state's \$158.0 million subsidy.

On a proportional basis, NYC Transit receives less government assistance than most of the other transit systems studied. One measure for comparing subsidies across systems is the amount of assistance provided per revenue passenger. In 1994, NYC Transit received \$0.80 in total government assistance per revenue passenger. Except for City Transit in Philadelphia, the other transit systems were better supported in 1994. Aid per passenger was \$0.75 for City Transit, \$0.82 for the Chicago Transit Authority (CTA), and \$1.68 for Bay Area Rapid Transit (BART).

In terms of state subsidies, NYC Transit and City Transit received comparable amounts in 1994, though dedicated funds accounted for most of the state aid to NYC Transit. Total state assistance to NYC Transit in 1994 was \$0.54 per passenger, with dedicated revenue providing \$0.44 in aid per passenger and money from general funds providing the remaining \$0.10. Of City Transit's \$0.56 in state aid per passenger, \$0.39 came from appropriations and \$0.17 came from dedicated tax revenue. (Dedicated funds include a 1:29 match from local governments.) Isolating the amount of state subsidies to the CTA is difficult because the agency receives discretionary money from the Regional Transportation Authority that includes allocations from a state-supported transportation fund and a portion of local sales tax receipts. Nearly all of the assistance provided to BART comes from local sources, with state aid in 1994 amounting to \$0.07 per passenger.

Local operating assistance to NYC Transit was a total of \$0.21 per passenger in 1994. Money from general funds provided \$0.10 per passenger and dedicated tax revenue provided \$0.11. Excluding the local match to dedicated state funds, City Transit received a total of \$0.13 in local aid per passenger in 1994. The majority of subsidies to the CTA are provided through local sales tax receipts and those proceeds provided \$0.45 per passenger in 1994. BART received \$1.62 per passenger from local sources: \$1.45 from sales taxes and \$0.16 from property taxes.¹²²

Commuter Railroads

¹²² Numbers do not add due to rounding.

Government assistance to the Long Island Rail Road and Metro-North has declined in recent years. The drop in subsidies has occurred primarily at the federal and state levels. With federal operating assistance being phased out, total grants from the Federal Transit Administration dropped from \$20.3 million in 1994 to \$16.3 million in 1995 and to \$6.2 million in 1996.

Appropriations from New York State have been \$29.3 million a year since 1992 and are expected to remain at that level through 1999. As is the case with NYC Transit, however, New York State is using a portion of MMTOA proceeds to fund its grant to the LIRR and Metro-North. The state's 1996-1997 budget will appropriate \$6.6 million from the commuter rail share of the MMTOA account.

Operating grants from local governments are required to match the New York State contribution on a dollar-for-dollar basis. In recent years, receipts from general local funds have been the same \$29.3 million provided by the state. Additional assistance is received through station maintenance subsidies paid by New York City and the seven counties in the MTA region. Through 1993, each of the jurisdictions was billed on an actual-cost basis, but as noted, the seven counties outside New York City began to pay an amount fixed by statute starting in 1994. The amount is adjusted annually to account for inflation. New York City continues to pay on an actual-cost basis. Because the amount owed reflects actual costs, station maintenance subsidies increase over time rather than decrease.

Actual subsidies for combined commuter rail operations in 1995 included \$16.3 million in federal operating assistance, \$29.3 million from New York State, and \$29.3 million as the local match to New York's grant. The Connecticut Department of Transportation provided \$42.1 million. Other subsidies included \$146.0 million from surplus toll revenue, \$225.2 million from MMTOA proceeds, \$34.2 million from supplemental PBT proceeds, and \$110.2 million from station maintenance subsidies.

Projections for 1996 expected \$6.2 million in federal operating assistance, \$29.3 million from New York State, and \$29.3 million as the local match to New York's grant. The subsidy from the Connecticut Department of Transportation was anticipated to be \$39.5 million. Other projected subsidies included \$153.7 million from surplus toll revenue, \$227.0 million from MMTOA proceeds, \$35.4 million from supplemental PBT proceeds, and \$107.8 million from station maintenance subsidies.

Staten Island Railway and Long Island Bus

Staten Island Railway, a subsidiary of NYC Transit, receives operating assistance through appropriations from New York State and New York City general revenues and through MMTOA funds. It receives no federal operating assistance. Aid

from New York City is a dollar-for-dollar match of the state's grant and an additional amount necessary to close any operating deficit.¹²³ In addition, Staten Island Railway received a portion of the supplementary petroleum business tax proceeds in 1993, 1994, and 1995.

In 1995, Staten Island Railway received a total of \$12.1 million in subsidies, up 11.6 percent from its 1994 receipts of \$11.5 million. Government aid in 1994 included \$2.7 million from the state – \$666,000 from appropriations and \$2.0 million from dedicated taxes – and \$8.6 million from New York City. In 1995, Staten Island Railway received \$2.8 million from the state – \$653,000 from appropriations and \$2.2 million from dedicated taxes – and \$9.3 million from New York City.

On a per passenger basis, Staten Island Railway received a total of \$2.23 in subsidies in 1994. State assistance provided \$0.52 per passenger in 1994 (\$0.13 from appropriations and \$0.39 from dedicated taxes. New York City provided \$1.71 per passenger in 1994 and \$1.97 per passenger in 1995.

Long Island Bus receives subsidies through appropriations from state and local general revenues and from Nassau County's share of federal mass transportation operating assistance. Local aid includes a match of the state's grant and an additional amount necessary to close any operating deficit.¹²⁴ In recent years, Long Island Bus has not met the criteria necessary to receive MMTOA funds.

In 1995, Long Island Bus received a total of \$33.3 million, a 17.0- percent increase over its 1994 receipts of \$28.5 million. Operating assistance to Long Island Bus in 1994 included \$1.3 million in federal funds, \$15.9 million from New York State, and \$11.3 million from local sources. In 1995, Long Island Bus received \$1.1 million in federal operating assistance as well as \$16.9 million from New York State and \$15.3 million from local sources.

On a per passenger basis, Long Island Bus received \$1.51 in total subsidies in 1994 and \$1.79 in 1995. Federal aid provided \$0.07 per passenger in 1994 and \$0.06 per passenger in 1995. Appropriations from New York State were \$0.84 per passenger in 1994 and \$0.91 per passenger in 1995. Local aid per passenger was \$0.60 in 1994 and \$0.82 in 1995.

System-Generated Revenue

With the cuts in subsidies to the MTA agencies in 1995, system-generated

¹²³ *MTA Funding Sources*, p. 7.

¹²⁴ *Ibid.*, p. 8.

revenue assumed a larger role in funding operations. System-generated revenue includes passenger fares, miscellaneous revenue from such sources as advertising and concessions, and for some systems, reimbursement for reduced fares. Two helpful measures for comparing the amount of subsidies mass transportation systems receive are the percent of total revenue that comes from operations and the percent of operating expenses that fares cover. Prior to budget-balancing measures enacted by the MTA in response to reduced government aid, the MTA agencies relied heavily on fare receipts and aggregate operating revenue. Higher fares that took effect in 1995 will increase their reliance on these sources of funds. A discussion of system-generated revenue follows.

NYC Transit

The transit fare in New York City is a flat-rate fee. It increased in late 1995 from \$1.25 for a single ride to \$1.50. The last fare increase was in 1992 when the price for a one-way trip rose from \$1.10 to \$1.25. NYC Transit provides free or reduced fares for school children and reduced fares for senior citizens and riders with disabilities. Currently, there are no discount fares for the general public, though beginning in January 1998, passengers using electronic fare cards will be able to make eleven trips for the price of ten. In addition, the MTA will introduce a system-wide free transfer policy in July 1997. Additional sources of operating revenue for NYC Transit include fare reimbursement from New York City and income from advertising, concessions, and other activities.

In funding its operations, NYC Transit relies more heavily on system-generated revenue than any of the systems studied, including the MTA commuter railroads. The agency's reliance on system-generated revenue is illustrated by the amount of its total operating funds that it generates through its daily operations. Total operating funds include both subsidies and revenue from operations. In 1994, NYC Transit's \$2.8 billion in total funds and \$1.8 billion in operating revenue was equal to 64.3 percent of total funds from operations. By comparison, 51.9 percent of the commuter railroads' combined funds came from operations in 1994 (\$596.0 million in system-generated revenue and \$1.2 billion in total funds).

NYC Transit's percentage of funds from operations is also high when compared against the other transit systems studied. Operating revenue for the Chicago Transit Authority provided 52.1 percent of the agency's total funds in 1994 (\$397.2 million in operating revenue and \$762.8 million in total funds). BART received 48.2 percent of its total funds from operations in 1994, reflecting \$113.1 million in operating revenue and \$240.3 million in total funds. City Transit received \$254.0 million in operating revenue and \$443.3 million in total funds in 1994, equal to 57.2 percent of funds from operations.

A measure that is commonly used to compare the relative fares of different systems is the percent of a system's operating expenses that is recovered by fare

revenue. Because each of the systems studied refers to and calculates this ratio differently, a standardized methodology was used in this report. A ratio referred to as the *farebox operating ratio* was determined for each system by dividing fare revenue by operating expenses. Following input from the different systems, only revenue considered to be fare revenue was used and certain adjustments were made to operating expenses in order to determine the expenses attributable to current year operations. In the case of NYC Transit, for example, farebox revenue includes both passenger fares and fare reimbursement from New York City. Debt service and depreciation are excluded from the agency's operating expenses.

NYC Transit's farebox operating ratio is the highest of the systems studied, indicating that passengers shoulder a greater burden in New York City than they do elsewhere. The agency's farebox operating ratio was 60.1 percent in 1994, reflecting \$1.8 billion in fare revenue and \$3.0 billion in operating expenses. Combined MTA commuter rail operations had a farebox operating ratio of 47.6 percent in 1994 (\$557.0 million in farebox revenue and \$1.2 billion in operating expenses).

In 1994, the farebox operating ratio for City Transit was 54.8 percent, reflecting fare receipts of \$247.9 million and operating expenses of \$452.3 million. On the other end of the spectrum is subway and bus service provided by the MBTA, the most heavily subsidized of the systems studied. The MBTA's farebox operating ratio was 31.1 percent in 1994. Passenger revenue for the agency was \$144.0 million and operating expenses were \$463.7 million.¹²⁵

Commuter Railroads

The Long Island Rail Road and Metro-North Railroad charge distance-graduated fares that vary by time of travel and by ticket type. The base ticket types are one-way peak and off-peak tickets. In addition, there are discounted weekly and monthly passes, 10-trip tickets, as well as reduced-price tickets for school children, senior citizens, and riders with disabilities. In January 1998, the MTA will implement a 9.1-percent fare discount for riders using a joint rail-transit ticket. The fare increased in late 1995 by an average of 9 percent (\$0.375) per trip. The last system-wide fare increase was in 1990, though pursuant to an agreement with the Connecticut Department of Transportation, Metro-North annually increases fares on the Connecticut portion of the New Haven line to keep pace with the cost of living. Additional operating revenue for the two carriers comes from various sources.

Other sources of operating revenue for the LIRR include freight operations, special passenger services, and income from advertising and concessions. The railroad

¹²⁵ These figures are for subway and bus service only and do not include commuter rail or commuter boat.

plans to privatize its freight business as part of initiatives to raise revenues and cut costs. Special passenger services include special commuter and special Hampton service as well as club cars. Metro-North receives additional operating revenue from food and beverage sales in bar cars as well as income from rents, concessions, and advertising.

In 1994, the LIRR had \$686.1 million in total operating funds, of which \$318.7 million (46.5 percent) was from operations. Metro-North had \$464.6 million in total operating funds, including \$280.5 million (60.4 percent) from operations. Combined commuter operations had \$599.2 in operating revenue and \$1.2 billion in total operating funds in 1994, equal to 52.1 percent of funds from operations.

A similar percentage of Metra's total operating funds in 1994 came from operating revenue. The agency had \$185.7 million in operating revenue and \$358.8 million in total funds, equal to 51.8 percent of funds from operations. Regional Rail relies less heavily on operating revenue. In 1994, it received 36.4 percent of its total operating funds from operations: \$61.5 million in operating revenue and \$169.3 million in total revenue.

The LIRR's farebox operating ratio in 1994 was 44.0 percent, reflecting \$296.3 million in fare revenue and \$667.7 million in net operating expenses. Freight expenses and depreciation were deducted from total operating expenses. Costs associated with using operating personnel for the capital program were subtracted from operating expenses.

Metro-North's farebox operating ratio was 52.2 percent in 1994, reflecting \$262.1 million in fare revenue and \$574.4 million in net operating expenses. Included in fare revenue was food and beverage income. Depreciation expenses were deducted from operating expenses, as were costs associated with allowing properties surrounding Grand Central Terminal to use Metro-North's utility grid at the station.

In 1994, the farebox operating ratio for combined MTA commuter rail operations and for Metra was similar. The ratio was 44.8 percent for the MTA and 47.5 percent for Metra. Passenger fares for Metra were \$155.1 million in 1994 and operating expenses were \$324.0 million in 1994. The farebox operating ratio for Regional Rail was 31.8 percent in 1994. Passenger fares, including reimbursement for reduced fares for senior citizens, were \$56.2 million and operating expenses were \$177.1 million.

Staten Island Railway and Long Island Bus

The fare for Staten Island Railway is a flat-rate fee. It increased in November 1995 from \$1.25 for a single ride to \$1.50. Additional sources of operating revenue for the agency include advertising and rental income. In 1994, operating revenue was \$6.7 million and accounted for 36.9 percent of the agency's total operating funds of \$18.2

million. The farebox operating ratio was 34.1 percent in 1994. Fare revenue, including fare reimbursement from New York City, was \$6.4 million and operating expenses were \$18.6 million.

Long Island Bus last raised its fare in 1991, implementing a base price of \$1.50 (\$2.00 for passengers boarding in Queens). Discounts are available to riders who purchase a 20-trip ticket book as well as to students, senior citizens, and passengers with disabilities. There is a transfer charge of \$0.25 (\$0.10 cents for elderly and disabled riders). Additional operating revenue comes mainly from advertising income. In 1994, Long Island Bus had \$59.4 million of total operating funds, of which \$30.9 million (52.0 percent) came from operations. The farebox operating ratio that year was 49.9 percent, reflecting \$29.5 million in fare revenue and \$60.6 million in operating expenses.

The MBTA

Operating Assistance

Sources of Operating Assistance

The Massachusetts Bay Transportation Authority, serving southeastern Massachusetts, is well supported by subsidies. Its operations receive government assistance through grants from the FTA and the Commonwealth of Massachusetts as well as through assessments charged to the 78 cities and towns in the MBTA service district. Massachusetts provides an operating grant as well as funds that help to pay debt service expenses on bonds issued to finance capital projects. This section discusses the programs under which the MBTA receives public support. A detailed discussion of funds allocated to the agency follows in the next section.

Federal Assistance

Federal operating assistance to the MBTA, provided through Section 9 of ISTEA Title III, has become a progressively smaller piece of the agency's funding picture in recent years. In 1995, the FTA grant was \$13.4 million, down 16.8 percent from 1994 and 26.4 percent from 1991.¹²⁶ The MBTA received \$16.1 million in federal funds in 1994 and \$18.2 million in 1991. The projected subsidy for 1996 is \$8.4 million.

¹²⁶ All funding information for the MBTA was taken from the agency's "Summary of Income and Expenses and Net Cost of Service: Calendar Years 1991-1996," as presented in the MBTA's official statement for its 1996 Series A General Transportation System Bonds, p. 18. The MBTA's standard financial reporting method is based on a fiscal year that extends from July 1 to June 30.

State Assistance

Public funding from the Commonwealth Massachusetts includes subsidies that reimburse the agency for most of its debt service costs on capital program bonds. The MBTA receives two types of debt service assistance. Through one program, the commonwealth pays a portion of the debt service charges on bonds originally issued by the Metropolitan Transit Authority, the MBTA's predecessor. By statute, reimbursement may total no more than \$3 million per year. The other form of debt service assistance defrays the costs associated with the bonds issued by the MBTA. With the exception of the MBTA's first bond series in 1967, the commonwealth is required by law to reimburse the MBTA for 90 percent of the annual debt service payments on each of its bond issues. Debt service costs on the 1967 bonds are reimbursed at rates of 90 percent for the part attributable to express service and 50 percent for the part attributable to local service.¹²⁷

State operating subsidies come from two sources. One of the programs is operating assistance for commuter rail service provided outside the MBTA district. The other is a grant that supports general operating expenses. Aid from this program is subject to appropriations and is sufficient to cover any deficit that remains after the MBTA has received all other subsidies. The Commonwealth provides this subsidy on a retroactive basis and reimburses the MBTA for actual costs. Operating expenses from 1995, for example, will be paid through Massachusetts' budget for Fiscal Year 1997. The MBTA has held discussions with the Commonwealth on switching to a forward-looking funding method.

Local Assistance

Each of the 78 cities and towns in the MBTA district provides assistance through an annual assessment. The MBTA determines a total amount to be assessed to the municipalities, with each paying a portion of that amount. The amount to be assessed is equivalent to the MBTA's operating deficit net of all other subsidies. In determining the amount each city and town owes, the MBTA first calculates how much of the assessable amount is attributable to express and local service. It then allocates the costs attributable to express and local service on a formula basis.

Express service is considered to be any mass transportation operation that runs over controlled rights-of-way. Rapid transit and commuter rail are classified as express service; express bus routes are not considered to be express service. The first 75 percent of the express cost is allocated among the 78 communities based on the proportion of the total number of commuters within the MBTA district living in each municipality. Of this 75 percent, Boston is required by statute to pay no less than 30

¹²⁷ *FY 1996 Budget*, MBTA, pp. 8 and 9.

percent, regardless of the distribution of commuters.

The remaining 25 percent of the express cost is charged only to those communities that have one or more express service stations that existed before July 1, 1973. A municipality's share is determined on a proportion basis. The total number of commuters using express stations built prior to July 1, 1973, is calculated, as is the number of commuters in each locality using such express stations. A community is assessed based on its relative number of express commuters. Each of the fourteen cities and towns in the original MTA district is assessed an additional amount for debt service costs on bonds originally issued by the MTA. The net debt service is allocated to each of these municipalities on a ridership basis.

Costs for local service are allocated on a formula basis as well. Any service not classified as express service is considered to be local service. Examples include bus routes, either local or express, and service on trackless trolleys. In assessing local service costs, the MBTA district is divided into two regions. One region includes the 14 cities and towns of the MTA and the other includes the additional 64 municipalities that became members of the district when the MBTA was established in 1964. The net loss attributable to each region is calculated and then allocated according to a two-step procedure.

The first 50 percent of the net loss is allocated on a population basis. Each municipality in a region is assessed based on the proportion of the total population in the region living in that municipality. The other 50 percent is allocated according to how much of the net loss in the region is attributable to routes operating within each municipality. A municipality's share of the region's net loss is determined on a percent basis.¹²⁸

Originally, the assessments covered most of the MBTA's operating deficit, but they have provided a progressively smaller portion of the agency's total funds because of legislation that limits how much the assessments can be raised each year. Proposition 2_ caps annual increases in assessments at two-and-one-half percent. In effect, the assessment rate in any given year can be no more than 102_ percent of the prior's year rate.

Funds Allocated

Massachusetts provides general operating assistance that is sufficient to cover the MBTA's remaining operating deficit after all other subsidies have been received. The amount of the grant is tied to the MBTA's actual costs and varies as the agency's

¹²⁸ The description of the assessment procedure is based on a document provided by the MBTA Budget Office.

expenses fluctuate. The MBTA has been cutting its costs since 1993, and as a result, general assistance from Massachusetts has been declining. In turn, total subsidies to the agency have been falling as well. The MBTA received aggregate assistance of \$590.1 million in 1994 and \$585.7 million in 1995, both down sharply from the agency's overall receipts of \$610.3 million in 1993.

Federal operating assistance dropped from \$16.1 million in 1994 to \$13.4 million in 1995 and will fall to \$8.4 million in 1996. Total state aid to the MBTA was \$453.7 million in 1994 and \$449.5 million in 1995. In 1994, Massachusetts provided \$191.1 million to offset debt service costs and \$262.5 million in general assistance. Debt service assistance from the Commonwealth was \$219.7 million in 1995; the general grant that year was \$229.8 million. Local assessments provided \$120.3 million in 1994 and \$122.8 million in 1995.

In 1994, the MBTA received total operating support of \$3.18 per passenger. Federal funds were \$0.09 per passenger and state aid was \$2.44 per passenger (\$1.41 in general assistance and \$1.03 in debt service assistance). Local assessments provided \$0.65 per passenger.

System-Generated Revenue

System-generated revenue for the MBTA includes fare revenue from its transit operations and income from advertising, concessions, and other non-fare sources. Because the MBTA does not directly operate its commuter rail service, but contracts with Amtrak, commuter rail fares are not reflected as a revenue source. They are instead included in operating expenses, as the difference between the costs for the contracted service and the fare collections.

Of the systems studied, the MBTA receives the lowest percent of its total operating funds from operations. In 1994, operations provided 22.2 percent of the agency's total operating funds. Operating revenue was \$168.3 million and total operating funds were \$758.4 million.

The MBTA's farebox operating ratio is also comparably low. The ratio was calculated using only fare revenue from the agency's transit system, which includes subway, local and express bus, and above-ground Green Line operations. Fares for the MBTA's transit services vary by mode and are \$0.85 for subway service, \$0.60 for local bus service, and distance-based for express bus service. Discounted monthly passes are available for subway and local bus service. The last fare increase was in 1991, with fares rising by \$0.10 on subways and local buses and between \$0.25 and \$0.35 for express buses, depending upon the distance travelled. Commuter rail fares increased at the same time.

In calculating the farebox operating ratio, the net commuter rail and net local

service subsidies and interest on unfunded debt were deducted from total operating expenses.¹²⁹ The MBTA's farebox operating ratio was 31.1 percent in 1994. Transit fares totaled \$144.0 million in transit fares and net operating expenses were \$463.7 million.

SEPTA

Operating Assistance

Sources of Operating Assistance

In 1997, the Southeastern Pennsylvania Transportation Authority expects to receive slightly more in subsidies than it did in 1996: \$363.5 million compared to \$354.9 million.¹³⁰ The agency receives support from government at all three levels. The largest amount of assistance comes from Pennsylvania through an operating grant and proceeds from dedicated taxes. In recent years, as subsidies from other sources have declined, state aid has provided a growing share of SEPTA's public funds. State assistance accounted for 45 percent of the agency's subsidies in 1980; in 1997, state aid will cover 78 percent of total subsidies. This section discusses the various programs under which the agency receives operating assistance. A discussion of actual funds appropriated follows in the next section.

Federal Assistance

SEPTA receives federal operating assistance through Section 9 of ISTEA Article III. Consistent with the phase-out of federal support for transit operations, total funds allocated to SEPTA have declined sharply in recent years. The agency received \$12.6 million in FTA funds in 1996, down nearly 50 percent from 1995. The projected subsidy in 1997 is \$12.5 million.

State Assistance

State support for SEPTA operations is provided primarily through a grant that is subject to appropriations. The subsidy accounts for approximately half of the agency's total operating assistance and increased from \$166.5 million in 1994 to \$171.5 million in 1995 and \$176.5 million in 1996. In 1997, however, the grant will be frozen at the 1996

¹²⁹ Subsidized debt service costs were excluded from operating expenses as well. No actual adjustment was necessary, however, because the data used presented total operating expenses prior to subsidized debt service.

¹³⁰ All financial information for SEPTA is based on the agency's operating budget books for the years 1994, 1995, 1996, and 1997.

level.

Additional state operating assistance comes from a dedicated tax fund that was established in 1991. The Pennsylvania legislature passed a statute that year instituting a series of taxes designed to support public transportation capital programs. SEPTA receives two subsidies from the fund for its operations. The first subsidy pays for asset maintenance costs funded in the agency's operating budget and the second subsidy covers capital lease costs and debt service expenses that are also included in the operating budget.¹³¹

The amount of the asset maintenance subsidy is the greater of 30 percent of the available dedicated funding or the level received in 1992 (\$41.7 million). The asset maintenance subsidy was \$41.7 million in 1994, 1995, and 1996. SEPTA projects that it will receive \$41.7 million in 1997. The subsidy for capital lease costs and debt service reimbursement varies with the expenses SEPTA incurs; it was \$30.2 million in 1994, \$51.1 million in 1995, and \$63.1 million in 1996. SEPTA expects to receive \$70.5 million in 1997.

In addition to the operating grant and dedicated tax proceeds, SEPTA receives state aid through reimbursement for senior citizens programs. The state reimburses the agency for providing discounted fares to senior citizens and pays for a portion of the costs associated with the Shared Ride Program. The Shared Ride Program, which is also funded by the Philadelphia Corporation for the Aging and passenger fares, provides door-to-door shared transportation for people at least 65 years old.¹³² SEPTA classifies aid for the two programs as operating revenue.

