

Financing Transportation

in the Washington Metropolitan Area

A December, 1909, banner headline in the *Washington Post* asked "Why Not a Real Subway for Washington?"

Sixty years later when ground was broken for the new Metro subway it was said that this would be a model for the world. Now, as opponents speak of costs so high that they drain funds from other needed services, as proponents point to energy saving and air pollution abatement, the real political miracle of a region-wide system built and running is apparent. The Stark-Harris Bill authorizing federal support of \$1.7 billion for an 101-mile system has passed. Still the major question remains: How much transportation cost will the Washington metropolitan area support and who will pay for it?

METRO

Metro is the publicly owned mass transit system serving the District of Columbia and its adjacent counties in Maryland and Virginia. It provides both rail and bus service to the area: Metrorail, a projected 101-mile, \$7 billion, rapid rail system was begun in 1969 and is scheduled to be completed in 1987; Metrobus became part of this system when four privately-owned bus companies were acquired in 1973. It is unique among transit systems in the United States because it is the only publicly owned combined bus and rail system whose existence depends upon cooperation among federal, state, and local levels of government: Congress and the Executive Branch; the District of Columbia; the States of Maryland and Virginia; Montgomery and Prince George's Counties in Maryland; Arlington and Fairfax Counties in Virginia; and the cities of Alexandria, Fairfax and Falls Church.

PLANNING AND OPERATION

No single agency is given the job of planning and operating a coordinated regional system or the power to levy taxes so that the job can be done. All levels of government in the region have a hand in it. The U.S. Department of Transportation (DOT) has only an indirect role in regional planning for the Washington Metropolitan Area. Two of its agencies -- the Federal Highway Administration (FHA) and the Urban Mass Transportation Administration (UMTA) -- do have influence in proportion to their financial contribution.

The Metropolitan Washington Council of Governments (COG), first organized in 1957 by elected officials from the major cities and counties in the area to provide a forum on major area problems, plays the role of coordinator. Its Transportation Planning Board (TPB) includes not only representatives from local jurisdictions, but also representatives from the transportation departments of Maryland, Virginia,

and the District of Columbia, and non-voting members representing the National Capital Planning Commission, FHA, UMTA, the Office of Management and Budget, and the General Assemblies of Maryland and Virginia.

The Washington Metropolitan Area Transit Authority (WMATA), a public agency established by a Congressionally approved interstate compact, plans (in conjunction with TPB), constructs, finances, and operates Metro. WMATA policy is determined by a board of directors made up of two directors and two alternates from each of the three major jurisdictions -- Maryland, Virginia and the District of Columbia. The Virginia members are appointed by the Northern Virginia Transportation Commission (NVTC), the District of Columbia members by the District Government, and the Maryland members by the Washington Suburban Transit Commission (WSTC). Most of the board members are elected officials from the jurisdictions, although a few are appointees of elected officials. WMATA has no taxing power -- it allocates costs to the component jurisdictions on the basis of an accepted formula. Local governments determine the percentage of each jurisdiction's cost that will be borne by the fare box (hence "fare structure") and the portion to be provided by local subsidy.

The Northern Virginia Transportation Commission, created by the General Assembly in 1964, does the transportation planning for the Northern Virginia Transportation District, plans and assists in financing a regional transportation system in conjunction with WMATA, acquires rights-of-way for transit lines and fringe parking facilities, and operates commuter bus services. It also acts as a funnel to WMATA for state and local capital funds.

The District of Columbia Department of Transportation functions as a local governmental executive agency but also performs some functions of state transportation departments.

The Washington Suburban Transit Commission is a Maryland bi-county (Montgomery and Prince George's) agency authorized by the General Assembly to plan and finance Maryland's part of a regional transit system in conjunction with WMATA. It reviews the plans, and acts as a channel for state and local funds to WMATA.

All the major local governments have transportation planning departments which operate closely with the COG Transportation Planning Board, their state governments, and each other.

