

KFH GROUP, INC.

How Transit Agencies are Addressing the Impact of Fuel Price and Ridership Increases

Final Report

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How Transit Agencies are Addressing the Impact of Fuel Price and Ridership Increases

BACKGROUND

Over the past year, record increases in gas prices facing commuters have created a tremendous growth in ridership for many public transportation systems across the Country. Although this presents a unique opportunity for agencies to position themselves more favorably in the communities they serve, many face enormous strains on their existing capacity and have little maneuvering room to increase and improve service. In many cases, severe budget constraints due to higher transit fuel costs and decreased revenue from local and state taxes, often a key source of income for public transportation agencies, is offsetting increased revenue from ridership to the extent that many agencies are having to cut service and/or increase fares. With the increased ridership comes increased fare revenues; however, those additional fare revenues are not offsetting higher operating costs.

The American Public Transportation Association (APTA) recently conducted two surveys of its members on the impact of and response to increasing fuel prices; overview reports on the state of the industry based on these survey efforts are available from APTA. The intent of this study is to present a more in-depth view, anecdotal in nature, of how a selected number of transit systems are addressing the competing challenges of rising fuel prices, declining revenue, and surging ridership.

The research team conducted telephone interviews with 17 transit systems to explore the following topics:

- Impact of increased fuel cost on the systems,
- Recent and short-term expectations of changes in revenue from local and state sources,
- Actions taken to address increased fuel costs/reduced revenues (service reductions, fare increases, or surcharges),

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- Expected actions over the short-term (over the next year or two) should recent trends continue,
 - Impact of ridership growth resulting from the increased price of gas,
 - Actions taken, if any, to address upsurge in riders (increased capacity, etc.), and
 - Limitations or constraints on transit systems' ability to address either fuel costs or ridership growth.

An overview of the key findings from the interviews is presented below; and a write-up on each of the interviews is included in the Appendix.

KEY FINDINGS

Impact of Transit Fuel Cost Increases on Budget

- **Diesel Fuel Costs Have Skyrocketed** – Diesel fuel costs have more than tripled in the past five years; they have increased almost 64% in the past year alone. This increase has had a significant negative impact on transit budgets across the country. Most of the systems interviewed indicated that, because of increases in fuel costs, they are projecting large deficits in their budgets for FY09.
- **Full Impact of Increased Fuel Costs is Only Recently Being Felt** – Many transit systems are just feeling the impact in this fiscal year because they may have:
 - Bought fuel in advance at low fuel prices – Some systems bought futures (hedging).
 - Contracted service – For systems that have contracted services without fuel cost escalations, they will only feel the impact when they re-bid or re-negotiate their contracts
 - Move toward alternative fuels – Some systems have replaced diesel fleets with Compressed Natural Gas/Liquefied Natural Gas (CNG/LNG) and are not affected by diesel/gas prices.

It appears that many of the transit systems have been able to cover increases in past years but, because of the recent dramatic increase and the fact that many have exhausted reserves in the past year, **FY09 and FY10 are when the real effect will be felt.**

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- **Increases in Utility Costs** – In addition to fuel cost increases, utility expenses have also risen dramatically. This affects all systems, but particularly squeezes those that operate light rail and those that have passenger stations.
 - **Recent Tax Initiatives Slated for Expansion Projects** – This budget crisis comes at a time when many of the systems we interviewed are slated to expand service with various tax dollars that are specifically earmarked for expansion (they are not allowed to supplant current revenues with new tax monies). In some cases, this is making it more difficult for the transit systems to approach local governments and/or the taxpayers to request additional funds or fare increases.

Impact of Gas Price Increases and General Economic Downturn on Local Revenue

- **General Revenue Sources are Stretched** – For those systems relying on local general revenue sources, their local governments are having budget problems. Transit systems that are part of local government are being asked to plan for across the board cuts as local property tax revenues are shrinking in the poor economy (e.g., Fairfax Connector and VRE are being asked to participate in a 20% cut exercise).
- **Gas Tax Revenue is Declining in Some Areas, Increasing in Others** – Revenue from gas tax (a primary source of local transit funding on the state and local levels) is decreasing where the tax is based on a flat rate per gallon. In areas where the gas tax is based on a percentage of the sales price, revenues from this source are increasing.
- **Sales, Payroll, and Real Estate Tax Revenue are Declining** – Revenues from the local sales tax, payroll taxes and real estate taxes are down significantly with the weakening economy. As economy weakens, people are spending less on taxable items, fewer people are employed and fewer houses are sold.
- **State Funding is Tight** – The state budgets are tight and transit systems report are that funding for public transit from the state has been reduced.

Impact on Gas Prices on Ridership

- **More People are Riding Transit: Redefining the Market** – Increases in gas prices have attracted more riders to transit. The increases in gas prices may be redefining the transit market, and especially who is transit-dependent. People who could afford to drive their own cars (especially to work) when gas costs \$2.00 per gallon may not afford to drive when gas costs \$4.00 per gallon. The increases in gas prices have raised the economic bar for who is a

choice rider versus a captive rider. This may or may not be a temporary situation.

- **Ridership Increases are in Peak Period** – Ridership has primarily increased among commuters, in peak hours, when the system is least able to adjust to the increased demand. If the system had the capacity to absorb new riders onto existing services, the system could have been realizing increased farebox revenue from the increased ridership. However, the increased demand has been for commuter, peak hour service which was already overcrowded, making it necessary to add more service hours to accommodate new riders.
- **Fare Increases Have Not Discouraged Riders** – Systems that have implemented fare increases recently have not seen a negative impact on ridership.
- **Systems at Capacity or Overflowing** – In many systems capacity is now close to overflowing on many of the most popular routes, with standing loads in buses with limited space for standees. Overcrowding is a concern particularly at this time when, because of the price of fuel, transit has an unprecedented opportunity to attract new riders.

Actions to Address Budget Problems

General Observations

- **Adjustment Lag Time** – Fuel price increases were larger and happened faster than anticipated by all the transit agencies. Adjustments in spending and revenue attraction are being made, but at a rate slower than costs have increased. Fare increases and service cuts require analysis, Board agreement and public review. For example, Sun Tran (AZ) recommended a 25% fare increase to the City Council in June, which would have gone into effect July 1, 2008. The City Council voted not to increase the fares, but rather appoint a task force to review transit expenses/revenues/fare structure and report back by December, 2008. Often, the lag time between when fuel prices increased and when service/fare adjustments can be made means that systems are trying to cover a full year of high fuel costs in the remaining six months of the fiscal year.
- **Multi-faceted Approach** – The most effective responses by transit systems have been multi-faceted approaches – service cuts, fare increases, other revenue increases.

- **Contingency Funds** – Some systems have contingency funds or reserves to cover unexpected expenses such as the fuel increase. Other systems are contemplating such a move. For example, the Utah Transit Authority (UTA) Board is considering the development of a smoothing reserve fund which would be 5-10% of its total operating budget to help the agency weather downturns in the economy. UTA is considering this fund even if they have to borrow money to create it.

Fare Increases or Surcharges

Most of the systems interviewed have or are anticipating a fare increase to help cover the increased cost of fuel. Some policy makers are favoring larger fare increases over increasing taxes. At the same time, other systems are sensitive that fares should be increased based on “ability to pay”, knowing that some riders cannot afford a dramatic increase in fares.

- **Fare Fuel Surcharges** – Two of the systems interviewed have created or are proposing fuel surcharges on their fares that are tied to the national price index, based on the quarterly cost of diesel fuel as reported by the United States Department of Energy (Cleveland Regional Transportation Authority (RTA), UTA). For example, the RTA is proposing a fuel surcharge on fares. Under the proposal, if the national index for diesel fuel is between \$3.00 and \$4.00 (for three consecutive months); the base fare would be increased by \$.50 to \$2.25.¹ If the national index is between \$4.00 and \$4.75, the base fare would rise an additional \$.25 to \$2.50.
- **Incremental Fare Indexing** – Some systems have or are considering incremental fare policy changes each year as a general policy. This would eliminate the lag time it takes to propose, justify, and plan for a fare increase. For example, to accommodate increased costs in the future, Potomac and Rappahannock Transportation Commission (PRTC) (VA) is asking that they be allowed to increase fares every two years – fare indexing – at a rate of 10% or higher depending on how the Washington – Baltimore urban wage earners index (“the index”) and fuel prices change over time. This would avoid a negative impact on ridership, be more predictable, and make it easier to budget.
- **Changes to Fare Media** – Some systems are expanding pass programs to help generate new riders and sources of revenue.

¹ The current general public base fare is \$1.75 per trip.

Cost Saving Actions

- **Pre-Purchase Fuel** – As mentioned above, some systems have pre-purchased fuel at a set price. For example, King County Metro (WA) just began purchasing fuel under a hedging arrangement. State law was only recently changed to allow hedging by King County Metro (independent transit authorities already had that power). PRTC also locked-in fuel through the end of the calendar year by buying fuel on the futures market from their supplier.
- **Administrative Cost Savings** – Many of the systems have had to cut administrative costs. While belt-tightening has not been the only answer, it has been part of a multi-faceted plan of action for many systems. For example,
 - DART has frozen some staff vacancies until the beginning of FY 2009 as well as found savings in a few other administrative budget items
 - UTA has reduced costs with cutbacks in staff through a hiring freeze and not renewing contracts, deferring maintenance, and other belt-tightening savings that have not yet included service reductions
 - At PRTC, budgeted, non-mission critical things are being deferred to free up resources for additional fuel and service expenses
 - Sun Tran has cut costs in both fixed-route and paratransit divisions where possible, such as vacancy management of non-critical positions, fewer dollars spent on advertising/marketing, cutting nearly all travel and training, etc.
 - Transit Authority of River City (TARC) (KY) has had to lay off eight administrative employees
 - The Chicago Transit Authority plans to cut 80 administrative employees this year as part of \$40 million in “belt-tightening” measures.
- **Utility Savings** – Systems are examining their facilities for ways to save energy. For example, Beaver County Transit Authority (BCTA) (PA) installed a capacitor for its administrative facility to better regulate electric use and save energy. The capacitor is expected to pay for itself in 17 months and then save money for the system.
- **Use of Alternative Fuel Vehicles** – Agencies are looking to increase use of alternative fuel vehicles. For example, UTA is ISO-certified (International Organization for Standardization) for environmental quality standards. Fuel-saving policies and procedures are already in place, and the agency is now looking at replacing diesel buses with hybrid-electric buses. In addition to lower fuel costs, tax credits for use of alternative fuels help.