Local Assistance

Local governments in the SEPTA service area provide aid that matches both the state grant and asset maintenance and lease cost/debt service subsidies. The general state subsidy is matched at a ratio of one-to-three. The amount allocated to each of SEPTA's companies (City Transit, Victory, Frontier, and Regional Rail) is determined based on each company's relative deficit before subsidy. (The deficits are adjusted for private route guarantee and debt service payments.) In turn, the counties in the SEPTA service area (Bucks, Chester, Delaware, Montgomery, and Philadelphia) pay a portion of each company's subsidy requirement. The amount owed by each county is determined on a percentage basis.¹³³ The asset maintenance and lease cost/debt

¹³¹ *Fiscal Year 1997 Operating Budget*, SEPTA, November 1996, pp. 4.2 to 4.3.

¹³² *Ibid.*, pp. 3.1 and 5.60.

¹³³ *Ibid.*, pp. 4.1-4.2.

service subsidies are matched at a ratio of one-to-thirty¹³⁴. Localities opting for additional SEPTA service beyond normal levels pay directly for that service through a route guarantee subsidy.¹³⁵

Funds Allocated

In its initial budget proposed for 1997, SEPTA projected that it would receive significantly less in subsidies than it did in 1996: \$320.5 million compared to \$354.9 million. The expected drop was primarily attributable to a sharp decline in estimated reimbursement for capital lease costs and debt service reimbursement. SEPTA projected that it would receive \$32.7 million in 1997, down from \$63.1 million in 1996. Federal aid was anticipated to decline by \$4.5 million, falling from \$12.5 million in 1996 to \$8.0 million in 1997. State and local assistance was expected to remain at the 1996 levels of \$176.5 million and \$58.8 million, respectively.¹³⁶

With the decline in subsidies, SEPTA projected that it would incur an operating deficit of \$75.0 million in 1997. Through a combination of measures, the agency was able to close the gap. It reduced its anticipated operating expenses from \$748.7 million to \$716.4 million, which is lower than its costs of \$717.6 million in 1996. Most significantly, SEPTA expects to receive additional subsidies and now projects that its operating assistance in 1997 will total \$363.5 million. The largest gain will come from an increase of \$38.1 million in the expected debt service/lease cost reimbursement subsidy. The additional funds are for SEPTA's capital lease obligation for Amtrak northeast corridor facilities. SEPTA anticipates that it will receive more federal aid as well: \$12.5 million, the same as the 1996 award.

Projected subsidies in 1997 include the \$12.5 million federal grant, \$176.5 million in state operating assistance, and \$58.8 million in local support. SEPTA will receive \$41.7 million in asset maintenance funds and \$70.5 million for capital lease costs and debt service reimbursement. A discussion of public funds allocated to each of SEPTA's companies follows.

City Transit

Operating assistance for City Transit was \$189.3 million in 1994. The agency received \$16.1 million in federal funds and \$139.4 million in state aid (\$98.2 million from

¹³⁴ *Ibid.*, pp. 4.2 to 4.3.

¹³⁵ *Ibid.*, p. 4.3

¹³⁶ *Fiscal Year 1997 Operating Budget Proposal*, SEPTA, April 1996, p. 1.2.

appropriations and \$41.2 million in dedicated tax proceeds).¹³⁷ Local subsidies, including route service guarantees, were \$34.0 million.

Aid to City Transit in 1994 totaled \$0.75 per passenger. The federal subsidy was \$0.06 per passenger. State assistance was \$0.55 per passenger (\$0.39 from appropriations and \$0.16 from dedicated tax funds). The local subsidy in 1994 was \$0.14 per passenger.

Regional Rail

Regional Rail received \$107.7 million in public funds in 1994. Federal operating assistance was \$9.0 million and state aid totaled \$78.1 million (\$55.1 million from appropriations and \$23.0 million from dedicated taxes). Local subsidies, including route guarantees, were \$20.6 million in 1994.

Regional Rail received total subsidies of \$4.77 per passenger in 1994. Federal aid provided \$0.40 per passenger. State assistance totaled \$3.46 per passenger, representing \$2.44 from appropriations and \$1.02 from dedicated tax proceeds. Local aid was \$0.91 per passenger in 1994.

Suburban Transit (Victory and Frontier Divisions)

Government support for combined Victory and Frontier operations was \$25.4 million in 1994. Federal aid was \$2.1 million and state assistance totaled \$18.8 million (\$13.1 million from appropriations and \$5.5 million from dedicated taxes). Local subsidies, including route guarantee, were \$4.7 million.

Operating assistance for combined Victory and Frontier operations totaled \$1.53 per passenger in 1994. FTA funds provided \$0.13 per passenger and state aid totaled \$1.11 per passenger (\$0.79 from appropriations and \$0.32 from dedicated taxes). Local subsidies were \$0.29 per passenger in 1994.

System-Generated Revenue

The \$75.0 million operating deficit that was initially projected for 1997 prompted SEPTA to consider raising its fares. As noted, the agency was able to close the gap through a variety of measures that included cutting its expected expenses from \$748.7 million to \$716.4 million. The increase in the debt service/lease cost reimbursement subsidy also contributed to closing the deficit. Through these actions, SEPTA was able to avoid a fare increase.

¹³⁷ Dedicated tax proceeds are the asset maintenance and lease cost/debt service subsidies and include the matching contribution from local governments.

With fares being maintained at current levels, SEPTA's projected fare revenue of \$265.8 million in 1997 is less than 5 percent higher than its receipts of \$254.7 million in 1994. System-generated revenue for the agency is anticipated to be \$352.9 million in 1997, approximately 5 percent more than 1994's revenue of \$336.8 million. Revenue from operations includes fare revenue, payments for reduced senior citizens fare and the Shared Ride Program, and income from advertising, parking fees, and other activities. A discussion of system-generated revenue for each of SEPTA's companies follows.

City Transit

City Transit is the only SEPTA system that participates in the Shared Ride Program and accordingly receives all the funds distributed to SEPTA for that program. It is also reimbursed for its costs associated with providing reduced fares to senior citizens. In 1994, the agency received 57.3 percent of its operating funds from operations (\$254.0 million in operating revenue and \$443.3 million in operating funds).

The one-way cash fare for City Transit is \$1.60. Discount weekly and monthly passes are available and the price for two tokens is \$2.30. The fee for transfers is \$0.40. In off-peak hours, disabled passengers pay \$0.75 per ride and senior citizens travel for free. Reduced fares are not available during the peak period.

City Transit's farebox operating ratio in 1994 was 54.8 percent. The agency had \$247.9 million in fare revenue and \$452.3 million in operating expenses. Payments for reduced senior citizens fares and for the Shared Ride Program were included as fare revenue. Depreciation was excluded from operating expenses.

Regional Rail

Operating revenue for Regional Rail includes passenger fares, reimbursement for discounted senior citizens fares, and investment and other income. Operations provided 36.4 percent of the agency's total operating funds in 1994. System-generated revenue was \$61.5 million and total operating funds were \$169.2 million.

Fares on Regional Rail are priced by a zone system, and for a one-way trip during peak hours, they range from a low of \$3.00 to a high of \$5.00. Discounts are available for ten-trip, weekly, and monthly tickets. The one-way fare for children is \$1.50 at all times during weekdays. Disabled passengers pay \$1.50 per ride during off-peak hours and the regular fare during the peak periods.

The farebox operating ratio for Regional Rail was 31.7 percent in 1994. Fare revenue was \$56.2 million and operating expenses were \$177.1 million. Payments for reduced senior citizens fares were included as fare revenue and depreciation was excluded from operating expenses. The farebox operating ratio was 36 percent in 1995,

based on fare revenue of \$61.9 million and operating expenses of \$171.9 million.

Suburban Transit (Victory and Frontier Divisions)

System-generated revenue for the Victory and Frontier Divisions includes passenger fares, reimbursement for discounted senior citizens fares, and investment and other income. Operations provided 45.6 percent of the total operating funds for the two companies in 1994. Operating revenue was \$21.3 million and total operating funds were \$46.7 million.

Victory and Frontier charge the same fares as City Transit. The one-way cash fare is \$1.60 and the price for two tokens is \$2.30. Discounted weekly and monthly passes are available as well. In off-peak hours, disabled passengers pay \$0.75 per ride and senior citizens travel for free. Both groups pay full fares during peak periods.

The farebox operating ratio for the Victory and Frontier Divisions was calculated in the same fashion as it was for City Transit and Regional Rail. Reimbursement for reduced senior citizens fares was included in fare revenue and depreciation was excluded from operating expenses. The farebox operating ratio was 42.6 percent in 1994, reflecting fare revenue of \$20.4 million and operating expenses of \$48.0 million

The RTA

Operating Assistance

Sources of Operating Assistance

Local sales taxes provide the majority of operating assistance to the three service boards of the Regional Transportation Authority, which serves northeastern Illinois. In 1994, sales tax receipts accounted for over 70 percent of the subsidies distributed to the service boards, and the number is expected to increase in future years. Additional aid comes from the federal government and from state funds. This section describes the programs under which the RTA receives operating assistance. A more detailed discussion of actual funds allocated to each service board follows in the next section.

Federal Assistance

With the exception of miscellaneous grants to Pace, federal funding for RTA operations comes through Section 9 of ISTEA Title III. Section 9 operating assistance has been providing a progressively smaller portion of subsidies to the RTA and is expected to be eliminated after 1997. Total receipts from the Federal Transit Administration dropped from \$49.5 million in 1994 to \$43.1 million in 1995, a decline of 13 percent. The RTA projects that it will receive \$21 million in 1996, \$12 million in 1997,

and no money in 1998.¹³⁸ Operating assistance is distributed to the service boards based on ridership.¹³⁹

State Assistance

The RTA receives operating assistance from Illinois through two sources. Appropriations from a public transportation fund comprise one portion of state aid, and reimbursement for reduced fares constitutes the other. In addition, Illinois provides funds to pay for debt service on bonds issued to finance capital projects. (Refer to the section on capital funding for a discussion of that program.)

Allocations from the Public Transportation Fund equal 25 percent of the local sales tax receipts and are paid to the RTA. The money is used first to pay for debt service on bonds and any excess is then distributed to the service boards. In 1994, the RTA received \$124 million in PTF revenue, and in 1995, it received an estimated \$127 million.

The RTA receives funds from the state to offset a portion of the costs associated with providing discount fares to students and elderly or disabled riders. Revenue from this program has been declining in recent years. The RTA received almost \$40 million in 1994 and averaged \$30 million in reimbursements from 1990 through 1994. In 1995, the RTA received \$22.5 million, and for 1996, 1997, and 1998, it forecasts that it will receive \$20 million annually. In the budgets for the RTA service boards, reduced fare subsidies are classified as operating revenue.

Local Assistance

Local operating assistance is provided through receipts from a sales tax imposed in the RTA service area. Components of the sales tax include a one-percent tax on food and drug sales within Cook County. All other sales within the RTA district are taxed at the rate of three-quarters of a percent in Cook County and a quarter percent in DuPage, Kane, Lake, McHenry, and Will Counties (the "collar counties"). Initially, the three-quarter-percent tax in Cook County was assessed at 1 percent, but the rate was lowered in 1990 as part of tax-reform legislation. Illinois compensates the RTA for lost revenue by providing a replacement amount that is equivalent to 0.25 percent of all other sales in Cook County.

Sales tax receipts are paid to the RTA, which retains 15 percent of the proceeds

¹³⁸ All financial information for the RTA was taken from the agency's *1996 Annual Budget and Five-Year Program*.

¹³⁹ *1996 Annual Budget*, pp. 1-13 to 1-14.

and distributes the remaining 85 percent to the service boards. Funds are allocated according to a formula specified in the RTA enabling legislation. The Chicago Transit Authority receives 100 percent of the sales taxes collected within Chicago and 30 percent of the taxes collected within suburban Cook County. Metra receives 55 percent of the sales taxes collected within suburban Cook County and 70 percent of the taxes collected within the collar counties. Pace receives 15 percent of the sales taxes collected within suburban Cook County and 30 percent of the taxes collected within the collar counties.¹⁴⁰

Proceeds from the sales tax account for the majority of subsidies distributed by the RTA to the service boards. In 1994, for example, the service boards received more than 70 percent of their operating assistance from sales tax receipts. As funds from other government sources decline in the future, sales tax revenue will comprise an even larger share of subsidies, providing a projected 75.5 percent of aid in 1998. Collections have been steadily increasing as well. Receipts were \$513.3 million in 1995, up 3.1 percent from 1994's collections of \$497.7 million and 15.6 percent from 1990's proceeds of \$444.1 million. The Illinois Bureau of Budget forecasts a compound growth rate of 5.5 percent from 1996 through 1998, with receipts totalling \$598 million in 1998.¹⁴¹

Funds Allocated

Total subsidies to the RTA service boards are projected to rise in future years, though the increase is attributable to the growth in sales tax revenue. Federal operating assistance is being phased out and is expected to be eliminated entirely by 1998. In addition, Illinois has been cutting its reduced fare payments to the RTA. A discussion of government aid to each of the RTA service boards follows.

Chicago Transit Authority (CTA)

Total operating assistance to the Chicago Transit Authority (CTA) was \$365.6 million in 1994.¹⁴² The CTA received \$34.7 million in federal aid and \$120.9 million through the RTA Discretionary Fund, which is a combination of the RTA's 15-percent share of sales tax revenue and allocations from the Public Transportation Fund. Sales tax proceeds provided \$203.8 million.

¹⁴⁰ *Ibid.*, p. 1-4.

¹⁴¹ *Ibid.*, p. 1-9.

¹⁴² Operating assistance for the CTA does not include fund balances of \$5.1 million in 1994 and \$4 million in 1995 that are included in the agency's "1994-1998 Sources of Funding."

The RTA does not maintain ridership statistics that are comparable to the other systems studied. Subsidies per passenger, as a result, cannot be used to compare the CTA's public assistance to the other agencies' support. Another helpful benchmark is the percent of total revenue provided by subsidies. Based on this measure, the CTA is more highly subsidized than NYC Transit and City Transit, SEPTA's transit division. The other systems studied – the MBTA, the Los Angeles MTA, and BART – receive more support than the CTA, though BART receives only slightly more of its total revenue from subsidies.

The CTA received 47.9 percent of its total operating funds from subsidies in 1994: 5.4 percent from the federal government, 15.8 percent from RTA discretionary funds, and 26.7 percent from sales tax proceeds. NYC Transit received less of its total operating funds from the public sector in 1994. The agency received 39.7 percent of its operating funds from subsidies: 2.3 percent from the federal government, 27.0 percent from New York State (21.8 percent from dedicated taxes and 5.3 percent from appropriations¹⁴³), and 10.5 percent from New York City (5.4 percent from dedicated taxes and 5.1 percent from appropriations).

Metra

Operating assistance to Metra was \$173.1 million in 1994. Federal aid was \$5.8 million and sales tax proceeds were \$167.4 million. Metra does not require RTA discretionary funds in order to maintain a balanced budget.¹⁴⁴

Subsidies provided 48.3 percent of the agency's operating funds: 1.6 percent from the federal government and 46.7 percent from sales taxes. Combined MTA commuter rail operations received a similar level of total operating funds from public sources in 1994: 1.8 percent from the federal government, 22.7 percent from state sources (16.0 percent from dedicated taxes and 6.7 percent from appropriations), and 23.6 percent from local sources (12.1 percent from surplus toll revenue and 11.5 percent from appropriations).

Pace

Operating assistance to Pace was \$63.1 million in 1994. Federal aid was \$3.7 million and included funds from Section 9 and from the Congestion Mitigation Air Quality (CMAQ) and the People Mobilizer programs. The agency received a total of \$7.6 million in RTA funds: \$7.1 million from the RTA Discretionary Fund and \$549,000 from a paratransit grant.

¹⁴³ Numbers do not add because of rounding.

¹⁴⁴ 1996 Budget, p. 4-2.

Public sources accounted for 64.4 percent of Pace's total operating funds in 1994, including 3.7 percent from the federal government, 7.3 percent from RTA funds, and 52.8 percent from sales tax proceeds. Long Island Bus is not as well supported by subsidies. The agency received 48.1 percent of its total 1994 revenue from public funds, including 2.2 percent from federal aid, 26.8 percent from New York State, and 19.1 percent from local sources.

System-Generated Revenue

Operating revenue for the CTA and Metra was lower in 1995 than it was in 1994 because of a drop in ridership. In order to make up for the lost revenue, both service boards planned to implement fare increases in 1996. Fare revenue for Pace increased from 1994 to 1995, and as of late 1995, the agency did not propose to raise its fares. Other issues, however, are expected to put a burden on Pace's operating revenue in future years. A discussion of system-generated revenue for the three RTA service boards follows.

Chicago Transit Authority (CTA)

In its five-year plan for 1994 through 1998, the CTA anticipates that significant pressure will be placed on its internally generated revenue. Estimates for 1995 forecast that operating revenue would drop from 1994 levels because of declining ridership. Fare receipts were expected to fall from \$357.7 million to \$345.7 million and total operating revenue was forecast to decrease from \$397.2 million to \$389.1 million. Reduced subsidies from the FTA and from the state for the reduced fare program are also expected to put a strain on operating revenue. Overall, operating revenue is forecast to rise at a slightly lower rate than operating expenses over the period, with respective annual compound growth rates of 1.8 percent and 2.1 percent expected.¹⁴⁵

The CTA adopted a fare increase in 1996 as part of its budget-balancing efforts. Changes included raising the weekend fare to \$1.50, the price of the weekday fare; increasing the cost of discounted 10-token rolls from \$12.50 to \$13.50; raising the transfer charge to \$0.30 for the initial purchase (each additional use is free); and reintroducing the monthly pass at a cost of \$88. The CTA anticipates that bringing back the monthly pass will boost ridership. Prices for reduced fares, half of the full fare, rose as well. The CTA estimated that the revised fare structure would yield an additional \$10.5 million in 1996.¹⁴⁶

¹⁴⁵ *Ibid.*, pp. 3-12 and 3-18.

¹⁴⁶ *Ibid.*, pp. 3-5 to 3-7.

System-generated revenue for the CTA includes passenger fares, reduced fare reimbursement from Illinois, a small amount of funds from Chicago and Cook County, and income from advertising, concessions, and other activities. Revenue from operations usually comprises about half of the CTA's total operating funds. In 1994, the CTA's \$397.2 million in operating revenue provided 52.1 percent of its total funds of \$762.8 million.

In determining the farebox operating ratio for the CTA, only passenger fares were used as fare revenue. The CTA does not classify reduced fare subsidies as fare revenue. In addition, certain costs, including security expenses that the CTA funds with a portion of its reduced fare subsidies, were deducted from operating expenses. The farebox operating ratio was 47.7 percent in 1994, based on passenger fares of \$357.7 million and net operating expenses of \$749.7 million.

Metra

System-generated revenue for Metra does not face the same pressure in future years as it does for the CTA. The most significant issue for Metra is lower-than-expected ridership in 1995 that resulted in a decrease in fare receipts from 1994 to 1995. Passenger collections were \$153.9 million in 1994 and an estimated \$150.3 million in 1995. In addition, Metra's initial forecast of \$158.3 million in fare revenue in 1996 was revised down to \$151.8 million because of the drop in ridership. Metra anticipates that ridership will begin to rise in 1996, though only at an average rate of 0.5 percent per year through 1998.¹⁴⁷ Other issues confronting Metra include the phase-out of federal operating assistance and a drop in reduced fare reimbursement of more than 15 percent per year.

In order to maintain a cost recovery ratio of 55 percent in 1996 and 1997, Metra increased its fares in 1996. (The cost recovery ratio is the percent of total operating expenses, less depreciation, that is covered by total operating revenue.) Metra charges a distance-based fare and offers a variety of ticket types that includes one-way and multi-ride tickets. Reduced fares are available to students and senior citizens. Changes in the fare structure included a flat-rate increase of \$0.20 for one-way tickets and the elimination of weekly tickets. Metra expected that the fare increase would yield additional revenue of \$5.2 million in 1996. Projections anticipate incremental fare revenue of \$7.6 million in 1997 and \$7.7 million in 1998. In 1998, however, the agency anticipates that it will require an additional \$4.3 million in revenue in order to maintain a cost recovery ratio of 55 percent. A fare increase is one option for raising the needed funds.¹⁴⁸

¹⁴⁷ *Ibid.*, pp. 4-13 and 4-15.

¹⁴⁸ *Ibid.*, pp. 4-6, 4-10, and 4-13.

System-generated revenue for Metra includes fare revenue, reduced fare reimbursement, and income from advertising, investments, and other sources. In 1994, Metra's operating revenue of \$185.7 million provided 51.8 percent of its total operating funds. The agency's farebox operating ratio that year was 47.5 percent, reflecting \$153.9 million in fare revenue and \$324 million in operating expenses.

Pace

Pace anticipates that requirements under the Americans with Disabilities Act (ADA) will place significant pressure on its operating budget for the five-year period covering 1994 through 1998. The RTA requires that Pace's system-generated revenue recover at least 36 percent of its operating expenses each year and Pace forecasts that ADA mandates will make it difficult to do so in future years.¹⁴⁹ From 1994 through 1998, Pace expects operating revenue to increase at a yearly rate of 3.1 percent, operating expenses to grow 3.3 percent annually, and its operating deficit to increase at an annual rate of 3.5 percent.

System-generated revenue for Pace includes fare receipts, reduced fare reimbursement, and investment income. Of the RTA service boards, Pace receives the lowest percentage of its total operating funds from operations. In 1994, the agency received 35.6 percent of its funds from operations (\$34.9 million in operating revenue and \$98.1 million in total operating funds).

Pace's farebox operating ratio was 32.1 percent in 1994. The agency collected \$30.8 million in total fares, including receipts from its base system as well as from its Cook DuPage Special Services, Southwest Rapid Transit, and Van Pool operations. Reimbursement for reduced fares is not included in fare revenue. Operating expenses were \$96.2 million in 1994.

The Los Angeles MTA

Operating Assistance

Sources of Operating Assistance

The largest single source of assistance for the Los Angeles Metropolitan Transportation Authority bus and rail operations is proceeds from two local sales taxes. Both levies impose a half-cent tax on all taxable sales in Los Angeles County and together provide over 30 percent of the MTA's total revenue. Additional operating assistance comes from the FTA, state gasoline and sales tax revenue, and

¹⁴⁹ *Ibid.*, pp. 5-6 and 5-10.

miscellaneous local funds. This section describes the various programs under which the MTA receives assistance for its bus and rail operations. A discussion of actual funds appropriated follows in the next section.

Federal Assistance

Federal operating assistance to the MTA is provided through Section 9 of ISTEA Article III and through CMAQ funding to support operations of the recently opened Green Line.¹⁵⁰ Total federal subsidies have increased in recent years, rising from \$45.6 million in 1993 to \$48.0 million in 1995 and a projected \$51.2 million in 1996. Consistent with the phase-out of operating assistance, however, projected subsidies for 1997 are \$41.1 million.¹⁵¹

State Assistance

Two state programs, both funded through tax receipts, support the MTA's bus and rail operations. One source is the State Assistance Fund (STA), which is funded through a sales tax on gasoline and diesel fuel and provides aid for transit capital and operating programs. STA revenues are allocated to counties throughout California based on population and transit operator revenues. The population share is distributed based on the ratio of the county to the total population of the state and the revenue share is allocated based on the total revenue of operators during the prior fiscal year.¹⁵²

The other source of state subsidies is the State Transportation Development Act (TDA), which supports capital and operating programs and is funded through one-quarter cent of the six-percent retail sales tax collected state-wide. Proceeds from the one-quarter cent are returned to each county according to the amount of the tax collected in that county. TDA Article 4 provides funding for transit operations and accounts for 91.0 percent of the TDA funds received by the MTA. The MTA receives smaller amounts of TDA proceeds for bicycle and pedestrian facilities and for transit and paratransit programs in areas outside its service district.¹⁵³

¹⁵⁰ *FY 1996-1997 Budget*, Los Angeles County MTA, p. 15.

¹⁵¹ All financial information for the Los Angeles MTA is based on the agency's *FY 1996-1997 Budget*.

¹⁵² *Ibid.*, p. 216.

¹⁵³ *Ibid.*, p. 218.