Because WMATA has no independent taxing authority, local jurisdictions have considerable autonomy that can affect the working of the system. For instance, each local jurisdiction determines the level of additional bus and rail service it will support and any extension of lines or hours of operation which will

affect its subsidy. The complicated fare structure reflects this autonomy. The District of Columbia government believes fares should be kept low and the difference made up by public subsidy. Virginia thinks the fare should cover much more of the costs of operation; Maryland is somewhere between. Any new change in the political climate in eight jurisdictions has the potential of changing the amount of subsidy the jurisdiction will vote to pay for, hence the variations in fare structure and service. Public officials deplore the cost in time and money resulting from this autonomy. Metro tends to bear the brunt of public impatience.

FINANCIAL HISTORY

The need for an efficient mass transportation system in the Washington metropolitan area has been recognized for many years.

- 1952 Congress passes National Capital Planning Act and funds Mass Transit survey.
- 1954 Maryland and Virginia general assemblies adopt resolution creating joint commission to study subject.
- 1960 Congress passes National Capital Transportation Act establishing federal agency to plan, finance, construct and operate system, with the intention of succeeding this agency with a regional one.

At this point problems were already developing over who should have control over the system. The federal government's substantial monetary investment put it in the position of looking out for the national interest and the District of Columbia, but Maryland and Virginia pushed for local control to be able to meet the differing needs of the local jurisdictions.

- 1964-65 Washington Suburban Transit Commission (WSTC) and Northern Virginia Transit Authority (NVTA) are created allowing for these three sub-regional bodies (DC Board of Commissioners, WSTC and NVTA) to be represented in the planning process.
- 1965 Congress passes National Capital Transportation Act of 1965 authorizing construction funds on a 2:1 federal/non-federal basis.
- 1966-67 WMATA formed by Congressional passage of the Washington Metropolitan Area Transportation Act of 1966.
- 1969 WMATA sells revenue bonds to finance rail construction. Federal Government guarantees bonds and Congress approves Metro plan and federal financing participation.
- 1973 WMATA takes over four local bus systems using federal/non-federal matching funds.
Federal Aid Highway Act of 1973; facilities for the handicapped.
- 1976 Rail service begins operation; bus and rail begin coordinated service.

1979

Stark-Harris Bill authorizes \$1.7 billion federal grant on an 80% - 20% federal/local basis to complete the 101-mile system.

STARK-HARRIS

The federal government's early interest in a subway for Washington was first seen in planning money authorized in 1952. This coincided with a national concern for mass transportation that was faltering because of easy automobile use. Opponents of more and more highways, and those who were concerned about congested cities and mobility of the poor, brought about input of federal funds for capital costs only. In 1973 the federal government began to make money available to transit systems for operating deficits. Rationale for federal support was: The recognition that revenue bonds, originally thought viable for Metro, could not be paid off from Metro earnings; concern to make mass transit available to the handicapped; the realization that inflation and federally mandated delays raised costs. This culminated with federal legislation passed in December 1979, the Stark-Harris Bill, which is supposed to fulfill any responsibility the federal government has to complete a mass transit system for the nation's capital.

The Stark-Harris Bill authorizes a lump sum of \$1.7 billion, subject to annual appropriations beginning in fiscal year 1982, to complete the 101-mile metro-rail system, 80/20 federal/local. It also incorporates into law an "agreement" by DOT and WMATA for orderly retirement of \$997 million of outstanding revenue bonds issued by WMATA between 1972 and 1976. The federal government pays 2/3 of the cost of debt service with local jurisdictions responsible for 1/3. Prior to release of funds the Secretary of Transportation must approve the localities' "stable and reliable" source of revenue to pay their share.

"To the Federal Government, this system was to be a means to assure the survival and beauty of its capital city...metrorail was to be a model of urban mass transportation for the nation."

(Alternative Analysis Final Report)

CURRENT FINANCIAL PROGRAM

The financing of Metro consists of three major parts: debt service or principal and interest on bonds outstanding, capital costs for new rail and bus, and operating costs.

The formula for sharing operating expenses for rail is based on ridership, number of stations and population by jurisdiction. Since the farebox brings in about 50% of rail operating costs and 35% of bus operation (depending on how you count transfers) operating costs must be subsidized. Federal assistance for paying operating deficits, other than that already authorized (Section 5 funds), was deleted from the Stark-Harris Bill before it was passed in the Senate.