Service Cuts

One manager reported that they “have cut the fat, cut the muscle, and are now cutting the bone”.

- **The Full Effect of Service Cuts Have Not Been Seen** – Again, there is a lag time issue between when budgets need to be reduced and when services can be cut. Also, some systems appear to have been staving off potential cuts through use of their reserves. For example, Lane Transit District’s (LTD) (OR) contingency funding will be exhausted by the end FY 2009, and the need for service cuts is anticipated. LTD is preparing to begin the public process to involve the community in determining where the cuts should be made. Service cuts in Ft. Wayne (IN) are scheduled to be implemented this month.
- **Riders are Reacting to Potential Service Cuts** – In Cleveland (OH), over 2,000 customers recently attended public meetings on the proposed changes to express concern, outrage, and their desperate need for the services that may need to be cut.
- **Paratransit Cost Containment** – Transit systems are looking to reduce paratransit costs through a number of cost containment measures. For example,
 - UTA is planning to modify the Americans with Disabilities Act (ADA) complementary paratransit services in 2009 to charge the maximum allowable fare and scale back the service area to meet minimum Federal requirements (3/4 mile, which they currently go beyond). They also plan to seek state support in coordinating specialized transportation services to assist in serving ADA paratransit riders
 - Sun Tran analyzed the paratransit division and discovered that certain models of paratransit mini-buses get slightly better gas mileage than others. Sun Tran used these vehicles on longer runs and throughout the year, and the savings added up to thousands.
- **Put Off Capital Items** – Deferring capital replacement has not yet been necessary among those systems interviewed, but is likely to occur for several systems in the near future.
- **Postpone Planned Service Improvements** – Some systems have postponed planned service improvements to cover increases in operating expenses.

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- **Targeted Service Cuts** – Transit systems that have had to cut service have been very careful to target routes where passengers have other options and have focused on the least productive routes/segments in the system.

Actions Taken to Address Increases in Riders

- **Adding Services** – Where possible, systems are adding services. The challenge systems seem to be facing is still serving those customers who always used the service, sometimes transit dependent, while also serving new commuters who are switching to transit because it is too expensive to drive to work. If transit systems are forced to cut services to traditional riders, how can they justify shifting those resources to higher income areas/choice riders? On the other hand, the high cost of gas is making a new group of people transit dependent. There are people who could afford to drive to work when fuel was \$2.00 a gallon who cannot afford to at \$4.00 a gallon.
- **Expand Service Using Capital Dollars** – Some systems indicate that they are re-programming or plan to re-program earmarks for capital projects. For example, Cleveland (OH) is exploring re-programming a capital facility project to buy new (larger) buses to accommodate increased demand. And, while no action has been taken yet, King County Metro (WA) may need to make major capital program reductions, dip into reserves, and slow or stop service expansion and/or cut existing services if new revenues cannot be found to make up the deficit. Vehicle replacements and other capital improvements may also need to be deferred.
- **Marketing/Outreach to Attract New Riders** – Some systems are using marketing/outreach techniques to attract new riders (strike while the iron's hot). For example, one system's website includes an "easy to use cost calculator to find out how much you can save on gas monthly by riding The Metro".
- **Marketing/Outreach to Deal with Overcrowding** – Other systems are using rider outreach/bulletins to educate public in how to deal with overcrowding/help the flow of passengers.
- **Offer Alternative Route Suggestions** – When customers call the customer service line regarding overcrowding, some systems are offering alternate routes, if applicable, on routes that may be less crowded. Also offered are travel options during off-peak hours when the buses may be less crowded.
- **Adjusting Service Standards** – Some systems are adjusting service standards to allow for more overcrowding. For example, Dallas Area Rapid Transit

(DART) (TX) increased its target load factor on Trinity Railway Express from .90 to 1.0 (peak and off-peak service combined).

- **Improve Parking** – Where parking is a constraint, some systems are adding parking spaces, particularly to suburban rail and commuter bus lots.
- **Contingency Fleets** – Many systems have or are building a contingency fleet to be able to respond quickly in the event of significant ridership increases. They anticipate that the vehicle supply chain may experience delays when demand surges, and are concerned with international political instability and how it will continue to affect fuel costs.
- **Re-configuring Vehicles to Increase Capacity** – Some systems are attempting to increase the capacity on existing vehicles by re-configuring the seating. CTA has begun an experiment with eliminating some seating on rush-hour rapid transit train cars. By eliminating some of the seats, the transit agency is trying to create more space for standing passengers. The pilot project is an attempt to carry more people on crowded trains, especially during rush hours when some commuters are left standing on station platforms.

Constraints on Service Improvements

- **Lack of Vehicles** – Lack of vehicles is a major constraint on some system’s ability to increase services. Even if funds were available, the lead time on bus and rail car procurement is long. The agency can try to expedite current procurements, but this would still require 6-12 months. The inability to replace older vehicles affects not only maintenance costs but also fuel consumption.
- **Limited Bus Storage** – Limited bus storage is a constraint for some systems. For example, The Rapid (MI) has been saving capital funds for an expansion of their facility so the fleet can expand, but has had to use some of these funds for capitalized maintenance expenses.
- **Commuter Parking** – Parking is a major constraint on some systems with part and ride lots. Systems are experiencing overflowing parking lots at rail and express bus stations.
- **Charter Rules** – Partnerships with academic institutions, governmental entities, and major private employers were seen as “win-win” situations at many transit systems. Parking needs are reduced, congestion is reduced, and the transit agency gains ridership and revenue; however, there is a lack of clarity in the Federal Transit Administration’s Charter bus regulations with

regard to how third party payment provisions are to be interpreted. At a time when this partnership revenue is increasingly important, systems feel that they may lose the income realized through these third party payments, making it more difficult to pay for increased operating costs on the rest of their system.

- **Municipal Annexations** – Some cities have annexed areas without fully considering the cost consequences for providing transit service. The increased costs of operating services in these new areas affects a transit system’s ability to adjust service levels in response to increased fuel costs.

Suggestions/Solutions

Following are a number of suggestions for solutions offered by transit systems to help ease the impact of increased fuel costs.

- Allow transit systems to use Congestion Mitigation and Air Quality Improvement (CMAQ) funds for fuel. In many areas there is an abundance of CMAQ funds that can only be used to purchase vehicles.
- Bridge funding to help local transit systems get through the current crisis without having to cut service.
- Assist in advocacy efforts at the state or local level for a funding source that is more stable than sales tax.
- Nationwide energy hedging opportunities for mass transit systems.
- Allocation of energy reserves specifically for consumption by mass transit.
- Increase in the allocation of existing tax revenues specifically to offset energy costs for mass transit systems
- Income tax incentives for purchase of mass transit passes.
- Formula allocation for ADA paratransit operating expenses, as well as state support.
- One helpful thing that could happen at the federal level is to develop a transportation funding program that will ensure that motorists pay and are aware of the true cost of auto travel, such as congestion pricing and vehicle miles traveled pricing.

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- Federal support for "think tank" work with universities, to determine what the current crisis means for overall travel demand, location of jobs and residences, and urban forms. Will higher fuel prices persist?
 - Rather than calling for increases federal and state funding (probably not feasible under current climate), find ways to use current assets more efficiently, such as realignment of the capital program and increased flexibility of federal funds.
 - Address grade separation in areas where cars spend time idling at busy railroad crossings to help reduce fuel use.
 - Maintain the federal fuel credit for alternative fuel.
 - Develop energy alternatives, commit to a period of time to do this (for the entire country, not just transit).
 - Market research to develop better marketing and signage could get people to try riding transit services.
 - Continue to give transit systems data and ideas on how other member systems are dealing with these same issues.
 - APTA could offer deep discounts on training/workshops/meetings so that transit systems may still be able to offer employees professional development (travel and training is usually the first to go in a budget crisis).
 - Develop transit purchasing consortiums to maximize buying power.
 - Lobby for more federal monies to transit.

APPENDIX

Interview Notes

- Maryland Transit Administration (MTA) Baltimore, MD
- Regional Transportation Authority (RTA) Chicago, IL
- Greater Cleveland Regional Transit Authority (RTA) Cleveland, OH
- Dallas Area Rapid Transit (DART) Dallas, TX
- Lane Transit District (LTD) Eugene, OR
- CitiLink Ft. Wayne, IN
- The Rapid Grand Rapids, MI
- Kansas City Area Transit Authority (KCATA) Kansas City, MO
- Lawrence Transit System Lawrence, KS
- Transit Authority of River City (TARC) Louisville, KY
- Metro Transit Madison, WI
- Orange County Transportation Authority (OCTA) Orange County, CA
- Potomac and Rappahannock Transportation Commission (PRTC) Prince William County, VA
- Beaver County Transit Authority (BCTA) Rochester, PA
- Utah Transit Authority (UTA) Salt Lake City, UT
- King County Metro Transit Seattle, WA
- Sun Tran Tucson, AZ

Maryland Transit Administration (MTA) Baltimore, MD

BACKGROUND

MTA is one of the administrations within the Maryland Department of Transportation (MDOT). The MTA operates bus, heavy rail, light rail, and paratransit services in the greater Baltimore Area as well as commuter bus and commuter rail into both the Washington, D.C. and Baltimore. In addition, the MTA administers state and federal funds for transit in small urban and rural areas of the state. The MTA funds its services through a combination of farebox revenue, federal transit funds, local contributions, and state funding.