Local Assistance

Sales taxes collected through Propositions A and C provide the largest amount of operating assistance to the MTA. Both are a tax of one-half percent on all taxable sales in Los Angeles County. Voters approved Proposition A in 1980 and Proposition C in 1990. By ordinance, proceeds from each tax are allocated to various uses (as shown in the table below).¹⁵⁴

Table 1: Allocation of Local Sales Tax Proceeds

Fund Category ¹⁵⁵	Proposition A	Proposition C
Administration	5.0%	1.5%
Local Return	25.0%	20.0%
Rail Construction & Operations	35.0%	
Discretionary	40.0%	40.0%
Transit Security		5.0%
Commuter Rail		10.0%
Streets & Highways		25.0%

Local return funds are revenue distributed by the MTA to Los Angeles County and the 89 cities throughout the county for various uses. Proposition A discretionary funds are to be used solely for bus and paratransit operations and are distributed to operators, including the MTA, according to service-based formulas. Beginning in 1996 and lasting for several years, approximately \$10 million per year of Proposition C discretionary funds will be used for the Bus System Improvement Plan (BSIP). In 1996, the MTA will receive approximately \$7.9 million of the BSIP funds, with the remainder to be allocated to other operators in Los Angeles County.¹⁵⁶ Local governments provide a small amount of funding to the MTA as well.

¹⁵⁴ *Ibid.*, p. 14.

¹⁵⁵ A portion of the proceeds is set aside for administration. The remaining funds are distributed according to the percentages in the tables.

¹⁵⁶ *FY 1996-1997 Budget*, pp. 14-15, 205, 207, and 214.

Funds Allocated

Total subsidies to the MTA peaked at \$470.8 million in 1994, up from \$440.5 million in 1993 and significantly more than the \$419.0 million the agency received in 1995. Over the three-year period, expenses and ridership fluctuated as well. Total operating expenses were \$666.8 million in 1993, \$719.1 million in 1994, and \$639.0 million in 1995. Ridership showed a similar trend, rising from 389.6 million in 1993 to 397.7 million in 1994 and then dropping to 363.3 million in 1995. Subsidies, expenses, and ridership are expected to increase in 1996 and 1997.

Federal aid, including CMAQ funds, increased from \$46.9 million in 1994 to \$48.0 million in 1995. Funds are expected to increase in 1996 before the phase-out of federal operating assistance begins in 1997. Total state assistance was \$173.2 million in 1994 and \$145.6 million in 1995. The 16-percent decline is attributable to a drop in STA funds from \$45.8 million in 1994 to \$17.4 million in 1995. TDA revenue stayed relatively consistent, rising slightly from \$127.4 million in 1994 to \$128.3 million in 1995. Local aid totaled \$250.7 million in 1994 and \$225.3 million in 1995. In those years, sales tax receipts provided \$248.2 million and \$210.3 million, respectively, while other local sources provided \$2.4 million in 1994 and \$15.0 million in 1995.

The Los Angeles MTA does not maintain ridership statistics that are comparable to the counts provided by the other systems studied. Subsidies per passenger, as a result, cannot be used to compare the MTA's public assistance to the other agencies' support. Another helpful benchmark is the percent of total operating funds provided by subsidies. This measure shows that the MTA is more highly subsidized than all the other systems, except for the MBTA.

In 1994, the MTA received approximately 66 percent of its total funds from subsidies: 6.6 percent from the federal government, 24.5 percent from the state, and 35.1 percent from local sources. Dedicated taxes provided all of the state aid and almost all of the local assistance. Subsidies account for a much lower percentage of the total funds for transit operations in New York City. In 1994, NYC Transit received 39.7 percent of its total funds from public sources: 2.3 percent from the federal government, 27.0 percent from New York State (21.8 percent from dedicated taxes and 5.1 percent from appropriations¹⁵⁷), and 10.5 percent from New York City (5.4 percent and 5.1 percent from appropriations).

System-Generated Revenue

Revenue from bus and rail operations includes fare revenue and income from property lease and rental, advertising, and other activities. In 1995, operating revenue

¹⁵⁷ Numbers do not add because of rounding.

was \$214.8 million, down 9.0 percent from \$236.0 million in 1994. The decrease is attributable to a sharp drop in ridership. Passenger trips fell from 397.7 million in 1994 to 363.3 million in 1995. Ridership is expected to rebound in 1996 and 1997, though the MTA does not anticipate that the number of customers will return to its levels of 1993 and 1994.

The MTA faced on-going operating deficits because of the flat ridership trend and other factors that depressed revenue. In order to close the gaps, the agency proposed a fare increase that went partially into effect in FY 1996. Full implementation of the new fare structure was delayed by a lawsuit that challenged the increase. In late 1996, the MTA Board approved a tentative settlement of the suit.¹⁵⁸

Features of the increase include a rise in the one-way cash fare for bus and rail service from \$1.10 to \$1.35. The price of the monthly pass, which allows unlimited travel, initially rose from \$42.00 to \$49.00, but as part of the settlement, it was rolled back to \$42.00. The MTA had originally planned to eliminate the pass. Tokens sold in bags of 10 remained priced at \$0.90 each. The discounted fare for senior citizens and disabled riders did not increase. The cost of a monthly pass for college and vocational students rose from \$25 to \$30; the price for high school monthly passes remained the same.¹⁵⁹

System-generated revenue provided 33.4 percent of total bus and rail operating funds in 1994. Operating revenue was \$236.0 million and total funds were \$706.8 million. The farebox operating ratio in 1994 was 29.5 percent. Fare revenue was \$207.3 million and operating expenses were \$719.1 million.

BART

Operating Assistance

Sources of Operating Assistance

Proceeds from a local sales tax account for nearly all of the operating assistance provided to Bay Area Rapid Transit (BART). The agency does not apply for federal operating assistance and uses only a small amount of dedicated state sales tax funds for operations. Additional operating assistance is provided through a small share of property tax revenue collected in the BART service district, which is comprised of San

¹⁵⁸ "L.A. MTA, Class Action Plaintiffs Settle on NAACP-Filed Lawsuit," *Passenger Transport*, October 7, 1996, p. 3.

¹⁵⁹ *Ibid.*; *FY 1996-1997 Budget*, p. 8; *FY 1995-1996 Budget*, Los Angeles County MTA, p. 12; MTA Office of Management and Budget.

Francisco, Alameda, and Contra Costa Counties. This section discusses the various programs under which BART receives operating assistance. A discussion of funds allocated follows in the next section.

Federal Assistance

As noted, BART does not apply for Section 9 operating assistance. The agency cites three reasons for its decision not to seek federal aid. Primarily, it feels that the amount of assistance available is small and that it likely would not receive funds because of the number of systems competing for FTA subsidies. In addition, BART would have to modify its procurement procedure in order to comply with federal guidelines, and the agency does not feel the amount of aid available justifies following the more restrictive requirements.

State Assistance

BART receives state operating assistance through the same two programs that support the Los Angeles County MTA: the State Assistance Fund (STA) and the State Transportation Development Act (TDA). The STA is funded through a sales tax on gasoline and diesel fuel and provides aid for transit capital and operating purposes. In the past, BART used STA funds for its capital program, but it has begun to use a portion of the subsidy to offset costs of complying with requirements of the Americans with Disabilities Act.¹⁶⁰ The TDA program supports capital and operating programs and is funded through a quarter cent of the six-percent retail sales tax collected state-wide. Proceeds from the quarter cent are returned to each county according to the amount of the tax collected in that county and then distributed to agencies.

Local Assistance

Proceeds from a half-percent sales tax collected in the BART service district provide almost all of the agency's operating assistance. BART receives 75 percent of the receipts and MUNI and AC Transit, two other public transportation providers in the region, receive the remaining 25 percent.¹⁶¹ Sales tax proceeds accounted for 86.4 percent and 90.2 percent of BART's total operating subsidies in 1994 and 1995.

Additional operating assistance comes from two other local sources. BART receives a small share of property taxes collected in its service area – less than 1 percent of total collections – and reimbursement from San Mateo County for BART rail

¹⁶⁰ *Short Range Transit Plan: Fiscal Years 1996-2006*, BART, September 1995, p. 4-5.

¹⁶¹ *Ibid.*, p. 4-4.

service in the county.¹⁶² In addition, BART receives property tax proceeds to pay for debt service costs on the bonds that funded the construction of the system. Those funds, however, are not considered to be operating assistance.

Funds Allocated

Total subsidies remained relatively unchanged between 1994 and 1995 despite a growth in sales tax revenue. Operating assistance totaled \$127.1 million in 1994 and \$127.7 million in 1995.¹⁶³ In the two-year period, however, sales tax proceeds rose from \$109.8 million to \$115.2 million. Total subsidies were constant because BART did not use any of its \$4.3 million in STA funds for operating purposes in 1995. BART received approximately \$0.6 million in TDA funds in 1994 and 1995. The agency received \$12.3 million and \$12.0 million in property tax proceeds in 1994 and 1995, respectively. Reimbursement from San Mateo County was first available in 1996, with \$1.1 million expected.

Operating assistance to BART was \$1.68 per passenger in 1994. State aid was \$0.07 per passenger. Total local assistance was \$1.62 per passenger. Local aid included \$1.45 per passenger from sales taxes and \$0.16 per passenger from BART's share of property tax collections.

System-Generated Revenue

A portion of BART's operating budget funds debt service costs on bonds used for capital projects. In 1990 and 1991, the agency issued bonds to finance the purchase of rail cars, and in May 1995, BART issued the first of four bonds series it plans in upcoming years.¹⁶⁴ The additional debt service costs that will result from the new bonds will place a strain on system-generated revenue, which includes passenger fares and income from interest on investments and other sources. Recently enacted fare increases will help to pay for the additional debt service.

BART charges distance-based fares for its rail service and uses a zone system for express bus fares. Fare increases in 1995 and 1996 have pushed the lowest rail fare to \$1.00 and express bus fares to \$0.95 for a one-zone trip and to \$1.50 for a two-zone trip. Reduced rail and express bus fares are available to children between the ages of 5 and 12 (children under 5 ride free), senior citizens, and disabled passengers. The \$32

¹⁶² *Ibid.*, p. 4-5.

¹⁶³ All financial information for BART was taken from data supplied by the agency's Operating Budgets and Analysis Department.

¹⁶⁴ *Short Range Transit Plan*, p. 4-15.

high-value rail ticket may be bought at a 6.25-percent discount by riders not qualifying for other discounts. Other ticket types include semi-monthly and monthly rail/bus pass, joint tickets for travel between BART and other area systems, and tickets for transfer from one system to another.¹⁶⁵ Before the fare increase in 1995, fares were last raised in 1986. A third fare increase is planned for April 1997, at which time the average fare will rise by 11.4 percent.¹⁶⁶

Operating revenue provided 48.2 percent of total operating funds in 1994, reflecting \$113.1 million in revenue from operations and \$240.3 million in total funds. The farebox operating ratio was 47.1 percent in 1994. Fare revenue includes passenger receipts from rail, express bus, and paratransit service, and was \$102.5 million in 1994. Operating expenses were \$217.4 million.

Conclusion

In the MTA's initial financial plan for the 1995-1999 period, NYC Transit and the commuter railroads were expected to incur a cumulative budget deficit of \$1.9 billion by 1999.¹⁶⁷ The gap is attributable to flat subsidy growth. Operating assistance in 1999 was expected to be \$1.9 billion, only 5.4 percent higher than it was in 1995. Including system-generated revenue, operating funds in 1999 were projected to be 5.9 percent higher than they were in 1995, growing from \$4.2 billion to \$4.5 billion. Operating expenses, though, were anticipated to rise to \$5.3 billion in 1999, 14.6 percent higher than they were in 1995.

Several factors contribute to the stagnant growth of subsidies during the period. With the elimination of federal assistance for transit systems, operating grants from the FTA have declined sharply in recent years. In 1995, the MTA received \$72.9 million in formula-based aid, down 19.7 percent from receipts of \$90.8 million in 1994. Federal support in 1996 was \$31.0 million, a drop of 57.4 percent from 1995 and 65.9 percent from 1994. In addition, New York City has cut its reimbursement to NYC Transit for the provision of free transit for school children. New York City has typically reimbursed the

¹⁶⁵ *Ibid*, pp. 1-13 to 1-14.

¹⁶⁶ *FY 1996 Budget Goals & Performance Highlights*, BART, "Message from the General Manager."

¹⁶⁷ As noted earlier, the MTA projected in 1995 that its cumulative budget deficit would be \$4.5 billion by 1999. The \$1.9 billion deficit was calculated based on the MTA's 1995 Section 17-A report. In calculating the cumulative deficit, proceeds from the business tax surcharge were included with expected subsidies. Incremental debt service costs on bonds for the 1995-1999 Capital Program were excluded from operating expenses in order to capture only operating expenses.

agency for the full cost of the program, but it provided \$41.7 million less in 1994 than it did in 1993 and paid for only \$45.0 million of the \$135.0 million cost in 1995. Of the balance in 1995, New York State paid \$45.0 million and the MTA absorbed the remaining \$45.0 million. This pattern is expected to continue through 1999.

Reductions in state aid will have the biggest impact on the MTA's finances in the 1995-1999 plan. Through 1998, New York State will use proceeds from the MMTOA account to fund part of its annual grant to NYC Transit. A total of \$602.0 million will be appropriated from the account, with \$90.0 million used in 1994 and \$128.0 million used in each of the following years. In funding a portion of its grant through dedicated tax revenue, the state is cutting the level of aid that otherwise would have been available to support NYC Transit operations.

The rationale for reducing operating subsidies to the MTA and other public transportation systems is that providing support on an as-needed basis undermines the incentives of the agencies to be efficient and contain costs. In reality, though, the growth in the MTA's operating expenses for the 1995-1999 period is not excessive. The plan drawn up prior to budget-balancing initiatives forecast a 3.8 percent increase in operating expenses from 1995 to 1996, exceeding the 2.9 percent inflation rate projected for New York.¹⁶⁸ The difference, though, is minor and amounts to \$42.8 million, substantially less than the MTA's expected deficit of \$233.2 million. Costs were projected to grow slightly faster than inflation in 1997, 3.0 percent compared to 2.7 percent¹⁶⁹, and were anticipated to rise by 3.4 percent in 1998 and 3.7 percent in 1999.

If New York State and New York City were to increase their general subsidies to match the growth in the MTA's expenses through 1999, they would be supporting the agency's reasonable needs and not be encouraging inefficient spending. Instead, New York State is effectively cutting its support for the period and New York City is maintaining its annual subsidy at the amount provided in 1995. Even with full funding from the MMTOA account, the MTA's cumulative deficit for the period would have been \$1.3 billion.

The stagnant level of assistance forced the MTA to adopt budget-balancing measures that included the fare increase and \$3 billion in cuts in operating expenses. Service on 44 subway, bus, and commuter rail lines was reduced in late 1995 as part of the cost-cutting initiatives. In scaling back service, the MTA squeezed its operations to fit within a constrained budget. This approach is questionable given the value of the downstate metropolitan region to New York State and the importance of mass transportation to the area's well-being.

¹⁶⁸ *Five-Year Pocket Summary.*

¹⁶⁹ *Ibid.*

New York City is the core of the New York State economy. In 1994, for example, aggregate personal income in the city was \$206.2 billion, 43.9 percent of the state total of \$469.7 billion. Of the 7.8 million non-agricultural jobs in New York State that year, 3.3 million (42.3 percent) were in New York City. Retail sales in the city were \$37.9 million, 30.6 percent of the state total of \$127.2 million.

In the broader context of domestic and global cities, New York City ranks in the upper echelon as well. Its \$100 billion market for goods and services would place the city among the top twenty national economies in the world. In a survey by *Fortune* magazine in 1995 of the best cities for businesses, New York City scored fourth among U.S. cities and fourth among international cities. As the data indicate, New York City is a national and international leader and is vital to the well-being of New York State and the U.S.

Without sound public transportation, the economic vitality of New York City and New York State would be jeopardized. The MTA is a critical part of the region's transportation network. It serves 13.2 million people in a 4,000-square-mile area and carries 1.7 billion riders each year, making it by far the largest mass transportation system in the U.S. The danger of constraining the ability of the MTA to provide high-quality service at a reasonable price is that riders may transfer to other means of travel or leave the area. As alternative modes of transport, notably roads and highways, become further crowded, more people will continue to move away in search of regions where commuting is easier. In addition, if more people drive, the already severe congestion and air-quality problems in downstate New York will be worsened.

The numbers argue not only for retention of MTA service at previous levels, but contend that expanding the system to make it more convenient and accessible is justified. The approach in a region as vital as downstate New York State is to find the funds necessary to pay for world-class service rather than to force mass transportation providers to operate within a constrained budget. In addition to supporting legitimate growth in the MTA's operating expenses, New York City and New York State should broaden subsidies to enable the agency to truly meet the needs of its customers. The investment would yield tremendous dividends in increased economic activity.

Massachusetts is an apt example of a state that is strongly committed to a thriving mass transportation system. It pays for nearly all of the MBTA's debt service on capital bonds, enabling the agency to undertake an ambitious expansion program, and pays for any operating deficit that remains after receipt of all other subsidies. The MBTA sharply reduced its expenses in 1995 and 1996, in accordance with instructions from the state, but the situation is still different than it is in New York. Massachusetts provides aid on an as-needed basis and contributes substantially more dollars than New York, even though the MBTA's operating budget is far smaller than the MTA's. In 1995, for example, general contract assistance to the MBTA was \$229.8 million, accounting

for 30.3 percent of the agency's expenses of \$757.5 million. By comparison, New York State's general operating assistance to NYC Transit and the commuter railroads in 1995 was \$187.3 million, equal to 4.4 percent of their combined operating costs of \$4.2 billion.

The Los Angeles MTA is an example of another agency that is well supported by public dollars. It receives approximately two-thirds of its revenue from subsidies, with proceeds from local sales taxes providing the largest share of its aid. Dedicated state funds, including receipts from gasoline taxes, also comprise a significant portion of the MTA's subsidies. The federal government and local sources provide the balance of the agency's operating assistance.

The New York MTA's level of outside funding is more like the support provided to SEPTA, the RTA, and BART, but even in this group, the agency ranks lowest in terms of operating funds provided by subsidies. The closest parallel to the MTA is SEPTA, a system that is also struggling with dwindling support. The initial financial plan for SEPTA for 1997 projected a budget deficit of \$75 million. Contributing to this deficit was a freeze in the amount of state subsidies at the 1996 level of \$176.5 million. Local operating assistance remained constant as well since it matches the state grant at a one-to-three ratio.

Originally, the agency planned to close the gap through a fare increase and cuts in its expected spending from \$748.7 million to \$670.0 million. The expense reductions would have brought SEPTA's 1997 costs below its spending of \$717.6 million in 1996 and would have required substantial service cuts. Through different budget-balancing actions, however, the agency was able to avoid a fare increase and limit the level of service reductions. The approved budget for 1997 outlined \$716.4 million in spending and used \$38.1 million in capital funds for operations. The measures taken to balance the budget illustrate the severe financial difficulties facing SEPTA. Its subsidies are not growing to keep pace with reasonable increases in expenses, a pattern that closely mirrors the MTA's situation.

On the whole, however, SEPTA receives more support from subsidies than the MTA does. SEPTA's initial financial plan for 1997 projected that operating assistance would provide 50.7 percent of the agency's total revenue. In its forecast for 1997, the MTA expects that subsidies will account for 39.9 percent of NYC Transit's and the commuter railroads' revenue. The state grant to SEPTA in 1997 will pay for 24.6 percent of the agency's expenses, compared to the 4.4 percent of transit and commuter rail costs that the New York State grant will cover in 1997.

Fare increases in 1995 and 1996 are pushing down the percentage of total funds that BART receives from public sources. The agency projects that subsidies will account for 47.0 percent of its revenue in 1996, down from 50.1 percent in 1995 and 51.8 percent in 1994. Fares will rise again in 1997, capping a series of three increases

implemented primarily to pay for higher debt service costs associated with capital borrowing. In 1996, the RTA increased fares for its transit and commuter rail divisions in order to meet the requirement that the system as a whole recovers at least 50.0 percent of its costs from internal revenue. Even with the higher fares, both BART and the RTA recover a lower percentage of their operating expenses from fares than the MTA. Projections for 1996 anticipate that passenger revenue will pay for 51.4 percent of BART's costs and 45.3 percent of the RTA's expenses. In 1995, fares paid for 57.7 percent of the MTA's operating costs; this level will grow in upcoming years as a result of the fare increase.

The higher level of support provided to the other systems demonstrates a stronger commitment to public transportation in these regions than in New York. In 1994 and 1995, state subsidies to the MTA were effectively reduced through the use of MMTOA proceeds to help fund the general operating grant to the agency. New York will continue to appropriate these receipts through 1998. In Pennsylvania, though the 1997 grant to SEPTA was frozen at the 1996 level, the amount of aid was not reduced. The MBTA sharply cut its expenses in 1995 and 1996 in accordance with instructions from Massachusetts, but as noted, the agency receives substantially more state support than the MTA. In absolute numbers, general contract assistance to the MBTA exceeds New York's grant to the MTA, despite the significant difference in the agencies' budgets.

In the current climate of reduced government spending and taxation, increasing the amount of support for the MTA's operations will not be easy. The initial financial plan for the 1995-1999 period projected a cumulative budget deficit of \$1.9 billion by 1999. Even with full funding from the MMTOA account, this gap would have been reduced only to \$1.3 billion, requiring an additional \$260.0 million annually in subsidies. In order to raise this level of money, alternative sources of revenue would be needed, with new taxes or user fees the most likely option. The trend in recent years has been the opposite amid concerns that the level of taxation in New York State is already too high.

Increasing the level of assistance to the MTA, however, is critical. The deficit projected for the 1995-1999 period reveals long-term deficiencies in the agency's funding. Another round of expense reductions or fare increases will be necessary after 1999 unless new sources of revenue are identified. The service cuts in 1995, the most severe in twenty years, could signal the beginning of a long-term decline in the quality of MTA service. Especially troublesome is the amount of debt service costs that will be incurred in the agency's operating budget. Revenue-backed borrowing for the 1995-1999 capital program will increase these expenses by \$182.9 million in 1999 and even more in outlying years. The MTA is already hard-pressed to balance its budget and the incremental debt service will constrain its ability to provide adequate service for the life of the bonds.

Clues to resolving the MTA's long-term financial problems are offered by the other regions studied. In providing debt service assistance and substantial general

subsidies to the MBTA, Massachusetts demonstrates a strong commitment to mass transportation that is lacking in New York State. California provides a similar example. In 1990, for example, Los Angeles voters approved a measure to increase the county's sales tax by one-half percent in order to provide additional funding for transit programs. Overall, one percent in local sales taxes supports the Los Angeles MTA. In Pennsylvania, a series of dedicated taxes was implemented in 1991 in order to pay for transit capital programs.

A vast array of taxes already supports the MTA, but with the exception of the tax on petroleum products, these levies have not been increased since they were first implemented. Though higher taxes are politically unpopular, both California and Pennsylvania succeeded in instituting new taxes this decade. Los Angeles voters, for example, understood that constructing expanded rail service was needed to address the severe congestion and air-quality problems in the county. In addition, California residents demonstrated a similar willingness to pay for improved transportation when they approved an initiative to phase in an increase in the state gasoline tax beginning in 1990.

One of the more interesting initiatives in California is the use of one-quarter percent of the state sales tax for public transportation programs. Counties receive an amount equal to the receipts collected within their jurisdiction. An option in New York State would be to institute a similar tax. A quarter-percent sales tax is now collected in the MTA region and an additional quarter percent would not cause hardships. On a \$100 purchase, for example, the added tax would increase the sales price by only \$0.25. Public transportation systems would gain substantially. Based on projected receipts from the current quarter-percent tax and the allocation formula for MMTOA funds, the MTA would receive more than \$270 million in additional funds in future years. If applied to the agency's operations, this revenue would have been sufficient to close the projected budget deficit for 1995-1999 assuming full MMTOA subsidies and no additional fare-backed borrowing.

The additional quarter-percent sales tax is one of a handful of options for raising new revenue for the MTA. Other alternatives are discussed in the concluding section of the report on recommendations. Implementing new taxes will not be easy, but circumstances dictate that other sources of revenue for the MTA be found. Though the 1995-1999 financial plan is balanced, the deficit was closed partially through cuts that noticeably lowered the quality of service, and issues beyond 1999 were not addressed. Without increased funds, the MTA will likely face another budget deficit in the 2000-2004 period, and debt service costs associated with fare-backed borrowing will sharply increase operating expenses. The alternatives could be substantially increased fares or further service cuts.

It is shortsighted of New York State to reduce its level of support for the MTA and to force the agency to squeeze service within a limited budget. New York City is the

core of the state's economy and arguably the most important city in the U.S. A strong mass transportation system is essential if New York City is to continue to thrive. As MTA service becomes less accessible and convenient, customers could leave the system in favor of driving, compounding existing mobility problems in the region. Businesses and residents may choose to relocate to areas where travelling is easier and less expensive. In the end, the New York City economy could shrink substantially, hurting the well-being of both the city and the state. Continued investment in the MTA, along the lines of service improvements underway in Boston and the San Francisco Bay area, is critical if downstate New York and the state as a whole are to maintain their standing domestically and globally.

