Commission Briefing Paper 3B-01

2006 C&P Findings: Current Transit Funding

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Introduction

This paper is part of a series of briefing papers to be prepared for the National Surface Transportation Policy and Revenue Study Commission authorized in Section 1909 of SAFETEA-LU. The papers are intended to synthesize the state-of-the-practice consensus on the issues that are relevant to the Commission's charge outlined in Section 1909, and will serve as background material in developing the analyses to be presented in the final report of the Commission.

This paper presents information on the findings from the 2006 Conditions and Performance Report with regard to current transit system revenue sources at the Federal, State, local and operator level and the types of transit expenditures being made.

Background and Key Findings

The information and findings presented in this paper are extracted from the 2006 *Status of the Nation's Highways, Bridges, and Transit: Conditions & Performance* Report to Congress, and is based on data from 2004. Key findings include:

- In 2004, $39.5 billion was available from all sources to finance transit investment and operations. Federal funding was $7.0 billion, State funding was $7.8 billion, local funding was $13.7 billion and system-generated revenues were $11.1 billion.

- In 2004, $12.6 billion was invested in capital and accounted for 32 percent of total funding available to transit agencies. Thirty-nine percent of this amount was from Federal sources. The Federal share of total capital investment was about 40 percent between 2002 and 2004, low in comparison to earlier years back to 1995. Guideway and rolling stock received the largest amounts of capital investment.

- In 2004, $26.9 billion was available for operating expenses. The Federal share of operating expenses reached 7.5 percent in 2004 its highest level during the 1995-2004 period. Actual operating expenditures were $25.4 billion. Fifty-three percent of operating expenditures were for vehicle operations.

- In 2004 operating expenditures per vehicle revenue mile for all transit systems combined was $7.17; operating expenses per passenger mile traveled for all systems was $0.55; the farebox recovery ratio, or total farebox revenues as a percentage of total operating costs, was 35 percent.

Funding Sources

In 2004, $39.5 billion was available from all sources to finance transit investment and operations (compared with $36.5 billion in 2002). Transit funding comes from two major sources: *public funds* allocated by Federal, State, and local governments; and *system-generated revenues* earned for the provision of transit services. The sources for financing transit are provided in the following table.

Revenue Sources for Transit Funding, 2004
(Millions of Dollars)

	Federal	State	Local	Total	Percent
Public Funds	*$6,954*	*$7,792*	*$13,659*	*$28,406*	*71.9%*
General Fund	1,391	2,043	2,692	6,126	15.5%
Fuel Tax	5,564	505	148	6,216	15.7%
Income Tax		187	98	285	0.7%
Sales Tax		2,106	4,765	6,871	17.4%
Property Tax		63	490	$553	1.4%
Other Dedicated Taxes		1,044	784	1,828	4.6%
Other Public Funds		1,844	4,682	6,526	16.5%
System-Generated Revenue				*11,093*	*28.1%*
Passenger Fares				9,114	23.1%
Other Revenue				1,979	5.0%
Total All Sources				*$39,499*	*100.0%*

Source: National Transit Database.

In 2004, Federal funding was $7.0 billion, accounting for 25 percent of total public funding and for 18 percent of all available funding from both public and nonpublic sources. State funding was $7.8 billion, accounting for 27 percent of total public funds and 20 percent of funding from all sources. Local jurisdictions provided the bulk of transit funds, $13.7 billion in 2004, or 48 percent of total public funds and 35 percent of all funding. System-generated revenues were $11.1 billion, 28 percent of all funding.

