

GOVERNMENTAL SUBSIDIES FOR PUBLIC TRANSIT

History, Current Issues, and Recent Evidence

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Funding for transit in the United States has been in a state of transition for half a century. Transit has evolved from a private industry sustained by farebox revenues to a public entity supported by federal and, more recently, state and local governments. To better understand the complex funding environment of public transit, especially the role of public subsidies, this research examines the history of public funding for transit, investigates issues that have influenced financial support for transit recently, and compares funding arrangements in ten cities for evidence of how transit agencies are adapting to the current funding environment. The authors find that: (a) the characteristics of local transit funding are strongly influenced by the funding approaches of state governments; (b) dedicated funding for transit is increasingly critical, especially where funds must be raised locally; and (c) metropolitan areas with considerable dedicated funding sources are at an advantage for undertaking large capital projects.

Keywords: *transportation policy; transportation funding; transit finance; light rail transit*

At the start of the 21st century, public transit in the United States is in the midst of a gradual resurgence. After decades of auto-oriented policies and development patterns that left public transportation neglected and moribund, large public investments in recent decades, combined with increasing highway congestion and a greater recognition of transit's potential benefits, have managed to brighten prospects for public transit. Cities from the Rust Belt to the Sun Belt have planned or constructed new rapid transit systems, and sprawling cities from Atlanta to Los Angeles have begun efforts to encourage transit-oriented development.

Greater investment in transit has coincided with an increasing level of public involvement in transit finance. As with any evolving policy phenomenon, the public subsidization of transit has not been without controversy (Meyer, Kain, & Wohl, 1965; Pucher, 1982; Pucher, Markstedt, & Hirschman, 1983). Debates over which level of government—federal, state, or local—should bear the heaviest burden in support of public transit, and how public dollars—no matter their source—can be used most effectively, are recurrent in years of both surplus and scarcity. In recent years, public sector support for urban transit has fluctuated. Federal support has become

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proportionately less significant while local and state governments have grown increasingly responsible for transit's operating and capital expenses.

This research is motivated by the desire to understand the current policies guiding transit funding, the issues that have most influenced transit funding in recent years, and the extent to which the finances of local transit agencies reflect the industry's fiscal evolution. To achieve this, we examine the history of governmental financing of public transit in the past half century. We then look at compelling issues that have confronted the transit industry most recently, from the emergence of state and local financial sources to the role of politics in federal and local decision making. And finally, we investigate transit funding arrangements in 10 cities for evidence of how transit agencies are adapting to the current funding environment.

Historical Overview

At the start of the 1950s, many of the nation's transit systems—the vast majority of which were privately owned and operated—were on the brink of fiscal and physical collapse. After a decade of neglect during the Great Depression and being overburdened by an upsurge in ridership during the gas rationing and full employment of the World War II years, many transit systems were in desperate need of a physical overhaul (Jones, 1985; Kirby, 1992; St. Clair, 1981; Wachs, 1989). Plummeting ridership at the start of the postwar era, however, as the nation became more suburbanized and auto oriented, meant that transit systems had barely enough money to cover operating costs and almost nothing left over for capital upgrades (Jones, 1985).

With bankruptcy almost unavoidable for many systems, the prospect of public subsidization and even ownership seemed more and more inevitable to municipal officials who were eager to maintain transit services for their constituents, the most influential of whom were transit-supportive downtown interests (Altshuler & Luberoff, 2003; Fogelson, 2001; Jones, 1985; Pickrell, 1985). Just after World War II, only five major cities—Cleveland, Detroit, New York, San Francisco, and Seattle—owned and operated their transit systems. By the 1970s, after significant public sector intervention, most big-city transit systems were publicly run (Jones, 1985; Saltzman, 1992).

FEDERAL INTERVENTION BEGINS

Local concern over the near demise of public transit did not necessarily result in immediate local action. In most large cities, a local fiscal commitment to transit became a reality only after significant federal involvement was established, thanks in part to lobbying by big-city political and economic interests (Jones, 1985; see Table 1). Starting with congressional approval of the Housing Act of 1961, which contained a modest loan program to assist ailing commuter railroads, federal intervention in public transit escalated rapidly during the 1960s and 1970s (Altshuler & Luberoff, 2003; Weiner, 1999). The landmark Urban Mass Transportation Act (UMTA) of 1964, the first federal initiative to directly assist the public transit industry, authorized \$2.23 billion (in 2003 dollars) over 3 years in discretionary federal grants to cover up to two thirds of capital costs for the construction, reconstruction, or acquisition of transit facilities and equipment (Altshuler & Luberoff, 2003, Wachs, 1989; Weiner, 1999). UMTA's establishment of a matching grant program was designed to serve as a "carrot" to coax local investment in infrastructure and equipment, recognizing that the required one-third match from state and local sources would, in many places, represent the entrance of local public funding sources into transit subsidization (Jones, 1985).

Many cities took full advantage of UMTA funds, using the capital grants to purchase private transit operations—many of which were folded into newly established public transit authorities—and to update fleets. Between 1965 and 1974, the number of publicly owned transit systems skyrocketed from 58 to 308, helping to solidify the reality of transit as a public service dependent on financial support from public coffers rather than a private industry reliant solely on farebox revenues (Jones, 1985; Kirby, 1992). The federal commitment to transit was

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Table 1: Evolution of Federal Funding for Transit Capital Projects

Year	Legislation	Authorized	Duration	Federal	Funding Category
		Funds (billions) in 2003 \$		Share (%)	
1964	Urban Mass Transportation Act	2.23	3	66	Capital
	1966 extension	1.70	2		
	1968 extension	0.93	1		
1970	Urban Mass Transportation Assistance Act	14.70	6	66	Capital
1973	Federal-Aid Highway Act	12.43 ^a		80	Capital
1974	National Mass Transportation Assistance Act	44.41	6	80	Capital (discretionary)
				80	Capital (formula)
				50	Operations (formula)
1978	Surface Transportation Assistance Act	44.02	4	80	Capital (discretionary)
				80	Capital (formula)
				50	Operations (formula)
1982	Surface Transportation Assistance Act	33.86	4	80	Capital (discretionary)
				80	Capital (formula)
				50	Operations (formula)
1987	Surface Transportation and Uniform Relocation Assistance Act	29.15	5	75	Capital (discretionary)
				80	Capital (formula)
				50	Operations (formula)
1991	Intermodal Surface Transportation Efficiency Act	42.56	6	80	Capital (discretionary)
				80	Capital (formula)
				50	Operations (formula)
1998	Transportation Equity Act for the 21st Century	46.28	6	80	Capital (discretionary)
				80	Capital (formula)
2005	Safe, Accountable, Flexible, Efficient Transportation Equity Act: Legacy for Users	52.6 ^b	6	80 ^c	Capital (discretionary)
				80	Capital (formula)