D.C.'s initial share of construction funds was made through loans from the U.S. Treasury since D.C. is prohibited by Congress from issuing bonds. D.C. was the first jurisdiction in the country to take advantage of the Urban Mass Transportation Act of 1974 ruling that permitted transfer of unused inter-

state highway funds. Abandoned plans for mid-city freeways and the Three Sisters Bridge freed Highway Trust Fund money for Metro construction. Local taxes, federal payments and public borrowings as well as funds through Section 5 of the Urban Mass Transportation Act of 1964 offset operating subsidies. A proposal for an earmarked tax for transportation is to be made to the Council by the Mayor to fulfill the requirements of a stable and reliable source of revenue.

Maryland jurisdictions have met their share of capital expenses from bond sales, local taxes and grants from the Maryland Consolidated Transportation Fund. This fund, at the state level, is fed from a portion of sales taxes, gas taxes, and vehicle registration fees. Most of Prince George's and Montgomery's capital contributions and debt service is paid by state funds. Some of the operating deficit is paid by one-time state grants, some from Section 5 federal funds, and some from locally raised funds. Since there is no earmarked revenue source in either Montgomery County or Prince George's County, both must rely on property tax for their part of the payment.

To satisfy the Stark-Harris Bill's requirement for a stable and reliable source of revenue for Metro a package of increases to the Transportation Fund, recommendations from a special committee set up by the

governor to study revenue and tax structure, have been introduced into the Maryland State Legislature. The proposals include: tracking the fuel tax to inflation with a maximum one-cent per year increase and a \$10 increase in motor vehicle registration fees. An optional one per cent general sales tax for transit districts has also been proposed.

Into the political mix in Maryland goes the increased need for highway repair funds, the current 100% construction and operation commitment of the state to the Baltimore subway (now under construction) and the natural rivalry between metropolitan and rural areas of the state.

Virginia has a tradition of fiscal conservatism and tight control over local governments. Its jurisdictions have raised their Metro costs from local bond sales, local taxes (property) and state highway funds. Some money allocated for I-66 and federal funds under Section 5 have been transferred to Metro. The state's policy in urban areas is to finance 95% of localities' capital costs and 50% of transit administrative expense. Northern Virginia, with "exceptionally large" funding obligations, is the only exception to this policy, according to the Department of Highways and Transportation. Funds are provided by the state for administrative expenses of NVTC but Virginia appropriates no general revenues for mass transit. In 1976 the General Assembly passed a bill authorizing a

METRO COSTS								
OPERATING				CAPITAL		TOTAL		
	Item	FY 1980	FY 1981	Item	FY 1980 (millions)	FY 1981 (millions)	1980 (millions)	1981 (millions)
BUS	Total Bus Fleet	1,810	1,832	Total Bus	\$ 25,141	\$ 28,421	\$185,598	\$205,101
	Scheduled	1,615	1,636	Metrobus				
	Charter, etc.	195	196	garage construction	\$ 12+	\$ 8		
	Total Miles traveled	54,540,000 mi.	55,412,000 mi.	Operating & Maintenance	\$ 13+	\$ 7.3		
	Total Cost	\$160,457,000	\$176,770,000	equipment & administration				
RAIL	Revenue (fares +)	\$ 66,396,000	\$ 67,510,000	Replacement buses		\$ 14		
	Subsidy	\$ 94,061,000	\$109,260,000					
	Passenger Revenue	38.3%	35.4%					
	Subsidy	58.6%	61.8%					
	Total Rail			Total Rail	\$338,500	\$333,500	\$415,639	\$431,521
STATION	Cars	246(+38 spare)	258(+34 spare)	Design	\$ 7.7	0		
	Stations	38	41	Right-of-way	\$ 35.5	0		
	Total Miles Traveled	18,100,000 mi.	22,700,000 mi.	Structural Constructn.	\$185.5	\$166.5		
	Number of Riders	74,681,000	86,280,000	Finish & Stage	\$ 2.6	\$ 47.4		
	Total Cost	\$77,139,000	\$98,021,000	Vehicles & Equipment	\$ 47.1	\$ 4.5		
	Revenue (fares +)	\$43,483,000	\$50,386,000	Consultants	\$ 21.0	\$ 21.0		
	Subsidy	\$33,656,000	\$47,815,000	Project Mgt.	\$ 12.7	\$ 13.6		
	Passenger Revenue	53.9%	49.1%	UMTA Grant				
	Subsidy	43.6%	48.7%	Contingency	\$ 22.7	\$ 51.9		
				Other	\$ 3.8	\$ 3.5		
			Insurance		\$ 14.9			
			Inspection		\$10.2			