Federal Funding

Federal funding for transit comes from two sources, the general revenues of the U.S. Treasury and fuel tax revenues deposited to the Mass Transit Account (MTA) of the Highway Trust Fund (HTF). The MTA, a transit trust fund for capital projects in transit, is the largest source of Federal funding for transit. Eighty-two percent of the transit funds authorized for transit by SAFETEA-LU ($37.2 billion) will be derived from the MTA. Funding from the MTA in nominal dollars increased from $0.5 billion in 1983, when it was established, to $4.9 billion in 2004. The portion of the Federal fuel tax dedicated to the MTA increased from 1.0 cent in 1983, to 1.5 cents in 1990, to 2.85 cents in 1995, and to 2.86 cents in 1998 (retroactive to October 1, 1997). Since 1997, 2.86 cents of Federal highway-user fees on gasohol, diesel and kerosene fuel, and other special fuels, including benzol, benzene, and naphtha, have been dedicated to the MTA. Since 1997, the MTA has also received 2.13 cents of the user fee on liquefied petroleum gas and 1.86 cents of the user fee on liquefied natural gas. The MTA does not receive any of the nonfuel revenues (such as heavy vehicle use taxes) that accrue to the HTF. Since the passage of

SAFETEA-LU only the formula and some discretionary grants programs (e.g., Clean Fuels and Alternatives Analysis) are funded from the MTA. New Starts, Research and FTA Administrative funding are funded by the General Fund. Prior to SAFTEA-LU, the MTA was used to fund all FTA programs at approximately 80 percent.

Since 1973, Federal surface transportation authorization statutes have contained flexible funding provisions that enable transfers from certain highway funds to transit programs and vice versa. In 2004, $1,475.4 million in flexible funds were available to transit for obligation, of which $980.0 million was transferred to FTA in FY 2004 and $494.5 million was the unobligated carryover from prior years' transfers. Since the program's beginning in FY 1992, through FY 2004, a total of $10.9 billion has been transferred from highways to transit. Flexible funds are used primarily for capital purposes.

State and Local Funding

General funds, other dedicated public funds, and dedicated sales taxes are important sources of funding for transit at both the State and local levels. In 2004, general revenues provided 26 percent of State funds and 20 percent of local funds for transit, allocations from other public funds provided 24 percent of State funds and 34 percent of local funds for transit, and dedicated sales taxes provided 27 percent of State funds and 34 percent of local funds for transit. Dedicated income and property taxes provide more modest levels of transit funding at both the State and local levels. Dedicated income taxes are a more important source of funds at the State level, whereas dedicated property taxes are more important at the local level.

System-generated Funds

In 2004, system-generated funds were $11.1 billion and provided 28 percent of total transit funding. Passenger fares contributed $9.1 billion, accounting for 82 percent of system-generated funds and 23 percent of total transit funds. These passenger fare figures do not include payments by State entities to transit systems to offset reduced transit fares for certain segments of the population, such as students and the elderly. These payments are included in the other revenue category.

Trends in Public Funding

Prior to 1962, there was no Federal funding for transit. State and local funding was limited, equaling 12 percent of total public funding for transit in 2004 in real terms. Public funding for transit grew rapidly in the 1970s. Federal funding increased at an average annual rate of 38.9 percent, and State and local funding increased at an average annual rate of 11.9 percent throughout the decade. Federal funding grew much more slowly during the 1980s, increasing at an average annual rate of 0.4 percent, while

funding at the State and local levels continued to grow steadily at an average annual rate of 7.8 percent. During the 1990s, Federal funding for transit grew more rapidly than in the 1980s, increasing at an average annual rate of 4.3 percent. However, State and local government funding grew more slowly than in the preceding decade, increasing at an average annual rate of 4.8 percent. Public funding for transit increased even more rapidly between 2000 and 2004 than in the 1980s and 1990s, growing at an average annual rate of 8.0 percent; Federal funding increased at an average annual rate of 7.2 percent, and State and local funding grew at an average annual rate of 8.3 percent.

