HOUSE RESEARCH

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Information Brief

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Transit Operations Funding

Overview of the 1994-1995 Biennium

Funding has been the leading transit issue for the legislature. How much money can or should the legislature spend on transit and what are or should be the sources of transit funding? This information brief summarizes the funding requests and appropriations for transit operations in the 1994-95 biennium, then summarizes current funding sources and alternatives.

Transit Operations Costs

Twin Cities Metropolitan Area

For fiscal 1994-1995, the Regional Transit Board (RTB) **requested** a **$91.5 million** state appropriation for transit operations in the metropolitan area. This request was based on an estimated biennial budget of $340 million. This amount included:

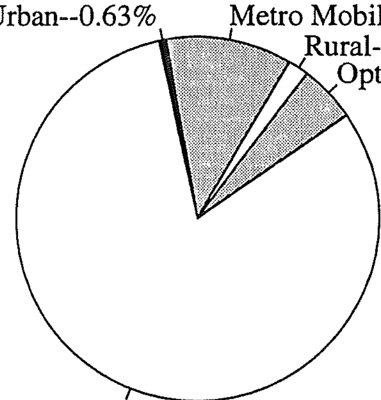
- $54.2 million base (the previous biennium's appropriation)
- $15.2 million additional to maintain existing levels of transit service
- $22.1 million to implement the Vision for Transit service improvements, which included adding 1.72 million miles of regular route service and increasing ridership, expanding community circulator service from two to eight programs, expanding travel demand management, and restructuring metro mobility

The governor **recommended $81.26 million** for transit operations in fiscal 1994-1995.

The legislature **appropriated $69.083 million**, of which $32.799 million is for regular route, $29.274 million is for metro mobility, and $7.01 million is for community-based transit and agency costs.[1] Although this amount was estimated at the beginning of the biennial budget cycle to be sufficient to maintain existing service, the RTB now estimates a budget shortfall, including a deficit of about $2.8 million for metro mobility alone.

The graph below shows the approximate distribution of costs among the services provided, averaged over the last five years (1990 to 1994). During this time, as one would expect, opt-outs have increased their percentage from about two percent to six percent and regular route has declined.

Cost of Services
1990 - 1994



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Greater Minnesota

In 1994, of the 80 non-metropolitan counties, 19 counties have no transit service at all, 22 counties have only municipal service, and 39 counties have county-wide service. In the fall of 1992, the Department of Transportation (MnDOT) established transportation funding scenarios for fiscal years 1994 to 2000. These scenarios asserted that:

- With no increase over the approximately $8 million per year state appropriation, service would remain unavailable in 21 greater Minnesota counties and severely limited in 23 other counties, and that existing service would decline.

- With a $17 million per year increase, all greater Minnesota counties would be provided limited transit service.

[1] See Laws 1993, chapter 266, section 3; Laws 1994, chapter 632, article 6, section 3.

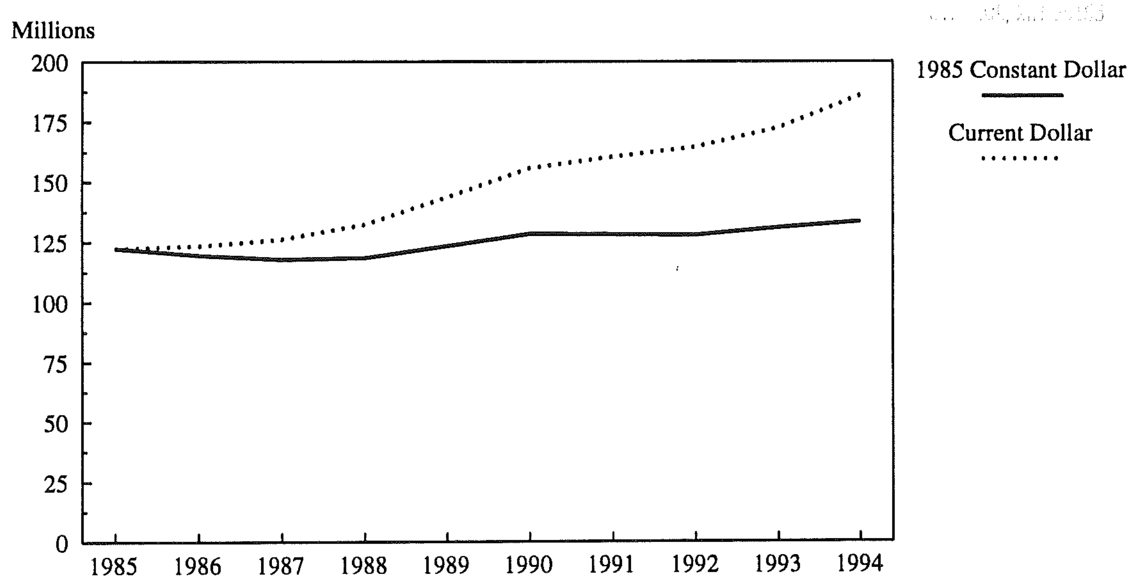
- With a $19 million per year increase, service would be established and improved in all greater Minnesota counties with increased service between economic centers.