CAPITAL FUNDING

Introduction

Each of the systems studied is involved in major programs to renew and expand their networks. Since 1982, the New York MTA has invested roughly \$25 billion in rebuilding its infrastructure. The restoration effort will continue well into the next century. The Los Angeles MTA is building a 79-mile rail transit system to alleviate existing traffic congestion and to provide transportation capacity capable of handling a projected growth in population. The program's total cost is estimated to be \$8.5 billion. In the region surrounding San Francisco, BART has expanded its system to serve San Mateo County and plans other extensions that will include access to San Francisco International Airport. BART also intends to undertake a significant capital restoration program, with the total cost for its most pressing projects expected to be \$2.0 billion. In 1997, the six agencies studied will spend nearly \$5.0 billion on capital projects.

With government subsidies on all levels being cut, finding the funds to pay for the work is a challenge for the agencies. The federal government has sharply reduced its support for transit capital projects in recent years. The New York MTA, for example, received over \$400 million less in federal aid for its 1992-1996 program than it had expected. In its 1996-2007 capital plan, SEPTA anticipated \$1.4 billion in federal transit aid from 1997 to 2001, but in its 1997-2008 program, the agency revised its estimates to \$810.9 million for the period. The agency will also receive substantially less than it had expected under programs that divert highway funds to transit. Also affected by reduced federal aid is BART, which will receive nearly \$90 million less than it had projected for its 1997-2006 capital cycle.

State and local assistance is declining as well. New York State provided no direct aid for the MTA's 1992-1996 capital program, after allocating \$2.4 billion from 1982 to 1991. In 1994, New York City cut \$500 million from its expected contribution for the period. The discontinuance of a Pennsylvania bond program eliminated \$350.0 million in capital support for SEPTA from 1997 to 2001. Illinois in recent years has substantially reduced the amount of state bond proceeds that it allocates to the RTA .

The reductions in capital support are leading to dramatically reshaped funding patterns for some of the agencies. In the fifteen-year history of its current capital renewal effort, the New York MTA has relied primarily on public funds to finance its projects. Its plan for the next three years, however, uses mainly internal revenue and borrowing to pay for improvements. The system renovation program for BART will also rely heavily on self funding, including bonds and operating revenue. In response to diminished assistance for their capital improvements, SEPTA and the RTA have sharply reduced their spending. The RTA spent \$360.0 million in 1996, down from \$549.7 million in 1995, and plans nearly \$1.0 billion less in projects in the 1996-2000 period than it undertook from 1991 to 1995. Similarly, SEPTA cut its anticipated 1997-2001

program from \$2.1 billion to \$1.2 billion.

Two systems that are well supported are the Los Angeles MTA and the MBTA. As noted in the section on operating funds, debt service costs for the MBTA's capital program bonds are almost fully paid through subsidies, enabling the agency to embark on an ambitious expansion plan. The Los Angeles MTA is supported by a wide array of public funds, which will cover 73.1 percent of the agency's costs from 1994 to 2003.

External funds for the systems are provided by a range of sources. Grants are the most basic form of assistance. The federal government furnishes aid through various provisions of the Intermodal Surface Transportation Efficiency Act of 1991 (ISTEA). Title III of ISTEA supports mass transit projects and includes Section 9 formula-based aid and Section 3 discretionary grants. Urban areas receive Section 9 assistance as a block grant and then distribute the funds to public transportation systems. The awards are allocated based on service and population measures. Section 3 assistance is available for three categories of projects: bus and bus-related facilities, modernization of fixed guideway systems, and so-called new start projects (construction or extension of fixed guideway systems). Section 3 grants pay up to 80 percent of the cost of a project. New start and bus funds are allocated on a competitive basis; rail modernization funds are distributed on a formula basis.

Title I of ISTEA provides for the use of highway trust fund revenue for mass transit purposes. Highway funds used for transit capital projects come primarily from the Surface Transportation (STP) and Congestion Mitigation and Air Quality Improvement (CMAQ) Programs. The Federal Highway Administration issues block grants to states, which may allocate the funds for highway, transit, pedestrian, bicycle and other projects. ISTEA requires that 10.0 percent of STP funds be used for enhancement of transportation facilities.

State and local capital assistance is provided through a variety of sources. New York City will contribute over \$1 billion towards the NYC Transit component of the MTA's 1995-1999 capital program. In California, a wide array of sources supports the work of the Los Angeles MTA and BART. Voters in the state approved two bond issues in 1990 for rail capital projects and both the MTA and BART will receive aid in upcoming years through this borrowing. State gasoline and diesel fuel taxes will finance a portion of the MTA's 1994-2003 capital improvements. As noted, Illinois has allocated state bond proceeds to the RTA, but this assistance has been cut sharply in recent years. In Pennsylvania, a state bond program has been discontinued, fully eliminating one source of support for SEPTA. Several other state and local sources provide funds for the capital program work of the various systems.

Two systems that rely heavily on internally generated funds for their capital programs are the New York MTA and the MBTA. In the 1996-2000 period, for example, the MBTA will use bonds to provide 55.9 percent of its capital financing. This borrowing, however, is in effect state funding since Massachusetts pays for nearly all the

associated debt service costs.

In the New York MTA's 1995-1999 program, own-source revenue will provide nearly 60 percent of the financing. This level of internal funding is a dramatic increase from the agency's prior plans, when public sources provided over 50 percent of the financing. Borrowing will provide the largest share of internal funds from 1995 to 1999, with a significant amount of the bonds to be backed by fare revenue. In 1995, the MTA increased its transit and commuter rail fares partially to pay for the debt service associated with this borrowing and to provide direct revenue for the capital program.

This funding pattern has raised concerns about the flagging level of outside support provided to the MTA as well as the impact of fare-backed borrowing on the agency's operations. NYC Transit and the commuter railroads already incur significant debt service costs in their operating budgets, with the new bonds expected to increase these expenses sharply. The incremental costs are projected to rise from \$89.7 million in 1998 to \$182.9 million in 1999 and grow even more in outlying years. Critics of the borrowing have questioned whether the MTA can pay this debt service without raising fares substantially or cutting service in order to reduce operating costs.

Another system to rely heavily on internal funds for system renovation work is BART. Overall, the agency's 1997-2006 capital program will be funded primarily through external sources, but for the rehabilitation element of the plan, BART will provide over 50 percent of the financing. Fare-backed borrowing, totalling nearly \$390 million, will provide the largest share of internal funds. BART is using a series of three fare increases to help pay for the debt service costs associated with these bonds.

In response to declining public aid, the RTA and SEPTA have downsized their capital programs. The Los Angeles MTA and the MBTA are well supported and offer apt examples of regions that are strongly committed to expanded and high-quality transit systems. The 1997-2006 capital program for BART also includes ambitious expansion projects, with funding for these initiatives to be provided largely through outside sources. The funding pattern for these three agencies stands in sharp contrast to the financing for the New York MTA, SEPTA, and the RTA. The latter group is coping with substantially reduced external support and could suffer significant consequences in outlying years. This part of the report describes the capital programs of the various systems and the funding pattern for these programs.

System Summaries

The New York MTA

Program Summary

The upcoming capital program for the MTA marks a significant departure from

prior plans. Since 1982, the agency has used a series of five-year programs to rebuild its systems. The next cycle combines the last two years of the 1992-1996 plan with new projects for 1997 to 1999 to form a program for 1995 to 1999. The proposed \$12.0 billion in improvements surpasses the size of the first three programs, but the funding pattern is noticeably different from funding in the past. Bonds and internal revenue will finance more than half of the 1995-1999 plan, signifying the erosion of a federal, state, and local partnership that had contributed heavily to the MTA's rebuilding efforts. Supported primarily by government subsidies, the earlier capital programs revitalized systems that had declined markedly by the early 1980s. The cuts in public assistance have raised concerns that MTA services once again may slip.

In the last fifteen years, the MTA has invested \$25 billion in revitalizing its mass transportation infrastructure. Decades of neglect had left the agency's transit and commuter rail services in a state of near collapse by the early 1980s. On the subways, track fires and train derailments were commonplace, cars broke down after only 7,000 miles of use, and worn-out sections of track slowed trains to 10 miles per hour in many parts of the system. Graffiti on cars and stations contributed to the feeling of a system that was declining and out-of-control. Commuter rail service was substandard as well. A shortage of operable cars subjected thousands of passengers to long waits on platforms and to overcrowded conditions on trains. Car interiors were dirty and dilapidated and air conditioning was virtually nonexistent on Long Island Rail Road trains. Track switches, tunnels, power systems, and maintenance shops were past their useful lives, nearly unable to meet the demands of carrying the heaviest volume of commuter rail traffic in the country. Conditions had deteriorated to the extent that millions of daily transit and commuter rail passengers faced the real possibility of losing service.

The New York State legislature declared a transportation emergency in 1981 and passed legislation that established a capital renewal program for the MTA. The law directed the agency to develop detailed five-year plans for both its transit and commuter rail services. The plans contain projects that the MTA intends to undertake in the next five years as well as anticipated funding sources for the proposed work. The first program ran from 1982 to 1986, with subsequent plans covering 1987 to 1991 and 1992 to 1996. In addition, the legislation created a four-member Capital Program Review Board (CPRB) that must review and approve the MTA's plans. All four members must assent to a proposed program for it to take effect.

In 1982, with the support of federal, state, and local agencies, the MTA began to rebuild its systems. The agency has spent \$25 billion to rehabilitate its capital infrastructure and assets. Approximately three-quarters of those funds – \$19 billion – went to NYC Transit and the balance financed commuter rail projects. NYC Transit replaced all of its main-line track, rebuilt or renovated almost 70 subway stations, and overhauled or replaced its entire fleet of subway cars and buses. Other critical structures, including track switches, signals, and maintenance shops, have been upgraded as well. The Long Island Rail Road and Metro-North attained a state of good

repair for their rail cars and track. All other facilities for the LIRR, except such line structures as bridges, have also reached a state of good repair. Metro-North has substantial work left before it brings all systems up to grade, though it has passed the halfway point for all its facilities and expects to attain a state of good repair for its communications and signals by 1999.

MTA service and reliability have improved significantly as a result of the capital investments. In 1995, subway cars travelled over 58,000 miles before breakdown, as opposed to 7,000 miles in 1982.¹⁷⁰ Weekday on-time performance has increased from 81.0 percent in 1988 to 90.0 percent in 1995.¹⁷¹ On the Long Island Rail Road, the average distance between train breakdowns rose from 16,000 miles in 1982 to 25,000 miles in 1995. Weekday on-time performance was 90.9 percent in 1995, compared to 85.1 percent in 1986.¹⁷² Improvements on Metro-North include an increase in weekday on-time performance from 80.5 percent in 1983 to 95.4 percent in 1995. The average distance between train breakdowns rose from 13,000 miles in 1988 to 49,000 miles in 1995.¹⁷³ In addition, air conditioning has become standard throughout the subway, bus, and commuter rail systems, and the number of standing passengers during AM and PM peak periods has dropped markedly on the LIRR and Metro-North.

The improved service has translated into ridership gains for NYC Transit and Metro-North. In the 1970s, subway patronage fell sharply because of an economic recession and deteriorating service. Average weekday ridership dropped by 1.2 million passengers between 1969 and 1977. Gains in service and reliability have helped to draw people back to the system, and in 1995, patronage reached its highest point since 1974. In 1995, Metro-North carried 62.2 million riders, up from 47.1 million in 1983.¹⁷⁴ Ridership has remained flat on the LIRR. Capital spending has also contributed to economic development. A report prepared for the MTA by the Port Authority of New York and New Jersey on the MTA's 1992-1996 capital plan projected that the investments would create 16,394 jobs annually over nine years. The study expected the program to generate \$12.4 billion in economic activity, including \$5 billion in wages and

¹⁷⁰ *Official Statement: \$204,355,000 Metropolitan Transportation Authority Transit Facilities Revenue Bonds, Series 1996A, MTA, May 1996, p. 37.*

¹⁷¹ *Ibid.*

¹⁷² *Official Statement: \$210,925,000 Metropolitan Transportation Authority Commuter Facilities Revenue Bonds, Series 1996A, MTA, May 1996, p. 40.*

¹⁷³ *Ibid.*

¹⁷⁴ *Ibid.*, p. 38.

salaries and \$465 million in state and local income taxes.¹⁷⁵

Funding for the first two capital programs was the product of a partnership among federal, state, and local agencies that was committed to revitalizing the region's transit and commuter rail systems. The 1981 transportation act enabled the MTA to use NYC Transit revenue as collateral for bonds issued to finance capital projects. Borrowing included bonds secured by proceeds from dedicated taxes and surplus toll revenue from the Triborough Bridge and Tunnel Authority (now MTA Bridges and Tunnels). Government on all three levels also provided substantial support for the MTA's first two capital plans.

In the 1982-1986 program, the MTA expended \$7.7 billion in funds. Public subsidies accounted for 55 percent of the total revenue. The federal government, New York State, and New York City respectively provided 26 percent, 20 percent, and 9 percent of the funds. Bonds comprised 34 percent of the financing for the plan. The 1987-1991 program totaled \$8.1 billion and was 64 percent funded by government aid. State support dropped to 11 percent of total revenue and federal and New York City assistance increased to 38 percent and 15 percent, respectively. Borrowing financed 25 percent of the plan.¹⁷⁶

The funding pattern changed significantly in the 1992-1996 plan. In a precursor to drastic cuts in government assistance throughout the life of the program, New York State provided no support from the outset. The approved plan projected \$9.6 billion in spending, backed by \$3.1 billion in federal transit funds and \$1.0 billion in New York City aid. Actual subsidies fell far short of expectations. Federal transit aid totaled \$2.6 billion, \$431 million less than anticipated, and New York City assistance was reduced by \$500 million.¹⁷⁷ Because of the cut in New York City's subsidy, the size of NYC Transit's 1992-1996 plan was reduced from \$7.4 billion to \$6.8 billion.¹⁷⁸

¹⁷⁵ *Economic Impact of the 1992-96 MTA Capital Program on New York State*, MTA, March 1995, p. 2.

¹⁷⁶ *Review of the Operating and Capital Plans for New York City Transit and the Commuter Railroads*, Office of New York State Comptroller H. Carl McCall, March 1996, pp. 10 and 13.

¹⁷⁷ Information on the projected funding for the 1992-1996 capital program is based on an amendment to the program prepared by the MTA in February 1995. The amount of actual funding is based on data supplied by the MTA's Capital Program Management department.

¹⁷⁸ Unless otherwise noted, all financial data for the MTA's capital programs are based on data supplied by the agency's Capital Program Management department.

The reduction in public support for the 1995-1999 program signifies the erosion of the partnership that has helped to rebuild the MTA's systems. The trend is expected to continue in the agency's upcoming round of capital projects. In response to diminished aid for both its operating and capital programs, the MTA proposed in 1995 to amend its 1992-1996 capital plan. The revised plan is comprised of the projects scheduled for 1995 and 1996 and new work for 1997-1999. Spending for the 1997-1999 period will amount to \$2.5 billion annually, \$660 million higher per year than the work performed from 1992 to 1996.

Government aid, however, is not increasing at the same rate as costs. New York State will provide only \$96.0 million in support, less than one percent of the program. Section 9 federal funds are expected to rise to \$301.7 million in 1997 from about \$260.0 million in 1996. This assistance, however, includes \$42.7 million in Section 9 operating aid that the MTA is seeking to transfer to its capital program. In addition, the growth in federal support is not sufficient to keep pace with the increase in capital expenses.

On a percentage basis, public support for the 1995-1999 plan will be the lowest level of assistance for MTA capital work since it began using five-year programs. Government funds will finance approximately 40 percent of the plan, as opposed to 55 percent, 64 percent, and 54, respectively, in the first three programs. Federal aid will account for 29 percent of the 1995-1999 funds. In the first three capital cycles, the federal government provided 26 percent, 38 percent, and 40 percent, respectively, of the funds. New York City will provide 11 percent of the funds for the upcoming plan, compared to 9 percent, 15 percent, and 14 percent, respectively, in the first three programs.¹⁷⁹

In response to the reductions in government assistance, the MTA has developed a financial plan for its 1995-1999 program that represents a dramatic shift from the prior funding patterns. Including bonds, the proposed program will be 59 percent internally financed. The MTA proposes to use a total of \$5.1 billion in bonds, up significantly from prior plans. In the 1982-1986 cycle, the agency issued \$2.6 billion in bonds; it used \$2.0 billion in bonds for the 1987-1991 period. The MTA borrowed a total of \$3.1 billion for the 1992-1996 capital plan. On a percentage basis, bonds were 34 percent, 25 percent, and 33 percent, respectively, of the first three programs. In the 1995-1999 period, however, borrowing will account for 44 percent of the total spending.

Another source of internal funds for the proposed plan is fare revenue. In 1995, the MTA raised fares for its transit and commuter rail services in order to generate

¹⁷⁹ *Review of the Operating and Capital Plans for New York City Transit and the Commuter Railroads*, pp. 10, 12, and 13. Funds from New York City include funds provided by the Municipal Assistance Corporation, a public benefit corporation.

additional revenue for both its operating and capital programs. The price of a one-way transit trip increased by \$0.25 (20.0 percent), from \$1.25 to \$1.50, and the cost of the average commuter rail trip rose by \$0.375 (9.0 percent). In the 1995-1999 capital program, the MTA will use \$125.0 million annually from the fare increase for NYC Transit and \$90 million per year for the commuter railroads. The diversion of fare revenue represents the first time NYC Transit fares will be used to help fund capital work, though the MTA used LIRR and Metro-North fares to finance a portion of the 1987-1991 and 1992-1996 commuter rail programs.

The heavy reliance on bonds and fare revenue has raised concern among various New York State government officials. In a March 1996 report on an earlier version of the 1995-1999 capital plan, the State Comptroller's office said that the program would place tremendous pressure on the operating budgets of NYC Transit and the commuter railroads.¹⁸⁰ The original plan, which was revised in April, relied even more heavily on bonds than the current plan. It called for financing 51 percent of the work with borrowing, with a large share of the bonds to be backed by fare receipts. The Comptroller's report expressed concern that the MTA would be forced to raise fares, reduce services and maintenance, or scale back the capital program if fare and other revenue was less than projected.

The current version of the capital program anticipates using bonds to fund 44.0 percent of the work. Debt service financed through fares would be cut by \$218.0 million by 2003.¹⁸¹ Government officials, however, continue to express concern that the plan is not sufficiently supported by New York State and relies too heavily on bonds and fare revenue. In September 1996, Assemblywoman Catherine Nolan, one of the members of the CPRB, vetoed the current proposal, echoing the sentiments of the State Comptroller's report. She commented that the state has assumed too small a share of the funding for the program and that the plan is a departure from traditional subsidy patterns.

Assemblywoman Nolan and other officials argue for reshaping the way the program is financed. They call for the state to provide additional subsidies and recommend that other solutions, including alternative financing methods and a redistribution of aid to NYC Transit, be explored. An in-depth review of funding sources for the 1995-1999 capital program underscores the points raised by the officials cited. In terms of its reliance on borrowing and the lack of state support, the plan is vastly different from the programs of the other systems studied. Two other agencies - the RTA and SEPTA - face similar issues as the MTA, but they do not pass debt service onto

¹⁸⁰ *Review of the Operating and Capital Plans for New York City Transit and the Commuter Railroads*, p. 1.

¹⁸¹ MTA press release, April 24, 1996 (Release #39).

their operating divisions to the same degree that the MTA does. A discussion of the funding sources for the 1995-1999 capital program follows.

Sources of Funds

The MTA proposes to spend almost \$12.0 billion during its 1995-1999 capital cycle. The plan will be financed through a combination of sources. Public funds will total \$4.8 billion, which represents approximately 40.0 percent of the overall program. Internal revenue includes \$5.1 billion in bonds and amounts to \$6.9 billion (59 percent) of the spending. Miscellaneous sources account for the balance of the funds. This section describes the financing for the 1995-1999 capital program.¹⁸²

Public Funds

Government assistance for the MTA's 1995-1999 capital plan will be provided almost entirely by the federal government and New York City. New York State will provide only \$96.0 million during the five-year cycle, with all of the funds coming in the last year of the program. Assistance from the federal government and New York City during the plan will total approximately \$4.7 billion.

Federal assistance for the MTA's 1995-1999 capital program will be provided through ISTEA. The agency receives aid through the formula-based and discretionary programs of Title III, the mass transit provision of ISTEA. Formula-based aid is provided under Section 9 and is awarded to regions based on service and population measures. Section 9 aid may be used for both operating and capital purposes, though only a small percentage is eligible to subsidize operations. Section 9 aid is issued to the New York and New Jersey metropolitan region as a block grant. Downstate New York receives 77.0 percent of the grant, with 90.0 percent of that amount going to the MTA. The MTA has historically split its share between NYC Transit and the commuter railroads on a 79/21 percent basis.

Additional Title III aid is provided through Section 3, which is awarded on a discretionary basis and is available for three categories of projects. The project types eligible for Section 3 funds are bus and bus-related facilities, modernization of fixed guideway systems, and so-called new start projects (construction or extension of fixed guideway systems). The FTA finances up to 80.0 percent of Section 3 projects. In its capital programs, the MTA has received no funds for buses, though it has received substantial assistance for fixed guideway improvements and new starts. From 1992 to 1995, the agency received \$1.1 billion in fixed guideway and new start funds, almost 90.0 percent of which was for fixed guideway projects.

¹⁸² Unless otherwise noted, all financial data for the MTA's capital programs are based on data supplied by the agency's Capital Program Management department.

Title I of ISTEA also provides for the use of highway trust fund revenue for mass transit purposes. Highway funds used for transit capital projects come primarily from the Surface Transportation (STP) and Congestion Mitigation and Air Quality Improvement (CMAQ) Programs. The Federal Highway Administration issues block grants to states, which may allocate the funds for highway, transit, pedestrian, bicycle, and other projects. ISTEA requires that 10.0 percent of STP funds be used for enhancement of transportation facilities. In the period from 1992 to 1995, the MTA received \$230.4 million in CMAQ and STP funds. Highway funds originally allocated for road projects may be transferred to transit capital projects under Title I as well. Including funds anticipated for 1996, the MTA has received \$1.5 billion through this trade-in feature.

In its first two capital programs, the MTA received substantial assistance from New York State, including proceeds from bonds issued by the state. The state provided no aid in the 1992-1996 plan and has pledged only \$96.0 million for the 1995-1999 program. The \$96.0 million will be provided in 1999 and represents NYC Transit operating assistance that is being diverted for capital purposes. In 1995 and 1996, New York State funded part of its annual grant to NYC Transit through the agency's share of tax revenues dedicated for operating purposes. The state took \$128.0 million each year and will do the same in 1997 and 1998. In 1999, the state will cease using the dedicated tax revenues, in effect returning \$128.0 million annually to NYC Transit. The agency will use the revenue for its capital program in 1999; in 2000 and beyond, it will allocate the money for operations. NYC Transit will receive \$96.0 million in 1999 because of differences in the state's and the MTA's fiscal calendars.

Proceeds from dedicated taxes support capital program borrowing and are an indirect form of state aid. As discussed in the section on "Internal Funds," the MTA is the beneficiary of mortgage recording taxes (MRT) assessed within the MTA region and a state-wide tax on petroleum products (PBT). The agency borrows against these funds and uses them to pay for debt service costs. The MRT proceeds were intended to finance borrowing for earlier capital programs and no bonds will be issued against the receipts for the 1995-1999 program. The MTA planned to issue \$450 million in PBT bonds in late 1996 for the 1992-1996 capital program.¹⁸³ Additional PBT-backed debt will be floated for the 1995-1999 cycle.

With the exception of miscellaneous funds that finance specific projects, local aid for the 1995-1999 capital program will be provided entirely by New York City. Assistance from the city subsidizes NYC Transit capital projects and is generally \$106.0 million per year. In the 1995-1999 capital plan, however, New York City will provide \$500.0 million above its usual contribution, half of which will repay \$250.0 million that it

¹⁸³ *Minutes to the September 25, 1996, MTA Board Meeting*, Metropolitan Transportation Authority, October 1996.

is borrowing from the MTA in 1996 and 1997. The city will provide \$356.0 million in 1997 and \$231.0 million each in 1998 and 1999.

In past years, New York City has provided additional capital assistance to NYC Transit through the Municipal Assistance Corporation. MAC agreed in 1986 to provide \$925.0 million in capital funds to NYC Transit over several years. The MTA received a final payment of \$245.0 million in 1996, at which time the agreement will expire. The agency does not expect to receive future assistance from MAC.

Internal Funds

Funding for the MTA's 1995-1999 capital program will come primarily through internal sources. In the five-year cycle, the agency will issue \$5.1 billion in bonds, which represents 44 percent of the total spending. Other sources of internal revenue for the program include income from investments, fare revenue, and income generated from the sale or lease of MTA assets. In all, the MTA will self-finance nearly 60 percent of the plan, marking the first time since the inception of the five-year programs that the agency will provide over 50 percent of the funding. The MTA's share of the financing will total \$6.9 billion.