Public Funding for Transit by Government Jurisdiction, 1960–2004

Year	Federal	State and Local	Total	Federal Share
	Millions of Current Dollars			Current Dollars
1960	$0	$683	$683	0.0%
1970	124	1,499	1,623	7.6%
1980	3,307	4,617	7,924	41.7%
1990	3,458	9,823	13,281	26.0%
1991	3,395	11,116	14,511	23.4%
1992	3,448	11,195	14,643	23.5%
1993	3,297	11,991	15,287	21.6%
1994	3,380	12,522	15,902	21.3%
1995	4,082	12,971	17,053	23.9%
1996	4,060	12,643	16,703	24.3%
1997	4,742	12,728	17,470	27.1%
1998	4,421	13,200	17,620	25.1%
1999	4,586	15,166	19,752	23.2%
2000	5,259	15,739	20,999	25.0%
2001	6,586	17,631	24,216	27.2%
2002	6,296	20,294	26,590	23.7%
2003	6,688	21,107	27,796	24.1%
2004	6,954	21,452	28,406	24.5%

Source: National Transit Database.

Transit Capital Investment

In 2004, $12.6 billion was invested in transit capital and accounted for 32 percent of total funding available to transit agencies. Thirty-nine percent of the $12.6 billion or $4.9 billion was provided by Federal funds, 14 percent or $1.8 billion was provided by State funds, and 47.1 percent or $5.9 billion was provided by local funds. Federal funds accounted for a much lower share of capital investment in 2004 than in preceding years. This may be related to the increase in the Federal share of funds for operating expenses in 2004.

Sources of Funds for Transit Capital Expenditures, 1995–2004 (Millions of Dollars)

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Federal	$3,314	$3,506	$4,138	$3,680	$3,726	$4,275	$5,468	$4,994	$5,092	$4,930
Share	47.3%	50.4%	54.2%	49.7%	44.1%	47.2%	50.5%	40.6%	39.9%	39.0%
State	$989	$895	$1,007	$875	$858	$973	$1,011	$1,433	$1,623	$1,756
Share	14.1%	12.9%	13.2%	11.8%	10.2%	10.7%	9.3%	11.6%	12.7%	13.9%
Local	$2,706	$2,553	$2,492	$2,856	$3,860	$3,808	$4,345	$5,874	$6,061	$5,943
Share	38.6%	36.7%	32.6%	38.5%	45.7%	42.0%	40.1%	47.8%	47.4%	47.1%
Total	$7,008	$6,955	$7,636	$7,411	$8,443	$9,056	$10,825	$12,301	$12,775	$12,629

Source: National Transit Database

Transit capital expenditures by mode and by type are shown in the following table. Rolling stock accounted for 27 percent of capital investment in 2004. FTA has been collecting detailed data on non-vehicle investment since 2002.

Transit Capital Expenditures by Mode and by Type, 2004
(Millions of Dollars)

	Guide-way	Rolling Stock	Systems	Maintenance Facilities	Stations	Fare Revenue Collection Equipment	Administrative Buildings	Other Vehicles	Other Capital Expenditures[1]	Total	Percent of Total
Rail	$3,754	$1,439	$1,610	$633	$732	$66	$17	$26	$551	$8,829	70%
Commuter Rail	937	726	390	156	84	16	4	4	260	2,577	20%
Heavy Rail	1398	330	978	350	496	39	12	18	175	3,796	30%
Light Rail	1414	381	240	126	150	10	1	4	116	2,441	19%
Other Rail [2]	5	3	2	1	3	0	0	0	1	15	0%
Nonrail	283	1,922	451	484	237	65	113	27	217	3,800	30%
Motorbus	211	1665	296	427	219	61	102	25	191	3,196	25%
Demand Response	0	100	8	43	11	2	11	2	9	187	1%
Ferryboat	0	94	145	2	0	1	0	0	15	257	2%
Trolleybus	71	51	1	12	5	1	0	0	1	143	1%
Other Nonrail [3]	0	13	1	0	1	0	0	0	1	16	0%
Total	4,036	3,362	2,062	1,117	969	131	130	54	768	12,628	100%
Percent of Total	32%	27%	16%	9%	8%	1%	1%	0%	6%	100%	

[1] Capital expenditures not elsewhere included; these expenditures include furniture and equipment that are not an integral part of buildings and structures; they also include shelters, signs, and passenger amenities (e.g., benches) not in passenger stations.
[2] Automated rail, Alaska rail, cable car, inclined plane, monorail.
[3] Jitney, Publico and vanpool, aerial tramway.