local option 4% tax on gasoline but only if all jurisdictions within the transit district could agree. Fairfax City refused the tax so it was not imposed. An optional one percent sales tax earmarked for transportation districts passed the Senate in 1978 but failed in the House. The gasoline tax passed the House but was defeated in Senate committee. The sales tax was again introduced in 1979, passed the Senate, but was defeated by the House finance committee.

The pressure is on in the 1980 session of the legislature to break the impasse. Governor Dalton has recommended a 4% sales tax on wholesale gasoline prices to fill depleted highway coffers and provide \$10 million off the top for Metro capital costs. Many legislators from Northern Virginia support an additional sales tax option to fill the federal requirement for a stable and reliable source for operating subsidies.

There is a growing demand in other metropolitan areas in Virginia for state support for mass transportation. A likely coalition is those who support highway repair funds and those who need money for public transportation.

ALTERNATIVE SOURCES OF REVENUE

At issue is how to fund the difference between transit revenues (fares and miscellaneous income) and the actual costs of transit operations and debt service. Local governments have subsidized and will continue to subsidize a considerable portion of these costs; in the past subsidies have come primarily from general revenues, which rely heavily on the real property tax.

While transit costs have been rising, pressure to relieve the burden on the property tax has also been increasing. Furthermore, UMTA's condition of continued federal aid to WMATA is that participating local jurisdictions develop a financial plan by September 30, 1980. WMATA itself has repeatedly emphasized the need for a stable source in order to facilitate long-range planning and increase efficiency. There is thus a pressing need to resolve funding problems -- and find new sources of revenue.

"If you wanted to design an organizational structure that was guaranteed to fail, you would design Metro," a senior federal transit official said. "The wonder of it all is that it has held together this long."
(Douglas Feaver, July, 1979)

A DEDICATED TAX?

Should this stable and reliable source of revenue be a tax dedicated to Metro's costs, or to all transportation costs of a single jurisdiction, of a group of jurisdictions within a state, or of all jurisdictions within a transit zone?

There are arguments for and against a dedicated tax. Such a tax means that the amount paid for transportation will be highly visible and this can be good -- or bad. A dedicated tax would effectively remove transportation from the priority list for education, welfare, etc. and set the level of support for the unknown future. One of the strongest arguments against the Highway Trust Fund was that it accumulated more money than anyone expected and spawned a powerful highway lobby. It could produce too

little for needed transportation costs and so starve the system. Once a dependable level of funding becomes available the incentive to economize could disappear. It is wasteful to continue supplying services that consumers are unwilling to pay for; tying user fees closely to service tailors supply to demand.

Only four systems in the country do not have a dedicated source of funding. Its advantages are thought to be that it simplifies funding, avoids jurisdictional disputes, and is fair to residents and users.

"The Metro system as planned cannot deliver the transportation promised at an affordable price; and it cannot deliver the social benefits of clean air, freedom from congestion and effective fuel conservation at any price."

(Edmund Kanwit, 1978)

THE RANGE OF OBJECTIVES OF A TRANSIT TAX

Before the people in local jurisdictions can determine what type of tax would best serve the needs of WMATA, they need to consider some basic choices, which are essentially philosophical and political rather than economic.