The MTA relies on several types of bonds that are supported by various revenue sources. One type is so-called TBTA bonds that are issued by MTA Bridges and Tunnels. NYC Transit and the commuter railroads do not directly pay for the debt service costs attributable to this borrowing. Each year, the agencies receive a portion of the surplus toll revenue collected by MTA Bridges and Tunnels. The share allocated to NYC Transit and the commuter railroads is adjusted for debt service before the funds are transferred. Any remaining balance is used for operations.

Proceeds from the mortgage recording taxes and from a portion of the Petroleum Business Tax support capital borrowing as well. As noted in the section on operating assistance, the MTA is the beneficiary of two mortgage recording taxes assessed within the MTA region. After certain adjustments, the proceeds are available to pay for debt service expenses on NYC Transit and commuter railroad bonds. As noted, no MRT bonds will be issued for the 1995-1999 program. The proceeds will be used to cover existing expenses.

In 1993, the New York State Legislature implemented the Petroleum Business Tax, replacing the Gross Receipts Tax on the sales of petroleum products. PBT receipts are allocated to an account for mass transportation operating assistance as well as to a broader fund that supports highways, bridges, and mass transportation. The MTA receives 34.0 percent of the broader fund and distributes its share to NYC Transit and the commuter railroads at an 85/15 percent split. The MTA's portion of the proceeds was to have been used as collateral for bonds, but the agency did not receive authorization from the state to borrow against its share until July 1996. The MTA

planned to issue \$450 million in PBT bonds in late 1996 as part of its 1992-1996 capital plan. The agency will also use PBT bonds for the 1995-1999 program. Debt service costs are paid first through proceeds from the tax and then through other revenue if necessary.

The MTA also pledges fare revenue to finance its capital borrowing, issuing debt that is referred to as fare-backed bonds. Fare-backed borrowing totaled \$1.6 billion in the 1982-1986 capital program, \$412.0 million in the 1987-1991 cycle, and \$3.1 billion in the 1992-1996 period.¹⁸⁴ The MTA will also rely heavily on fare-supported bonds in the 1995-1999 capital program and raised its transit and commuter rail fares in 1995 in order to help pay for the debt service costs associated with this borrowing. In the period from 1996-1999, the agency will issue \$2.5 billion in fare-backed bonds. Incremental debt service costs will be \$16.5 million in 1996 and grow to \$182.9 million by 1999 and \$311.2 million by 2000.

Borrowing in the 1995-1999 cycle will be significantly more than it was in the past. In the 1982-1986 plan, the MTA issued \$2.6 billion in bonds, and in the 1987-1991 cycle, it used \$2.0 billion in bonds. The MTA programmed \$3.1 billion in borrowing for the 1992-1996 period, though with the change in the timing of the agency's capital cycle, a portion of those bonds will be transferred to the 1995-1999 plan. As noted, borrowing will finance 44 percent of the 1995-1999 program, compared to 34 percent, 25 percent, and 34 percent, respectively, in the prior plans.¹⁸⁵

Another source of internal financing for the 1995-1999 capital program is NYC Transit and commuter rail fare revenue. Fare increases enacted in late 1995 are expected to generate \$275.0 million annually for NYC Transit and approximately \$35.0 million per year for the commuter railroads. The additional revenue will be used to fund capital projects, with \$125.0 million in NYC Transit fare receipts and \$90.0 million in commuter rail fare revenue to be used each year. This "pay-as-you-go" financing will provide 5.2 percent of the total funds for the program.

Income from investments and from the sale and lease of MTA properties are the other sources of internal financing. Throughout the life of the program, the MTA expects to use \$685.0 million in investment income and \$477.0 million in real estate income. The anticipated sale of the New York Coliseum, a convention center in Manhattan, will yield an estimated \$200.0 million.

Several miscellaneous sources will support the MTA's 1995-1999 capital plan.

¹⁸⁴ *Review of the Operating and Capital Plans for New York City Transit and the Commuter Railroads*, p. 10.

¹⁸⁵ *Ibid.*, pp. 10, 12, and 13.

These funds include aid from government agencies for specific projects, revenue from easement sales, and contributions from private developers. The Connecticut Department of Transportation, for example, will provide \$6.7 million for the Metro-North program. The New York City Department of Transportation will furnish \$21.6 million to NYC Transit to pay for various projects, including the installation of automated fare collection devices on private buses. A settlement with a contractor and support for various Metro-North projects are among the other miscellaneous sources.

Funds Allocated

The MTA has historically allocated its capital funds to NYC Transit and the commuter railroads on a 77/23 percent basis. Projects for the Staten Island Railway are covered through NYC Transit's share and the Long Island Rail Road and Metro-North Railroad have traditionally received the commuter rail portion at a 56/44 percent split. The MTA does not finance the capital program of Long Island Bus. This section describes the 1995-1999 transit and commuter rail programs as well as how their work will be financed.

NYC Transit and Staten Island Railway

Transit capital spending in the period from 1982 to 1996 totaled about \$19.0 billion. The investments enabled NYC Transit to revitalize a system that had become seriously eroded by the early 1980s and that could not meet the demands placed on it daily. The agency replaced or overhauled its entire fleet of subway cars and buses, rebuilt all its main-line track, and rehabilitated almost 70 subway stations. Switches, signals on the IRT division, and bus depots were substantially upgraded. With the improvements, on-time performance rose from 81.0 percent in 1988 to 90.0 percent in 1995, the average distance between subway car breakdowns increased from 7,000 miles in 1982 to over 58,000 miles in 1995, and ridership on the subways rebounded following a sharp drop-off in the 1970s.

Despite the gains, major investments are necessary to continue the work as well as to provide for normal replacement of capital stock and to expand the system to meet future demand. NYC Transit reached a state of good repair for its subway cars, buses, and main-line track in its first three capital programs, but the agency forecasts that it will not achieve a state of good repair for the entire network until at least 2022. Over 400 subway stations need to be rehabilitated, signals on the IND and BMT divisions will not be fully renovated until 2020, and substantial work is necessary to bring train yards and subway and elevated structures to satisfactory condition. Through 1999, NYC Transit plans to replace 840 subway cars at a cost of \$1.9 billion and to purchase 2,201 buses at a cost of \$674.0 million.¹⁸⁶ The agency is spending over \$500 million on a connection

¹⁸⁶ *Capital Program: 1995-1999*, MTA, August 1996, pp. 27-29.

that will alleviate overcrowding on Queens subway service and is exploring other critical projects that would expand system capacity and improve service. Options include a new subway line to relieve chronic subway congestion on the east side of Manhattan and a \$370-million tunnel project to facilitate better travel between Brooklyn and Manhattan.¹⁸⁷

A report issued by the MTA in 1990 underscores the extent of NYC Transit's on-going capital needs. The report forecast that, for the twenty-year period 1992 to 2011, the agency's needs would total over \$25.0 billion. The estimate included \$10.4 billion to bring the transit system into a state of good repair as well as \$12.3 billion for normal replacement of capital assets and \$2.6 billion for system improvements. State-of-good-repair projects were anticipated to cost \$1.0 billion annually.¹⁸⁸ Actual and planned spending fall within the projections. Capital spending averaged \$1.4 billion annually from 1992 to 1996 and will average \$1.9 billion per year from 1997 to 1999.¹⁸⁹

The transit component of the MTA's 1995-1999 capital program will total \$9.1 billion.¹⁹⁰ Investments will include \$4.1 billion on state-of-good-repair projects, \$3.1 billion on normal replacement of capital stock, \$1.6 billion on system improvements, and \$300.3 million in miscellaneous projects. Infrastructure improvements will comprise the largest share of the spending, amounting to \$6.5 billion. Work will include \$1.6 billion to rehabilitate subway stations, \$997.7 million to upgrade signals and communications, and \$735.2 million to keep subway track in satisfactory condition. The Franklin Avenue Shuttle, serving central Brooklyn, will be rebuilt and modernized. Vehicle replacement and overhaul is another significant piece of the plan. In the five-year period, NYC Transit will spend \$1.9 billion to purchase and rehabilitate its fleet of subway cars and \$701.7 million to buy or rebuild buses. Spending to increase subway capacity will total \$493.0 million and provide for additional subway service to eastern Queens. The Staten Island Railway will receive \$111.7 million for its capital projects.

NYC Transit's capital spending for 1995-1999 will exceed the amounts spent in earlier plans and reflects the agency's growing needs. Public assistance, however, is not increasing at the same rate and has even declined in recent years. In the 1992-1996 period, for example, the MTA anticipated over \$1.0 billion from New York City to support NYC Transit capital projects. The city cut its subsidy by \$500.0 million in 1994, forcing

¹⁸⁷ *East River Crossing Study: Final Task 5 Interim Report (Detailed Definition of Alternatives)*, MTA New York City Transit, September 1996, Appendix 1, p. 20.

¹⁸⁸ *MTA Capital Needs & Opportunities*, MTA, May 1990, p. 30.

¹⁸⁹ Data supplied by the MTA's Capital Program Management department.

¹⁹⁰ Detail on NYC Transit's 1995-1999 capital program is based on the August 1996 copy of the MTA's 1995-1999 capital program.

the MTA to downsize the transit program. NYC Transit also received substantially less from the federal government than was expected. Government support will remain flat in future years and the funding sources for NYC Transit's upcoming capital work underscore the diminished assistance.¹⁹¹

Spending for NYC Transit's capital projects in the 1992-1996 capital plan totaled \$6.8 billion, with government subsidies financing 60.4 percent of the work. Public assistance will provide substantially less in the 1995-1999 cycle. Aid during the period will total \$4.1 billion in funds, equal to 44.8 percent of the \$9.1-billion program. In addition, annual subsidies from 1997 to 1999 will be \$43.4 million less than they were from 1992 to 1996. Annual spending from 1997 to 1999 will be \$485.0 million higher than it was from 1992 to 1996.

In the 1995-1999 program, the federal government will contribute \$2.7 billion, New York State will provide \$96.0 million, and New York City will contribute \$1.3 billion.¹⁹² New York City's share, however, includes repayment of \$250.0 million that it is borrowing from NYC Transit in 1996 and 1997. The money is coming out of the "pay-as-you-go" component of the program; if it is classified as internally provided funds, the public share of the plan drops to 42.1 percent.

With the drop in government assistance, NYC Transit will finance 54.8 percent of the program through borrowing and its own funds. The increase in transit fares in 1995 will generate an estimated \$275.0 million annually in additional revenue and \$125.0 million of those funds will go towards the program in 1998 and 1999. Initially, NYC Transit was to have used \$125.0 million in 1996 and 1997 as well, but the loan to New York City is being made from those funds. If the money is added to the agency's share of the plan, the internally provided portion rises to 57.5 percent.

Fare receipts will also be used to pay for growing debt costs attributable to the \$3.9 billion in bonds that will support the program. The borrowing will be a mix of TBTA, dedicated tax, and fare-backed debt. In 1995, NYC Transit paid \$141.3 million in debt service expenses, up from \$125.4 million in 1994 and \$97.2 million in 1993. With fare-backed bonds expected to comprise a large share of the 1995-1999 borrowing, debt service costs will continue to rise in upcoming years.

Internal sources of revenue will also include income from investments and the sale and lease of NYC Transit properties. Income from MTA Bridges and Tunnels

¹⁹¹ All data on the sources and amounts of funding for NYC Transit's capital programs are based on data supplied by the MTA's Capital Program Management department.

¹⁹² Funds from New York City include funds provided by the Municipal Assistance Corporation.

investments will provide \$57.0 million and real estate activities will contribute \$414.9 million, including an anticipated \$200.0 million from the sale of a convention center in Manhattan. Another significant source of internal revenue is program income, which is previous capital funds that NYC Transit received in cash and used first as investment capital. Nearly \$320.0 million in program income will be used for the 1995-1999 plan. The remaining funds for the program come from a range of smaller sources, including contributions from the New York City Department of Transportation for specific projects.

Commuter Railroads

The commuter rail component of the 1995-1999 capital program will be \$2.9 billion, which is roughly equal to the 23.0 percent of the capital funds that the railroads have traditionally received.¹⁹³ Historically, the commuter rail share has been distributed to the Long Island Rail Road (LIRR) and Metro-North Railroad at a 56/44 percent split, though the percentage will differ for 1995-1999. In the five-year cycle, the LIRR will replace its fleet of diesel cars and begin a long-term program to modernize its fleet of electric cars, at a cost of \$959.6 million. The agency, as a result, will receive \$1.9 billion or 66.4 percent of the funds; Metro-North will receive \$975.0 million or 33.6 percent of the funds.

Spending on commuter rail capital projects has totaled \$5.8 billion in the last fifteen years.¹⁹⁴ The investments revitalized facilities that were in a serious state of disrepair and that were hard-pressed to meet the demands of carrying the largest volume commuter rail passengers in the country. The LIRR and Metro-North achieved a state of good repair for their rail cars, rebuilt all their main-line track, and electrified critical segments of their networks. All of the LIRR's facilities, except for such line structures as bridges, have reached a state of good repair. Metro-North has further to go in bringing its system fully to a state of good repair, though it has brought its track and cars up to grade and has passed the halfway point for its remaining facilities. Both agencies expect to attain a state of good repair by 2011.

The investments have yielded gains in operating performance and reliability. Weekday on-time performance in 1995 was 90.9 percent for the LIRR and 95.4 percent for Metro-North, up from the rates achieved in the 1980s. The average distance between car breakdowns has grown for both carriers as well. Although ridership has remained flat on the LIRR, it has increased on Metro-North from 47.1 million

¹⁹³ Unless otherwise noted, all data on the sources and amounts of funding for the commuter railroads' capital programs are based on data supplied by the MTA's Capital Program Management department.

¹⁹⁴ *Official Statement: \$210,925,000 Metropolitan Transportation Authority Commuter Facilities Revenue Bonds*, pp. 31-32.

passengers in 1983 to 62.2 million in 1995.

Similar to NYC Transit, however, the commuter railroads will incur considerable costs in upcoming years to continue their efforts and to develop systems that better serve their riders. The agencies' needs include modernizing their rail cars in order to maintain a state of good repair for these assets. In the 1995-1999 plan, the LIRR will buy 157 new cars for its outdated diesel fleet, at a cost of \$300.0 million, as well as begin a long-term program to modernize its fleet of over 900 electric cars. Spending on electric cars will total \$386.0 million for 1995 to 1999 and continue past 2000.¹⁹⁵ Metro-North will buy 102 new rail cars through 1999, at a cost of \$281.2 million.¹⁹⁶ In the first decade of the next century, the agency will replace or rebuild 178 electric cars on its Harlem and Hudson lines and 242 electric cars on its New Haven line.¹⁹⁷ Metro-North also has substantial work remaining to bring its facilities to a state of good repair and plans projects to increase capacity on its Harlem line. The most significant issue for the railroads is direct access to the east side of Manhattan for the LIRR. If the agency selects the preferred alternative, service to Grand Central Terminal through a tunnel at East 63rd Street in Manhattan, the cost for the necessary tunnel connection will exceed \$3.0 billion.

The MTA's twenty-year capital needs assessment identified a total of \$9.6 billion in 1988 dollars in necessary projects for the railroads from 1992 to 2011. Spending of \$5.7 billion was identified for the LIRR, including \$300.0 million for state-of-good-repair projects, \$4.2 billion for normal replacement of capital stock, and \$1.3 billion for system improvements.¹⁹⁸ Metro-North's needs were projected to cost \$3.9 billion. Estimates anticipated \$1.0 billion for state-of-good repair projects, \$1.5 billion for normal replacement of capital assets, and \$1.4 billion for system improvements.¹⁹⁹ In the period from 1992 to 1996, the commuter railroads spent an average of \$427.3 million annually on capital projects. Their spending will average \$521.8 million per year in the 1995-1999 program.

Spending for LIRR capital projects during the 1995-1999 period will be \$1.9

¹⁹⁵ *Capital Program: 1995-1999*, MTA, August 1996, pp. 49-50.

¹⁹⁶ *Ibid.*, p. 63.

¹⁹⁷ *Agenda Package*, MTA Capital Program Oversight Committee, July 1996, pp. 3-18 to 3-29.

¹⁹⁸ *MTA Capital Needs & Opportunities*, p. 40.

¹⁹⁹ *Ibid.*, p. 37.

billion.²⁰⁰ With all but the agency's line structures in a state of good repair, normal replacement of assets will comprise nearly all of the program. On-going maintenance costs will be \$1.6 billion. The LIRR will spend \$114.0 million on state-of-good-repair efforts, \$91.2 million on network expansion and system improvements, and \$77.9 million on miscellaneous projects. Investments in rail cars will total \$956.9 million and account for almost half of the plan. Infrastructure improvements will cost \$996.9 million during the five-year cycle. The agency plans to rebuild critical stations, including three stations in New York City and a hub facility in Hempstead, and to spend \$244.0 million to replace or recondition track. Other projects will include upgrading of line structures and of signals and communications.

Of the \$975.0 million allocated to Metro-North, the agency will spend \$258.4 million on state-of-good-repair projects and \$427.1 million on normal replacement of assets.²⁰¹ Network expansion and system improvements will cost \$411.5 million and miscellaneous work will total \$36.1 million. The agency has allotted \$281.2 million to replace or overhaul its fleet of rail cars and \$693.8 million for infrastructure improvements. Initiatives will include \$247.0 million station projects, including renovation of Grand Central Terminal, \$66.0 million on track renewal, and \$35.0 million on construction of a third track for the Mid-Harlem Line. The new track will increase capacity on the entire Harlem Line.

Cuts in government subsidies in the 1992-1996 cycle affected the commuter rail program, though the impact was less than it was on NYC Transit. Actual spending for the period was \$2.1 billion, compared to the \$2.2 billion originally planned. The total amount of public assistance in the 1995-1999 period will exceed the level of support provided from 1992 to 1996, though as a percent of the total program, subsidies from 1995 to 1999 will be less than they were from 1992 to 1996. Government sources provided 28.3 percent of the financing from 1992 to 1996 and will provide 26.4 percent of the financing from 1995 to 1999. In addition, on an annual basis, subsidies will not rise as quickly as costs in upcoming years. Annual spending from 1997 to 1999 will be \$114.0 million higher than it was from 1992 to 1996, but subsidies per year will be almost the same from 1997 to 1999 as they were from 1992 to 1996.

Borrowing for the 1995-1999 commuter rail capital program will be \$1.1 billion, equal to 45.0 percent of the total funds. Debt comprised 31.8 percent of the financing for the 1992-1994 period. Including bonds, the LIRR and Metro-North will self-finance 73.1 percent of capital work during the 1995-1999 period. The largest source of internal

²⁰⁰ Detail on the LIRR's 1995-1999 capital program is based on the August 1996 copy of the MTA's 1995-1999 capital program.

²⁰¹ Detail on Metro-North's 1995-1999 capital program is based on the August 1996 copy of the MTA's 1995-1999 capital program.

funds is fare revenue, which will provide \$360.0 million over the five-year period. Passenger receipts will help to pay for debt service costs that will rise as a result of fare-backed borrowing. Information on the composition of the debt program was not available, though bonds secured by fares are expected to comprise a large percentage of the borrowing. In 1995, debt service expenses were \$47.8 million, up from \$32.45 million in 1994. Debt service costs will continue to rise as borrowing increases.

Other significant sources of internal revenue include \$270.2 million in program income, \$38.1 million from MTA Bridges and Tunnels investment income, and \$61.6 million from the sale and lease of LIRR and Metro-North properties. Public support for the program will be provided almost exclusively by the federal government. Federal aid will total \$688.8 million, with the Connecticut Department of Transportation contributing \$6.7 million for Metro-North projects. New York State will provide no direct aid.

The MBTA

Program Summary

The Massachusetts Bay Transportation Authority, serving southeastern Massachusetts, is in the midst of an ambitious capital improvement program designed to upgrade its infrastructure and to broaden the area it serves. In recent years, the agency renovated South Station in Boston, rebuilt substantial portions of its rapid transit track, initiated new commuter rail service between Framingham and Worcester, and modernized large segments of its fleet.²⁰² Total spending for the period from 1991 to 1995 was \$1.7 billion.²⁰³ In its five-year capital program for 1995-1999, the agency plans \$2.8 billion of projects, with the funds to be split nearly equally between infrastructure improvements and system expansion.²⁰⁴

Infrastructure improvements for 1995 to 1999 will total \$1.3 billion.²⁰⁵ The MBTA has dedicated a substantial portion of those funds towards upgrading its fleet of bus, rapid transit, and commuter rail vehicles. One of the agency's goals is to achieve an average age of 6 years for its buses and to retire buses over 12 years of age. Towards

²⁰² *Official Statement: \$200,000,000 Massachusetts Bay Transportation Authority, General Transportation System Bonds, 1996 Series A, March 1996, pp. 13-14.*

²⁰³ Data supplied by the MBTA Budget Office.

²⁰⁴ *FY 1996 Budget, MBTA, pp. 71-72.*

²⁰⁵ Detail on the MBTA's 1995-1999 capital program is based on the agency's FY 1996 budget, pages 69 to 73; and the agency's official statement for its 1996 Series A General Transportation System Bonds, pages 12 to 14.

that end, the MBTA will spend more than \$100.0 million to buy new buses. In addition, it has programmed over \$40.0 million to rehabilitate older buses. Upgrades for rapid transit and light rail cars will total over \$115.0 million and include the purchase of 86 modern cars for the Red Line and rehabilitation of cars on the Green, Orange, and Blue Lines. In the future, the MBTA plans to buy 100 new low-floor cars for the Green Line. More than \$240.0 million has been dedicated for replacing and rehabilitating commuter rail cars. In 1996, the MBTA planned to purchase 103 double-decker coaches and 31 locomotives for its commuter rail system. Other infrastructure improvement projects will include station modernization, track and signal upgrades, replacements of a commuter rail maintenance facility, and the continuation of work necessary to meet ADA requirements.

In 1994, the MBTA initiated interim commuter rail service between Framingham and Worcester, and construction is proceeding on track and signal work necessary to operate full service between the towns. The extension is one of several system expansion projects that the MBTA plans in order to broaden its network, meet clean-air goals, and relieve traffic congestion on the Central Artery in Boston. In the 1995-1999 capital plan, the agency has programmed \$1.5 billion in system expansion projects, including \$76.4 million for the Worcester extension and \$416.2 million for restoration of commuter rail service between Boston and southeastern Massachusetts.

Construction began in 1996 of an underground transitway between the Boylston station on the Green Line and the World Trade Center in South Boston. More than \$375.0 million has been programmed for the link in the 1995-1999 capital plan. Modernization of Blue Line stations will start during the plan and continue into the next century. In addition, the MBTA proposes a \$250.0-million project to extend commuter rail service to the Fall River/New Bedford region. The extension is not included in the 1995-1999 capital plan, though the agency is seeking authorization to issue \$136.0 million in bonds to begin construction.

Sources of Funds

The MBTA finances its capital program through federal funds and bond proceeds. Federal assistance is provided through Section 3 and Section 9 of ISTEA Title III as well as through CMAQ and STP. In the period from 1995 to 1999, the MBTA used \$525.0 million in federal grants. The agency anticipates that it will expend \$1.0 billion of federal funds from 1996 to 2000. Federal aid was approximately 35.0 percent of total capital spending from 1991 to 1995 and will account for slightly less than 40.0 percent of overall funds from 1996 to 2000.²⁰⁶

The MBTA's bond spending is subject to a rolling five-year cap of \$1.5 billion.

²⁰⁶ All financial data on the MBTA's capital program are based on data supplied by the agency's Budget Office.

From 1991 to 1995, the agency used \$1.1 billion in bond proceeds, and for its 1996-2000 capital program, it plans to expend \$1.5 billion of bond funds. Bonds accounted for approximately 65.0 percent of capital spending in the 1991-1995 program and will provide about 60.0 percent of the funds for the 1996-2000 period.

One of the notable features of the MBTA's bond program is that the agency pays for only a minimal amount of the debt service expenses associated with the borrowing. By statute, Massachusetts pays 90.0 percent of the debt service costs on the MBTA's bonds and \$3.0 million annually of the expenses on the bonds issued by the MTA, the MBTA's predecessor. Any unpaid debt service costs are effectively covered through assessments on the 78 cities and towns in the MBTA's service district and through general operating assistance provided by Massachusetts. These subsidies do not directly pay for debt service expenses; instead, they pay for any expenses that are not covered by internal revenue and other public funds. However, since this remaining deficit includes debt service costs, the local assessments and general state aid are a form of debt service reimbursement.