State funding for transit comes from the State's Transportation Trust Fund (TTF) which acts as a dedicated source of revenues to support MDOT. Money comes into the fund from gasoline taxes; motor vehicle registration and titling fees; corporate income tax; operating revenues from sources such as transit fare boxes, terminal operations and parking concessions; some federal funds; and bond sales.² In addition to supporting the MTA, the TTF pays for all of MDOT activities including bridge upkeep, highway maintenance, running the Motor Vehicle Administration, the port and the airports, the Washington Metropolitan Transit Authority, some debt payments, and contributions to local governments. Thus, transit competes with these other modes for a share of the TTF dollars.

CURRENT SITUATION

MTA is experiencing challenges caused by falling revenues in the TTF and rising fuel costs. The State does not yet know how much less revenue it will have available to spend in the coming year; it will have a better idea in late August when analysts compile financial data. However, the TTF will undoubtedly have less revenue than anticipated. Because it relies heavily on gasoline taxes, with less collected gas tax, TTF

² Today, for every gallon of gas purchased in Maryland, customers pay 23.5 cents in State and 18.4 cents in federal taxes; motor-fuel tax contributes to 19% of the money flowing into the Transportation Trust Fund.

revenue from the gas tax is expected to be less than originally anticipated. Another major source of revenue in the TTF comes from motor vehicle titling taxes, which makes up 20% of the fund. The lagging economy has driven down vehicle sales which results in less tax from vehicle titling.

Fortunately, the level of the TTF was increased in the last legislative session when the State legislature increased revenue to the TTF by an estimated \$421 million in FY09. Annual new revenue to the fund is estimated to increase to approximately \$484 million in FY12.

Impact of Increase in Fuel Cost

- MTA expenses for fuel have increased from 3.9% of their budget in 2004 to 9.7% for fuel in 2008. With a \$590M budget in FY 2008, the increase in the MTA's fuel costs may have more than doubled from \$23M to \$57M during that same period.

Impact of Gas Prices on Ridership

- MTA ridership on its core services increased 4.7% in FY08 with most of the increase occurring from January to June of this year.
- MTA already had capacity issues on many of its modes so the increase in ridership has exacerbated overcrowding on the system.
- While there has been an increase in ridership on all modes, the biggest increase has been new commuters on services that operate in peak hours. These appear to be choice riders who are switching to transit as a way to reduce their driving/gas consumption.

Impact on Revenue

- How much MTA is allocated from the TTF has not yet been determined and won't be finalized until September. While the fund is generating less than expected in gas taxes and titling fees, this may be counter-balanced by the fact that the legislature increased funding for the TTF during the last legislative session.

ACTIONS TAKEN TO RESPOND

The MTA has not yet decided if service cuts and/or fare increases will be needed to address the situation. The need for either or both of these actions will be dependent on how transit fares in the TTF negotiations.

Cost Savings

- The agency has set a priority on improving service quality and performance on existing routes and services. MTA is prioritizing projects to fund those necessary to maintain the existing transportation infrastructure.
- Currently MTA is trying to balance the need for additional operating funds with the planned capital projects in the pipeline.

Other Adjustments

- The MTA is initiating a public education campaign to try to shift riders from overcrowded peak services to less crowded services (for example, educating MARC riders on the overcrowded Penn Line that the nearby Camden Line is less crowded) .

Revenue Generators

- The system already has an approved budget for FY09, but may have to consider a possible fare increase in FY10.

Constraints

- The need to maintain and improve lines and modes that serve existing riders, many who are transit dependent, is a priority.

WHAT CAN BE DONE ON THE FEDERAL LEVEL?

APTA needs to continue to advocate for federal investments for transit. Perhaps we need a better way to fund transit that isn't dependent on increasing the VMT or consumption of gasoline.

Chicago Regional Transportation Authority (RTA) including Chicago Transit Authority (CTA), Pace, and Metra Chicago, Illinois

BACKGROUND

RTA was created in 1974 as a special purpose unit of local government and a municipal corporation in the State of Illinois. The RTA has three “service boards” to handle operating and fare responsibilities, the CTA, Metra Commuter Rail, and Pace Suburban bus. The combined assets of the RTA are valued at \$27B and include 4,800 bus and rail cars plus 600 vanpool vehicles. The system covers 7,200 route miles in the six-county region that currently has a population of 8 million people. The RTA operating budget in FY 2008 was 2.8 billion.

The RTA funds its services through a combination of farebox revenue, federal transit funds, local contributions, local sales taxes, and State funding. Farebox and other operating revenues are significant since Illinois law requires that the three RTA service boards recover collectively at least 50% of operating costs from farebox and other system-generated revenue, and that the farebox recovery rate for the Americans with Disabilities Act paratransit be at least 10% of the operating cost.

The RTA provides public funding through statutorily-required cash contributions from local jurisdictions, the State, and local tax revenue from the RTA sales tax. State funding for transit comes from the State’s Public Transportation Fund (PTF). Both local sales tax revenue and state funding are tied to the strength of the economy since the amount of funding available to RTA through the PTF is dependent on sales tax revenues. As authorized in the RTA Act, the State transfers from the State General Revenue Fund to the PTF an amount equal to 25% of RTA sales tax collections and then remits this to the RTA. In addition to a share of the RTA sales tax, the CTA received a portion of the real estate transfer tax imposed by the City of Chicago.

CURRENT SITUATION

The RTA and its service boards were struggling with budget issues before the recent increases in fuel costs. In January, faced with a budget crisis at RTA, the legislature passed new transit legislation that resulted in an additional \$500M in operating subsidies to RTA from the regional sales tax, real estate transfer taxes in Chicago and some additional State funds.

Even with this new funding, escalating energy prices have affected the systems. Fuel for revenue equipment and the cost to power the rail system have been increasing more than expected/budgeted and the RTA and its service boards are experiencing challenges caused by both lower than anticipated revenues from sales taxes and real estate transfer taxes coupled with rising energy costs.

Impact of Increase in Fuel Cost

- All three service boards have had dramatic increases in fuel costs that were not budgeted. In addition, the recently deregulated electricity market in Illinois has resulted in higher rates, increasing costs for electrified lines. This was exacerbated in 2007 by the end of a decade-long freeze in electric rates for CTA and Metra. CTA estimates that will probably be 30-40% over budget for electricity.
- CTA estimates that in 2009 their fuel and electricity budgets will be about \$40M more than anticipated. Between 2002 and 2008, the CTA's average fuel cost per gallon more than doubled. For 2009 and 2010, the CTA had estimated a fuel cost of \$2.80 and \$3.00 per gallon; they are now projecting \$4.50 per gallon. CTA uses an ultra low sulfur diesel fuel that is more expensive than the regular diesel fuel that is used by Metra and Pace.
- Metra estimates that for 2008, its fuel costs will be more than \$20M over its budgeted amount of \$67M. While their amended budget assumed \$2.65 per gallon, they are now paying \$3.41 per gallon. Regarding electrical costs, Metra has seen some increase, but were not hit as hard as they could have been because they obtained a good bid/rate for electricity through May 2009. Since they anticipate that rates will increase 8-9% in May, they are budgeting of an increase in the second half of the fiscal year.
- Pace had budgeted \$18M for fuel in 2008 and spent \$26.3M, or \$8.3 million over budget. Next year they are budgeting \$29.5M at an average rate per gallon of \$3.93.

Impact of Gas Prices on Ridership

- Overall, RTA service boards have seen a 3.6% increase in ridership this year. In addition to shifts in riders to transit because of high gas prices, some of this is due to the State legislature's mandate that seniors ride free.
- CTA has seen ridership increases at all times including peaks, off-peak and weekends. However, the increased riders in the peak presented problems since the capacity to absorb more riders is not there.
- Metra and Pace services operate predominantly during peak hours. Pace ridership is up 4% this year. Metra has had almost a 5% increase in riders even though they recently had a 10% fare increase; this has resulted in crowding on many trains. Skyrocketing gas prices have introduced many Metra passengers to a feature more commonly associated with the CTA's elevated trains: standing for long stretches. Though good for the environment, a record level of Metra ridership is making the commuting experience less pleasant and more crowded.

Impact on Revenue

- Local public funding available to the service boards by RTA from the sales tax revenues are about the same as last year which is 2.7% below what was anticipated; this could result in \$20M less in sales tax revenue for the year.
- Real estate tax transfers are about 1/3 lower than what was anticipated, which means \$20-25M less in revenue for RTA.
- The State cut its program to reimburse RTA for discounted fares provided to the elderly, people with disabilities, and students that was distributed to the services boards was eliminated by the State, leaving a hole of \$37.3M in 2009.
- The State new State *funding and reform* package also mandates for free fares for Seniors. Subsequent legislation gave free rides to low income persons with disabilities. These two measures are projected to result in a revenue loss of \$30M.

ACTIONS TAKEN TO RESPOND

Fare Increase

- Metra increased fares 10% in February while CTA has not raised fares since 2006 and Pace has not raised fares since 2001. Both CTA and Pace are considering fare increases in 2009.