One set of choices concerns the objectives of a transit tax:

- *Should one goal of a transit tax be to reduce as much as possible the portion of costs paid by the transit rider?*

In the background are the questions of whether mass transit is a service to which the public is entitled -- comparable to police and fire protection, street lighting, schools and libraries -- and to what extent the residents of the area, whether transit riders or not, benefit from mass transit in such ways as diminished air pollution and energy conservation.

- *Should the property tax and the transit rider continue to bear the total burden?*

If so, either the property tax will rise or fares will increase. The burden of transit on the property tax is already the focus of much criticism; any increase is unlikely. The problem with fare increases is that they could reduce ridership; public transit must be competitive with other forms of transportation and cost effective for the individual in order to attain a viable level of usage.

- *Should transit costs be funded through a combination of the property tax, a special earmarked tax, and the farebox?*

Obviously the answers to questions like these will limit the range of suitable tax options since they differ in potential revenues. For instance, if an objective of the transit tax is to remove fully the burden from the property tax, any tax or combination must provide substantial revenue. WMATA estimated in 1977 that demands on such a tax, to fund all transit costs, including local debt service, would range from \$105 million in FY 1979 to \$231 million in FY 1984.

REGIONAL VERSUS LOCAL ADMINISTRATION

Another kind of choice the people in participating jurisdictions should make is whether administration of the tax should be regional or local. Some alternatives would require legislation to achieve.

- Should the new tax be levied directly by WMATA on the whole region and the proceeds go directly to WMATA?
- Should Maryland (through WSTC), Virginia (through NVTC) and the District of Columbia each choose and administer a tax for its jurisdiction and pay from the proceeds its allocated share of Metro's costs?
- Should each county and city be allowed to choose and administer a tax to fund its share of Metro's costs?
- Should jurisdictions be allowed to charge more and so get custom service?

One advantage of a regionally administered tax is that it could substitute for the cumbersome allocation process; another is that uniform service and fare standards could be established, with a jurisdiction desiring lower fares or increased service providing an additional direct subsidy payment. Advocates of a locally administered tax see advantages in local control of services and costs.

The overall issue is the regional concept: is the transit zone to be considered a single community or a collection of eight localities?

CRITERIA RELEVANT TO TAX OPTIONS

Once these basic choices are made, the procedure of evaluating specific tax options begins. Which tax or taxes best serve the chosen objectives? A 1977 WMATA Legislative Committee Report entitled "Proposed Public Transportation Revenue Source Policy" includes the following criteria for such an evaluation:

- Revenue Potential - To what extent can the tax provide for transit costs?
- Inflationary Characteristics - Will revenues track inflation as transit operating costs escalate?
- Timeliness and Reliability - Will revenues be available on a timely and reliable basis?
- Progressiveness - Which income level will bear the highest portion of the tax burden?
- Political Acceptability - To what extent will the tax appeal to each of the eight jurisdictions affected?
- Cost and Complexities of Administration - How expensive is the tax to collect?
- Relationship to Transit Benefits - To what extent does the tax burden fall on those who benefit the most?

EVALUATION OF OPTIONS

The WMATA report examines a number of common types of tax according to these criteria. The results are summarized in Table II.

Alternative taxes which have been proposed for this area are presented in Table I along with yields projected in the 1977 WMATA Report.

TABLE I		
Tax Option	Regionwide Yield (millions)	Rate of Levy
Payroll Tax	\$ 190.4	1%
Sales Tax	87.5	1%
Motor Fuel Tax	6.9	1%
Motor Fuel Tax	13.9	1¢ per gallon
State Income Tax Surcharge	73.7	10% on current taxes
Value-Added Tax on Property Around Rail Stations	N/A	-
Motor Vehicle Registration Fee	15.6	\$10.00
Fuel Economy Tax	N/A	-
Tax on Additional Autos	3.6	\$10.00

Other options which could be considered include: a fuel economy tax on autos over 3500 pounds, a tax on additional autos per household, anti-congestion charges, bridge tolls, a tax on tourist facilities, or even a lottery. In most cases the revenue potential is too low, and in some (taxes on large or additional cars) it would decline as the energy situation worsens. Bridge tolls do provide substantial revenues in some areas but probably would not here.