In essence, debt service assistance from Massachusetts is a state subsidy for the MBTA's capital program. Up to the \$1.5-billion cap, the agency is able to issue the bonds necessary to fund ongoing system improvements and expansion while paying minimal debt service expenses. The MBTA, as noted, is in the middle of an ambitious program to upgrade and expand its network of facilities. The benefits of the projects will be a mass transportation system that provides service to previously unserved communities and that supports clean air, congestion reduction, and economic development goals. Debt service assistance has grown in recent years to match increasing costs that reflect the MBTA's initiatives. In 1991, Massachusetts paid \$137.7 million in debt service expenses on MBTA bonds; in 1996, the state paid an estimated \$249.1 million for costs associated with MBTA borrowing.²⁰⁷ The aid reflects a solid commitment to mass transportation for the Greater Boston region.

SEPTA

Program Summary

Cuts in subsidies have forced the Southeastern Pennsylvania Transportation Authority to defer \$1.0 billion of capital projects from the first six years of its capital plan to the last six years. In conjunction with a rolling twelve-year improvement program developed by the Pennsylvania Department of Transportation, SEPTA programs its capital work on a twelve-year schedule. The agency divides the projects into three

²⁰⁷ Data based on the MBTA's "Summary of Income and Expenses and Net Cost of Service: Calendar Years 1991-1996," as presented in the agency's official statement for its 1996 Series A General Transportation Systems Bonds, p. 18.

timeframes: work to be done in the current year; improvements scheduled for the next five years; and work to be done in the final six years. The current capital plan covers 1997 to 2008 and programs \$4.5 billion in projects.²⁰⁸

Because of substantial cuts in federal assistance, SEPTA has reshaped its capital program. In the previous twelve-year plan, covering 1996 to 2007, the agency had scheduled several projects for the short-term that it has since deferred. The deferred improvements total more than \$920.0 million and include the reconstruction of an elevated rail line, a light rail program, and the rehabilitation of commuter rail cars. SEPTA has moved this work to the second half of the 1997-2008 plan, though based on estimates of future funding, support for the projects will not be available in outlying years either. The agency included them to demonstrate that its capital needs exceed anticipated subsidies.

The loss of federal aid includes a reduction in the amount of funding that SEPTA had expected under a program that diverts federal highway funds to mass transit programs. These funds are distributed by the Pennsylvania Department of Transportation, and based on a 1994 agreement, SEPTA had anticipated that it would receive \$100 million in each 1996, 1997, and 1998 under this program. The Department of Transportation cut the grants substantially, with SEPTA receiving \$10.1 million in 1996. The agency now projects that it will receive a total of \$63.9 million in the 1997-2000 period.²⁰⁹

The elimination of a state bond program has affected SEPTA's capital plan as well. For the first six years of its 1996-2007 program, the agency had anticipated \$70.0 million annually through this initiative for infrastructure improvements, vehicle overhauls, and environmental remediation mandated by the federal government. In 1997, the state eliminated this program. SEPTA has kept these bond-funded projects in the first half of its current capital plan, though they require funding.

Transit projects comprise the majority of the current twelve-year plan. Of the \$4.5 billion in capital work, bus and rail transit account for \$2.3 billion (52.0 percent) of the spending. Commuter rail and multi-modal projects total \$1.3 billion (29.0 percent) and \$858.0 million (19.0 percent), respectively. SEPTA has divided the work into two broad program categories. The agency plans to spend \$2.8 billion on infrastructure improvements and \$1.7 billion on vehicle procurement and rehabilitation.

²⁰⁸ Detail on SEPTA's 1997-2008 capital program, including the sources and amount of funding and discussion of the proposed projects, is based on the agency's *Fiscal Year 1997 Capital Budget & Fiscal Year 1997-2008 Capital Program Proposal*.

²⁰⁹ Data supplied by SEPTA's Budget and Planning Department.

In 1997, SEPTA will undertake \$268.0 million in projects. Approximately \$160.0 million has been programmed for infrastructure improvements and about \$108.0 million has been allocated for the vehicle program. Together, bus and rail transit will account for more than \$170.0 million (64.0 percent) of the spending. Commuter rail projects will cost \$36.5 million (14.0 percent), and multi-modal improvements will total more than \$59.6 million (22.0 percent).

Specific projects in 1997 will include two bus procurements. The first is for 200 buses that comply with ADA requirements and that will replace buses over 12 years of age. SEPTA has programmed \$60.0 million for the project: \$45.0 million in 1997 and \$15.0 million in 1998. In addition, the agency will spend \$20.7 million in 1997 to purchase 70 to 100 alternative-fuel buses for its Frontier Division. Rail transit projects in 1997 will include \$50.0 million to complete the reconstruction of the Frankford elevated line, \$15.0 million for continuation of the rehabilitation of the Market-Frankford subway-elevated line, and \$15.0 million to begin modernization of signals on the Broad Street subway line. Additional funds have been allocated for the lease purchase of commuter rail vehicles, renovation of commuter rail stations, and rehabilitation of other rail transit and commuter rail infrastructure.

Work from 1998 to 2002 will include an additional \$85.0 million to complete the modernization of the signals on the Broad Street subway line and another \$76.0 million to finish infrastructure improvements on the Market-Frankford subway-elevated line. More than \$180.0 million will be used for the lease purchase of capital assets and work will continue on renovating rail transit and commuter rail stations to comply with accessibility requirements. Spending in outlying years will include \$412.0 million to purchase light rail vehicles and to upgrade light rail facilities as well as \$120.0 million to reconstruct the Market elevated line. Several commuter rail extensions are also planned.

Sources of Funds

Funding for SEPTA's capital program comes almost exclusively from external sources. Outside support includes federal aid, a state and local match to the federal grants, and dedicated tax revenue. City Transit provides a small portion of the funds for the program. All federal assistance is provided through ISTEA. Through the mass transit title of the act, SEPTA receives Section 3 and Section 9 formula-based grants and Section 3 discretionary grants. Federal highway flexible funding grants account for the balance of federal support and are distributed by the Pennsylvania Department of Transportation. Federal funds are matched at the state and local level on a 16_-percent and 3_-percent basis, respectively.

In the past, Pennsylvania had provided additional capital funding for SEPTA through a bond program, but as noted, the Governor's proposed budget for 1997 eliminates those funds. SEPTA had anticipated receiving \$70.0 million annually through

the first six years of its capital program and a total of \$780.0 million for the life of the plan. Except for the match to federal dollars, the only current source of state capital assistance is dedicated tax revenue collected under legislation adopted in 1991. That year, the Pennsylvania legislature passed Act 26, which established a public transportation trust fund supported by five taxes. The taxes include a tire tax of \$1.00 on each new tire sold, a motor vehicle lease tax of 3.0 percent of the total value of the lease, and a motor vehicle rental tax of \$2.00 per day. The other taxes are a 6.0 percent periodicals tax and an addition of 12 mills per dollar²¹⁰ to the current realty tax levied against regional public utility companies. Local governments in the SEPTA service area are required to provide a matching contribution of one-thirtieth of the Act 26 funding.

Proceeds from the transportation fund are distributed to transit agencies on a formula basis and are earmarked for infrastructure improvement and maintenance projects. SEPTA receives 70.3 percent of the available funding. Agencies may use a portion of the funds to offset asset maintenance costs that are incurred by their operating divisions.²¹¹ The amount of this asset maintenance subsidy for SEPTA is the greater of 30.0 percent of the available dedicated funding or the level received in 1992 (\$41.7 million). In addition, SEPTA may use Act 26 proceeds to pay for capital lease costs and debt service expenses that are also incurred in its operating budget. The amount of this subsidy varies with the expenses SEPTA incurs.

In the first six years of its 1997-2008 capital plan, SEPTA anticipates that it will receive \$1.4 billion in total funding. External sources will provide nearly all of the funds, accounting for 98.6 percent of the program. Federal aid will total \$763.9 million (53.0 percent of the program) and include \$712.8 million in Section 3 and Section 9 grants and \$51.1 million in federal highway flexible funds. The state will provide \$629.8 million (43.6 percent), including \$159.1 million as the match to the federal funds and \$470.7 million in Act 26 funds. Local government assistance will total \$27.1 million (1.9 percent) and include \$22.2 million as the match to the federal funds and \$4.9 million in Act 26 funds. Internal sources will provide \$20.9 million (1.4 percent).

In 1997, SEPTA has budgeted capital expenditures of \$268.2 million. Federal aid will total \$152.8 million, including \$138.4 million through the mass transit provisions of ISTEA and \$14.4 million through anticipated federal highway flexible funding awards. State support will total \$109.0 million and include \$31.8 million as the match to federal funds and \$77.2 million in dedicated tax proceeds. Local sources will provide \$6.4 million.

²¹⁰ One mill is equal to 1/10th of a cent.

²¹¹ *Pennsylvania Urban Transit Statistical Report: 1994-1995*, Pennsylvania Department of Transportation, pp. 6-7.

The RTA

Program Summary

Reductions in public assistance prompted the Regional Transportation Authority, serving northeastern Illinois, to downsize its capital program in 1996 and upcoming years. In 1996, the agency received \$291.3 million in subsidies, a sharp decline from the \$404.4 million it received in 1995. With the drop in aid, the RTA dramatically cut its spending in 1996, adopting a program of \$360.0 million. Work in 1995 totaled \$549.7 million.²¹² In the 1996-2000 period, capital investments will total \$1.7 billion,²¹³ compared to \$2.6 billion for the 1991-1995 cycle.

Capital spending in the current five-year plan focuses primarily on renovation of the existing system.²¹⁴ In the prior capital plan, the RTA completed the overhaul of the CTA's Green Line and the construction of a new commuter rail line. Projects in the 1996-2000 period will be smaller in scale and include renewal of track and related structures, bridge reconstruction for Metra, and investment in new and upgraded transit and commuter rail vehicles. Development of a handful of passenger stations is planned as well. The RTA has earmarked \$628.1 million for rolling stock, \$821.8 million for infrastructure improvements, and \$212.9 million for miscellaneous projects and contingencies.

Projects for the CTA will comprise the largest element of the 1996-2000 program, totalling \$801.6 million. The agency will spend \$460.9 million on its rail network, \$183.8 million on bus projects, and \$156.9 million on system-wide work. The rolling stock element of the program will cost \$431.1 million and includes \$111.7 million to purchase 593 buses and \$248.8 million to renovate rapid transit cars. Infrastructure improvements of \$226.8 million are planned and will involve upgrading of transit tracks and signals, the construction of two rail stations, and the rehabilitation of repair shops. The balance of the program is \$143.7 million for miscellaneous work and contingencies.

²¹² Unless otherwise noted, information on the sources and amount of funding for the RTA's capital programs is based on data supplied by the agency's Budget & Finance office.

²¹³ *1996 Annual Budget and Five-Year Program*, Appendix A, pp. 1-7.

²¹⁴ Detail on the RTA's 1996-2000 capital program, including the projects planned by the agency's operating divisions, is based on the agency's *1996 Annual Budget and Five-Year Program*. Information was abstracted from the sections on each operating division and Appendix A.

Commuter rail projects during the five-year plan will cost \$662.4 million. The spending will include \$102.6 million for rolling stock, \$502.1 million for infrastructure improvements, and \$57.7 million for miscellaneous work and contingencies. In upgrading its fleet of vehicles, Metra plans to spend \$35.0 million to renovate bi-level and electric cars, \$43.4 million to overhaul locomotives, and 411.2 million to purchase new cab cars. Infrastructure work will involve \$107.2 million for station and parking projects, including the construction of three new stations, and \$64.9 million to renew bridges on the Union Pacific branch. The agency expected to finish the reconstruction of the Chicago Passenger Terminal in 1996, at a cost of \$5.0 million.

Pace will invest \$198.8 million in its capital program. Spending will include \$94.4 million for rolling stock, \$92.9 million on infrastructure projects, and \$11.5 million for miscellaneous work and contingencies. The agency will buy 210 new buses, at a cost of \$53.2 million, and purchase new vehicles for its paratransit and van pool services, at a cost of \$34.0 million. In addition, Pace will spend \$29.2 million to build, expand, and improve garages, and \$4.2 million to build two transportation centers.

Projected capital spending for 1996 was \$340.0 million. The RTA anticipated that it would spend \$128.6 million on rolling stock, \$169.8 million on infrastructure improvements, and \$41.6 million on miscellaneous projects and contingencies. Work for the CTA comprised the largest share of the planned 1996 program, totalling \$183.8 million. The agency was expected to spend \$128.7 million on its rail network, \$25.0 million for its buses, and \$31.3 million on system-wide projects. The primary element of the CTA's program was \$100.9 million to upgrade its fleet of rail cars and buses. A total of \$56.6 million was earmarked for infrastructure work; the balance was set aside for miscellaneous projects and contingencies.

Commuter rail projects in 1996 were anticipated to cost \$127.0 million. Spending included \$17.1 million on the purchase and rehabilitation of rail vehicles, \$97.9 million on infrastructure improvements, and \$13.0 million on miscellaneous work and contingencies. Pace expected to spend \$29.2 million for capital projects in 1996. The agency planned to invest \$17.3 million in infrastructure improvements and \$10.6 million in rolling stock. Miscellaneous work and contingencies were budgeted at \$1.3 million.

Sources of Funds

In financing its capital program, the RTA relies mainly on public support. The federal government provides the largest share of the agency's subsidies. Federal aid includes Section 3 and Section 9 grants and CMAQ and STP awards. Direct state assistance is made through proceeds from a bond program. Illinois provides indirect aid through a public transportation fund that primarily supports RTA operations. The RTA uses a portion of these funds, along with its fifteen-percent share of local sales taxes revenue, for capital projects.

Government subsidies for the capital program declined sharply in 1996. In 1995, the RTA received \$404.4 million in public funds, but in 1996, aid to the agency was \$291.3 million. Federal grants fell from \$314.1 million to \$234.0 million and state bond funds dropped from \$68.3 million to \$24.1 million.

With the loss in subsidies, the RTA reduced its spending from \$549.7 million in 1995 to \$360.0 million in 1996. The capital program for 1996-2000 is scaled down as well. Spending of \$1.7 billion is planned for the period, as opposed to the \$2.6 billion the agency spent from 1991 to 1995. In deciding to downsize its capital program, the RTA has continued its pattern of relying primarily on outside support. The public sector provided 69.3 percent of the funds during the 1992-1996 period.²¹⁵ Grants from the federal government totaled \$1.3 billion, equal to 54.9 percent of the funds. State bond proceeds were \$384.8 million and financed 9.0 percent of the work. The remaining subsidies came from the RTA's discretionary revenue, which is comprised of public transportation fund revenue and the agency's share of local sales tax receipts. This source provided \$166.4 million, accounting for 6.8 percent of the program.

Borrowing provided the largest share of internal revenue during the 1992-1996 period. Debt financing for the capital program includes Strategic Capital Improvement Program (SCIP) bonds. The debt service expenses for these bonds are partially subsidized by state funds. The RTA also issues bonds for which it pays the full debt service costs. Legislation in 1989 authorized the agency to issue \$500.0 million in SCIP bonds and \$500.0 million in non-SCIP bonds. The RTA issued a total of \$555.9 million in bonds from 1992 to 1996, equal to 22.8 percent of the funds for the period. Overall, the agency self-financed 30.7 percent of the work during the cycle. The other source of internal funds was \$191.8 million in surplus operating revenue from the RTA's service boards.

Los Angeles MTA

Program Summary

The Los Angeles Metropolitan Transportation Authority has developed a twenty-year plan for 1995 to 2014 that calls for major investment in the region's transportation network. Traffic congestion and air quality in Los Angeles County are among the worst in the country, and with population and employment expected to grow dramatically by 2015, conditions will degrade significantly absent mitigation efforts. The MTA program outlines a multi-modal approach to resolve the area's transportation problems, including substantial spending on new rail lines. Subway and light rail service has already opened

²¹⁵ Historical data are used for the RTA because data on the sources of funding for the 1996-2000 capital program were not available. Instead of using the 1991-1995 period, which coincides with the agency's capital program cycle, the 1992-1996 period was used. Line-item detail was not available for 1991.

on three lines and the MTA's long-range plan proposes an additional \$15.4 billion for continued work on the system.²¹⁶ When the work is completed, 94.5 miles of urban rail will have been built.²¹⁷ Expenditures on bus, highway, and intermodal projects round out the capital portion of the twenty-year plan.²¹⁸

Transit capital spending for the program will total \$19.0 billion.²¹⁹ As noted, the largest share of the plan is continued work on the urban rail network, at a cost of \$15.4 billion. Bus projects, including the addition of 300 buses to the existing fleet, will cost \$3.6 billion. In 1990, the first leg of the Blue Line, a 22.0-mile route between Los Angeles and Long Beach, opened. The first segment of the Red Line, serving downtown Los Angeles, began operation in January 1993. The 19.5-mile Green Line opened in August 1995 and provides a connection between Norwalk and El Segundo. Projects in the construction or planning phase include several extensions to the Red Line, Blue Line service to Pasadena, and a route serving the San Fernando Valley.²²⁰

Rail service to the core of the Los Angeles County region is being provided primarily through construction of the Red Line. It is being built in stages and when completed will be a six-branch line consisting of 40.2 miles. The first segment is in service and extends 4.4 miles from Union Station to MacArthur Park. Construction costs for this branch were \$1.4 billion. Segment two is opening in phases and will serve two corridors along a 6.7-mile route. The first stretch, along the Wilshire Corridor, opened in 1996; the second portion, along the Vermont/Hollywood Corridor, is scheduled to begin operation in 1999. The MTA has budgeted \$1.6 billion for the second segment. The third segment will contain three routes and 12.2 miles of track. Total construction costs will be \$2.8 billion, with the first leg slated to start operation in 2000. Work on the last three Red Line branches will not begin until the first decade of the next century. These extensions will include a 7.8-mile line running west to the I-405 Freeway, a 3.0-mile route extending east to Whittier/Atlantic, and a 6.0-mile leg serving the San Fernando Valley. Costs for these branches are projected to be \$3.1 billion, \$1.2 billion, and \$1.1

²¹⁶ Data supplied by the Los Angeles MTA, Office of Management and Budget.

²¹⁷ *A Plan for Los Angeles County: Transportation for the 21st Century*, Los Angeles MTA, March 1995, p. 59.

²¹⁸ *Ibid.*, pp. 37-39.

²¹⁹ *Ibid.*, p. 102.

²²⁰ Detail on the completed and proposed rail segments is based on the 20-year transportation plan (*A Plan for Los Angeles County: Transportation for the 21st Century*), pages 58-59; and the Fiscal Year 1997 budget proposal, p. 192 and pp. 198-199.

billion, respectively. Spending on the entire Red Line will total \$11.2 billion.

Another significant rail project is the Blue Line, a route that will connect Pasadena to Long Beach along 36.8 miles of track when it is completed. The first stage, extending south to Long Beach from downtown Los Angeles, is in operation and cost \$877.0 million to build. The 13.5-mile leg to Pasadena is in the early stages of construction and is scheduled to open in 2001. Construction costs for the segment are projected to be \$804.0 million. The Green Line, running from Norwalk to El Segundo along a 19.5-mile route, opened in 1995, at a cost of \$629.0 million to build. In the second decade of the long-range plan, the MTA may undertake other rail projects if the necessary funds become available. The agency has identified six candidates, including an extension of the San Fernando Valley line and a route connecting downtown Los Angeles to the University of Southern California.²²¹

Short-term capital activity includes \$1.1 billion in bus and rail spending for 1997.²²² Nearly all of the expenditures will facilitate continuation of the rail construction projects, with \$956.1 million earmarked towards that end and rail planning. Included in these outlays is \$58.2 million to purchase new rail cars. Through 1999, the MTA will buy 52 light rail cars at a cost of \$201.0 million. The other broad category of capital program activity is bus and minor rail projects. Spending in this area will total \$187.4 million in 1997. Of that amount, \$147.0 million will go towards maintenance and replacement of transit assets, including purchase of 200 buses and upgrades to existing buses.

Sources of Funds

In the ten-year period from 1994 to 2003, the MTA will spend \$8.4 billion on its transit capital program.²²³ The public sector will provide significant support for the projects, funding 73.1 percent of the total costs. The aid is a mix of federal, state, and local subsidies and is financed largely by various taxes. Two half-percent sales taxes collected in Los Angeles County will provide 25.1 percent of the funds during the period. California levies a gasoline tax of 9 cents per gallon and uses the proceeds to fund several transportation programs. In addition, a quarter percent of the state's six-percent retail sales tax is returned to counties primarily for transit purposes. This section

²²¹ *A Plan for Los Angeles County*, p. 7.

²²² Detail on the 1997 capital projects is based on the Fiscal Year 1997 budget proposal, pp. 189-204.

²²³ Information on the sources and amount of funding for the MTA's capital program is based on data supplied by the agency's Office of Management and Budget as well as the 20-year transportation plan, pp. 114-118, and the Fiscal Year 1997 budget proposal, pp. 214-220.

describes the various programs under which the MTA receives support for its rail and bus capital projects.

With its emphasis on building new rail facilities, the MTA's capital program relies heavily on federal assistance. The agency receives federal funds through ISTEA, including Section 9 formulaic aid, Section 3 discretionary grants, and CMAQ and STP awards. Federal support from 1994 to 2003 will total \$2.7 billion and finance 30.6 percent of the spending for the period. The largest share will be grants under Section 3 to fund continued work on the rail network. The MTA's goal is to finance 50.0 percent of its new starts through Section 3, and from 1994 to 2003 it expects to receive \$1.9 billion under this provision. Formula-based aid is projected to total \$513.1 million and CMAQ and STP awards are expected to provide \$247.0 million.

State aid will be \$1.6 billion for the 1994-2003 period, accounting for 12.6 percent of the total funds. The assistance will come from several sources. The Transportation & Planning Development (TP&D) program, funded by taxes on gasoline and diesel fuel as well as a sales tax, provides aid through two provisions. Discretionary grants for specific projects are provided through the Transit Capital Improvements program. The State Assistance Fund (STA) supports operating and capital programs and is allocated based on population and transit operator revenues. The population share is distributed based on the ratio of the county to the total population of the state and the revenue share is allotted based on the total revenue of operators during the prior fiscal year. For the 1994-2003 cycle, the MTA expects to receive a total of \$104.2 million in TP&D funds for capital purposes.

Two state bond programs provide additional support for the MTA's capital projects. In 1990, California voters approved Propositions 108 and 116, which authorized the state to issue \$1.0 billion and \$2.0 billion, respectively, in bonds for rail capital projects. Proposition 108 included two additional state rail bond measures of \$1.0 billion each, though neither passed. The state will provide those funds through other sources. In the 1994-2003 period, the MTA expects to receive \$240.8 million in bond proceeds, including \$43.6 million from Proposition 108 and \$197.2 million from Proposition 116.

Additional state aid includes matching funds for projects financed through CMAQ and STP awards. The MTA projects that it will receive \$346.8 million in matching funds for the 1994-2003 period. Through Article XIX of the California constitution, which allows state gas tax revenue to be used for rail guideway projects, the MTA will receive an estimated \$7.0 million from 1994 to 2003. The agency will also receive \$346.1 million from the state highway account and \$21.5 million from California's Traffic Systems Management (TSM) program, both in support of rail projects.

Local sources will provide the largest share of funds for the 1994-2003 period, with receipts from two sales taxes comprising most of the local portion. Total local aid

during the timespan will be \$3.4 billion, equal to 40.7 percent of the overall funds. In 1980, California voters approved Proposition A, and in 1990, they passed Proposition C, both of which authorized the collection of a half-percent on taxable sales in Los Angeles County. Proceeds from the taxes are allocated according to a set formula and support all the modes of transportation under the MTA's purview. Transit capital projects are covered through a 35.0-percent share of Proposition A receipts earmarked specifically for rail operating and capital purposes as well as through provisions of Proposition C. The 40.0-percent discretionary share, 10.0-percent commuter rail share, and 25.0-percent streets and highways share of Proposition C proceeds will be used for rail projects from 1994 to 2003. A total of \$2.7 billion from Propositions A and C will support the rail component of the MTA's capital program in that period. No sales tax revenue will be used for bus projects during the cycle.

Additional local assistance will be provided through the State Transportation Development Act (TDA), which supports capital and operating programs and is funded through a quarter percent of the six-percent retail sales tax collected state-wide. Proceeds from the quarter percent are returned to each county according to the amount of the tax collected in that county. In the 1994-2003 period, the MTA will use \$415.8 million in TDA funds for its capital program, all for bus projects.

Another form of local aid is benefit assessment districts comprised of properties surrounding the stations of Red Line Segments 1, 2, and 3. Properties in the districts pay an assessment that reflects the benefits of being adjacent to a transit station. Districts are in place for Red Line Segments 1 and 2 and are planned for the North Hollywood branch of Segment 3. Revenue from benefit assessment districts is used to pay for debt service expenses on bonds issued to fund construction of the Red Line. The MTA expects to use \$38.9 million in benefit assessment district revenue for its rail projects in the 1994-2003 period.