For fiscal 1994-1995, the governor **recommended $27.776 million**. This was about a third more than the fiscal 1992-1993 appropriation of $16.348 million but it was about half the estimated amount needed to provide transit service in all of greater Minnesota.

The legislature **appropriated $22.026 million**, of which $20.638 million is for transit assistance (primarily operating assistance, but also approximately $221,000 for capital assistance in 1994) and $1.388 million is for transit administration.[2] This amount will maintain existing service and has permitted some new services. Thus, in 1994, there are four elderly & disabled systems, 30 rural systems, 24 small urban systems, four urbanized systems, and one large urbanized system (Duluth).

The graph below shows the trends for transit operating costs statewide over the last ten years. The line for costs in 1985 constant dollars takes inflation into account and shows that costs have not changed a great deal in real-dollar terms. The line for current dollars does not account for inflation.

Transit Operations Costs Statewide
1985 to 1994



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[2] See Laws 1993, chapter 266, section 2, subdivision 3, and Laws 1994, chapter 632, article 6, section 2.

Transit Operations Funding Sources

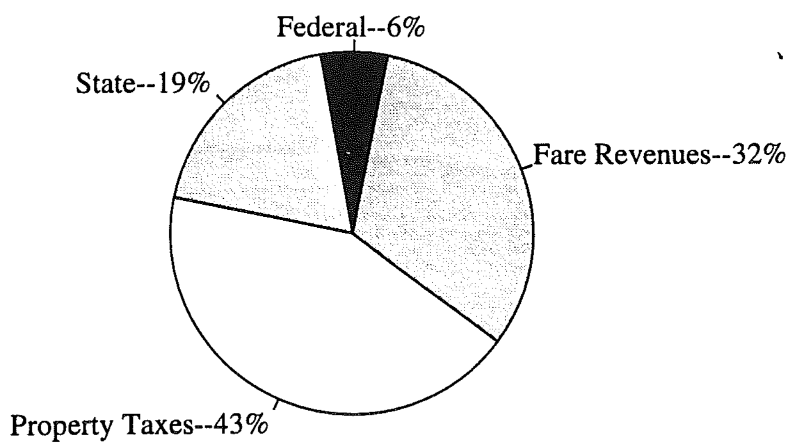
Current Sources

The state appropriation for transit operations comes from the general fund.[3] In contrast, highways have a constitutionally-dedicated source of money—the gas and license taxes which are placed in the highway user tax distribution fund.

Other current sources of transit operations funding are federal funds, local property taxes, and farebox revenues. Although transit operating costs continue to increase and the agencies and public would like to increase service, there is little room for increasing funding with the current sources of funding. Federal funds have remained relatively stable in recent years. In the metropolitan area, there is strong public resistance to increasing property taxes for any reason. Service providers have found that every fare increase results in a ridership decrease.

In the metropolitan area, the breakdown of funding sources averaged over the last five years (1990-1994) is approximately as shown below.

Metro Transit Sources of Funds
1990 - 1994



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[3] Except for $598,000 of the amount for greater Minnesota transit administration which is from the trunk highway fund.

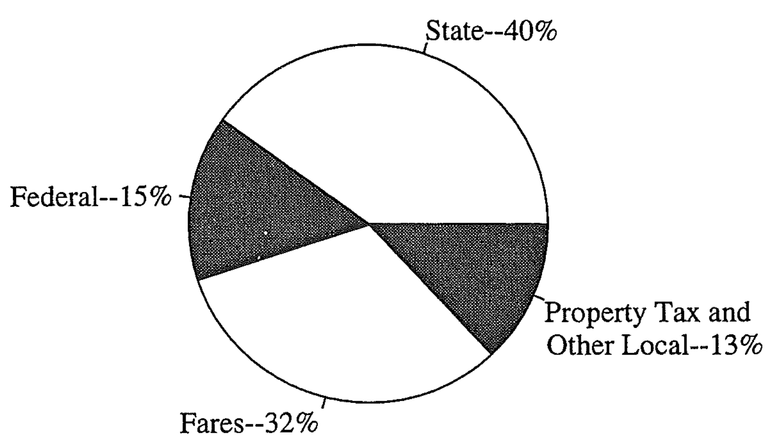
In greater Minnesota the state appropriation accounts on average for about 40 percent of transit operating funding. There are also federal and local funds. The federal share averages about 15 percent but has been on the decline since 1985, with the state share making up the difference. The maximum local share, which includes revenues from fares, local taxes, and any other local sources, is fixed by state law for various kinds of services. The apportionment between fares and other local sources has been relatively stable over the last ten years.