Service Cuts

- With the new State funding package that was passed in January, the RTA operating boards have been able to maintain service levels and even add a modest amount of service. Pace and Metra service is stable while CTA added a modest amount of service (constrained by availability of equipment).

Other Actions

- The operators are starting to stretch and defer maintenance.
- The CTA plans to cut 80 administrative employees this year as part of \$40 million in “belt-tightening” measures to combat soaring fuel prices, reduced-fare rides, and a loss of State subsidies.
- CTA has begun an experiment with eliminating some seating on rush-hour rapid transit train cars. By eliminating some of the seats, the transit agency is trying to create more space for standing passengers. The pilot project is an attempt to carry more people on crowded trains, especially during rush hours when some commuters are left standing on station platforms.

Constraints

- The biggest constraint on expanding service has been the lack of a stable source of capital funding program. State does not have a capital program match. Unfortunately, the new State funding package is only for operating costs. Spare ratios are in the single digits. Metra is buying back and refurbishing old equipment that it sold to other systems in the past.
- However, the RTA systems are experiencing some relief in capital programming. Since they no longer have to use capital funds to balance their operating budgets, they are now able to use their federal capital for capital.
- Another constraint is having a pool of experienced operators.

Greater Cleveland Regional Transit Authority (GCRTA) Cleveland, Ohio

BACKGROUND

GCRTA operates bus, rail, and paratransit services in Cuyahoga County, Ohio. The County includes the City of Cleveland, two townships, and 56 other jurisdictions. The RTA funds its services through a combination of farebox revenue, federal and State funding, and a 1% local sales tax.

CURRENT SITUATION

RTA is experiencing continuing challenges caused by rising energy costs and falling revenue. Recently, over 2,000 customers attended public meetings on the proposed changes to express concern, outrage, and their desperate need for the services that could be cut.

Impact of Increase in Fuel Cost

- RTA expenses for diesel fuel have increased from \$4M in 2004 to 12.1M for fuel in 2007 and to \$21M in 2008. The agency projects that diesel fuel will cost \$24M next year (even with service cuts).

Impact of Gas Prices on Ridership

- RTA estimates that ridership rose 4% in the first and second quarters of this year. There are reports of more instances of crowded busses and jammed lots at park-and-ride facilities. Many of the busy commuter routes are beyond capacity – complaints of overcrowding have increased.

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- The biggest increase has been new commuters on the light rail and at the park and ride lots – services that operate in peak hours. These appear to be choice riders who are switching to transit as a way to reduce their driving/gas consumption.

Impact on Revenue

- RTA's revenue from the local sales tax is down significantly. In 2007, sales tax revenue was \$1.2 million below projection. The weak performance continues a seven-year trend caused by slow economic growth in the region. Unfortunately, this trend is projected to continue in the near-term. The budget projection for 2008 assumed a 1.3% increase in sales tax revenue, but so far this year, revenue is flat.
- The state economy is weak and funding for public transit from the State has been reduced by 63% since 2001, and the state contribution covers only 3% of the RTA budget. This is not expected to change in the near-term.
- Passenger fares increased by 7.1% in 2007, but were under budget by about \$2.1 million.

ACTIONS TAKEN TO RESPOND

The agency is proposing a combination of service cuts and fare increases to address the situation. Currently RTA would cover half the budget problem through service cuts and half through a fuel surcharge.

Cost Savings through Service Cuts

- In December 2007, RTA implemented a 5% cut in services that reduced annual expenses by about \$5M. In most cases, the frequency of service on existing routes was reduced.
- Currently RTA is proposing additional cuts that would address about half of their immediate budget challenges. The current proposals prioritize work-related travel; plans are to cut services on their community circulators, eliminate some other routes, and reduce frequency on some routes.

Revenue Generators

- The RTA is proposing a fuel surcharge on fares to address the other half of the budget challenge. Under the proposal, if the national index for diesel fuel is between \$3.00 - \$4.00 (for three consecutive months), the base fare would be increased by \$.50 to \$2.25.³ If the national index is between \$4.00 - \$4.75, the base fare would rise an additional \$.25 to \$2.50.
- The agency is also shifting funds for facilities/bus garages to purchase four articulated buses to use on high ridership routes.

Constraints

- The major constraint to *preserving* services is the lack of funding. Constraints on *expanding* services are both the lack of funding and the ability to shift resources from lines that serve traditional riders to services for new customers who are not transit dependent.

WHAT CAN BE DONE ON THE FEDERAL LEVEL?

One suggestion for short-term relief would be to allow transit systems to use Congestion Mitigation and Air Quality Improvement (CMAQ) funds for fuel. In many areas there is an abundance of CMAQ funds that can only be used to purchase vehicles.

³ The current general public base fare is \$1.75 per trip.

Dallas Area Rapid Transit (DART) Dallas, Texas

BACKGROUND

DART has a fleet of 741 buses, 182 of which operate on liquefied natural gas (LNG) and the remainder of which use ultra low sulfur diesel. The growing light rail system is electrically fueled, and the Trinity Railway Express (TRE) commuter rail is diesel-fueled.

DART prepares a 20-year financial plan which includes an operating budget projection that increases expenses by 90% of inflation. Expanding the light rail system is included in the 20-year financial plan, with complementary adjustments to the bus service.

Every six months DART evaluates bus route performance. Routes which are not meeting performance standards are proposed for redesign or elimination, with the resources used to operate the non-performing routes reallocated to more productive service.

Funding sources include federal grants, sales tax, and farebox revenues. The 20-year financial plan projects a 5% growth each year in revenues. Sales tax revenues (year-to-date), are actually increased 7.7% better than last year. However, the proposed FY09 budget assumes 5% over last year's budgeted revenues, rather than the actual (which are 2.7% over budget).

CURRENT SITUATION

Historically, DART has locked in diesel fuel prices, however, while we secured a locked in or "hedged" diesel price for FY 2009, we could not reach agreement on a 2008 price while attempting to negotiate. As a result, DART has had to pay market price for diesel this year, which peaked at \$4.41/gallon and is currently at \$3.29, and with an increase of an estimated \$9 million over budget in fuel expenses in FY 2008 (which concludes on September 30). This will amount to approximately 2% to 3% of DART's total FY 2008 operating budget of \$370 million.

Partially counterbalancing the increase in diesel fuel expenses is a tax credit that DART receives for natural gas purchases. In FY 2008, this credit will amount to somewhere in range of the \$4-4.5 million for the previous two years usage. This leaves a balance of some approximately \$4 million above budget for which DART will need to adjust.

DART looks forward to a lower rate (\$2.27) locked in for all of FY 2009. Work is now underway on a 2010 fuel hedge.

While market electricity prices have also increased, DART has a contract rate of 8.8 cents per kilowatt-hour through the end of FY 2009. (The current market rate was more than 12 cents per kilowatt-hour.) The DART Board recently approved an offer by the vendor for a new four-year contract at near 10 cents per kilowatt-hour. However, the agency hasn't signed yet, and since the price of electricity is currently dropping, DART is monitoring the market fluctuations and hopes to lock in its next rate when the market rates are toward the base of the pendulum for 2010 and beyond.

DART pays market rate on Liquefied Natural Gas.

Impact of Increase in Fuel Cost

- DART will experience an estimated \$9 million over budget in fuel expenses this year (approximately 2-3% total FY 2008 operating budget of \$370 million.)
- This is partially counterbalanced by a tax credit that DART receives for LNG purchases. In FY 2008, this credit will amount to somewhere in range of the \$4-4.5 million. This leaves a balance of some approximately \$4 million above budget for which DART will need to adjust.

Impact of Gas Prices on Ridership

- DART ridership in June 2008 (10.3 million on all modes, including HOV lane usage) was 20.1% higher than that in June 2007 and DART's highest ridership ever. The average daily ridership breakdown by mode in June 2008 (an increase over June 2007) was as follows :
 - Rail: 69,861 (14.2%)
 - TRE: 11,105 (19.8%)
 - Bus: 157,794 (6.8%)
 - HOV Lanes: 165,170 (37.3%)(Source of the above: <http://www.dart.org/news/news.asp?ID=798>)

Note: bus ridership increase would have been higher if several acres of apartment buildings along some of DART's most productive routes had not been demolished in April 2007.

- The system is experiencing overflowing parking lots at rail and express bus stations. For example, at the northernmost rail station, where there are currently 1,500 spaces, there is overflow of some 550 cars. Other parking facilities are "overparked" by 130% to 150%.
- Commuter rail, light rail, and express bus services are experiencing capacity constraints.

Impact on Revenue

- Tax revenues increased 7.7% in FY 2008 to date (only a 5% increase was budgeted).
- Farebox revenues have increased slightly over the previous year.

ACTIONS TAKEN TO RESPOND

Cost Saving Actions

- DART has frozen some staff vacancies until the beginning of FY 2009 (Oct. 1).
- Savings in a few other administrative budget items have been found.
- While these savings address the current \$4 million budget delta, in the long-term these savings will not be adequate if fuel prices remain at or above current levels. Service cuts and/or new revenues will most likely be needed in future years if current circumstances continue.

New Revenue

- No fare increases are included in the FY 2009 proposed budget, though this may be considered for 2010.

Service/Capacity Increases

- DART added service to TRE commuter rail.

- DART increased its target load factor on TRE from .90 to 1.0 (peak and off-peak service combined).
- 580 additional parking spaces will be added at the northernmost rail station in September or October, yet it is anticipated the demand will continue to exceed capacity.

WHAT CAN BE DONE ON THE FEDERAL LEVEL?