"More than a subway will begin in December.
A city will begin to renew itself, a metro-
politan area to pull itself together."
(Richard M. Nixon)

FINANCING IN OTHER TRANSIT DISTRICTS

People frequently ask how other cities have financed their mass transportation systems. A survey conducted in 1979 by the American Public Transportation Association shows how sixty-four urban areas do it. Few of these systems are bus-rail systems, few are as large as Metro, and none involve as many levels of government as does Metro: still some sense of the types of mechanisms used to generate revenue, as well as their frequency of use, may prove helpful.

The sources most frequently used by the sixty-four selected systems -- and those most widespread throughout the nation -- are the sales tax (used by 24 systems) and the property tax (15). Next come the motor vehicle tax (6), the gasoline tax (5), a payroll or earnings tax (5), and tolls (2). Then come a series of sources confined (at least in this study's sampling) to specific regions: a lottery (15 - all in Pennsylvania), a mortgage tax (5 - all in New York), and an ad valorem tax (2 - both in Florida). Single and scattered instances of the following occur: an aviation tax; revenue from ports; a bank and building and loan tax; subsidies from a city's gas and electric departments; a household tax; and payment of specific costs by a city government.

LEAGUE SURVEY

In September 1979 the League of Women Voters interviewed key political leaders in metropolitan area jurisdictions and found strong support for funding Metro at the sub-regional or regional level. One leader felt most costs should be paid by state and federal governments because "the system is interstate". Several spoke wistfully about region-wide funding but then rejected it as "impractical", "politically difficult", "full of obstacles". One leader on the outside fringe of the transit zone suggested his jurisdiction should contribute to funding an extension as soon as the 101-mile system is complete. The sales tax was the preferred method of financing Metro with ad valorem gasoline tax the next most favored.

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When Congress established WMATA it in effect said that the Washington metropolitan area is one as far as transportation is concerned. Despite the apparent logical simplicity of the task set for the area, to build a model transportation system, the way to do this in the real political world is incredibly complicated.

If anyone should ask, "Why not a real transportation system for Washington?" the answer would be "politics". And the basic issues are, and will remain through the years: how much transportation cost will the Washington metropolitan area support and who will pay for it? These questions must be answered by the citizens. And then answered again and again.

"We are aware of the tremendous demand being placed on the Metro System during the current energy shortage and of the growing role Metro will play in changing our community's dependence for mobility on the automobile. We agree with you that this can best be accomplished by completing the full 101-mile Metro system in operable segments at the earliest possible date."

(Brock Adams, Secretary of Transportation)

TABLE II

SUMMARY COMPARISON OF TAX OPTIONS

CRITERIA	REVENUE POTENTIAL	INFLATIONARY CHARACTERISTICS	TIMELINESS/RELIABILITY	PROGRESSIVENESS	COSTS OF ADMIN.	RELATION TO TRANSIT BENEFITS
<u>TYPE OF TAX</u>						
PAYROLL TAX	very good decreases with exemptions	tracks well	good	regressive unless exempt low income		2/3 transit used for work trips
SALES TAX	good potential unutilized comp. to national avg.	sales rise as personal income rises	good mechanisms in effect	regressive but could exempt necessities	little or none	little relationships, tourists pay
MOTOR FUEL TAX (cents per gal.)	has been good producer, could decline as sales decline	price will rise, volume will decline, doesn't track well	ok, except in fuel crisis	regressive	some costs	inverse, makes autos more exp.
MOTOR FUEL TAX (% of price-ad valorem)	better	tracks well	less affected by fuel shortage	regressive	some costs	inverse
STATE INCOME TAX SURCHARGE	good, but tax now exceeds natl. avg. in Md. & D.C.	tracks well	good	income tax can be progressive	little or none	little relationship
VALUE-ADDED TAX	estimates not available-but limited to land near stations	probably ok	good	tax on real property tends to be regressive	hard to apply fairly	shifts to specific areas receive benefits
PARKING TAX	modest	not good	D.C. already has	not related to income	complicated by parking on private property	makes autos expensive