Through an agreement with the MTA, the City of Los Angeles is contributing to the costs for the construction of the Red Line and for the development of a multi-modal transportation hub at Union Station. The city pays for 7.0 percent of the costs for Red Line Segments 1, 2, and 3. It will cover 5.0 percent of the costs to build the San Fernando Valley, Westside, and Eastside extensions of the Red Line, which are planned to begin in the first decade of the next century. The city is supplying \$7.7 million for the Union Station hub, which is equal to 5.0 percent of the project's budget. Total Los Angeles funds for the 1994-2003 period will be \$259.2 million.

The two sources of internal funds for the 1994-2003 period are interest earnings and bond proceeds. Interest income for the period will be \$300,000 and provide less than one percent of the total revenue. The MTA will issue \$1.2 billion in bonds, equal to 26.9 percent of the overall funds. The borrowing will be financed entirely by receipts from the Propositions A and C sales taxes. No debt service on capital bonds is incurred in the transit operating budget.

BART

Program Summary

In its 10-year capital program for 1997 to 2006, Bay Area Rapid Transit has outlined spending of \$2.6 billion to renovate and expand its system. Actual capital needs for the agency during the cycle total an estimated \$6.8 billion, but because of limited funding, BART has developed a program that focuses on the most critical projects. Spending in the period will include \$943.3 million to rehabilitate existing facilities and \$1.5 billion to extend the network.²²⁴

In 1972, BART began operations on a four-branch network serving the region around the San Francisco Bay. Facilities on the system are nearing the end of their useful lives, prompting an extensive overhaul program. The largest element of the rehabilitation is the rebuilding of 438 rail vehicles, at a cost of \$454.4 million. Other significant elements of the rebuilding effort include renewal of the agency's original 34 stations as well as the rehabilitation of its maintenance shops and rail yards.

The network itself remained unchanged until the 1990s when BART launched a three-phase program to add additional branches as well as to lengthen the existing routes.²²⁵ In the first sequence of work, BART is expanding into San Mateo County, outside the original three counties the system served. Service in San Mateo County will provide a direct link to San Francisco International Airport along a five-station extension of BART's western branch. The majority of this project will be performed in the 1997-2006 period, though the first station opened in early 1996.

In other phase one work, two stations were added to the end of the northeast branch, at a cost of \$505.7 million. The first leg of a branch to Eastern Alameda County will begin operation in 1997 with the opening of two stations. Costs to build that stretch are \$543.1 million. These projects, including the first station in San Mateo County, were fully funded before the 1997-2006 capital program and are not included in the plan.

²²⁴ Detail on BART's 1997-2006 capital program, including the sources and amount of funding as well as the elements of the plan, is based on data supplied by the agency's Capital Budgets office as well as the *Capital Improvement Program: Fiscal Years 1997-2006*, adopted September 1996.

²²⁵ Detail on BART's extensions program is based on data supplied by the agency's Capital Budgets office and information in the *Capital Improvement Program: Fiscal Years 1997-2006*, pp. 2-4 to 2-5, 3-10, and 4-13 to 4-14; *Short Range Transit Plan: Fiscal Years 1996-2005*, p. 1-3; *FY 1996 Budget Goals & Performance Highlights*, "Message from the General Manager."

The remaining phase one work is planned for the 1997-2006 period and includes completion of the line to San Francisco International Airport. Expected costs for this work are \$1.2 billion. A potential project is the extension of the system into the Warm Springs region of Southern Alameda County. This route would be an expansion of the line running southeast along the San Francisco Bay, though the plans are tentative and BART may not undertake the project during the next decade. Total cost of the extension has been preliminarily estimated at \$540.8 million.

Phases two and three of the network expansion will include additions to the extensions now being built. These projects will entail construction of three new stations along the northeastern corridor and three other stations in Eastern Alameda County. Also planned is a connector to the Metropolitan Oakland International Airport from the Coliseum/Oakland Airport station, at a cost of \$149.3 million. The largest element of the later projects is the construction of five new stations in northwestern Contra Costa County. Funding for the extensions in phases two and three is not presently available and the work may be pushed beyond the 1997-2006 envelope.

Sources of Funds

A mix of external and internal funds will support the 1997-2006 capital program. External sources of revenue during the period will include federal and state subsidies, bridge toll receipts, and funds from the private sector and San Francisco International Airport. Self-generated revenue will include proceeds from bond sales and a transfer of money from BART's operating budget. This section describes the financing for the 10-year plan.

Transit operators within the nine-county metropolitan region around the San Francisco Bay receive federal, state, and bridge toll funds through the Metropolitan Transportation Commission (MTC), the metropolitan planning organization for the area. The financing for BART's capital programs is based on assumptions of the amount of aid that the agency will receive from the MTC. Total spending in the 1997-2006 period is projected to be \$2.6 billion.

External support during the period will be \$2.1 billion, equal to 80.4 percent of the total revenue. Federal aid will total \$1.1 billion and consist primarily of a \$750.0-million grant under Section 3 for the connection to San Francisco International Airport. Overall Section 3 assistance will be \$995.5 million, with \$239.5 million in funds being provided for the rail car renovation program and \$6.0 million being provided for other projects. Other federal funds will include \$52.3 million in Section 9 formula-based awards and \$55.0 million in CMAQ and STP aid. Federal aid will provide 43.1 percent of the financing for the program.

Cuts in Congressional appropriations for mass transportation programs have

affected the timing and amount of the anticipated federal subsidies. Section 3 funds originally expected to be received in 2000 for the rail car renovation program are now projected to be available in 2004. Some of the system renovation projects to be funded under Section 9 will be pushed beyond the life of the 1997-2006 plan. Initially, BART had expected to receive \$140.0 million in Section 9 aid, as opposed to the \$52.3 million it now anticipates.

State and local aid will come from various sources, including the Transportation Capital Improvements (TCI) program. TCI is part of the statewide Transportation Planning & Development (TP&D) program, which is funded through gasoline and diesel fuel taxes and sales tax revenue. The California Transportation Commission awards TCI funds on a competitive basis. BART expects to receive \$44.0 million from the statewide Flexible Congestion Relief (FCR) program. FCR is funded through state and federal gasoline tax revenues and supports capital projects designed to improve the capacity of highways and fixed guideways. The San Mateo County Transit District will provide nearly \$265.0 million to fund the line to San Francisco International Airport and the Warm Springs extension. Other state and local funds will include proceeds from state rail bonds, bridge toll revenue, \$108.0 million from the state for the airport connection, and \$32.0 million from the Transportation Improvement Program. Total state and local aid for the 1997-2006 period will be \$656.2 million, equal to 25.6 percent of the program.

Several miscellaneous sources will support the 1997-2006 capital program as well. Included in this aid is \$200.0 million from San Francisco International Airport for BART service to the airport. The private sector will finance an energy-conversion project, providing \$21.2 million, and a combination of sources will supply \$69.1 million for an automatic train control system. Miscellaneous external funding for the period will total \$299.0 million, which accounts for 11.7 percent of the program.

Self-generated revenue will provide \$501.9 million in revenue for the program, accounting for 19.6 percent of the total funds. The largest element of the internal share will be \$389.8 million in fare-backed borrowing. The bonds are being sold in a series of four issues, the first of which was in 1995. Additional issues will follow in 1998, 1999, and 2000. Debt service costs for the borrowing will be paid through the operating budget, and in order to fund those expenses, BART implemented fare increases in 1995 and 1996. Fares are slated to rise in 1997 as well.

The agency has already incurred debt service expenses from bonds sold in 1990 and 1991 to improve system access facilities and purchase new rail cars. Costs for this borrowing were \$19.5 million in 1994 and \$21.6 million in 1995. Expenses associated with the new bonds were \$9.0 million in 1996 and will climb to \$39.7 million by 2005, at which time total debt service costs will be \$60.6 million. Debt-related expenses were 8.1 percent of all operating funds, including subsidies, in 1994. In 1995 and 1996, the percentage was 8.8 percent and 10.7 percent, respectively; it will grow to 13.0 percent

by 2005.

Cash reserves and revenue transferred from the operating budget together will provide \$91.0 million. Originally, BART had expected to use \$51.0 million in operating funds for the program, but because of a shortfall in external support, the agency now forecasts that it will use \$76.0 million in operating funds. Another \$21.1 million in internal revenue will be used for the Warm Springs extension, though the information supplied by the agency did not specify how these funds will be generated.

Conclusion

When its subsidies were slashed in 1995, the MTA adopted new financial plans for its operating and capital programs in order to close a projected budget gap of \$4.5 billion by 1999. In developing its plans, the agency sought to continue its rebuilding efforts at the pace established in its earlier capital cycles. The resulting program proposes \$11.9 billion in spending, almost \$3.0 billion over the expenditures in the 1992-1996 period. With public assistance declining, the MTA crafted a plan that relies heavily on debt to finance the necessary work. Borrowing for the 1995-1999 cycle accounts for over 40 percent of the program and includes a high level of fare-backed bonds. Debt service expenses financed through the operating budget will climb as a result of the new fare-backed borrowing. The costs will be \$34.8 million in 1997, \$89.7 million in 1998, and \$182.9 million in 1999.

Despite the sharp rise in incremental debt service in 1999, the MTA's financial plan is balanced through that year. The rationale behind developing concurrent operating and capital budgets for the 1995-1999 period was to determine the costs associated with the capital borrowing and to find a way of paying for those expenses. The additional debt service is paid for in the five-year operating plan.

In outlying years, though, debt service costs will grow explosively, climbing to \$311.2 million in 2000 and \$422.1 million in 2001. The growth in debt service expenses will place pressure on the operating budgets of NYC Transit and the commuter railroads, which will face projected revenue shortfalls of \$344.4 million and \$117.4 million, respectively, in 2001. New budget-balancing measures beyond those for the 1995-1999 period will be necessary. Actions could include further fare increases or more service cuts as part of efforts to reduce operating expenses. NYC Transit, for example, may have to raise its fare by twenty-five cents in order to close the expected gap.

The low level of government support for the MTA's capital program has put the agency in a difficult position. The MTA's options for the 1995-1999 period were either to scale back its efforts or to rely heavily on borrowing. Reducing the scope of the program was not feasible because even at the current pace a state of good repair will not be reached for all MTA systems until after 2020. Any reduction in the scope of the program

would delay the achievement of this target even further and could lead to the MTA losing some of the ground it has gained since 1982.

The MTA opted instead to borrow heavily in the 1995-1999 period in order to maintain the pace necessary to bring its systems to a state of good repair around the year 2020. As noted, though, this level of borrowing will place pressure on the operating budgets of NYC Transit and the commuter railroads and could lead to further fare increases or service cuts. Additional fare-backed debt may be necessary after 1999 if new funds are not identified for the MTA's capital program. The agency's debt service expenses would grow even more explosively if more fare-supported bonds are issued. Under the circumstances, it is important to identify alternative means for financing the MTA's capital program. A review of the capital funds for the other agencies discussed above is instructive, both in revealing possible sources of revenue as well as the different level of public support these systems receive.

Two systems that are facing similar issues as the MTA are the RTA and SEPTA. Each agency is involved in an extensive capital renovation program and is dealing with dwindling public assistance. In 1996, for example, the RTA received \$291.3 million in government subsidies, down from \$404.4 million in 1995. Federal aid dropped from \$314.1 million in 1995 to \$234.0 million in 1996 and state bond funds fell to \$24.1 million from \$68.3 million in 1995. In past years, the RTA had used bonds to supplement public funds, but the agency has programmed all of the \$1.0 billion it was authorized to borrow under 1989 legislation. The RTA used \$3.3 million in bond proceeds in 1996, down from \$111.2 million in 1995 and \$125.6 million in 1994. With the losses in revenue, the agency has downsized its capital spending. It spent \$360.0 million in 1996, down from \$549.7 million in 1995. Spending in the 1996-2000 period will be \$1.7 billion, compared to \$2.6 billion from 1991 to 1995.

Cuts in public aid have impacted SEPTA's capital program as well. In its 1996-2007 twelve-year plan, the agency anticipated \$1.4 billion in federal subsidies from 1997 to 2001, but in its 1997-2008 plan, SEPTA revised its estimates to \$810.9 million for the period. (These totals include the state and local matching contributions.) The discontinuance of a state bond program eliminated another \$350.0 million in expected funds over the five years. With the cuts in aid, SEPTA reduced its projected 1997-2001 spending by nearly \$1.0 billion, from \$2.1 billion to \$1.2 billion.

In adjusting for diminished external support for their capital programs, the RTA and SEPTA have taken a different approach from the MTA's. Neither increased the level of self-funding. In fact, with the exception of a small amount of City Transit operating revenue, SEPTA does not use internal funds for its capital projects. The RTA has used both bonds and money from its service boards, but the agency does not rely as heavily on own-source revenue as the MTA. In the 1992-1996 period, for example, the RTA self-financed 30.7 percent of its capital work, with bonds providing 22.8 percent of the funds. During the same period, the MTA used bonds to pay for 33.0 percent of its

projects and internally funded a total of 46.4 percent of its work. Legislation does limit the amount of bonds the RTA may issue, but the MTA's borrowing is subject to a legislative cap as well and the agency has been authorized to borrow much more extensively than its counterpart.

Another notable difference between the MTA and the RTA and SEPTA is that the other two agencies do not use fare revenue to pay for debt service on capital bonds. Costs associated with the RTA's borrowing are covered by the agency itself and are not incurred by the service boards. The expenses are paid through the local sales tax revenue that supports the agency as well as through allocations from the state's Public Transportation Fund. For the most part, SEPTA does not borrow to support its capital program, though it has issued bonds for some projects. Debt service is paid through proceeds from the Act 26 dedicated taxes.

An argument can be made for the MTA's approach to financing its 1995-1999 capital program. Through its use of bonds and other internal funds, the agency is able to continue with necessary capital projects despite the cuts in outside assistance. SEPTA, on the other hand, has deferred important work. If the agency is able to use FTA aid for its vehicle overhaul program, it will end up trading one federally funded project for another. SEPTA is exploring new borrowing options for its capital work, including leveraging Act 26 proceeds, which are now received as a direct grant. If the agency had a history of self-funding similar to the MTA's, it would be in a better position to continue with critical projects.

In future years, though, the MTA's reliance on fare-backed debt could be a mixed blessing. The borrowing enables the agency to stay on schedule to bring its entire system to a state of good repair around the year 2020. In 2000, though, NYC Transit and the commuter railroads will begin to run operating deficits unless budget-balancing measures are taken. The gaps are largely attributable to the debt service costs associated with the new fare-backed bonds. In 2000, NYC Transit will face a revenue shortfall of \$234.4 million; that year, it will owe \$190.3 million in debt service expenses on the fare-backed bonds. The commuter railroads will incur a budget gap of \$62.4 million in 2000. Their debt service costs for the fare-backed bonds will be \$120.9 million that year. In order to close the deficits, the MTA may have to raise fares substantially as it did in 1995 or reduce expenses through additional service cuts.

The debt proposed for the 1995-1999 period could be unwieldy as well. Though the financial plan for the period is balanced, an economic downturn could depress the MTA's operating revenue. A slowdown could flatten ridership and fare collections, as well as dedicated tax receipts. In the early 1990s, for example, the downturn in the real estate market seriously eroded proceeds from the various real estate taxes. The New York City taxes provided \$84.6 million for NYC Transit in 1990 and \$37.5 million in 1991. In the middle of 1991, the agency forecast that it would receive \$51.1 million from the taxes in 1993, but a year later, it projected receipts of \$34.4 million in 1993. The

actual subsidy was \$36.7 million.²²⁶ Current forecasts anticipate that the MTA's tax-supported subsidies will climb in upcoming years, but as history shows, the economic climate can change quickly and unexpectedly. Since all of NYC Transit's and the commuter railroads' operating funds will secure the fare-backed debt, lower-than-expected revenue from any one source could force the MTA to raise fares or cut service in order to meet its obligations.

If the MTA is to fulfill its capital needs without placing undue pressure on its operations, a new approach for funding capital work after 1999 is necessary. The MBTA, the Los Angeles MTA, and BART offer clues for finding a better-balanced funding pattern. In the ideal world, the MTA's capital program would be financed along the lines of the MBTA's. Total capital spending for the MBTA in the 1996-2000 period will be \$2.6 billion and the agency will use bonds to pay for over 55.0 percent of the work. The MBTA is able to rely so heavily on borrowing because its debt service costs are covered almost fully through subsidies. Massachusetts pays for 90.0 percent of the agency's debt service costs as well as \$3.0 million per year of the debt service on bonds issued by the MTA, the MBTA's predecessor. Any unpaid debt service is effectively covered through assessments on the municipalities in the MBTA region as well as a subsidy from Massachusetts that pays for any operating deficit that remains after receipt of all other subsidies.

The debt service assistance enables the MBTA to undertake several critical projects, including expansion of the system into new areas. In the 1995-1999 period, for example, the agency plans \$1.5 billion in network extensions, including completion of a commuter rail link between Framingham and Worcester. Restoration of commuter rail service between Boston and southeastern Massachusetts is planned as well. The projects are part of a broader state vision to develop a seamless transportation system in eastern Massachusetts.

In providing such debt service assistance, Massachusetts is demonstrating a strong commitment to public transportation. Ideally, New York State would provide the same level of support, but considering the magnitude of the MTA's capital needs, it is unrealistic to expect the state to finance 90.0 percent of the agency's debt service costs. New York State currently pays debt service on bonds issued for prior capital programs, with payments expected to average a little more than \$165.5 million in upcoming years. Whether New York can carry more debt service is questionable because of concerns that have been raised about the \$30.5 billion in bonds that the state currently has outstanding. In addition, New York has the second lowest bond rating in the country.²²⁷

²²⁶ Annual Submission to the New York State Department of Transportation pursuant to Section 17-A of the New York State Transportation Law, MTA, 1991, p. B-6; 1992, p. B-5; 1993, p. I-A-11.

²²⁷ Michael Slackman, "Critics Raise Red Flags on \$1.75B Bond Act," *New York*

A more realistic approach would be to follow the example of BART and the Los Angeles MTA.

In funding its system renovation work for the 1997-2006 period, BART plans to rely primarily on internal revenue. Costs for the rehabilitation program will total \$1.1 billion and BART will supply \$548.9 million or 52.0 percent of the funds. Fare-backed borrowing, totalling \$389.8 million, will provide the largest share of the internal funds. Other sources of self-generated funds will include \$76.0 million in operating revenue and \$15.0 million in reserve revenue. The pattern is similar to how the MTA is financing its 1995-1999 capital program. In paying for 59 percent of the work, though, the MTA is assuming a greater burden than its counterpart. If the MTA's program were financed along the same lines as BART's, with internal sources providing 52.0 percent of the funds, the MTA would receive an additional \$700 million in outside support. This level of assistance would enable the agency to reduce substantially its reliance on fare-backed debt and to lessen the associated debt service costs.

Also notable is that the initial level of public support for BART's system renovation program was lower than it is currently. Through discussions with the Metropolitan Transportation Commission (MTC), which allocates transit subsidies to operators within the San Francisco metropolitan region, BART was able to gain another \$78.0 million in assistance. The additional funds are 8.3 percent of the original \$943.3 million the agency planned to spend on its capital overhaul work. An increase of \$700 million to the MTA would be 6 percent of the agency's planned spending for the 1995-1999 period. Through its increased support, the MTC has demonstrated a slightly stronger commitment to its chief transit network than New York has for its centerpiece system. If this resolve were mirrored, the MTA would benefit substantially.

Direct comparisons between the New York MTA and the Los Angeles MTA are difficult because the focus in Los Angeles is on building a rail transit network. New systems receive substantially more support than older ones, as the program in Los Angeles demonstrates. Public subsidies will fund over 70 percent of the L.A. MTA's capital program during the 1995-2003 period. Aid will come from a variety of sources, including the federal government and several state and local programs. Despite the different nature of the two agencies' capital activity, Los Angeles offers some clues for better funding the MTA's rebuilding efforts.

Especially promising are the benefit assessment districts that the Los Angeles MTA is using to fund construction of segments of the MetroRail Red Line. Clearly, since the entire New York MTA region is already taxed through various measures, the MTA could not set up districts encompassing its entire system. The agency could, however, use these districts to help pay for renovating its major subway stations and key

Newsday, October 30, 1996, pp. A6 and A32.

commuter rail hubs. Another approach would be to follow California's lead in adding a quarter-percent to the New York State sales tax and dedicating the proceeds to mass transportation throughout the state. Revenue would be returned to counties according to how much is collected in each county. If collections in the MTA service area were the same as they are for the current quarter-percent sales tax that supports the agency's operations, collections in the region would be over \$300 million per year. Actual receipts may be lower depending on how the additional tax affects retail sales in the region. The MTA's share of the revenue would be 90 percent if the funds are allocated according to the formula used to distribute the downstate portion of the MMTOA account.

In addition, the Los Angeles MTA is receiving state support through California's match of certain CMAQ and STP awards, state highway revenue, and the California TSM program. Together, these sources will provide 8.5 percent of the revenue for the MTA's 1994-2003 capital spending. If the New York MTA received similar support from New York, the agency would gain \$1 billion in public funds for its 1995-1999 capital program.

With the exception of the RTA, which is dealing with similar issues as the MTA, the other systems offer examples of how the MTA's capital program could be better funded through outside sources. Identifying new forms of revenue for the agency's rebuilding efforts is critical considering the amount of fare-backed debt that could be necessary after the current plan. NYC Transit and the commuter railroads are already paying a large amount of debt service through their operating budgets. As these costs rise in the future, the repercussions on the agencies' ability to maintain adequate levels of service could be severe. Whether NYC Transit and the commuter railroads can carry much more debt service is a concern as well. Substantial fare increases may be needed if the agencies are to meet their obligations. A new approach, whether in the form of general subsidies, new dedicated taxes, or more creative financing, is necessary. Specific recommendations follow in the next section.

CONCLUSION

Introduction

A variety of measures could be used to generate additional funds for the MTA's operating and capital programs. The most straightforward approach is for New York State to provide more direct aid. Of the systems studied, the MTA receives the lowest level of state support. New York funds only a small percentage of the agency's operating budget and will provide virtually no aid for the MTA's 1995-1999 capital program. In order to stabilize the MTA's finances over the long term, however, New York would have to dramatically increase its subsidies. The state has not shown a willingness in recent years to provide additional aid, and in fact, it has used tax revenue earmarked for the MTA to fund its annual operating grant to the agency. Modest measures to increase state support are more likely to be adopted and are discussed as one alternative for generating funds for the MTA.

If New York remains unwilling to increase its support for the MTA, other revenue-generating measures would be necessary. These options would require raising taxes in some form. New or increased taxes are not the ideal or preferred approach for resolving the MTA's financial difficulties. Continued investment in the MTA, however, is critical to the economic prosperity of the downstate metropolitan region and the state as a whole. As long as New York fails to provide appropriate support for the agency, other measures are necessary. Additional fare increases or service reductions are not feasible considering that fares are already at a high level and that the quality of service has declined noticeably because of cuts in 1995.

The only other means for generating adequate funds for the MTA would be to implement some form of new or increased taxes. A carefully structured program could minimize the amount of each specific tax and spread the burden among different groups by combining various techniques. Four alternatives in lieu of increased state aid are discussed below.

The first option is implementing a statewide quarter-percent sales tax to support public transportation throughout New York. The proceeds would be returned to counties according to the amount collected within their jurisdictions. This surcharge would raise more than \$270 million annually in additional funds for the MTA in upcoming years. A second alternative is to convert the motor vehicle registration fee in New York to a value-based tax. This approach would establish a growing pool of revenue for mass transportation, though implementing this tax would be difficult since previous efforts have failed. A third measure is to create special tax districts to finance the reconstruction of major transit and commuter rail stations. Lastly, various innovative financing techniques could provide additional funds for the MTA's capital program. An example is the sale-leaseback of such assets as rolling stock. The MTA would purchase new vehicles, recoup its investment by selling the assets to a foreign company, and

then reacquire them through a lease-purchase agreement. The lease costs would be lower than the purchase price because of tax benefits that the foreign company would gain from depreciating the vehicles. The MTA's savings could range from 5.0 percent to 5.8 percent of the acquisition costs. This section describes in detail the various options for raising additional funds for the MTA.

Alternatives

Increased State Subsidies

Many of the MTA's financial difficulties would be alleviated if New York State better supported the agency. New York funds only a small percentage of the MTA's operating budget and will provide virtually no aid for the agency's 1995-1999 capital program. Other states provide significantly more assistance to their chief public transportation systems. Massachusetts, for example, funds approximately 30 percent of the MBTA's operating budget and directly pays for 90 percent of the debt service on the agency's capital program bonds. An economic downturn in Pennsylvania has undermined the state's ability to subsidize SEPTA, but the agency receives nearly 25 percent of its operating funds and over 10 percent of its capital funds from the state. The contrast to New York is sharp.