- Nationwide energy hedging opportunities for mass transit systems.
- Allocation of energy reserves specifically for consumption by mass transit.
- Increase in the allocation of existing tax revenues specifically to offset energy costs for mass transit systems.
- Income tax incentives for purchase of mass transit passes.

Lane Transit District (LTD)

Eugene, Oregon

BACKGROUND

Lane Transit District operates bus and bus rapid transit in the Eugene-Springfield metropolitan area. LTD's primary operating funding source is payroll tax. Though there is a contingency fund, LTD has been cautious about accruing large operating reserves, so when the economy was booming in the 1990's and revenues grew, LTD expanded services rather than building a large reserve. LTD's total FY 2009 budget is \$36 million.

CURRENT SITUATION

Ridership has been boosted by fuel prices, but the agency has been hit hard on the cost side.

The cost to operate complementary paratransit services required under the Americans with Disabilities Act (ADA), growing at double-digit rates, is LTD's biggest concern at present. The current-year general fund transfer is \$2.5 million to support this service. There is very little State funding source for this service (a cigarette tax that has remained flat for years), and no dedicated federal funding. LTD can transfer up \$400,000 of its federal capital budget for paratransit, but this covers less than 1/6 of the total paratransit budget. The cost to operate paratransit is starting to impact fixed-route operations, which are also heavily used by people with disabilities and seniors.

Impact of Increase in Fuel Cost

- Higher fuel costs have through the current fiscal year (July 2008-June 2009) been absorbed through use of contingency funds.
- LTD operations rely on approximately 1 million gallons a year; thus a \$1.00 increase in fuel prices results in \$1 million additional operating costs.

Impact of Gas Prices on Ridership

- Ridership increased 17% in FY 2008 (33% in June alone) and totaled 11.5 million.

Impact on Revenue

- The general economy affects LTD's primary revenue source, payroll tax (paid by businesses and self-employed individuals). (Oregon has no state sales tax.)

ACTIONS TAKEN TO RESPOND***New Revenue***

- LTD implements incremental fare policy changes each year as a general policy. The last scheduled change was an increase in the cash fare from \$1.25 to \$1.50. Because of the deficit, the next change, taking effect September 1, will impact all segments, including a 20% increase in monthly passes and tokens were eliminated. Details are at <http://www.ltd.org/newsdetail.html?newsid=284>.

Service Reductions

- LTD's contingency funding will be exhausted by the end FY 2009, and the need for service cuts is anticipated. LTD is preparing to begin the public process to involve the community in determining where the cuts should be made.
- Big service changes are made in the fall. LTD is now in the service redesign process, anticipating the need to cut up to 15% of services.
- Because of uncertainty of payroll taxes and the overall budget, LTD is watching the economy and planning alternatives with greater and less than 15% cuts.
- This year, a big regional medical center opened a few weeks ago, and service is increasing to serve. Won't be part of next year's cuts.

Constraints

- Capacity constraints have not yet been felt since the summer months are historically slower months for LTD ridership. Eugene is a university town, and LTD has a significant middle and high school ridership, so the school year is busy. However, this summer ridership did not decrease during the summer, and LTD anticipates capacity issues when school starts again.
- There are five buses in a contingency fleet which LTD brought back into service last year, so they are maxed out in terms of vehicle capital, but operating dollars are the real issue.

WHAT CAN BE DONE ON THE FEDERAL LEVEL?

- LTD would like to see a formula allocation for ADA paratransit operating expenses, as well as State support.

Citilink

Fort Wayne, Indiana

BACKGROUND

The Fort Wayne Public Transportation Corporation, operating as Citilink, provides public transportation within the city limits of Fort Wayne and New Haven, Indiana. The service area is 109 square miles with a population of about 263,000 people. Services include ten fixed routes, two flex routes, and Americans with Disabilities Act (ADA) complementary paratransit. Ridership is about two million annual passenger trips.

The operating budget for Citilink is funded through a combination of local property taxes, Federal Transit Administration (FTA) Section 5307 funds, State operating funds, fares, and other. The annual operating budget is about \$10.4 million.

CURRENT SITUATION

Citilink is experiencing continuing challenges caused by rising energy costs, flat revenue, and an expanded service area resulting from municipal annexation. Property taxes, a significant portion of Citilink's operating revenue (about 44%), have been frozen at the local level and capped at the State level. Citilink has also had to aggressively pursue their allocated share (.0393) of the property taxes collected from the newly annexed portions of the service area, which Citilink has been serving for some time. This freeze in local revenue has come at a time when State assistance is likely to decrease, as it is driven by sales taxes. Growth in State assistance has also declined for each transit agency, a result of an expanded transit network in the State of Indiana (i.e., the funding is being split among more agencies). State assistance is currently about 15% of Citilink's annual operating budget.

Impact of Increase in Fuel Cost

- Between July 2007 and July 2008, fuel costs increased by 80% for Citilink, resulting in an anticipated \$500,000 operating deficit.

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- The Board has recommended a combination of fare increases and service cuts to help fill this gap, after conducting an extensive campaign to solicit alternative funding sources.

Impact of Gas Prices on Ridership

- For the first half of Calendar Year 2008, ridership on Citilink was up 12% over last year, including record-setting ridership during the month of March. Generally speaking, ridership on Citilink has been growing over the last 8-10 years, but typically at a rate of about 4%.

Impact on Revenue

- Citilink has not yet experienced a drop in revenue, but is expecting it to remain flat, as expenses rise. The flat revenue is anticipated as a result of a property tax freeze enacted locally, as well as statewide levy limits and an anticipation of flat State assistance.

ACTIONS TAKEN TO RESPOND

New Revenue

- In July 2008, Citilink raised the base fare by 25% from \$1.00 per trip to \$1.25 per trip. Citilink also raised the ADA fare from \$2.00 to \$2.50 and standardized all reduced fares to 60 cents. Monthly pass prices were not increased.
- Management staff are active in the Indiana Transportation Association, which has been educating the State Legislature concerning the needs of the Indiana transit industry, including the need to maintain the Public Mass Transportation Fund (PMTF) as a dedicated funding program (it is supposed to be .635 of 1% of the sales and use tax), but when the sales tax was raised from six cents on the dollar to seven cents on the dollar, the total PMTF remained the same, thus effectively reducing the rate. The Association has a number of other suggested strategies as well, but the PMTF is the most critical.

Shift in Revenue

- Management staff is participating in the Coalition of 100, a group of medium-size transit operators that are advocating at the federal level for the same funding flexibility that is allowed for small urban transit operators (i.e., those which operate in urbanized areas of fewer than 200,000 people).

Service Cuts

- Citilink will be cutting service in September. After much deliberation, the Board decided not to reduce geographic coverage, but to change from 30-minute headways to hourly headways on some of the routes. This was a difficult decision, as Citilink has only recently offered 30-minute headways on half of the routes.
- Citilink will also cut a portion of a cross-town circulator route. This portion is served by other routes in the system.

Constraints

- In the State of Indiana, and locally in Fort Wayne, there is a perceived need to reduce reliance on property taxes. This is reflected in the local freeze and the State cap on property taxes. These actions will reduce the funds available for transit. The State has made provisions to fund other public entities that will also be affected (schools, pension funds, etc.) from sources other than taxes (lottery, horse-track gaming, increased sales tax), but has not included transit as a beneficiary of any other funding source.
- Citilink has a long-range strategic plan in place that calls for service increases, including 30-minute headways, later evening service, better Saturday service, Sunday service, etc. Without other funding mechanisms, Citilink will have to maintain their planned service cuts and not implement the service improvements outlined in the strategic plan. Staff is hoping that there will be a public outcry concerning the service cuts that will cause local and State legislators to review their decisions with regard to the property tax limits or address public transit funding in some other manner.
- Citilink staff is also concerned about how the hourly headways will affect running times, on-time performance, and capacity.

WHAT CAN BE DONE THE FEDERAL LEVEL?

- Federal assistance to help maintain and expand transit funding to offset the price of fuel and encourage transit usage.
- Funding flexibility that would allow transit agencies with 100 vehicles or fewer to use their Federal Section 5307 allocation for either operating or capital, as needed locally.
- Purchasing efficiencies/consortiums to maximize buying power.

The Rapid Grand Rapids, Michigan

BACKGROUND

The Interurban Transit Partnership, The Rapid, is a Transit Authority that provides a variety of public transportation services in the Grand Rapids metropolitan area and beyond. The Authority was formed in 2000 and there are six municipalities that have board representation and provide local financial support through a millage -- these are Grand Rapids, East Grand Rapids, Grandville, Kentwood, Walker, and Wyoming. Other municipalities are also served and participate financially through contracts for service, rather than millage. The Rapid also provides a significant level of service under contract to Grand Valley State University. The service area is 185 square miles with a population of just under 500,000 people.

Services include 24 fixed routes, demand-response services for people with disabilities, and for people who live outside of the fixed-route service area, vanpools (28 currently), a downtown shuttle, and an airport shuttle. Ridership is about 8.6 million annual passenger trips.

The operating budget for The Rapid is funded by a combination of local property taxes, state operating funds, contracted services, fares, and a small amount of federal capitalized preventive maintenance funding. The current annual operating budget is about \$30 million and the FY 2009 budget is proposed at \$34 million.

CURRENT SITUATION

The Rapid has been steadily growing since the authority was formed, typically experiencing double digit growth each year. Ridership has increased about 12% from FY 2007 to FY 2008. This growth is a result of expanded services, additional productivity measures, improved capital (i.e., better buses, additional signs and shelters), and improved customer service. Strong local support has helped support the system, with the local millage comprising 39% of the operating budget.