SOURCE: American Public Transportation Association (2005); "Carter Signs" (1978); "\$11.9-Billion" (1974); "Highway Act" (1973); "Highway Bill" (1987); "Highways, Mass Transit" (1991); "Taxes Hiked" (1982); "\$375 Million" (1964); "Transportation Law" (1998); "Urban Mass Transportation" (1970); Weiner (1999).

a. Funds added to the 1970 appropriation.

b. In 2005 dollars.

c. Official matching share is 80%, but the Federal Transit Administration has practiced an unofficial maximum matching rate of 60% since 2002.

extended in 1970 by the Urban Mass Transportation Assistance Act, which provided, for the first time, a long-term commitment of federal funds (Weiner, 1999).

Despite the infusion of federal aid and the funds raised by state and local sources to match it, ridership continued to decline (down 21% between 1964 and 1972) which, combined with rapidly rising labor costs and the spike in fuel prices during the oil shortages of the early 1970s, furthered the fiscal plight of transit systems and resulted in service retrenchment (Altshuler & Luberoff, 2003; Jones, 1985; Lave, 1991; Wachs, 1989). In response, the federal government deepened its commitment to transit in 1973's Federal-Aid Highway Act by making federal highway funds more flexible—permitting their use in some nonhighway capital projects—and raising the federal matching share for transit capital projects from 66% to 80%. The National Mass Transportation Assistance Act of 1974, meanwhile, boosted federal funding for discretionary grants and instituted a grant program that distributed funds to urban areas on a formula basis, funds that could be used to cover capital costs at an 80% match or operating expenses at a 50% match (Weiner, 1999). The inclusion of operating assistance—to help defray such costs as labor and maintenance—in the 1974 legislation was an obvious change in policy for the federal government, which had previously avoided the provision of operating grants, arguing that such grants would serve as a disincentive to the efficient operation of transit agencies and might even have the perverse effect of rewarding inefficient operations with funding assistance (Gómez-Ibáñez, 1996; Taylor & Samples, 2002; Wachs, 1989).

By the end of the 1970s, it appeared, to an extent, that the hemorrhaging of public transit had slowed. After plummeting to an all-time low in 1972, ridership had stabilized and even made small gains (American Public Transportation Association, 2004). Federal support for transit had skyrocketed from \$400 million per year in 1970 to \$6 billion in 1980 (in 2002 dollars), and the federal government's contribution to total transit spending grew from 6% to 41%. State and local governments, encouraged in part by federal matching grants, increased their contributions to transit from \$1.4 billion in 1970 to \$4.1 billion in 1980 (in 2002 dollars). Farebox revenues, which stagnated during the 1970s, accounted for only 31% of transit revenues by 1980, down from 70% in 1970 (Altshuler & Luberoff, 2003). Taking advantage of the massive outlay of federal funds, particularly for capital programs, cities such as Atlanta, Baltimore, Buffalo, Miami, Portland, Sacramento, and Washington, D.C., built new rail systems (Kain, 1988; Pickrell, 1992; Wachs, 1989).

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THE 1980s: FEDERAL SUPPORT WANES, LOCAL SOURCES EMERGE

The beginning of the 1980s, however, signaled an abrupt change in the trend of steadily increasing federal support for transit. Caught in the crosshairs of an executive branch seeking sharp cuts in federal spending, transit aid was cut by 20% in 1982, a smaller decrease than originally sought by the Reagan administration. Despite the cuts in 1982, that year's Surface Transportation Assistance Act included a new and dedicated source of funding in the form of a penny-per-gallon share of the federal gasoline tax—part of a larger 5-cent hike in that tax. The gas tax proceeds, to be placed in a special mass transit account of the Highway Trust Fund, were earmarked to cover the cost of the discretionary grant program, which was then broadened to include capital maintenance costs at the 80% matching level (U.S. Congress, 1982; Weiner, 1999). In the late 1980s, the discretionary grant program was split so that 40% of funds were dedicated to rail starts and extensions (also known as "new starts"), 40% to rail modernization projects, 10% to major bus projects, and 10% to a discretionary fund (the discretionary money was rededicated to bus projects in 1991; U.S. Congress, 1987, 1991). In addition, a process for evaluating projects seeking funds for new or expanded rail systems was officially instituted by federal transit officials to examine the cost-effectiveness of proposed projects—including detailed comparisons with possible alternatives—and the degree to which their financing was supported locally (Weiner, 1999).

Although federal funding for transit declined and then stagnated during the 1980s, this did little to alter the steep upward trajectory of transit spending. Stepping into the breach left by a diminished federal presence, state and local transit spending more than tripled during the 1980s—leading the 60% growth in overall transit spending—and by 1990, state and local governments covered 52% of transit expenses, with federal sources covering 20% (Altshuler & Luberoff, 2003; Price Waterhouse, 1998).

LOCAL AND STATE DOMINANCE

During the 1990s, federal transit spending returned to the levels reached in the 1970s. With successive increases in state and local contributions throughout the 1980s, however, federal funds played a reduced role in total transit spending. By the end of the 1990s, the share of transit expenses covered by federal money had declined to just 15%—covering capital expenses primarily—whereas almost 60% of expenses were paid from state and local government sources (Altshuler & Luberoff, 2003; Price Waterhouse, 1998).

Although the federal government assumed a smaller role in transit spending, the 1990s did witness the enactment of two rounds of important federal transit legislation. Together, the Intermodal Surface Transportation Efficiency Act of 1991 (ISTEA) and Transportation Equity Act for the 21st Century of 1998 (TEA-21) made enormous strides in improving the flexibility of federal highway and transit dollars, thus allowing states and regions to more easily spend federal funding on their most pressing transportation needs, no matter which travel modes were

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involved (Federal Transit Administration [FTA], 1992; Puentes, 2000; Stanley, 2002; U.S. Department of Transportation, 1998). The acts also gave regions, through their metropolitan planning organizations (MPOs), greater autonomy and responsibility in the creation of prioritized lists of metropolitan transportation projects (Katz, Puentes, & Bernstein, 2003). The adoption of the Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users (SAFETEA-LU) in 2005 provided record levels of federal funding while continuing the policies of ISTEA and TEA-21 and making slight adjustments, including the addition of a Small Starts program for small capital projects requiring less than a \$75-million federal match (American Public Transportation Association, 2005).

