Federal Transit Funding Crisis: A Message to Congress

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HOW CAN CONGRESS HELP?

Santa Cruz Metropolitan Transit District (METRO) is experiencing a capital and operating funding crisis. METRO needs new operating and capital resources with which to reduce dependence on one-time funding sources, such as reserves, that will also allow METRO to make an effort to dedicate more of its capital eligible funds to the Capital Program.

An increase in funding resources will help METRO reduce the anticipated backlog of $200 million in unfunded capital needs and stabilize the Operating Fund.

Congress can help by doing the following:

1. Increase the Small Transit Intensive Cities (STIC) Program from 1.5% to 2% of the Section 5307 formula program sooner rather than later. In the near-term, Congress can accelerate the approved adjustment to 2% - prior to its scheduled adjustment in 2019.
2. Fund a real and meaningful transportation infrastructure State-of-Good-Repair program. The nation is overdue for another Federal Capital Program. President-elect Trump has proposed a possible ten-year, $1 trillion investment program. Such a program must include bus transit and should be structured with a combination of formula and competitive grants.
3. Reopen the FAST Act and substantially increase funding to the FTA 5307, 5311 and 5339 (a), (b) & (c) Programs.

Without additional funding from the State and Federal government, METRO will continue cutting costs and will not be able to keep up with the unavoidable obligation to purchase replacement buses.

This funding crisis is not unique to METRO. Small to mid-size transit properties across the country face similar funding challenges. As a result of the Great Recession, "Nearly 90% of transit systems in the country have had to cut service or raise fares in the past year." "To plug gaps in their operating budgets, many systems are being forced to shift capital funds into operations, with potential negative long-term impacts on system condition and reliability. Many see this as essentially robbing tomorrow's transit users, as it would reduce the ability to maintain and upgrade systems in the future, leading to further degradation. This could drag us into a dangerous downward spiral."

(Source: TheCityFix's series - Moving through the Recession, Part 2: Service Cuts Continue, Megan McConville, February 23, 2010)

METRO IS A COMMUNITY ASSET

METRO serves the County of Santa Cruz, which has a population of over 262,000. Surveys show that 39% of METRO riders use the service to get to and from work. Reducing expense with service reductions will negatively impact the riding community and result in stranding thousands of commuters who depend on METRO to get to and from work, school, the grocery store, doctor's appointments and church. Santa Cruz County is home to the University of California, Santa Cruz (UCSC) and Cabrillo College. METRO's ridership data also reflects that nearly 50% of METRO riders are students and faculty of these institutions.

METRO helps implement the California Global Warming Solutions Act of 2006 (AB 32) by reducing greenhouse gas emissions with deployment of low-emission, high capacity buses. METRO's buses reduce fuel consumption by delivering more trips with fewer vehicle miles of travel than single-occupant vehicles. METRO's routes 69 A-W, 71 and 91X provide much needed traffic congestion relief to the gridlocked Highway 1, and "METRO has helped UCSC reduce single-occupant vehicle travel to 34% of all campus trips by accommodating 24% of all campus trips via public transit."

(Source: UCSC – 2016, Larry Pageler)

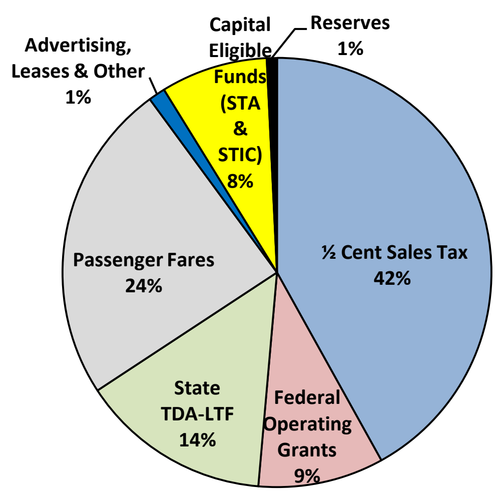
METRO, as a public business entity, is a major asset to the region, employing over 280 people and providing over 5.5 million passenger trips per year with an FY17 budget of $47 million. METRO supports the local economy through the purchase of goods and services for its operations. Labor costs (wages and benefits) represent approximately 83% (FY17 & FY18) of the operating costs and since 88% of METRO's employees reside in Santa Cruz County, the local multiplier effect of these labor dollars to the region is high as our employees' income is reinvested locally in housing, goods and services.