Source: National Transit Database.

Transit Operating Expenses

Transit operating expenditures include wages, salaries, fuel, spare parts, preventive maintenance, support services, and leases used in providing transit service.[1] In 2004, $26.9 billion was available for operating expenses and accounted for 68 percent of total available funds. Of this amount, $2.0 billion was provided by the Federal government (7.5 percent of total transit agency operating expenditures), $6.0 billion was provided by State governments (22.5 percent of total transit agency operating expenditures), $7.9 billion by local governments (29.4 percent of total transit agency operating expenditures), and $10.9 billion by system-generated revenues (40.6 percent of total transit agency operating expenditures). The Federal share of operating expenditures of 7.5 percent was higher in 2004 than in any other year during the 1995 to 2004 period.

In 2004, transit operators' actual operating expenditures were $25.4 billion, compared with $22.9 billion in 2002. Buses accounted for the largest percentage of transit operating expenditures,

[1] Preventive maintenance is eligible for Federal capital assistance, but is reported as an operating expense to the National Transit Database.

$13.8 billion in 2004, or 54 percent of the operating expenditure total. Operating expenditures for heavy rail in 2004 were $4.7 billion (19 percent of the total), operating expenditures for commuter rail were $3.4 billion (14 percent of the total), operating expenditures for demand response systems were $1.9 billion (7.5 percent of the total); operating expenditures for light rail were $0.8 billion, and operating expenditures for the remaining modes $0.7 billion, each accounting for less than 3.0 percent of the total.

Sources of Funds for Transit Operating Expenditures, 1995–2004 (Millions of Dollars)*

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Federal	$768	$554	$604	$741	$860	$984	$1,117	$1,302	$1,596	$2,024
Share	4.6%	4.6%	3.3%	4.0%	3.9%	4.5%	4.8%	5.4%	6.3%	7.5%
State	$3,599	$3,789	$3,661	$3,819	$3,819	$4,351	$5,127	$6,113	$6,043	$6,036
Share	21.8%	21.8%	20.0%	20.5%	17.4%	20.1%	21.8%	25.3%	23.8%	22.5%
Local	$5,146	$5,406	$5,568	$5,649	$6,097	$6,513	$7,147	$6,874	$7,382	$7,887
Share	31.1%	31.1%	30.4%	30.3%	27.8%	30.0%	30.4%	28.4%	29.1%	29.4%
System Generated Revenues	$7,015	$8,185	$8,477	$8,438	$11,128	$9,832	$10,112	$9,890	$10,355	$10,922
Share	42.4%	42.4%	46.3%	45.2%	50.8%	45.3%	43.0%	40.9%	40.8%	40.6%
Total	$16,527	$17,933	$18,310	$18,647	$21,905	$21,680	$23,503	$24,179	$25,376	$26,870

*These are sources of funds for operating expenditures. They differ slightly from the amounts disbursed for operating expenditures.

Source: National Transit Database

In 2004, $13.4 billion, or 53 percent of total transit operating expenditures, were for vehicle operations, $5.0 billion, or 20 percent of the total was for vehicle maintenance; $2.7 billion, or 11 percent of the total was for non-vehicle maintenance and $4.2 billion, or 17 percent of the total was for expenditures on general administration. This distribution has been fairly constant from year to year.

Operating Expenditures per Vehicle Revenue Mile

Operating expenditures per vehicle revenue mile (VRM) is one measure of financial or cost efficiency. It shows the expense of operating a transit vehicle in revenue service. In 2004, operating expenditures per VRM for all transit modes combined was $7.17.