Despite the improvements under ISTEA and TEA-21, the increased responsibilities assumed by local entities during the 1990s reflected an unabated trend of greater state and local involvement in transit finance. With the phase-out of federal operating subsidies to large urban areas under TEA-21 (U.S. Department of Transportation, 1998), state and local sources are now used to provide the vast majority of public operating assistance for transit. A similar trend is occurring with capital grants, as evidenced by the increasing competition over the limited pool of federal new-starts funding (Beimborn & Puentes, 2003; Katz et al., 2003), the FTA's recent, though unofficial, move to reduce the maximum federal matching share on new starts from 80% to 60% (Turner, 1996; U.S. General Accounting Office, 2003), and the fact that the average federal share for new rail transit projects in the late 1990s was only 53% (Wilbur Smith Associates, 1999). To satisfy demands for both operating and capital funding from state and local sources, the use of dedicated taxes has surged in recent years, especially the use of local option transportation taxes (or LOTTs), which include levies on sales, property, and income that often require voter approval but provide reliable and ongoing sources of revenue (Goldman & Wachs, 2003; Price Waterhouse, 1998).

Contemporary Issues

As a result of the increasing importance of local funding sources, one of the key topics in transit finance today revolves around the approaches taken by state and local governments to raise revenues to contribute toward operating and upgrading transit services. A closely related issue is the role of politics in influencing both transit spending decisions and the chosen mechanisms for funding those decisions.

CHARACTERISTICS OF LOCAL FUNDING

With the diminishment of the federal role in transit funding, local sources clearly play a heightened role in funding transit's operating expenditures and major capital investments. To successfully bridge the gap between growing transit expenses and stagnant or declining federal funding, local governments have increasingly turned, in the past 20 years, to establishing dedicated funding mechanisms (Goldman & Wachs, 2003; Price Waterhouse, 1998).

Dedicated funds, according to Goldman and Wachs (2003), are often raised through LOTTs, which they define as "a tax that varies within a state, with revenues controlled at the local or regional level, and earmarked for transportation-related purposes" (p. 21). The most popular LOTTs used to raise dedicated funds for public transit are local sales taxes, whereas less prevalent forms include income and payroll taxes, locally imposed fuel taxes, and dedicated property taxes (Goldman & Wachs, 2003). Other sources of dedicated funds, used either nationally or internationally, include congestion charges such as London's (Transport for London, 2003), parking fees, vehicle registration fees, and value-recapturing—a means of harnessing increases in land value that result from transit investments (Puentes, 2004; Ubbels & Nijkamp, 2002). In 2002, dedicated funds covered 53% of transit operating costs in metropolitan areas of more than 1 million, and 38% of capital costs (Puentes, 2004).

As the use of dedicated funding has risen, researchers have debated the benefits of, and the constraints of relying upon, such funding sources. Ubbels and Nijkamp (2002) note that

because of intense competition for general revenue sources at the local level—notably, competition with services such as public safety and education—taxes earmarked for transit at their source provide the industry with stable and reliable funds. In an analysis of the Washington, D.C. metro system, Puentes (2004) describes how a lack of dedicated funds for that system leaves it vulnerable to the budget cycles of its contributing states, counties, and cities, and that the absence of guaranteed long-term funding has made planning for long-term capital upgrades almost impossible.

Despite the security offered by dedicated funding from a reliable source, Wachs (2003) argues that the increasing dependence on broad-based taxes that are not directly linked to transit or transportation—such as local sales taxes charged on the purchase of shampoo and candy bars—combined with a declining reliance on user fees such as fuel taxes and highway and bridge tolls produces a funding environment that is inequitable and inefficient. Although highway user fees have the potential to affect personal transportation choices by compelling individuals to carpool or use transit (Downs, 1992), sales or income taxes are unlikely to influence individual travel behaviors (Wachs, 2003). Pickrell (1992), meanwhile, argues that the practice of competing for general revenue funds with other public services ensures that decisions on transit expenditures—particularly capital investments—are responsible and cost-effective. That outcome is less likely, according to Pickrell, when transit officials and politicians are presented with a guaranteed, recurring source of funding.

POLITICAL CONTEXT OF PUBLIC TRANSIT FINANCE AND POLICY

Politics often plays a significant role in matters of transit policy and spending, and both politicians and transit officials may consequently make ineffective and even irresponsible decisions about transit investments. When it comes to the transit decision-making process, Wachs (1995) and Taylor and Samples (2002) argue that sometimes the promise of jobs and economic development from a major capital investment can be equally, if not more, alluring to decision makers than the promise of better transit service, and that the political benefits of funding very visible and allegedly job-producing projects have played a role in the federal policy bias in favor of capital spending. Moreover, the desire to receive and spend money, whether federal or local, on major projects has led to overly optimistic, and sometimes deceitful, projections of ridership and cost-effectiveness (DeLong, 1998; Flyvbjerg, Holm, & Buhl, 2005; Hamer, 1976; Kain, 1988, 1990, 1992, 1997; Mackett & Edwards, 1998; Pickrell, 1992; Taylor & Kim, 2003; Wachs, 1995). Recent research by Taylor and Samples (2002), however, suggests that the economic benefits of constructing major capital projects are negligible, and that operating expenditures may accrue greater economic benefits than capital expenditures.

Although a more stringent federal ratings process for new rail projects and extensions was introduced in the 1990s, the stiff competition for federal dollars may again compel the use of optimistic projections to secure funding. More likely, though, is the prospect of an increasing number of projects bypassing the federal ratings process altogether (and the costly and time-consuming studies that must accompany that process) and instead rely solely on state and local funding. Cleveland performed this maneuver with its Waterfront Line, a light rail route completed with local and state funding in 1996 (“Rail Line Can’t Wait,” 1994), and St. Louis’s Cross-County light rail line, due for completion in 2006, is being financed entirely by dedicated local sales taxes (Bi-State Development Agency, 2002; Getz, 2002a, 2003).

Although bypassing the federal funding process may accelerate project completion in many cases, the act of foregoing the rigorous federal ratings procedures may, in the end, encourage the development of inefficient and overcapitalized transit systems. Many researchers have asserted that similar outcomes have resulted from federal policies promoting capital over operating assistance. The original intent of emphasizing capital assistance over operating subsidies was to promote the construction or acquisition of infrastructure that would make transit systems operate more efficiently, therefore reducing the need for operating subsidies (Wachs, 1989, 1995). This capital bias has, in some cases, occurred at the expense of regular maintenance and led many transit systems to exchange operating costs for capital expansion without short- or long-

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term economic justification (Taylor & Samples, 2002). As a result, there is a general consensus among researchers that the capital bias of federal policy has not improved the economic or operating efficiency of many transit systems and may have encouraged the formation of overcapitalized and fiscally unsustainable systems, particularly those that used federal capital assistance to construct underperforming rapid transit systems (Li & Taylor, 1998).