Fixed Maximum Local Share by State Law

Elderly & Disabled	= 35%
Rural	= 35%
Small Urban (2,500-50,000 population)	= 40%
Urbanized (50,000-100,000 population)	= 40%
Duluth	= 55%

Overall, the breakdown of greater Minnesota transit funding sources is approximately:

Greater Minnesota Transit Sources of Funds



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New Sources

Over the last several years, legislators have discussed what other sources could be used to fund transit. They include revenues from congestion pricing, parking taxes, a pollution surcharge, transportation utility fees, a sales tax on gas, an auto repair sales tax, and the motor vehicle sales tax (MVET). During the 1992 interim, some metropolitan area legislators met regularly to focus on this issue. They discussed the advantages and disadvantages of the possible new sources, as highlighted in Table 1.

During both the 1993 and 1994 sessions, agreement on an increase in transit operations funding was tied to an agreement on a gas tax increase, agreements the House and the Senate were unable to reach. Bills were introduced to impose a sales tax on gas and dedicate revenues to transit. Other bills were introduced to increase the gas tax.

In the 1994 session, a proposed constitutional amendment passed the House, but was not incorporated into the conference committee report that would have permitted the highway user tax distribution fund to be used for transit as well as highways in the metropolitan area.[4] It also would have constitutionally dedicated 40 percent of MVET to transit assistance statewide.

Transit funding is inextricably linked to other transportation issues. Based on past years' experiences, it seems that the search for stable, predictable, and adequate sources of transit funding depends on agreements on the balance between highway and transit funding and between rural and metropolitan interests.

[4] See House File 3230.

Table 1

Pros and Cons of Alternative Transit Funding Sources		
Funding Mechanism	**Revenue Raised** (metro/statewide)(1992 estimates)	**Advantages and Disadvantages**
Congestion Pricing	Depends on how it is structured.	**Advantages:** potential to raise significant revenue; can relieve congestion and encourage use of alternatives to single-occupant vehicles. **Disadvantages:** spillover; privacy; federal legal barriers.
Gas Tax	$22.6 million per penny.	**Advantages:** related to highway use; productive revenue source; easy to administer. **Disadvantages:** revenue is constitutionally dedicated only to "highway purposes;" lack of flexibility; regressive; potential declining source.
Motor Vehicle Excise Tax (MVET)	$319 million in fiscal 1994.	**Advantages:** internalizes costs within the transportation system; relatively progressive; productive revenue source. **Disadvantages:** reduces revenue for state general fund; relatively volatile revenue source.
Parking Tax	Depends on how it is structured.	**Advantages:** close link to transportation purposes; could affect single occupancy vehicle use. **Disadvantages:** unpopular with business community; has only been implemented on a citywide basis, not regionwide; collection and enforcement requires effort and investment.
$1 surcharge as a pollution tax, imposed at vehicle license renewal	$4.2 million statewide; 1/2 metro.	**Advantages:** easy to administer; predictable. **Disadvantages:** possible legal battle based on claim it is an unconstitutional motor vehicle tax.
General Sales Tax on Gasoline and Special Fuels	FY94--Statewide: $184 million; Metro: $88 million.	**Advantages:** easy to implement, linked to transportation, generates a high level of revenue. **Disadvantages:** constitutional challenges could tie up its implementation or block use of revenue for other than highway purposes; revenue could decline if price of gasoline again declines.

Table 1

Pros and Cons of Alternative Transit Funding Sources		
Funding Mechanism	**Revenue Raised** (metro/statewide)(1992 estimates)	**Advantages and Disadvantages**
Auto Repair Sales Tax	FY94--$63.8 million; FY95--$68 million.	**Advantages:** easy to implement; consumers believe it is already implemented; 21 states already have it, including several neighboring states. **Disadvantages:** may be regressive; raises debate of taxes on services.
Wheelage/Property Tax (transfer part of county road and bridge levy to transit levy; allow wheelage taxes to make up the loss)	Depends on rate; in metro area each $1 tax per vehicle would raise about $2.1 million.	**Advantages:** avoids property tax increase; imposes costs within the transportation system. **Disadvantages:** unpopular tax; regressive; no revenue for non-metro transit.
Transportation Utility Fee	Depends on structure.	**Advantages:** can be structured to cover full municipal transportation system costs, including transit; imposes costs in relation to system use. **Disadvantages:** may be regressive; no experience in Minnesota in implementing such a system; may be challenged as unconstitutional ad valorem tax or special assessment.
Wholesale Tax on Oil/ Lubricants	$1 million for each 1 cent per quart.	**Advantages:** relatively easy to collect; would impose costs only within transportation system. **Disadvantages:** potentially regressive; potentially unpopular if set high enough; out-of-state wholesalers may challenge taxing jurisdiction.
Eliminate Ethanol Credit	$1 million cost monthly.	**Advantages:** rationale for credit is less convincing as oxygenated gasoline mandate is phased in; would increase yield from gas tax without raising overall rate. **Disadvantages:** might hurt ethanol market.

Readers of this brief may also wish to see ***Metro Mobility*** House Research information brief, August 1994.

Sources

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Economic Report of the President, February 1994, Table B-3 (page 273) for implicit price deflators for gross domestic product for state and local government purchases; Bureau of Economic Analysis, U.S. Department of Commerce (for revised 1991 to 1994 deflators).