Impact of Increase in Fuel Cost

- Between FY 2007 and FY 2008, fuel costs increased by 41% for The Rapid. Projections for FY 2009 indicate that fuel costs will increase another 52% from FY 2008 to FY 2009. These increases are a result of both an increase in the cost of fuel and additional fuel usage due to service expansions.
- The most significant impact for The Rapid is that they must use some of their Federal Section 5307 allocation for capitalized maintenance to help fund the operating program, rather saving these funds for capital, which is what the authority has traditionally done. This action will delay their campaign to expand their facility, which is currently over capacity (both in terms of bus storage space and maintenance space).

Impact of Gas Prices on Ridership

- The Rapid has doubled ridership in less than ten years. Staff estimated that only a small percentage of the recent ridership increase is due to gas prices, but it is hard to estimate, given the expansion of service. Drivers have reported that there are more choice riders, but this is anecdotal.
- Demand for the vanpool program has increased significantly, with staff estimating that they could fill 10-15 additional vans with people on their wait list, if vans were available.

Impact on Revenue

- While local financial support has been rising, state operating support has been decreasing. In Michigan, State assistance is derived from a portion of the gas tax and from a tax on vehicle sales. Both of these revenue streams have decreased in the last fiscal year. The actual dollar amount of the total statewide funding for transit operating assistance has remained level, but because all of the transit agencies have experienced increases in costs, the percentage of revenue derived from State aid has decreased as a portion of the overall budget. For example, in 1998 State assistance comprised 50% of The Rapid's operating budget and in FY 2009, State assistance comprises only 29.5% of the budget. The State has also historically provided the 20% local match on capital purchases, but has recently limited this to bus and facilities only (excluding other capital purchases).
- These reductions, coupled with the increased fuel prices discussed above, have caused the authority to use some of their Federal Section 5307 allocation

for capitalized maintenance to help fund the operating program, rather than saving these funds for capital.

ACTIONS TAKEN TO RESPOND

New Revenue

- The Rapid increased its millage rate in 2007 (prior to the rapid escalation in fuel costs) and is using this increase for a \$2 million service expansion. If costs continue to escalate and State aid continues to stay flat, The Rapid may need to ask for another millage increase.
- In FY 2009 (beginning in October 2008), The Rapid plans a fare increase of about 15% to raise revenue.
- Management staff is participating in a statewide campaign to educate the State Legislature on the need to increase State aid for transit. The Michigan transportation industry is trying to increase State aid by \$3 billion annually, currently at \$3.2 billion. Transit funding is currently at approximately \$240 million and the goal of this campaign is to increase the transit investment to \$772 million annually.

Shift in Revenue

- The Rapid will need to continue to shift Federal Section 5307 funds from capital projects to capitalized operating expenses in order to balance the operating budget. In FY 2008, the authority used \$900,000 of its Federal Section 5307 funds for capitalized operating expenses, and is projecting to use \$1.3 million in FY 2009. This shift in funds will delay the authority's capital expansion plans (for facilities), though the authority has been fortunate to receive federal earmarked funds to purchase 40 new vehicles.

Constraints

- The Authority has been in a growth mode since its formation, growing from a peak vehicle requirement of 63 buses in 1999 to 96 buses currently. In order to accommodate this fleet, the authority needs to expand its facility. The current climate of increased fuel costs and decreased State aid will likely slow the progress on this facility expansion, as some of the Authority's federal capital funds that would normally be reserved for capital will need to be used for capitalized operating expenses.

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- The Authority is also planning a Bus Rapid Transit project for 2012. This project may also be delayed if the system has to continue to shift funds from capital to operating. This project is planned to be funded by federal and State dollars, but a millage increase will be required to fund the operating costs. Increased fuel and other costs will mean that the new millage will also have to include a request for additional funds to replace the shortfall created by these increases.

WHAT CAN BE DONE ON THE FEDERAL LEVEL?

- Federal assistance to help maintain and expand transit funding to offset the price of fuel and encourage transit usage.
- Changes in the revenue source for transit funding:
 - The current situation is such that in order to increase funds, increases are needed in gasoline consumption and vehicles miles traveled, which are not compatible with the goals of environmental sustainability and a reduction in fuel consumption.
 - Suggestions for alternative funding sources include some type of tax or fee on industries that pollute and/or emit carbon, or on oil companies, or some type of revenue generation mechanism tied to climate or environmental legislation.

Kansas City Area Transit Authority (KCATA) Kansas City, Missouri

BACKGROUND

KCATA was created by bi-state compact in 1965 and today provides over 90% of the fixed-route transit service in the region. KCATA operates service under contract with participating local governments. Although service is provided to participating communities in Clay, Jackson, Platte, and Wyandotte Counties, approximately 94% of KCATA service is operated in the portion of Kansas City, Mo., within Jackson County.

Kansas City, Mo, is the primary provider of transit funding in the metropolitan area as a result of its dedicated transit taxes – the ½-cent sales tax initiated in the early 1970s and the 3/8-cent sales tax implemented in 2004. The 3/8-cent tax, which was set to expire in March 2009, was put out for referendum a year early and has been extended to 2024. The two taxes combined provide approximately \$48 million annually to the Authority.

Recently, voters in Kansas City, Mo approved another ballot measure, which created a second 3/8 cent sales tax for 25 years to construct and operate a 27 mile light rail line that would run from the airport in the north to the zoo in the south. In addition, this measure calls for a fleet of 60 electric buses serving light rail stops and an aerial gondola tram system in Penn Valley Park.

CURRENT SITUATION

KCATA is experiencing challenges caused by rising energy costs, but was helped by the fact that the costs of fuel didn't increase for the system until this past May. Thus far, the revenue from their dedicated sales tax initiatives has allowed them to avoid service cuts.

Impact of Increase in Fuel Cost

- KCATA has only recently felt the effects of increased fuel costs since they negotiated a long-term contract that went through April 30, 2008. On May 1,

diesel fuel almost double in price, from \$1.94 per gallon to \$3.35 per gallon. The current price is \$3.39 which is down from a high of \$3.90 per gallon.

- The increase in fuel price is projected to increase their budget \$3M - \$4M this year. Every added cent increases their annual costs by \$26,000.

Impact of Gas Prices on Ridership

- As prices at the pump soar, so has KCATA ridership to an average of 55,000 riders every weekday. Ridership is up 12-13% from this time a year ago. A combination of enhanced services and continued high gas prices have encouraged citizens to seek alternative transportation options.
- The biggest increase has been during the peak commute hours. These appear to be choice riders who are switching to transit as a way to reduce their driving/gas consumption.
- As a result of increasing ridership, some routes are experiencing overcrowding, causing customers to stand.

Impact on Revenue

- The presence of stable, dedicated funding sources allowed KCATA, over a period of time, to build up a reserve or “rainy day fund”. This reserve has made it possible for the Authority to absorb the increase in fuel costs to this point.
- KCATA’s revenue from the local sales tax is somewhat stagnant, still growing but at a more modest rate than it has in the past.
- Funding from the State of Missouri was first received in 1997. At that time, KCATA received approximately \$2.4 million. In 2003, that amount was reduced by 65% to approximately \$850,000 - where it has remained.
- Passenger fares are up about \$600,000, but not enough to counterbalance the extra \$3M-4M in fuel costs.

ACTIONS TAKEN TO RESPOND

Since fuel costs increased in May 2008, the agency has been able to absorb the increase through administrative cost cutting measures. However, the Authority anticipates it may need a fare increase and modest service reductions early in 2009.

Cost Saving Measures

- Some administrative cost-cutting measures have been taken.
- The dedicated sales taxes and cash reserve have made it possible for the Authority to absorb the increase in fuel costs to this point.

Service Changes

- The reserves will not last long and KCATA anticipates needing a fare increase and modest service reductions early in 2009.
- The agency is monitoring overcrowding very closely by asking operators to let management know when they observe standing loads and by using our Automatic Passenger Counter available on some buses. KCATA is making adjustments to vehicle size when appropriate.

Other Adjustments

- Rider bulletins have been issued to educate the public in how to deal with overcrowding/help flow of passengers. *To help everyone have a safe, comfortable ride, please observe the following: Personal items should be held in your lap or placed at your feet. Do not put them in a seat or place them in a way that blocks the aisle. Seats at the front of the bus are reserved for the elderly and disabled. Not all disabilities may be visible, so if you are asked to give up your seat please do so. Please use care when standing on buses. Hand rails and straps are located throughout the buses. Have your fare ready when boarding the bus. Consider buying a monthly pass – you can just swipe and ride, plus you'll be saving money all month long.*

Revenue Generators

- As noted above, the public recently approved two recent 3/8 cent sales tax measures. For this reason, it is difficult to go to the public with a fare increase at this time.

Constraints

- A major constraint to expanding service is the need for additional buses. The system has a contingency fleet which is good for occasional needs, but not appropriate for prolonged use. Yet the lead time to procure new vehicles is 14-16 months.

Lawrence Transit System

Lawrence, Kansas

BACKGROUND

The Lawrence Transit System was launched in 2000 to operate transit in the City of Lawrence, Kansas. The transit agency owns the transit vehicles, but contracts with a private provider for the operation (including a privately-leased facility, all maintenance and operations). The system works in conjunction with the transit system operated by the University of Kansas (KU) and there are plans for the two systems to merge in 2009.

The City's contract with the private provider expires at the end of this year and they are in the process of negotiating a new 5-year contract for operation of the system. This is important to the discussion of fuel cost increases because the old contract did not have a fuel cost escalation clause; thus, current contract rates do not reflect the recent jump in fuel prices. The new negotiated rate is substantially higher, primarily because of increases in fuel prices.