As politically charged as the capital investment decision-making process might be, obtaining approval from voters to dedicate funds to such investments is equally politicized. Analyses of referenda for LOTTs reveal that successful referenda share some common traits. One trait is the public perception that the planning process for the project or projects receiving earmarked funds was transparent and that the public was adequately informed and involved (Beale, Bishop, & Marley, 1996). Another trait is the perception of a fair distribution of benefits, which often occurs when a tax package has a multimodal aspect and strives for geographic equity (Werbel & Haas, 2003). The perception that the tax burden is shouldered evenly is also critical (Beale et al., 1996) and may explain the general acceptability of sales taxes that despite their regressive nature are perceived as fair because, as Goldman and Wachs (2003, p. 25) argue, "individuals of comparable means pay roughly the same amount of tax" and everybody pays—no matter which mode of transport one uses most often. An analysis of public attitudes about transit in the largely auto-oriented Detroit area concludes that an appeal to social justice can also be effective, particularly if a transit agency can "demonstrate its success in serving as the bottom-line guarantor of mobility for the young, elderly, disabled, unemployed, and poor" (Levine, Park, Wallace, & Underwood, 1999, p. 87). According to Pickrell (1992), it is possible that these and other characteristics of successful referenda can be assembled into an effective marketing message to win voter support, thereby achieving victory based more on marketing skill than on the true merit of the project or projects to be funded by the proposed tax.

Analysis

... no two state governments share the exact same approach to supporting public transit. Some ... centralize the collection and distribution of transit funds at the state level. Other[s] ... devolve that responsibility to local governments by granting them the authority to levy dedicated taxes. And still others take a hybrid approach.

The increasing necessity for state and local governments to provide financial support for public transit, and the federal government's declining role, are obvious trends of the past few decades. The decentralization of transit funding has, predictably, led to differences in how various U.S. transit systems finance their operations and capital developments. A comprehensive compilation of state transit funding policies (Stanley, 2003) demonstrates that no two state governments share the exact same approach to supporting public transit. Some states choose to centralize the collection and distribution of transit funds at the state level. Other states choose to devolve that responsibility to local governments by granting them the authority to levy dedicated taxes. And still others take a hybrid approach. In the demographically and economically similar states of Pennsylvania and Ohio, for example, the difference in transit funding strategies is striking—Pennsylvania's centralized approach resulted in state government spending of \$64 per capita on transit in 2002, whereas Ohio's decentralized approach meant the vast majority of funding was raised locally, with only \$2 per capita contributed directly by the state. In an examination of LOTTs in all 50 states, Goldman, Corbett, and Wachs (2001) conclude that metropolitan areas use a number of different mechanisms—sales, payroll, income, and other taxes—for dedicating funding to transit.

Although variations in state funding levels and the means of collecting dedicated funding have been examined by researchers, investigations into how otherwise similar metropolitan areas differ in terms of local financial support for transit, and how those differences reflect and inform wider issues of contemporary transit funding, are largely absent from the literature. To address this research gap, we selected 10 midsized metropolitan areas in the Midwest and Great Lakes regions that have proposed, planned, or constructed a rail or bus rapid transit system in the past two decades. The selected cities (Buffalo, New York; Cincinnati, Ohio; Cleveland, Ohio; Columbus, Ohio; Kansas City, Missouri; Louisville, Kentucky; Milwaukee, Wisconsin; Minneapolis, Minnesota; Pittsburgh, Pennsylvania; and St. Louis, Missouri) were also chosen for their geographic and functional sameness, thus allowing a comparison of transit funding sit-



Figure 1: Sample Cities (Buffalo, Cincinnati, Cleveland, Columbus, Kansas City, Louisville, Milwaukee, Minneapolis, Pittsburgh, St. Louis)

uations in cities with similar development histories (see Figure 1). Transit systems in the 10 cities are profiled in Table 2. The cities are spread across seven states, two of which (Missouri and Ohio) contain more than one of the cities.

Five of the cities—Buffalo, Cleveland, Minneapolis, St. Louis, and Pittsburgh—have modernized or built rapid transit systems since 1980, Kansas City recently established a bus rapid transit system, and the remaining four cities have, at some point in the past decade, proposed large-scale public transit projects.

Of particular interest to us are the following characteristics about the metropolitan areas: (a) the share of transit revenues that are contributed by local and state sources; (b) the method used to raise dedicated funds and the size of their contribution to transit budgets; and (c) the funding characteristics of major capital investments, including the distribution of federal, state, and local funding sources.

DATA

We combined data used in recent transit funding research projects (Goldman et al., 2001; Stanley, 2003) with figures from the FTA's *Annual Report on New Starts* (FTA, 2002, 2003, 2004a, 2004b) to amass the bulk of data used in the analysis. We used transit agency profiles from the NTD to calculate the proportional and per capita contributions to both operating and capital budgets from local, state, federal, and other sources. By combining data from the NTD with data reported by Goldman et al. and Stanley, we were able to determine the sources of funds dedicated to transit in the selected cities and the proportional contributions of those funds to transit budgets. In addition, the FTA's *Annual Reports on New Starts* provided us with financial details for most of the transit capital projects, both proposed and constructed, in the 10 metropolitan areas.