Operating Expenditures per Vehicle Revenue Mile, 1995–2004

Year	Motorbus	Heavy Rail	Commuter Rail	Light Rail	Demand Response	Other *	Total
1995	$5.81	$6.52	$10.15	$11.07	$2.55	$5.86	$6.05
1996	5.91	6.44	10.36	12.01	2.76	5.53	6.09
1997	6.09	6.44	9.92	11.84	2.88	5.13	6.12
1998	6.12	6.43	9.91	11.65	2.92	5.00	6.11
1999	6.31	6.58	10.58	11.37	3.05	4.42	6.25
2000	6.25	6.80	10.81	11.51	2.71	5.05	6.25
2001	6.49	7.07	11.28	12.72	2.88	5.41	6.49
2002	6.75	7.07	11.56	12.98	3.11	5.59	6.68
2003	7.33	7.27	12.11	12.25	3.27	6.37	6.96
2004	7.32	7.58	12.79	12.40	3.39	5.21	7.17

* Automated guideway, cable car, ferryboat, inclined plane, jitney, monorail, Publico, trolleybus, and vanpool.

Source: National Transit Database.

Operating expenditures per *capacity-equivalent* VRM is a better measure of comparing cost efficiency among modes than operating expenditures per VRM because it adjusts for passenger-carrying capacities, with passenger carrying capacity of a 40 foot motorbus as the base. Rail systems are more cost efficient in providing service than non-rail systems, once investment in rail infrastructure has been completed. Operating expenses per capacity-equivalent vehicle revenue mile was $5.68 in 2004.

Operating Expenditures per Capacity-Equivalent Vehicle Revenue Mile, 1995–2004

Year	Motorbus	Heavy Rail	Commuter Rail	Light Rail	Demand Response	Other *	Total
1995	$5.81	$2.93	$5.49	$4.73	$18.25	$7.42	4.96
1996	5.91	2.90	5.61	5.13	19.76	7.43	5.00
1997	6.09	2.94	4.36	5.14	18.04	7.26	4.96
1998	6.12	2.93	4.23	4.98	17.80	7.61	4.98
1999	6.31	2.92	5.72	4.54	21.85	7.43	5.28
2000	6.25	2.94	5.29	4.55	16.60	7.71	5.15
2001	6.49	3.03	4.65	5.01	16.21	8.53	5.24
2002	6.75	2.91	4.59	5.20	16.31	8.43	5.31
2003	7.08	2.94	4.78	4.44	17.27	9.57	5.49
2004	7.32	3.06	5.02	4.61	18.79	9.10	5.68

* Automated guideway, cable car, ferryboat, inclined plane, jitney, monorail, Publico, tramway, trolleybus, and vanpool.

Source: National Transit Database.

Operating Expenditures per Passenger Mile

Operating expenditures per passenger mile is an indicator of the cost effectiveness of providing a transit service once the capital investment has been made. It shows the relationship between service inputs as expressed by operating expenses and service consumption as expressed by passenger miles traveled. Operating expenditures per passenger mile for all transit was $0.55 in 2004.

Operating Expenditures per Passenger Mile Traveled by Mode, 1995–2004

Year	Motorbus	Heavy Rail	Commuter Rail	Light Rail	Demand Response	Other *	Total
1995	$0.54	$0.32	$0.27	$0.44	$1.91	$0.47	$0.41
1996	0.55	0.30	0.27	0.46	2.17	0.46	0.43
1997	0.56	0.29	0.28	0.46	1.90	0.44	0.43
1998	0.57	0.29	0.27	0.44	2.21	0.45	0.44
1999	0.58	0.29	0.29	0.45	2.28	0.46	0.45
2000	0.59	0.28	0.29	0.44	2.09	0.49	0.44
2001	0.60	0.29	0.30	0.47	2.25	0.52	0.46
2002	0.64	0.31	0.32	0.54	2.51	0.55	0.50
2003	0.69	0.33	0.33	0.55	2.58	0.56	0.53
2004	0.73	0.33	0.35	0.56	2.70	0.53	0.55

* Automated guideway, cable car, ferryboat, inclined plane, jitney, monorail, Publico, aerial tramway, trolleybus, and vanpool.