The transit system is funded by a combination of fares, federal funds (Section 5307 and Section 5309), State funds, and local property taxes. Due, in part, to the dramatic \$1M increase in transit operating costs, the City commissioners have pulled all property tax funding for the transit system from the 2009 budget. There is reluctance to absorb these increased operating costs into the property tax mill levy. Instead, the City Commission plans to put a dedicated 10-year sales tax for public transit (.20%) in front of voters in November. There is also consideration being given to adding another ballot question in November for transit regarding funding service improvements and addressing transit system capital needs (such as acquiring hybrid-electric buses) to get voters more enthusiastic and engaged to support the transit ballot referendums.

CURRENT SITUATION

Currently, the fate of the system rests in whether the sales tax referendum succeeds in November. If the sales tax fails, there will be no local funding dedicated for public transit and there likely will be no transit system.

Impact of Increase in Fuel Cost

- Increases in fuel costs have not yet affected the cost to operate the system, but with the new service contract costs will be approximately \$1M or 30% higher for the same level of service; about 70% of which can be attributable to increases in fuel costs (the remaining can be attributed to increased maintenance costs on their aging vehicles).

Impact of Gas Prices on Ridership

- Since service was launched through 2007, ridership has grown by 123%. However, last year and through the first part of this year they experienced a decrease in ridership that was mainly caused by doubling fares to support transit operations. Ridership did increase 8% in July and, overall, total public transit ridership growth in FY07 increased by 40%, even though with the decline due to raising fares.⁴
- The system is not experiencing any capacity problems.

Impact on Revenue

- The system had a phased-in 100% fare increase in July 2007 and January 2008. Farebox recovery before the fare increase was about 5% and after the increase it rose to 10%.

ACTIONS TAKEN TO RESPOND

New Revenue

- The action taken by the City in response to increases in the contract operating costs has been to remove the transit funding from the property tax mil levy and take a sales tax referendum for transit to the voters in November.

⁴ The Lawrence Transit System has received multiple awards by the FTA for the highest percent growth in ridership of any urban transit system in the State of Kansas. According to the FTA, from the period of 1999 through 2005 using available NTD information comparing 201 similar sized (small urban) communities nationwide operating similar services (motor bus and demand-response services only), there were only 14 transit systems that experienced over 100% growth during that period. Lawrence was one of those 14 transit systems ranking 10th nationally during this period.

Unfortunately, this means that if the sales tax does not pass, local funding will not be available for transit beginning in 2009.

- Since the system already doubled the fare a few months ago, increasing fares again is not an option at this time.

Constraints

- Another major financial challenge facing the system is the age of its fleet. The entire fleet of medium duty buses was purchased in 2000 and all of them will reach their useful life this year. While some federal and local funds are available for replacements, not enough to replace the entire fleet. Compounding the problem is the fact that the system has received a total of only \$147,000 in federal earmarks for capital in the last three years.

Transit Authority of River City (TARC) Louisville, Kentucky

BACKGROUND

TARC, based in Louisville, provides public transportation for three counties in Kentucky and two counties in Indiana. The service area is geographically divided by the Ohio River and is home to about 1.1 million people.

Services include 52 fixed routes, Americans with Disabilities Act (ADA) complementary paratransit, and vanpool support. Ridership is about 16.2 million annual passenger trips.

The operating budget for TARC is funded through a combination of a local occupational tax, fare revenues, Federal Section 5307 funds, state operating funds (from both Indiana and Kentucky), and partnership arrangements. The annual operating budget is about \$68 million.

CURRENT SITUATION

TARC is experiencing the combined challenges of increased fuel expenses, flat revenue, and increased demand for service. TARC has had to lay off employees, raise fares, and cut service in order to balance the operating budget.

Impact of Increase in Fuel Cost

- Since FY 2004 the price per gallon for diesel fuel has risen as follows: \$1.07; \$1.49; \$2.32; \$2.41; to the current FY 2009 cost of \$3.97 per gallon (a 271% increase during the six-year period).
- In FY 2008 TARC spent \$6 million in fuel at a contractual price of \$2.41 per gallon; the FY 2009 fuel contract price is \$3.97 per gallon, which will result in fuel expenditures of just under \$10 million in FY 2009, a 67% increase.

Impact of Gas Prices on Ridership

- Ridership has been increasing, particularly since April when fuel prices began to climb to the \$4.00 per gallon range. This has been particularly true for TARC's express routes, which are longer (15-18 miles one-way) and geared to commuters. Overcrowding has been experienced on 10 to 15 of the routes (express included) resulting in standees and people being left behind. There are riders who will walk from the stop closest to their place of employment to an earlier stop on the route to ensure that they can be served on particular runs.
- While TARC has not recently conducted a passenger survey, management staff believes that there are more discretionary riders using TARC than has been historically experienced.

Impact on Revenue

- Local funding for TARC is derived from an occupational tax in Jefferson County. The tax is derived from personal and corporate profits from businesses in the County (currently two-tenths of 1%). This revenue stream has historically risen about 4.5% each year, and this assumption was used for the FY 2008 budget. For FY 2008, TARC budgeted \$41.4 million in revenue from this source and at the end of the Fiscal Year (June), the revenue was only \$40.5 million, a \$900,000 unanticipated drop in revenue.

ACTIONS TAKEN TO RESPOND

New Revenue

- TARC raised fares for FY 2009 by \$0.25 per trip (from \$1.25 to \$1.50 per trip, base adult fare). This fare increase followed a similar increase in FY 2008 (from \$1.00 to \$1.25). Prior to FY 2008, the base fare had not been raised since 1995.
- Management staff has been developing partnership arrangements with local academic, governmental, and business entities whereby employees/students ride TARC for free, with their employer/university pass serving as fare media. TARC is then paid directly by the university/government/business based on a negotiated arrangement. TARC began these partnerships about five years ago with the University of Louisville, and has added the Metro Government (a joint government between Jefferson County and the City of

Louisville), along with a large private employer. TARC is also beginning another partnership with a major accounting firm.

Staff Reductions

- TARC reduced administrative staff by eight people as a cost saving measure. This was a very difficult step for management, as these cuts actually eliminated employees, rather than eliminating vacant positions.

Service Cuts

- About \$1 million worth of operating service was cut, including a night owl service (from 11:00 p.m. to 5:00 a.m., for employment), as well as the least productive routes/segments in the system. Staff re-routed existing routes as much as possible so that people in affected neighborhoods did not lose service altogether.

Constraints

- TARC management is seeing that there is currently almost universal agreement that there needs to be more public transportation and TARC has been getting service requests and petitions from all sorts of community groups. The problem that TARC is facing is that while everyone thinks that more improved public transportation is needed, there is no agreement as to how to pay for it. Also, TARC had developed a light rail plan that was well-received and was progressing through the FTA channels of review. The progress of the plan was halted when there was not a consensus on how to generate the local revenue needed to fund the system. It was perceived that the light rail was competing for funds with two additional bridge crossings over the Ohio River and these were deemed more important, though neither has yet been constructed.
- Like many transit systems in the US, TARC has already cut everything that can be cut without causing undue hardship for its users. TARC has also been unable to respond to the additional demand on its express routes (other than minor schedule adjustments). Historically the system has served as a safety net for people who do not have personal transportation. More and more choice riders are using the system, but TARC will not be to provide the level of service that riders expect without additional resources.

WHAT CAN BE DONE ON THE FEDERAL LEVEL?

- APTA can help by continuing to provide educational and advocacy materials that local transit agencies can use to help convince local elected officials and the public that transit agencies are key players in reducing traffic congestion and improving the environment, but that financial support is needed for these agencies to be successful.
- APTA should also continue and expand the advocacy work that it has been doing on the federal level.
- From the federal level, TARC management would like to see a mechanism by which the federal government could incentivize state and local entities to play a greater role in funding transit.
- Another important issue for TARC is the need to reduce the impediments to private involvement in helping fund public transportation through partnership arrangements. TARC has been very successful in building partnership arrangements with local governmental, academic, and private entities, but management staff feels very constrained by the newly adopted federal charter regulations that limit what TARC can and cannot do through these partnerships. These arrangements have proven to be “win-win” for all parties thus far (i.e., reducing the need for parking, reducing traffic congestion, helping TARC boost ridership and revenue, etc.), but there is a lack of clarity as to how the third party payment provisions are to be interpreted.

Metro Transit Madison, Wisconsin

BACKGROUND

Metro Transit is a transit service provided by the City of Madison. The service area includes the City as well as local surrounding areas, with a population of about 237,000. Madison is the capital of Wisconsin and is home to the University of Wisconsin at Madison.

Services include 63 fixed routes and complementary Americans with Disabilities Act (ADA) paratransit. Annual ridership is about 13 million passenger trips.

The operating budget for Metro Transit is funded by a combination of State operating funds (35%); local funds (32% -- general revenue from the City of Madison and other local municipalities); passenger revenue (20%, including the University of Wisconsin at Madison's passes); federal Section 5307 funds (12%); and other (1%). The current annual operating budget is about \$50 million.

CURRENT SITUATION

Metro Transit has been experiencing 4% to 6% ridership growth each year for the past three years. The Madison area has been growing and the community is environmentally conscious. Staff attributes much of the ridership growth to the growth in unlimited ride pass usage, gas prices, and climate concerns among area residents. The transit system has been adding service and continues to expand, but staff anticipates that some service improvements may need to be delayed as a result of the increase in fuel costs.

Impact of Increase in Fuel Cost

- The increase in fuel costs will cause Metro Transit's budget to be between \$500,000 and \$2 million over budget for this year, depending upon what happens within the fuel market during the remainder of the calendar year.

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- This budget shortfall will cause Metro Transit to use contingency funds and to slow the implementation of needed service improvements.