Table 2: Population and Transit Profiles of Selected Cities

<i>Metropolitan Area/Transit Agency</i>	<i>Urbanized Area Population (2000; population density)^a</i>	<i>Average Daily Ridership^b (per 1,000 population)</i>	<i>Transit Modes (2002)</i>	<i>Fleet Size^c</i>
Buffalo, NY				
Niagara Frontier Transportation Authority	976,703 (2,664)	83,600 (85.6)	Bus Light rail	317 27
Cincinnati, OH				
Southwest Ohio Regional Transit Authority	1,503,262 (2,238)	85,800 (57.1)	Bus	432
Cleveland, OH				
Greater Cleveland Regional Transit Authority	1,786,647 (2,761)	183,800 (102.9)	Bus Heavy rail Light rail	748 60 48
Columbus, OH				
Central Ohio Transit Authority	1,133,193 (2,849)	54,900 (48.4)	Bus	298
Kansas City, MO				
Kansas City Area Transportation Authority	1,361,744 (2,330)	47,000 (34.5)	Bus	282
Louisville, KY				
Transit Authority of River City	863,582 (2,207)	53,600 (62.1)	Bus	276
Milwaukee, WI				
Milwaukee County Transit System	1,308,913 (2,688)	186,500 (142.5)	Bus	501
Minneapolis, MN				
Metro Transit	2,388,593 (2,671)	222,000 (92.9)	Bus Light rail ^d	980 24
Pittsburgh, PA				
Port Authority of Allegheny County	1,753,136 (2,057)	233,200 (133.0)	Bus Light rail	1,055 55
St. Louis, MO				
Bi-State Development Agency	2,077,662 (2,506)	150,500 (72.4)	Bus Light rail	473 65

SOURCES: APTA (2003); Federal Transit Administration (2004b); U.S. Census (2000).

a. Density measured in persons per square mile of urbanized land.

b. Average daily ridership in the second quarter of 2003.

c. Vehicles available for maximum service (National Transit database definition).

d. Light rail service in Minneapolis began in 2004.

Findings

An analysis of the funding arrangements for the transit systems in the 10 selected cities revealed the following key findings. These findings shed light on the dynamic between state and local funding sources, the role of dedicated funding, and the extent to which locally dedicated funding sources influence—sometimes to the point of determining—the outcome of capital developments.

States Have Considerable Influence Over the Characteristics of Local Transit Funding, Especially Funding for Operations

State policies differ significantly in their general approaches to transit subsidization, with some states choosing to centralize the collection and dispersal of funds, whereas others transfer that authority to local entities. One way or the other, the tactic chosen by a state has a considerable impact on the nature of transit funding within its metropolitan areas, particularly with regard to transit agency operating budgets (see Table 3).

Table 3: Sources of Annual Operating Funds, 2002

Metropolitan Area	Revenue Source					Total Operating Budget % of total Per Capita (6)=(1)+(2)+(3)+(4)+(5)	Distribution
	Farebox Revenue % of total Per capita (1)	Government Support			Other ¹ (5)		
		Local % of total Per capita (2)	State % of total Per capita (3)	Federal % of total Per capita (4)			
Buffalo, NY	\$20,442,653 25 % \$17	\$30,738,159 38 % \$26	\$18,877,876 23 % \$16	\$4,916,717 6 % \$4	\$5,543,475	\$80,518,888 100 % \$68	
Cincinnati, OH	\$18,718,589 26 % \$22	\$32,400,492 45 % \$38	\$1,313,113 2 % \$2	\$15,142,164 21 % \$18	\$3,845,477	\$71,419,835 100 % \$85	
Cleveland, OH ²	\$38,185,308 17 % \$27	\$160,650,200 74 % \$114	\$5,269,300 2 % \$4	\$11,436,340 5 % \$8	\$1,737,022	\$217,278,209 100 % \$154	
Columbus, OH	\$13,165,114 19 % \$12	\$38,792,413 57 % \$34	\$859,901 1 % \$1	\$12,400,518 18 % \$11	\$2,632,384	\$67,850,330 100 % \$60	
Kansas City, MO	\$8,026,878 15 % \$11	\$31,201,613 59 % \$41	\$2,492,388 5 % \$3	\$10,751,618 20 % \$14	\$807,122	\$53,279,619 100 % \$70	
Louisville, KY	\$6,035,991 12 % \$8	\$32,024,423 66 % \$42	\$675,094 1 % \$1	\$8,578,241 18 % \$11	\$1,178,517	\$48,492,266 100 % \$64	
Milwaukee, WI	\$38,687,619 29 % \$41	\$18,815,222 14 % \$20	\$59,260,604 44 % \$63	\$13,595,470 10 % \$15	\$3,404,351	\$133,763,266 100 % \$142	
Minneapolis, MN	\$62,250,719 32 % \$33	\$49,483,952 26 % \$26	\$65,426,780 34 % \$35	\$9,013,174 5 % \$5	\$6,929,329	\$193,103,954 100 % \$103	
Pittsburgh, PA	\$64,252,645 24 % \$37	\$26,178,148 10 % \$15	\$145,954,768 55 % \$83	\$27,079,804 10 % \$15	\$3,199,705	\$266,665,070 100 % \$152	
St. Louis, MO	\$32,848,363 21 % \$21	\$100,942,465 65 % \$65	\$4,125,727 3 % \$3	\$15,553,876 10 % \$10	\$2,949,413	\$156,420,844 100 % \$60	

■ Farebox ■ Local ■ State ■ Federal

SOURCE: FTA (2004b).

a. "Other" refers to directly generated (though nonfarebox) revenues such as concessions and advertising.

b. Cleveland's local funding—generated by a 1% sales tax—was misreported as state funds in the 2002 National Transit database. This table shows the correct figures.

Of the seven states represented by the cities selected for this study, Kentucky, Missouri, and Ohio practice a decentralized approach to transit funding, with the state governments themselves spending at or below \$2 per capita (statewide) on transit in 2002. As a result, contributions by state governments to the operating budgets of the transit agencies in Cincinnati, Cleveland, Columbus, Kansas City, Louisville, and St. Louis represented less than 5% of their operating budgets in 2002. The revenue-raising and distribution authority given by these states to their local governments is reflected in the large contributions by local entities to their respective transit agencies, with local funds ranging from 45% of the operating budget in Cincinnati to 74% in Cleveland.

In Minnesota, Pennsylvania, and Wisconsin, on the other hand, the state governments take a more centralized approach to funding transit. In those states, per capita state funding for public transit in 2002 ranged from \$20 in Wisconsin to \$64 in Pennsylvania. As a result, transit operating budgets in Milwaukee, Minneapolis, and Pittsburgh received at least one third of their funding from state sources, with Pittsburgh receiving the highest share (54%). Pittsburgh also had the least local support, with local governments and taxes contributing less than 10% of total operating funding, reflecting attenuated local government sources within states with more cen-