As traffic worsens, investments in public transit will become even more critical. The Texas Transportation Institute's 2010 nationwide study documented that traffic in California's major metropolitan regions costs residents as much as two full days per year in wasted time and related fuel consumption.

(Source: All Aboard - How California can increase investments in public transit, July 2011)

CURRENT FUNDING FOR OPERATIONS

The Operations side of the business is substantially supported by the ½ cent local sales tax approved by the voters in 1978, State and Federal grants and customer fares.



Due to the Great Recession of 2008, METRO's ½ cent county-wide sales tax revenue did not return to FY08 levels until FY14 and sales tax revenue growth has been sluggish year-over-year through 2015. Since ridership has been relatively flat, fare revenues have also been flat. However, during the same period of time, expenses have grown at a rate of 1 – 10% year-over-year. Revenue growth has not kept pace with expense growth.

Inadequate funding for transit means local transit operators have less money to operate and maintain their existing services. Moreover, they have few resources available for expanding the existing infrastructure. Stabilizing and improving funds for transit will be necessary for California to improve its transit system and achieve the resulting benefits.

(Source: All Aboard - How California can increase investments in public transit, July 2011)

RESOLVING THE STRUCTURAL DEFICIT

In its FY17 budget, METRO was faced with an Operating budget structural deficit of $6.3 million. Resolving the structural deficit was challenging and included a yearlong commitment to a Comprehensive Operational Analysis (COA) which resulted in a 15% service reduction.

The five-year budget projection shows the structural deficit beginning to return in FY19. Absent new local, State and Federal funding, METRO will need to continue to look for ways to trim further service in an effort to balance the budget in the coming years. At the same time, METRO needs to reduce the operating fund's dependency on capital eligible revenues such as the State Transit Assistance (STA) and the FTA Small Transit Intensive Cities (STIC) grant programs. In FY17, METRO budgeted $3.7 million of STA and STIC revenues in the operating budget. In the coming years, funds from these two programs are needed to address the backlog of unfunded Capital Projects (State of Good Repair). Further operating assistance from Congress will help expedite the transition of these two capital eligible funding sources away from the operating budget and back to the Capital Program.

STATE OF GOOD REPAIR (SGR)

Today, 62% of METRO's bus fleet (60 buses) are past their useful life of 12-years and METRO's average age of the fleet is 12 years – it should be 6.5 years. METRO's Paratransit fleet of vans and cutaways are also in need of replacement, with 39 of the 41 vehicles overdue for replacement. Compounding matters further, METRO's unfunded Capital Program requires an investment in excess of $200 million over the next ten-years in order to achieve a State of Good Repair (SGR).

In 2016, METRO successfully obtained funding for five CNG and electric buses from State and Federal grants. Given the lack of availability of Federal capital funding since 2012, this was considered a good year. <u>However</u>, let's do the math…replacing buses at a rate of five/year means it will take twelve years to replace the sixty obsolete buses that we operate today, with the last group of five buses being retired in 2028 at an average age of twenty-four years old, and during which time, METRO's remaining forty buses will have exceeded their useful life.

The looming bus capital crisis is far from a laughing matter. Aging bus fleets are less safe, cost significantly more to operate and greatly contribute to the poor community image of many transit systems.

(Source: Metro Magazine Sept/Oct 2015, Scott Bogren – Looming bus capital crisis fuels fight for dedicated investment)

As transit fleets become increasingly deficient relative to demand, interruptions and their costs are expected to impose an increasing burden on the economy, especially in the growing demand-response transit sector, which serves nondriving (and often nonurban) populations with fewer alternative transportation options.
(Source: ASCE 2011 - Failure to Act, The economic impact of current investment trends in surface transportation infrastructure)

This 2010 National State of Good Repair Assessment evaluates the level of investment required to bring all U.S. transit assets – including the assets of all urbanized area and rural transit operators – to a state of good repair. The analysis presented here describes a current national SGR backlog of an estimated $77.7 billion ($2009).
(Source: FTA – 2010 National State of Good Repair Assessment)

METRO is facing a daunting challenge over the next ten years to find the resources with which to achieve an SGR. In a basic sense, the system is in an SGR when all maintenance is performed at scheduled intervals; all facilities are properly maintained; and all vehicles receive mid-life overhauls on-time and are replaced as scheduled.

METRO's unfunded capital needs list, estimated at over $200 million over ten-years, includes replacing fixed-route and Paratransit revenue vehicles; replacing non-revenue vehicles; reconstruction/replacement of the Pacific Station Transit Center; reconstruction/replacement of the Watsonville Transit Center; a new Operations and Maintenance facility in the south county; a Paratransit Operations facility; and timely mid-life bus overhauls.