Source: National Transit Database.

Farebox Recovery Ratios

The farebox recovery ratio is calculated as farebox revenues as a percentage of total transit operating costs. It measures users' contributions to the variable cost of providing transit services and is influenced by the number of riders, fare structure, and rider profile.

Farebox Recovery Ratio by Mode, 2002–2004

Year	Motorbus	Heavy Rail	Commuter Rail	Light Rail	Demand Response	Other *	Total
2002	28%	58%	48%	29%	11%	30%	35%
2003	27%	60%	49%	28%	9%	32%	35%
2004	27%	61%	47%	26%	9%	36%	35%
Average (2002–2004)	27%	60%	48%	28%	10%	33%	35%

* Automated guideway, cable car, ferryboat, inclined plane, jitney, monorail, Publico, aerial tramway, trolleybus, and vanpool.

Source: National Transit Database.

Low regular fares, the high availability and use of discounted fares, and high transfer rates tend to result in lower farebox recovery ratios. FTA started collecting data on farebox revenues in

2002. The average farebox recovery ratio from 2002 to 2004 for all transit modes combined was 35 percent.

Special Services

This program (49 U.S.C. 5310) provides formula funding to States for the purpose of assisting private nonprofit groups in meeting the transportation needs of the elderly and persons with disabilities when the transportation service provided is unavailable, insufficient, or inappropriate to meeting these needs. Funds are allocated by a formula that considers the number of elderly individuals and individuals with disabilities in each State. Federal funding for these services in 2004 was $90.1 million.

Rural Transit

Since 1978, the Federal Government has contributed to the financing of transit in rural areas, i.e., areas with populations of less than 50,000. These rural areas are estimated to account for 36 percent of the U.S. population and 38 percent of the transit-dependent population. Funding for rural transit is currently provided through 49 USC Section 5311, which, in 1994, replaced Section 18 of the Urban Mass Transit Act. It is apportioned in proportion to each State's non-urbanized population. Funding may be used for capital, operating and administrative assistance to state agencies, local public bodies and nonprofit organizations (including Indian tribes and groups), and operators of public transportation services. The state must use 15 percent of its annual apportionment to support intercity bus service, unless the Governor certifies that these needs of the state are adequately met, after consulting with affected intercity bus service providers. The maximum Federal share for capital and project administration is 80 percent (except for projects to meet the requirement of the Americans with Disabilities Act (ADA), the Clean Air Act, or bicycle access projects, which may be funded at 90 percent.) The maximum Federal share for operating assistance is 50 percent of the net operating costs. The local share is 50 percent, which must come from an undistributed cash surplus, a replacement or depreciation cash fund or reserve, or new local capital.

Rural transit funding was increased substantially with passage of TEA-21, increasing from $115.1 million in FY1997 to $239 million in FY2003 and FY2004. States may transfer additional funds to rural transit from highway projects, transit projects, or formula transit funds for small, urbanized areas.

On average, 14 percent of rural transit authorities' operating budgets come from Section 5311 funds. State and local governments cover, respectively, 22 and 20 percent of their rural transit operating budgets through a combination of dedicated State and local taxes, appropriations from State general revenues, and allocations from other city and county funds. In 2000, the last year for which information is available, total State and local contributions to rural transit operating budgets increased to a total of $431 million, up from $145 million in 1994. Human Services programs, including Medicaid, cover about 14 percent of rural operating budgets, and in-kind contributions and other revenues cover the remainder.