Table 4: Sources of Annual Capital Funds, 2002

Metropolitan Area	Revenue Source				Total Capital Budget % of total Per Capita (5)=(1)+(2)+(3)+(4)	Distribution
	Government Support			Other (4)		
	Local % of total Per capita (1)	State % of total Per capita (2)	Federal % of total Per capita (3)			
Buffalo, NY	3,549,745 15 % \$3	1,876,628 8 % \$4	15,581,748 68 % \$13	\$2,074,771	\$23,082,892 100 % \$20	
Cincinnati, OH	\$13,005,815 82 % \$15	\$876,979 6 % \$1	\$2,026,564 13 % \$2	\$0	\$15, 909,258 100 % \$18	
Cleveland, OH	\$13,577,001 20 % \$10	\$1,156,681 2 % \$1	\$51,659,373 78 % \$37	\$0	\$66, 393,055 100 % \$47	
Columbus, OH	\$2,393,466 41 % \$2	\$267,613 5 % <\$1	\$3,208,549 55 % \$3	\$0	\$5, 869,628 100 % \$5	
Kansas City, MO	\$4,307,370 25 % \$6	\$0 0 % \$0	\$13,027,199 75 % \$17	\$0	\$17, 334,569 100 % \$23	
Louisville, KY	\$2,594,740 18 % \$3	\$0 0 % \$0	\$12,079,345 82 % \$16	\$0	\$14, 674,085 100 % \$19	
Milwaukee, WI	\$3,440,162 20 % \$4	\$0 0 % \$0	\$14,818,511 81 % \$16	\$0	\$18, 258,673 100 % \$20	
Minneapolis, MN	\$23,842,501 12 % \$13	\$35,230,914 18 % \$19	\$141,964,526 71 % \$76	\$0	\$201,037,941 100 % \$107	
Pittsburgh, PA	\$87,250,361 42 % \$50	\$34,705,592 17 % \$20	\$88,282,263 42 % \$50	\$0	\$210,238,216 100 % \$120	
St. Louis, MO	\$39,847,564 31 % \$26	\$31,058,417 24 % \$20	\$57,976,273 45 % \$37	\$0	\$128,882,254 100 % \$83	

SOURCE: FTA (2004b).

tralized funding structures. It is notable that although Milwaukee, Minneapolis, and Pittsburgh had the lowest levels of local government support of the cities studied, their farebox revenues contributed the highest shares, on a per capita basis, to their respective operating budgets, thanks to their relatively high riderships (see Table 2).

Situated somewhere between the states with centralized and decentralized funding tactics is New York State. In 2002, public transit in Buffalo had relatively high state-level support, with slightly less than 25% of its operating budget covered by state sources, a figure not quite as high as Milwaukee, Minneapolis, or Pittsburgh. Despite the fact that New York State had the highest per capita state spending (\$91) on public transit in 2002, more than 80% of that money went to the extensive transit network in the New York City area, leaving a much smaller—though still significant—source of funding for the state's other cities (Stanley, 2003). Local funds covered a higher share (almost 40%) of the transit operating budget in Buffalo than in cities with more considerable state support, reflecting a unique (to this group) balance between state-centered and locally centered transit subsidies.

A state's selected approach to funding transit has less influence on the funding of capital budgets than on operating budgets. This is due largely to the still significant role played by federal dollars in capital spending (see Table 4). In fact, the federal government was the dominant source of capital subsidies in most of the cities studied, though wide variations in capital bud-

A state's selected approach to funding transit has less influence on the funding of capital budgets than on operating budgets. This is due largely to the still significant role played by federal dollars in capital spending.

Table 5: Dedicated Funding From State and Local Sources, 2002

Metropolitan Area	Budget Category	Operating		Capital		Dedicated Share of Total Capital and Operating Budget (%)
		Dedicated Funds (\$)	Share (%)	Dedicated Funds (\$)	Share (%)	
Buffalo, NY	Local	26,638,159		3,549,745		
	State	14,777,876		0		
	Total	41,416,035	51	3,549,745	15	43
Cincinnati, OH	Local	31,411,486		13,005,815		
	State	805,170		0		
	Total	32,216,656	45	13,005,815	82	52
Cleveland, OH	Local	159,629,932		12,577,001		
	State	1,020,282		0		
	Total	160,650,214	74	12,577,001	19	61
Columbus, OH	Local	38,792,400		0		
	State	0		0		
	Total	38,792,400	57	0	0	53
Kansas City, MO	Local	28,716,859		619,250		
	State	0		0		
	Total	28,716,859	54	619,250	4	42
Louisville, KY	Local	31,937,423		0		
	State	327,739		0		
	Total	32,265,162	67	0	0	51
Milwaukee, WI ^a	Local	0		0		
	State	0		0		
	Total	0	0	0	0	0
Minneapolis, MN	Local	44,452,283		17,618,478		
	State	40,334,755		0		
	Total	84,787,038	43	17,618,478	9	26
Pittsburgh, PA	Local	3,619,910		6,284,384		
	State	34,828,529		34,705,592		
	Total	38,448,439	14	40,989,976	19	17
St. Louis, MO ^b	Local	100,942,465		39,847,564		
	State	0		0		
	Total	100,942,465	65	39,847,564	31	49

SOURCE: FTA (2004b).

a. Though reported as dedicated funding in FTA (2004b), Milwaukee's local funding is actually derived from general revenue sources. The correct figures are reported above.

b. Local dedicated funds in St. Louis are misreported as "general revenue" funds in FTA (2004b). The correct figures are reported above.

gets from year to year make trends difficult to interpret. In 2002, for example, Minneapolis, Pittsburgh, and St. Louis had high total and per capita capital expenses because the transit systems in those cities were engaged in major rapid transit building projects. Annual capital funding sources during major construction—be they federal, state, or local—are likely to differ greatly from years without major construction. In Pittsburgh, most of the local capital funding reported in 2002 came from bonds that were issued to finance the reconstruction of a light rail line.

Dedicated Funding Plays an Important Role in All 10 Cities, Especially Those in States With Decentralized Transit Funding

As is evident from the recent history of transit finance, dedicated sources of funding are becoming an increasingly important part of the public sector's approach to subsidizing transit (see Table 5). This is especially true in cities located within states that subscribe to a decentralized method for funding transit, thus putting the authority and the onus to raise revenues on regional and local governments—many of which rely on LOTTs to generate the needed funds. In this study, dedicated

Table 6: Sources of Dedicated Funding

<i>Metropolitan Area</i>	<i>Funding Category</i>	<i>Dedicated Funding Sources</i>
Buffalo, NY	State	Gasoline tax
	Local	1/8% sales tax, 1/4% MRT, ^a bridge tolls
Cincinnati, OH	State	Gasoline tax refund
	Local	0.3% income tax
Cleveland, OH	State	Gasoline tax refund
	Local	1.0% sales tax
Columbus, OH	State	None
	Local	1/4% sales tax
Kansas City, MO	State	None
	Local	1/8% sales tax
Louisville, KY	State	None
	Local	0.2% payroll tax
Milwaukee, WI	State	None
	Local	None
Minneapolis, MN	State	20.5% of state vehicle sales tax
	Local	Property tax
Pittsburgh, PA	State	PTAF ^b , Act 3 ^c
	Local	None
St. Louis, MO	State	None
	Local	0.75% sales tax (St. Louis [city and county] and St. Clair County, IL); 0.25% sales tax (Madison County, IL)