New York's annual operating grant to the MTA has remained steady at approximately \$190 million in recent years, an amount that covers less than 5 percent of the agency's operating expenses. Most significantly, New York has in effect cut its subsidy to NYC Transit since 1994 by funding a portion of its grant through tax revenue dedicated for the agency's operations. In the period from 1994 to 1998, the state will reduce the pool of money available to NYC Transit by \$602 million.

State aid to the MBTA has declined as well, reflecting a mandate from Massachusetts that the agency cut its expenses. General assistance to the MBTA reached a high of \$301.9 million in 1992 and fell to \$229.8 million by 1995. Notably, though, support to the MBTA in actual dollars is higher than aid to the MTA, despite the substantial difference in the size of the agencies' operating budgets. Massachusetts also provides funds on an as-needed basis. State aid to SEPTA has increased as the agency's expenses have grown. Pennsylvania froze its 1997 grant at the 1996 level, but increased its subsidy from \$166.5 million in 1994 to \$171.5 million in 1995 and to \$176.5 million in 1996.

Inadequate state funding has especially affected the MTA's capital program. In the 1992-1996 period, New York provided no support, after financing 20 percent and 11 percent, respectively, of the 1982-1986 and 1987-1991 plans. The state will provide less than 1 percent of the funds for the 1995-1999 program. In order to fill the gap created by the low level of state aid, the MTA will borrow extensively. The agency will issue \$5.1 billion in bonds between 1995 and 1999, financing more than 40 percent of

its five-year program. The MBTA is the only other system to rely so heavily on borrowing. In the 1996-2000 period, the agency will use bonds to finance nearly 60 percent of its capital work, but because Massachusetts covers so much of the MBTA's debt service expenses, this borrowing is essentially a state bond program. The Los Angeles MTA and BART receive capital aid through state-supported debt and also benefit from other state initiatives. Though Pennsylvania has eliminated a state bond program that had helped to fund SEPTA's capital work, the state provides a 16_- percent match to federal capital grants. Between 1997 and 2002, this match will total \$148.5 million, equal to 11 percent of SEPTA's projected spending for the period.

If New York were to increase its support to a level similar to the other states studied, the MTA would gain substantially. Ideally, the MTA would receive the same level of aid as the MBTA does, but considering the amount of the MTA's needs, it is unrealistic to expect New York to fund the agency to that extent. The state's 1995 operating grant, for example, would have been \$1.3 billion if it had funded 30 percent of the MTA's operating budget. In addition, since New York has \$30.5 billion in outstanding bonds, it is questionable whether the state can borrow extensively on behalf of the MTA or pay a large share of the agency's debt service expenses. If the MTA is to secure its finances on a long-term basis, however, additional aid from New York is critical and other options exist for supporting the agency at a more modest level.

In funding the MTA's operating budget, New York should not use dedicated tax revenue to pay for its annual grant to the agency. Using the proceeds in effect cuts the state's annual subsidy and undermines the purpose of establishing the taxes, which was to provide a stable source of revenue for the MTA. NYC Transit will lose more than \$600 million in funds between 1994 and 1998 as a result of the state's action.

Even with full funding from the taxes, however, the MTA's cumulative operating deficit from 1995-1999 would have been \$1.3 billion. New York could have closed this gap by providing an additional \$260 million per year in state aid. The state's total grant under this scenario would be nearly \$450 million annually, equal to approximately 10 percent of the MTA's operating budget. Asking New York to support the MTA at this level is reasonable considering the amount of aid that other states provide to their chief public transportation systems. Pennsylvania funds nearly 25 percent of SEPTA's operating budget and Massachusetts, through its general grant, pays for about 30 percent of the MBTA's expenses.

Another alternative is for New York to increase its annual grant at the rate of inflation. The grant has remained constant at approximately \$190 million in recent years, as opposed to Pennsylvania's subsidy to SEPTA, which has grown slightly. General assistance from Massachusetts to the MBTA is provided on an as-needed basis, though as noted, the grant has declined in the last few years because the agency has cut its expenses to comply with a state mandate. When the MBTA's costs begin to rise again, the amount of state aid will increase as well. The decision in New York not to

link the state's grant to inflation has contributed to the MTA's struggles to balance its budget.

If New York's subsidy were tied to inflation, the grant from New York City would also increase since it matches the state's contribution dollar-for-dollar. The amount of the additional aid that the MTA would receive depends on from what point the grants are inflated. One option would have been to adjust the subsidies beginning in 1995, the first year of the current five-year financial plan. Total aid from New York State and New York City was \$345 million in 1994; based on an inflation rate of 2.5 percent, this amount would have increased by \$8.7 million in 1995. Over the five-year period from 1995 to 1999, the MTA would have received an additional \$142.6 million in state and city subsidies.²²⁸ The amount of aid would increase more rapidly in outlying years, though the growth would not be sufficient to balance the MTA's operating budget unless the grants are adjusted beginning at the point they were frozen.

Options for increasing New York State's support for the MTA's capital program include the state funding a fixed percentage of the program or the state providing a matching contribution to federal subsidies. Additional state aid would be used to reduce the amount of fare-backed borrowing that the MTA uses to finance its capital projects. In the 1996-1999 period, for example, the agency plans to issue \$2.5 billion in fare-backed bonds. If the MTA were to cut this level of borrowing, its debt service costs would decrease, freeing additional money for the agency's operating budget.

In the MTA's 1982-1986 capital program, New York provided \$1.5 billion in funds, equal to 20 percent of the spending. Support at this level in the \$12-billion 1995-1999 plan would enable the MTA to eliminate its fare-backed borrowing for the period. It is questionable, however, if New York is willing or able to provide \$2.4 billion in funds. A more realistic option is for the state to finance 10 percent of the program, as it did for the 1987-1991 plan. The \$1.4 billion in aid would still enable the MTA to cut significantly the amount of fare-supported debt needed to finance its projects.

If New York were to provide a matching contribution to federal subsidies, it could adopt the approach used in Pennsylvania, where the state provides a 16_- percent match to SEPTA's federal aid. The MTA projects that it will receive \$2.9 billion in federal transit aid for its 1995-1999 capital program. At a 16_-percent match, New York would provide an additional \$483.4 million in support for the program. This level of assistance would be equivalent to 4 percent of the MTA's expected spending.

²²⁸ Inflation rates for 1995 to 1997 were taken from the Citizens Budget Commission's *Five-Year Pocket Summary of New York City and New York State Finances*, Fiscal Year 1996-1997. The actual inflation rate in New York was 2.5 percent in 1995; inflation rates of 2.9 percent and 2.7 percent are projected for 1996 and 1997, respectively. An inflation rate of 2.5 percent was used for 1998 and 1999.

Of the systems studied, the MTA receives the lowest level of state operating and capital subsidies. Ideally, New York would dramatically increase its support for the MTA, reflecting the agency's importance to the state and the downstate metropolitan region. The alternatives described here present modest increases in state aid that would still benefit the MTA substantially. Other measures may be necessary as well. In recent years, New York has not shown a willingness to provide additional support, and as noted, it has used tax revenue earmarked for the MTA to fund its annual operating grant to the agency. In addition, the MTA's financial needs would not be fully met by small increases in state assistance. More aggressive alternatives are discussed below.

Quarter-Percent Sales Tax

Substantial revenue for the MTA could be raised through an expansion of the quarter-percent sales tax surcharge collected within the MTA region. A statewide quarter-percent surcharge would be established and dedicated for public transportation. Along the lines of a similar program in California, the proceeds would be returned to counties according to the amount collected within their jurisdictions. The counties would distribute their share to public transportation agencies on a formula basis. The MTA would receive ninety percent of the receipts collected within its service district, echoing how the downstate portion of the MMTOA account is allocated. Counties without a public transportation system could use the funds for roads and bridges.

Forecasts project that the quarter-percent sales tax surcharge in the MTA region will generate over \$300 million annually in upcoming years.²²⁹ Since an additional quarter-percent would have minimal impact on sales, the expanded surcharge would generate approximately the same revenue. If the MTA receives 90 percent of the additional proceeds, the agency's share would exceed \$270 million per year.²³⁰ The legislation implementing the tax would prescribe if the funds are to be used for operating purposes, capital work, or both. In any scenario, the MTA would gain substantially. In the 1995-1999 period, for example, the additional revenue would have enabled the MTA to close its projected budget deficit without service cuts, assuming full funding from the MMTOA account and no incremental debt service costs from new fare-backed borrowing. The tax would stabilize the agency's finances in the future as well since

²²⁹ *Final Installment of Materials Being Submitted in Fulfillment of the Requirements of Section 17-A of the State Transportation Law*, MTA, October 1996, p. 13.

²³⁰ The MTA projects that current quarter-percent sales tax surcharge will generate nearly \$300 million in 1996, over \$310 million in 1997, and approximately \$325 million in 1998. Adding an additional quarter-percent to the surcharge would raise \$270 million, \$279 million, and \$292.5 million, respectively, for the MTA, assuming that the agency receives 90 percent of the proceeds.

inflation would increase both the MTA's operating costs and sales tax collections at approximately the same rate. Alternatively, if the funds support capital projects, the MTA would be able to borrow against the proceeds in its 2000-2004 program and reduce the amount of fare-backed debt.

In today's political climate, the trend is towards lower rather than higher taxes. Any proposal to raise taxes will be contentious. The quarter-percent sales tax surcharge, however, could be a way to balance the anti-tax sentiment with the need to raise additional funds for the MTA and other public transportation agencies in New York State. A report prepared in 1982 on tax alternatives for the MTA noted that of the possibilities the political acceptability of increased sales taxes is high.²³¹ An additional quarter-percent sales tax would have a small impact on the final price of goods; the surcharge would add twenty-five cents to the cost of a one-hundred dollar purchase. Administering the tax would be easy as well since it would be collected with the current sales tax and returned to counties with their share of sales tax proceeds. In any discussion on raising additional funds for public transportation in New York State, the surcharge merits serious consideration.

Ad Valorem Motor Vehicle Registration Tax

The motor vehicle registration fee in New York State is based on the weight of vehicles and generated approximately \$470 million in State Fiscal Year 1996. None of the revenue directly supports mass transportation programs. There is little growth in collections over time because the weight of vehicles remains relatively unchanged from year to year. An alternative method would be to assess a flat-rate tax against the value of vehicles. This approach, referred to as an ad valorem tax, has been proposed several times in the past, but has never been adopted. A handful of states, including California and Washington, use an ad valorem motor vehicle tax.

An ad valorem tax is a flexible tool for generating revenue and is another option for raising money for mass transportation programs. The rate could be set to be revenue neutral initially, with receipts in the first year equaling the amount collected under the weight-based fee and then growing in time as prices rise. An alternative approach is to charge a rate that would generate additional funds immediately. After implementation of an ad valorem tax, an amount equal to the proceeds collected under the current system would be reserved for existing programs. Any revenue above this amount would be allocated to mass transportation.

One of the attractive features of a value-based tax is that the rate could vary by region. In downstate New York, where mass transportation needs are the greatest, a surcharge could be imposed and earmarked for the MTA and other agencies. In order to

²³¹ *Tax Alternatives for the Metropolitan Transportation Authority*, deSeve Economics Associates, February 1982, p. 32.

discourage people from purchasing vehicles in areas with lower taxes, the rate that is assessed could be based on where buyers live. Revenue could be distributed along the same lines as the MMTOA funds, with ninety percent of the receipts going to the MTA. As with the quarter-percent sales tax increase, the funds would be suitable for either operating or capital purposes or both.

Another selling point for an ad valorem tax is that it would redress the regressivity of the current fee. Less affluent people generally pay more under a weight-based system because they own older, heavier vehicles. Their payments would be lower under a value-based system, reflecting the reduced worth of their vehicles. The burden would be shifted to more affluent owners of newer cars. Another benefit of an ad valorem tax is that it is deductible on federal income tax returns, which offsets the higher registration costs that some groups would incur.

Although a value-based motor vehicle tax has several positive features, converting to the system will be difficult. Previous attempts to implement such a tax have failed. The automobile industry would lobby against the tax on the grounds that it would slow sales of new vehicles. This opposition could be strong enough to derail the proposal. Environmental interests may object as well since the current fee penalizes older and more-polluting vehicles. An ad valorem tax would have the opposite effect. Overcoming these and other political obstacles will be difficult.

Nonetheless, another attempt at implementing an ad valorem tax is worthwhile. The tax would raise much-needed revenue for mass transportation programs and is used in other states. In Washington State, for example, fifty percent of the proceeds is dedicated for transit.²³² The tax could be crafted to be as politically acceptable as possible. The most important step is to gain acceptance for some form of the tax. One approach would be to set a rate that is revenue neutral in the first few years of the program. In this scenario, the rate would decrease over time to maintain collections at \$470 million annually. This structure could overcome the objections of the automobile industry since the vehicle tax on new cars would remain constant. After a specified period of time, the rate would gradually increase to a pre-determined level that would provide for growth in the revenue. A further measure could be to assess the effects of the tax on sales, allowing for a return to the weight-based fee if the tax is shown to depress sales of new vehicles. Various schemes could be devised to enhance the acceptability of an ad valorem tax. It is a more equitable way of taxing motor vehicles and has the potential to provide critical funding for mass transportation.

Special Taxation Districts

In Los Angeles, special districts support the construction of the Los Angeles

²³² *Financing Transportation for the New York Region*, Regional Plan Association, October 1991, p. 22.

MTA's Metro Red Line. Businesses within the vicinity of a transit station pay an assessment that reflects the benefit of being near the station. A similar approach in New York could finance a station reconstruction program for the MTA. Districts would have to be established selectively since system-wide implementation would effectively impose a new tax within the entire MTA region.

Two types of districts are possible. The first class is analogous to the benefit assessment districts used by the Los Angeles MTA. In neighborhoods surrounding targeted stations, businesses would be billed an assessment separate from their current property taxes. The theory behind these fees is that the proximity to transit access generates additional sales or other benefits for the businesses. In this scheme, owners pay for the privilege of being near stations. A similar arrangement has become prevalent in New York City in recent years. Throughout the city, businesses have formed voluntary associations referred to as business improvement districts. Members pay a fee that is used to finance services beyond those provided by New York City. The revenue covers the cost of security, sanitation, lighting, promotional campaigns, and other services. Establishing transportation districts would be an extension of this concept.

A second approach would be to use a technique referred to as tax increment financing. This method differs from benefit assessment districts in that businesses are not charged an assessment. A portion of existing property tax revenue is instead allocated for transportation programs under the assumption that transit stations in an area increase the value of land. An apt example is the Lincoln Center neighborhood on Manhattan's Upper West Side. Four major developments have been built in the district in recent years. Part of the lure of the area is the presence of two subway stations. Without these stations, the neighborhood could not have supported the development and likely would not have drawn the interest of developers since their buildings would have been less attractive to potential tenants. The proximity to transit access has a two-fold effect. It intrinsically adds to property value since it creates a market for a broad range of activities. In addition, it helps to generate new development, which boosts land value as well.

Implementing tax increment financing is not as straightforward as assessing a property tax surcharge. Some method would be necessary to determine the portion of property tax revenue to allocate for transit programs. One approach is to take the amount of property taxes collected in the year before tax increment financing is established and to set this figure as the base amount of proceeds that will go into the city's general funds. Any incremental revenue would be used for transit purposes. The flaw in this approach is that it credits all increases in land value to the presence of transit stations. The city could generate additional property tax revenue for general purposes only by raising tax rates. An alternative measure would be to impute a value associated with access to transit stations. It could be determined, for example, that \$10,000 of a property's value is attributable to transit access. Taxes on this \$10,000

would be allocated to the transportation program. Determining this amount would be difficult, however, and could be accomplished only through complicated modeling. In addition, any figure would be an inexact estimate.

Establishing special districts is a promising alternative for financing the MTA's station reconstruction efforts. Rebuilding stations is one of the costliest elements of the agency's capital program. The expense of renovating the 72nd Street and Broadway station in Manhattan has delayed this critically needed project. Several new buildings have been put up in the area in recent years or are planned. This development has added to the extreme overcrowding at the station. Implementing some form of special taxation would be the equivalent of imposing development impact fees, another approach that is gaining popularity. Special taxation would also charge preexisting uses for the privilege of being in an easily accessible area. Another example is the neighborhood around the Atlantic Avenue subway and commuter rail stations in Brooklyn. This area is a major transportation hub and the site of a new large-scale retail project. The confluence of several subway lines and the Long Island Rail Road was integral in attracting this development. A special district would be justified and could help to finance a current project to rebuild the Atlantic Avenue subway station.

Innovative Financing

Several transit agencies have adopted innovative approaches in recent years for financing their capital programs. The Federal Transit Administration, in promoting the widespread use of these techniques, has developed a handbook describing the potential alternatives. In addition, the agency has established a new program under which states establish banks that lend money for road and transit infrastructure projects. Not all of the methods are appropriate for the MTA, though the agency would benefit from a type of lease-purchase arrangement that it and other systems have used. It might also gain if New York State were to set up an infrastructure bank.

An innovative financing technique that the MTA has used in the past and could continue to benefit from is cross-border or domestic leasing of capital assets. In cross-border or domestic leasing transactions, a transit property sells or leases capital assets to a private investor and reacquires the assets through a lease-purchase agreement. The lease costs that the transit property pays are less than they would ordinarily be because the private investor gains tax savings through the acquisition of the assets. The investor is able to claim tax deductions for the depreciation of the assets and for interest paid pursuant to borrowing it uses to finance the acquisition. The investor passes a portion of these savings on to the transit property in the form of reduced lease costs.

Through this series of transactions, the transit property generates net income that is the difference of the sales proceeds and the amount of the lease costs. At the time of the transaction, the transit property can prepay the lease by depositing an

amount of cash equal to the full-term costs of the lease-purchase contract. The cash deposited is the proceeds from the sale of the assets to the private investor. The sales proceeds exceed the lease costs because of the tax savings passed on to the transit property. The transit property's upfront benefit is the difference between the cash inflows and cash outlays.²³³

The amount of the transit property's net benefit depends on whether the transaction is a cross-border or domestic lease. In a cross-border lease, the transit property sells capital assets to a foreign investor, which is able to gain tax savings that are no longer available to domestic companies because of changes to U.S. tax law. The return ranges from between 3 and 7 percent of the total transaction size. In a domestic lease, the transit property leases assets to a domestic investor, which is still able to gain tax savings under U.S. tax law. The return ranged from 7 to 10 percent in the past, but the gain may be less in the future because of recent changes in tax law.²³⁴

The MTA has already made use of tax benefit transfers. In 1996, for example, the MTA Board approved a lease-leaseback transaction involving a maintenance facility for the Long Island Rail Road. This transaction will generate about \$24 million in income.²³⁵

Continued use of tax benefit transfers could yield substantial gains for the MTA in the 1995-1999 capital program. One of the largest elements of the plan is the purchase of new rail vehicles and buses. NYC Transit, for example, plans to spend \$1.9 billion to acquire subway cars. If the agency is able to arrange a sale-leaseback agreement for these cars, it could generate between \$57 million and \$133 million in income. Tax benefit transfer transactions would not typically yield such gains. Through the use of this financing technique, though, the MTA could raise much-needed funds for its capital program, and the agency's 1995-1999 capital program anticipates funds from further tax benefit transfer transactions.

Establishing an infrastructure bank in New York State could benefit the MTA as well. In 1995, the FTA began a pilot program under which ten states were designated to use a portion of their federal highway and transit grants to set up banks to provide loans for capital work. Two accounts are created in the bank: one for highway projects and one for transit projects. States are permitted to deposit up to 10.0 percent of their grants in each account, though the funds are deposited over a period of five years. The program requires that participating states provide a matching contribution equal to equal

²³³ The description of cross-border and domestic leasing transactions is based on information provided by the MTA's Capital Program Management department and a booklet on innovative financing techniques published by the Federal Transit Administration.

²³⁴ *Ibid.*

²³⁵ *Minutes to the October 3, 1996, MTA Board Meeting*, MTA, November 1996, p. 6.

to 25.0 percent of the federal funds. States use the revenue to make loans that help finance projects.

New York is not currently part of the infrastructure bank program, but it has applied to establish a bank. The FTA will designate additional states for the program in April 1997. In 1996, New York would have been eligible to allocate nearly \$70 million for a transit account.²³⁶ As noted, though, the funds would be deposited over a period of five years. Loans could be made for a variety of projects, including the acquisition of rolling stock. The bank would ideally be used for revenue-generating projects. In California, for example, a \$35.0 million loan is being made to help finance the reconstruction of the San Francisco Ferry Terminal. The loan will be repaid through profits from retail space.

One of the potential drawbacks of an infrastructure bank is that transit agencies have to give up a portion of their annual grants. In the case of New York, for example, the \$70 million eligible for an infrastructure bank is not extra money available for this purpose, but instead funds that have been earmarked for specific projects. Agencies would have to defer or cancel these projects.

Any benefit from the bank would have to outweigh the loss of these funds. In the San Francisco Ferry Terminal example, the project gains because the loan costs are lower than the costs of using bonds to finance the work. Because the terminal generates profits from its retail space, tax exempt bonds cannot be used. The loan from the infrastructure bank is made at below-market rates, generating savings similar to those that would accrue from tax exempt financing. Similar situations in New York include the recently completed renovation of the Long Island Rail Road's terminal at Penn Station and the current rehabilitation of Grand Central Terminal, the Manhattan hub of Metro-North. Savings may have been generated from loans through a New York infrastructure bank.

An infrastructure bank in New York State is an example of another innovation that may help the MTA. Initially, because funds would be deposited over a period of time, the bank may not be able to support large projects. Over time, though, as revenue in the bank builds, more funds will be available to transit agencies. In an era of constrained funding, any possible revenue source should be considered. Increased funding is needed if the agency is to continue to its capital program at the desired pace. The range of alternative financing discussed could raise much-needed funds for the both the MTA's operating and capital programs.

Conclusion

Of the systems studied, the MTA receives the lowest percentage of outside

²³⁶ Budget and Policy office, FTA.

support. Government funds cover approximately 40 percent of the agency's operating expenses and will finance about 40 percent of the 1995-1999 capital program. Cuts in aid in recent years prompted the MTA to adopt a new financial plan in 1995. The agency developed a new capital program that will rely heavily on fare-backed bonds. The increased debt service expenses associated with this borrowing and the low level of operating assistance left the MTA with a projected cumulative budget deficit of \$4.5 billion by 1999. In order to close this gap, the agency in 1995 sharply increased its already high transit and commuter rail fares and imposed service cuts to reduce its costs. This approach could be costly in the long-term. The quality of service has declined noticeably because of the cuts, and if riders leave the system, mobility problems in the downstate metropolitan region could worsen. The MTA may also be hard-pressed to pay the increased debt service expenses, especially in outlying years, when they will rise sharply. In order to meet its obligations, the agency may have to increase fares again or cut costs through further service reductions in order to meet its obligations.

Not supporting the MTA adequately is a short-sighted policy considering the importance of the downstate region to New York State. The New York metropolitan area is the core of the state's economy. In 1994, for example, New York City generated more than 40 percent of the personal income in the state, produced nearly a third of the retail sales, and accounted for over 40 percent of the non-agricultural jobs.

Without the MTA, this level of success would not be sustainable. The agency is a critical part of downstate New York's transportation network, carrying more than 1.7 billion riders annually and helping to make travel in the region possible. A diminished MTA would add to the existing mobility problems in the area. Residents or businesses might relocate if travel becomes too difficult or if the quality of life worsens substantially because of increased traffic congestion and poorer air quality. The economic ramifications would be far-reaching, as both downstate New York and the state as a whole would lose a large number of jobs and important tax dollars. New York is placing its future at risk because of inadequate support for the MTA.

Increasing subsidies for the MTA is critical. Ideally, New York State would supply the needed aid. The state funds less than 5 percent of the agency's operating budget and is providing virtually no assistance for the 1995-1999 capital program. Other states support their key public transportation systems at a significantly higher level. In recent years, though, New York has not shown a willingness to fund the MTA at an appropriate level, and in fact, has reduced the amount of revenue available to the agency. Traditionally, the state has used its own funds to finance an annual subsidy to the MTA and has provided additional aid through tax proceeds earmarked for the agency. Since 1994, New York has been using these proceeds to pay for most of its grant, in effect cutting the MTA's state subsidies.

If New York remains unwilling to increase its support, other alternatives would be

necessary. New or increased taxes may be needed. Taxes are not the ideal or preferred solution and will be unpopular. Customers of the MTA, though, pay more every time they use the system because of the fare increases in 1995. Without additional funding for the MTA, the agency may have to raise its fares again, adding to the riders' burdens. Higher taxes will be less costly than continually climbing fares as well as more equitable since the entire region and state benefit from the services provided by the MTA.

Whatever the approach, new funds must be found for the MTA. The long-term vitality of downstate New York and the state as a whole depends on maintaining a sound public transportation system. Inadequate support for the MTA would have far-reaching consequences. Continued investment in the agency would help to secure New York's position as a world leader.