In spite of the Capital and Operating fiscal challenges, METRO wants to assure Congress, and our customers, that we will always dedicate off-the-top the first dollars needed to insure that we run a safe system. <u>Safety is always first</u>.

FEDERAL CAPITAL FUNDING

There needs to be a dedicated commitment by the President and Congress to stabilized Federal transit funding and to approve a significant transportation infrastructure program that included bus transit and that will make a significant step forward towards resolving the nation's backlog of capital needs and to achieve a national state-of-good-repair.

Possible solutions to the transit challenge include:

- Increasing the gasoline and diesel fuel tax
    - Federal gas tax has been unchanged since 1993 at 18.4 cents/gallon. Federal diesel fuel tax has been unchanged since 1993 at 24.4 cents/gallon. These Federal gas and diesel taxes provide revenues to the Federal Highway Trust Fund (HTF). 2.86 cents/per gallon from each of these two fuel taxes go to the Mass Transit Account. Federal bus transit funding comes from the Mass Transit Account. The Mass Transit Account, combined with other Federal funding sources, help to fund METRO Operations through the FTA-5307 & 5311 grant programs.

- Increase STIC, 5307, 5311 and 5339 (a), (b) & (c) Program funding

    - METRO received $9.09 million in Federal grants between 2008 and 2012, or roughly $1.82 million/year. In 2012, Federal "earmarks" went away and were deemed no longer legal. Also, with the advent of Moving Ahead for Progress in the 21st Century

Act (MAP-21) in July 2012, Federal FTA-5339 capital funding was reduced to about $500K/year. This, because of a significant change in funding under MAP-21 in which the Bus and Bus Facilities competitive grant program was eliminated and replaced with a new inferior formula program. The Fixing America's Surface Transportation Act (FAST Act) has reinstated the 5339(b) competitive Bus and Bus Facilities program, although it is funded at a reduced level compared to 2012 funding levels. In 2016, METRO submitted a 5339(b) grant application, but did not receive an award. There was $211 million available in 2016 and there were $1.647 billion in grant applications.

- Expedite the repatriation of U.S. corporate earnings being held overseas
  - A one-time ("tax Holiday") adjustment in the tax code could bring an estimated $2 - 3 trillion in untaxed profits back to the U.S. which will provide the resources with which to fund an infrastructure investment program.

- Lift the ban on congressionally-directed spending (earmarks)
  - Allow congressional representatives to represent their districts. House and Senate representatives understand the unique transit funding needs of the transportation agencies within their districts.

- Public/Private Partnerships: Establish creative ways to incentivize public/private partnerships that will benefit public transit
  - For example: From the mid-1990s through the early 2000s, public agencies were allowed to enter into sale/leaseback or lease-leaseback contracts with private investors. In a nutshell, lease-leaseback transactions allowed transit agencies across the country to enter into a transaction with private investors through a third party in which transit assets were purchased or leased. The transit agency would then enter into a sublease agreement to lease the asset back. The private investors would realize the benefit of the write-off associated with the depreciation of the assets (facilities, buses and trains). The transit agencies received a significant upfront cash gain that was sufficient to cover the leaseback costs for the life of the lease and to repurchase the assets at the end of the lease. The transaction also yielded surplus funds with which the transit agencies could invest in new capital assets.

CLOSING COMMENTS

This analysis of the Capital funding side of the business provides a quick sense that if something on both the State and Federal sides of Capital funding does not change dramatically, and soon, METRO will not have the ability fund the average of $20 million/year it needs for the unfunded Capital Program. Not keeping up with SGR will result in potentially deep service reductions, loss of ridership and dramatic impacts to service reliability. Not keeping up with SGR results in escalating and compounding Capital costs when trying to catch-up later. Finally, not keeping up with SGR results in escalating and compounding annual Operating costs as the maintenance department attempts to keep buses in revenue service that have reached the end of their useful life.

This analysis of the operation funding side of the business provides a quick sense that if Operating revenues do not increase, METRO will have to again look at reducing service as soon as FY19.

In closing, these public transit financial challenges are not unique to METRO. Avoiding deep service reductions will require urgent action by both the State and Federal governments to provide stable and growing Operating and Capital transit funding assistance.

It is important to mobility, congestion relief and air quality goals that public transit becomes sustainable and is able to grow ridership.