SOURCES: FTA (2004b); Goldman, Corbett, and Wachs (2001); Stanley (2003).

a. MRT = mortgage recording tax.

b. PTAF = Public Transit Assistance Fund (includes dedicated revenues from miscellaneous sources).

c. Act 3 Revenue Enhancement Initiative (includes revenues from 1.22% state sales tax).

funding—almost all of it generated locally—covered at least 50% of the total transit budgets (operating plus capital) in Cincinnati, Cleveland, Columbus, Louisville, and St. Louis. Dedicated funds also provided just greater than 50% of operating funding alone in Buffalo and Kansas City, figures that paled in comparison to Cleveland's 74%, Louisville's 67%, and St. Louis's 65%. These locally generated funds were raised using a variety of mechanisms, including a payroll tax in Louisville, an income tax in Cincinnati, and a mortgage recording tax in Buffalo, although dedicated local sales taxes were the most popular method (Buffalo, Cleveland, Columbus, Kansas City, and St. Louis; see Table 6).

In the cities where the states shoulder the burden of collecting and distributing funds for transit, dedicated funding also plays a critical role. Whereas dedicated funds from local sources form a negligible share of Pittsburgh's transit budget, Pennsylvania provides substantial dedicated funding to the city's transit agency from the state's Public Transportation Assistance Fund (PTAF)—financed, in part, through state taxes on tires and rented or leased vehicles, among other items—and by a portion of the state's general sales tax. In Minneapolis, the composition of state and local funding has recently changed, with Minnesota opting to further centralize the state's transit subsidies. As a result, 2002 (the year represented in Table 5) was the last year that dedicated local property taxes were used to fund transit and instead a portion of the proceeds from Minnesota's vehicle sales tax was introduced as a stable replacement (Brunswick & Smith, 2001; Stanley, 2003). In Milwaukee, where all state and local funding is derived from nondedicated general revenues, sales and gas taxes have been urgently sought in recent years to assist in the expansion of that city's bus-only transit system (Brooks, 2004).

In the other cities, dedicated funding at the state level was negligible or nonexistent, except in Buffalo, which received almost \$15 million for public transit from New York's statewide petroleum receipts tax.

*Dedicated Funding Is an Important, and Often Decisive,
Capital Contribution for the Expansion of Transit Facilities*

While examining the operating and capital budgets of the selected transit agencies, financial arrangements for 13 major capital projects were also studied (1 in each of the 10 cities, plus an additional project each in Cleveland, Pittsburgh, and St. Louis; see Table 7). Our particular focus of inquiry was the presence or absence of locally dedicated funding and the role that the distribution of federal, state, and local funds in transit budgets plays in the decision to move capital expansion proposals forward into implementation. With the FTA's de facto policy of favoring projects that request less than 60% of their total cost from new-starts funding, the presence of dedicated funds to help cover the local share of construction costs as well as demonstrate the existence of a stable source of operating funds is, now more than ever, vitally important to getting projects off the ground in many cities.

The most staggering example of what dedicated funding alone can accomplish is in St. Louis, where the 3/4% sales tax in St. Louis city and county is currently being leveraged to pay 100% of the \$550-million, 8-mile, Cross-County Extension to MetroLink. St. Louis transit officials used sales tax revenues and issued bonds—to be paid by future sales tax revenue—to fund the project's construction with *no federal or state contributions* (Bi-State Development Agency, 2002). A similar feat was performed in 1996 in Cleveland, where the light rail Waterfront Line was funded with no federal capital assistance, although the State of Ohio provided just under one third of the project's funding ("Rail Line Can't Wait," 1994). These examples may foretell a trend in which cities with sufficient dedicated funding sources, and perhaps some assistance from state governments, will decline the use of federal funds for rapid transit projects, thus bypassing the stringent new-starts evaluation process that can add years and layers of complication to project planning. Abstaining from federal money also relieves local officials from having to complete federally mandated environmental impact statements (Getz, 2003).

Just as sufficient dedicated funds from local sources can single-handedly fund the construction of transit projects, a lack of such funding can certainly derail them.

- In Cincinnati, voter defeat of a proposed sales tax in 2002 that was intended to fund 25% of the cost of a light rail line in the region's Interstate 71 corridor compelled Cincinnati's MPO to exclude light rail from its 30-year regional transportation plan (*Annual Report on New Starts Fiscal Year 2004*; Horstman, 2002; "No Money for Light Rail," 2004; Pilcher, 2002).
- In Kansas City, the failure of a referendum to devote sales tax revenues to fund light rail transit along that city's Southtown corridor prompted the transit agency to shelve its light rail proposal and replace it with a less expensive bus rapid transit project—an arguable victory for the region's taxpayers (*Annual Report on New Starts Fiscal Year 2005*). The rejection of a similar measure in St. Louis in 2002, although not derailing the Cross County extension project, raised questions about whether sufficient operating funds are likely to be in place when that project opens in 2006 (Getz, 2002b).
- Whether or not a sales tax increase is approved in Columbus will determine the future of that city's light rail proposal. The Central Ohio Transit Authority, which has recently been embroiled in a labor dispute and budget problems, is putting off a referendum on the tax until the agency regains public confidence (Gebolys, 2004). Meanwhile, a light rail proposal in Louisville greatly depends on voter approval of a new income tax (*Annual Report on New Starts Fiscal Year 2005*).
- A combination of uncertainty about how to finance the local share of capital and operating costs, as well as stated opposition to light rail from state and suburban politicians, grounded the east-west corridor light rail proposal in Milwaukee before it left the conceptual phase in the late 1990s (Beimborn & Puentes, 2003; Rinard & Sandler, 1997). More recently, a new transit connection has been suggested as a means of linking attractions in downtown Milwaukee, though the focus has shifted somewhat away from light rail and toward less expensive alternatives such as electric buses (Sandler, 2001).

Table 7: Status and Financing of Major Capital Transit Investments

Metropolitan Area	Capital Project			Total Cost (millions) in 2003 \$	Financing Sources (millions)									Distribution	
	Name	Mode	Status		Federal			State			Local				
					Amount	Share	Amount	Share	Amount	Share	Amount	Share	Other		
Buffalo, NY	Metro Rail	LRT	completed 1985	\$915	\$732.0	80 %	\$183.0	20 %	\$0	0 %	\$0	0 %	\$0		
Cincinnati, OH	I-71 Corridor	LRT	proposed	\$899.9	\$449.9	50 %	\$225.0	25 %	\$225.0	25 %	\$0	0 %	\$0		
Cleveland, OH	Eucelid Corridor	BRT	under construction	\$168.4	\$82.2	49 %	\$50.0	30 %	\$36	22 %	\$0	0 %	\$0		
Cleveland, OH	Waterfront Line	LRT	completed 1996	\$81.3	\$0	0 %	\$23.5	29 %	\$57.8	71 %	\$0	0 %	\$0		
Columbus, OH	North Corridor	LRT	proposed	\$528.7	\$264.4	50 %	\$132.2	25 %	\$128	24 %	\$4.5	0 %	\$0		
Kansas City, MO	Southtown Corridor	BRT	completed 2005	\$25.9	\$20.7	80 %	\$0	0 %	\$5	20 %	\$0	0 %	\$0		
Louisville, KY	South-Central Corridor	LRT	proposed	\$748.1	\$410.1	55 %	\$201.2	27 %	\$104	14 %	\$32.3	0 %	\$0		
Milwaukee, WI	East-West Corridor	LRT	completed 2004	\$675.4	\$382.8	57 %	\$120.1	18 %	\$173	26 %	\$0	0 %	\$0		
Minneapolis, MN	Hiawatha Corridor	LRT	completed 2004	\$386.5	\$234.0	61 %	\$48.7	13 %	\$104	27 %	\$0	0 %	\$0		
Pittsburgh, PA	Stage II Reconstruction	LRT	proposed	\$362.8	\$290.3	80 %	\$60.5	17 %	\$12	3 %	\$0	0 %	\$0		
Pittsburgh, PA	North Shore Connector	LRT	proposed	\$362.8	\$290.3	80 %	\$60.5	17 %	\$12	3 %	\$0	0 %	\$0		
St. Louis, MO	St. Clair Extension	LRT	completed 2001	\$352.4	\$253.4	72 %	\$0	0 %	\$99.0	28 %	\$0	0 %	\$0		
St. Louis, MO	Cross County	LRT	under construction	\$550.0	\$0	0 %	\$0	0 %	\$550.0	100 %	\$0	0 %	\$0		

SOURCES: Bi-State Development Agency (2002); FTA (2002, 2003, 2004a, 2004b); Getz (2002a); Parsons Brinckerhoff (2001); "Rail Line Can't Wait" (1994).
 NOTE: BRT = bus rapid transit; LRT = light rail transit.

A lack of dedicated funding can also stall the expansion of existing systems, as it has in Buffalo, where Metro Rail, which was funded entirely by federal and state sources during its construction in the 1970s and 1980s, had plans for its expansion tabled in 1992 due to a lack of sufficient local funds to help build or operate an expanded system. Proposed extensions to Buffalo's Metro Rail are estimated to cost between \$445 million and \$585 million, and in today's funding environment, the Niagara Frontier Transportation Authority would be required to secure \$222 million in local funds before the project could be given serious consideration by federal transportation officials (Linstedt, 2001; Parsons Brinckerhoff, 2001). A 2-day shutdown of transit operations in 1990 due to a lack of funds for day-to-day operations (Linstedt, 1993; McCarthy, 1993) compelled local officials to dedicate a small portion of the county sales tax to transit operating expenses (Parsons Brinckerhoff, 2001). A similar crisis may be needed before a commitment of greater dedicated funding is made.

Conclusion

From a private business funded through farebox revenues to a publicly operated service dominated by state and local subsidies, public transit in America's major cities has experienced a dramatic transition from the years immediately following World War II to the beginning of the new century. The transition has often been jarring and turbulent, from near bankruptcy in the 1950s to the abrupt onset of federal funding in the 1960s, the federal retreat in the 1980s, and the emergence of state and local funding sources as critical pieces of the transit funding rubric in the 1980s and 1990s. As transit financing policies evolved over those decades, questions about their effectiveness emerged, from concerns over the capital bias of federal policies—brought on by federal transit finance programs that have long favored capital development over operational improvements—to the increasing use of dedicated local funding to subsidize operations and capital expenditures.

The current funding environment of many transit agencies reflects the necessity of adapting to the shifting financial terrain of the past half century, adaptations influenced largely by the approaches taken by states to cope with their amplified role in the funding of transit. In examining the 10 cities selected for this research, we found the following:

- The characteristics of a transit agency's funding profile are influenced considerably by the revenue-raising approach of the agency's home state. Some states choose to centralize the authority to raise and distribute revenue at the state level—exemplified by Minnesota, Pennsylvania, and Wisconsin in this study—which is reflected by transit agency budgets that receive most of their nonfederal dollars from state sources. Other states—such as Kentucky, Missouri, and Ohio—devolve the power to collect and allocate transit funding to local entities. In this study, New York was positioned somewhere in the middle of the spectrum.
- Dedicated funding—raised most often through LOTTs—plays a crucial role in transit finance today, particularly in operating budgets that see little federal intervention. This is especially true in cities that are delegated the authority, by their states, to raise revenue to subsidize transit. These dedicated funds usually come from general sales taxes, though payroll, income, property, and other local taxing mechanisms are also used. In states with centralized funding approaches, statewide taxes and fees dedicated to transit can be an important source of income.
- With intense competition for obtaining shrinking federal funds for major capital developments, cities with considerable dedicated funding sources are often better equipped to undertake and complete such projects. The stable and reliable base that dedicated funding can provide offers an advantage to transit agencies when planning long-term improvements, seeking federal dollars for those improvements, or, as may increasingly be the case, bypassing federal funding altogether and instead pursuing capital developments with local or state resources alone.

The current funding environment of many transit agencies reflects the necessity of adapting to the shifting financial terrain of the past half century, adaptations influenced largely by the approaches taken by states to cope with their amplified role in the funding of transit.

If current trends continue, the significance of state and local funding—and the dedicated funds that often serve as its base—will certainly increase in importance. The mechanisms for raising dedicated funds, especially LOTTs, will also become more critical, as will the votes cast by legislators and the general public to approve the use of such measures for maintaining and improving transit service. It is already clear that voter acceptance of new taxes is never guaranteed and that the passage or rejection of transit funding measures can significantly shape the future of transit in a given metropolitan area. Less clear is whether this democratization of transit decision making will produce equitable and effective transit services and whether the industry might revert to past tendencies of undercapitalizing or overcapitalizing transit systems.

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