Impact of Gas Prices on Ridership

- Metro Transit was experiencing ridership growth prior to the rapid escalation in gasoline prices, but staff noticed that ridership this year is up dramatically on the longer commuter routes. There are three routes in particular that travel between 12-15 miles out of Madison during commute hours and ridership on these routes has increased between 20% and 57%.
- Staff also noticed that ridership has increased the most in the “cash” category of fare payment, which indicates that there are a significant number of new riders using the system.

Impact on Revenue

- Metro Transit has not experienced a decrease in local revenue resulting from the recent economic downturn. The community is environmentally conscious, supportive of transit, and generally in growth mode. Only one of the financially participating municipalities is currently experiencing serious financial problems.

ACTIONS TAKEN TO RESPOND

Shift in Revenue

- Metro Transit has had to use some of its contingency fund to help pay for the unanticipated escalation in fuel costs.

Additional Revenue

- Staff is trying to expand Metro Transit’s pass program so that additional employers participate in the program, particularly smaller employers that have not historically participated.

Slower Expansion

- The system has been expanding to meet growing ridership over the past few years. Metro Transit will be able to continue to improve service, but will

focus on improving capacity within the existing geographic service area rather than expanding services over a larger area. Management had planned a more extensive expansion, but the higher than anticipated fuel costs have put that plan on hold.

Future Fare Increase

- A fare increase may be considered for next year.

Constraints

- A significant constraint for Metro Transit is that it is a City of Madison department, rather than a regional authority. Transit travel needs and patterns are regional in nature and Metro Transit does meet many of these needs, even though it is a City department. Seven local municipalities contribute financially to the local share for the transit system, but further expansion would dilute the federal and State funds (targeted for the urbanized area), thus driving up each currently participating municipality's local share. A regional authority would be better equipped than a city department to address regional funding and service issues.
- In the State of Wisconsin there is no enabling legislation for the formation of regional transit authorities. Metro Transit staff and other stakeholders in the State, have enlisted the help of APTA to help educate lawmakers concerning the need for legislative action so that regional transit authorities could be developed in areas where it makes sense (i.e., areas with multi-jurisdictional economies).

WHAT CAN BE DONE ON THE FEDERAL LEVEL?

A major, ambitious, community re-investment plan is needed to re-develop urban infrastructure to dramatically reduce the need for single occupant automobile trips. This re-investment plan would re-introduce convenient transit options (bus/rail/light rail), bikeways/bike facilities and pedestrian facilities so that people would not feel that they had to drive on a daily basis. The plan would also address urbanized area land use issues that have contributed to our current dependence on the automobile.

This type of investment is needed for the following reasons:

- To address the escalation in fuel costs;

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- To reduce dependence on foreign oil;
 - To address climate change;
 - To promote more effective land use patterns and reduce sprawl development;
 - To help senior citizens, people with disabilities, and others to have full and active lives, even if they cannot drive.

This type of plan is ambitious, but also cuts across many constituent groups including environmental groups, senior citizen groups, disability rights groups, planners, and economists. The transit manager compared this plan to the Marshall Plan that re-built Europe after World War II -- it is on that grand a scale that these improvements are needed.

Orange County Transportation Authority (OCTA) Orange County, California

BACKGROUND

OCTA, based in Orange County, CA, is a multi-modal authority that operates bus, commuter rail (Metrolink), and express lanes (toll lanes along 10 miles on SR-91 between Riverside and Orange County). OCTA also plans and funds construction of freeways, streets, and bikeways, and operates motorist and taxi programs.

OCTA has been replacing diesel buses with Compressed Natural Gas (CNG) and Liquefied Natural Gas (LNG)-fueled buses. California's air quality requirements therefore have somewhat buffered OCTA from increases in diesel fuel prices.

OCTA's last fare increase was January 2005 (a 25% increase).

OCTA's capital program is \$750 million annually including street expansions. The current transit operating budget is \$250 million.

CURRENT SITUATION

Impact of Increase in Fuel Cost

- OCTA's fuel costs were up \$5-7 million from last year depending in data point.
- Because OCTA has been replacing diesel buses with CNG- and LNG-fueled buses as required under California's air quality requirements, they have been somewhat buffered from increases in diesel fuel prices.

Impact of Gas Prices on Ridership

- OCTA is experiencing double-digit increases on commuter rail services (15-20%) and standing loads on Metrolink for the first time ever. The Los Angeles-San Diego Amtrak corridor is now full to capacity.

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- Ridership is also increasing on bus lines feeding to rail stations. Other bus routes are more stable because their riders are primarily transit dependent, whereas rail riders are choice riders.
 - Last month (July 2008) was the busiest month in OCTA history, with 6.2 million riders overall. This represents an increase of 400,000 riders over 2006 (there was a strike in 2007 so that figure is not a good comparison). The second busiest month was October 2006, with 6.13 million.
 - There has been an increase in prepaid discount fare media sales (such as monthly passes).
 - On the SR 91 Express Toll lanes, travel demand is down in off-peak, but peak usage is still strong.

Impact on Revenue

- The slumping economy and uncertain employment market has reduced sales tax revenues. OCTA's budget projected 5% annual growth in sales taxes. Last year these revenues instead decreased by 1%.

ACTIONS TAKEN TO RESPOND

Fare Changes

- SCAG, the Metropolitan Planning Organization for five counties, recently hosted a fuel price summit on what to do in Southern California. The region is looking at commuter rail fare structures. Right now fares are oriented toward longer distances; SCAG is looking at creating shorter trips for additional revenue.
- There is a new ½ penny sales tax for 25 of the 34 cities in Orange County which are exploring development of municipal transit to feed to commuter rail and dovetail to Metrolink.
- Congestion pricing was implemented for the tolls on express lanes to mitigate demand. Tolls vary by the day of week and the time of day (\$1.50-\$10 one-way). Traffic volumes are tracked and toll prices increase when demand is high.

Service Changes

- OCTA has neither cut nor expanded services. Overall bus ridership is fairly flat, and capacity is not currently a concern.

Fleet Changes

- OCTA is building a contingency fleet to be able to respond quickly in the event of significant ridership increases. They anticipate that the vehicle supply chain may experience delays when demand surges, and are concerned with international political instability and how it will continue to affect fuel costs. By the end of this year, OCTA will have 150 vehicles 40 feet in length and 50 smaller vehicles in contingency, through replacement of older diesel vehicles. Based on peak weekday usage of 542 peak buses, this would allow a 20% increase in service.

WHAT CAN BE DONE ON THE FEDERAL LEVEL?

- OCTA recommends federal support for “think tank” work with universities, to determine what the current crisis means for overall travel demand, location of jobs and residences, and urban forms. Will higher fuel prices persist?
- Rather than calling for increases in federal and state funding (probably not feasible under current climate), OCTA is interested in finding ways to use current assets more efficiently, such as realignment of the capital program and increased flexibility of federal funds.
- Addressing grade separation would be helpful in reducing fuel use. Los Angeles and Long Beach are two of the busiest ports in country. At grade crossings with freight rail, cars have to stop and idle.
- Maintaining the federal fuel credit for alternative fuel is recommended.
- There is a need to develop energy alternatives, commit to period of time to do this (for entire country not just transit).
- Market research is also recommended. OCTA sees a need for better marketing and signage to get people to try riding rail services. In Southern California, where transit has a shorter history than in other parts of the country, people are somewhat intimidated to try transit.

Potomac and Rappahannock Transportation Commission (PRTC) Prince William County, Virginia

BACKGROUND

PRTC operates transit in Prince William County and the Cities of Manassas and Manassas Park, Virginia, an area south of Washington, D.C. Three basic types of services are provided – local deviated-fixed routes (OmniLink), connections to the Washington Metropolitan Transit Authority (WMATA) Metrorail system (Metro-Direct), and direct commuter bus service into northern VA and D.C. (OmniRide). The agency owns the transit vehicles and facilities and provides fuel. PRTC contracts with a private provider for the operation. PRTC in conjunction with a neighboring transportation commission – the Northern Virginia Transportation Commission (NVTC) also jointly sponsor a commuter rail service (the “Virginia Railway Express”; VRE).

PRTC member jurisdictions levy a 2% sales tax on motor fuel (collected at the pump) to fund transit in the region. Prince William County has on occasion supplemented the 2% tax with general fund appropriations to fully fund the transit services it sponsors. In addition, PRTC also receives federal and State grant funding. Farebox recovery in FY 2008, before the increase in fuel costs, was about 29% for all the bus services combined.

Ridership on PRTC routes has been growing steadily as the population in the region has grown and the system had/has plans to expand service in response.

CURRENT SITUATION

Currently, the system is experiencing the two-pronged effects of the fuel price run-up – much higher fuel costs and a ridership surge that is straining its capacity.

Impact of Increased in Fuel Cost

- Fuel costs have increased from about \$2.25 in FY 2008 to over \$4.00 (“lock-ins” on fuel through the end of the calendar year averaging \$4.14 per gallon).

The system uses 92,000 gallons per month. This means that, in FY09, PRTC is projecting an additional \$1.34M in expenses attributed to the higher fuel costs. The system would have hit even harder if they had not “locked-in” prices by buying fuel on the future market from their supplier.

Impact of Gas Prices on Ridership

- Ridership has increased 7% overall in the past year. Ridership is up about 16% since February 2008, and expected to continue to grow.
- Most of the ridership increases and capacity problems, have been in the peak hours on commuter service to Northern Virginia and into D.C.

Impact on Revenue

- The local tax revenues available to the PRTC jurisdiction for transit have increased as a result of higher gas prices. The jurisdictions pay for transit using the proceeds from the 2% sales tax on motor fuels, which is a percentage-based tax, and yields from this source are increasing as gas prices have increased.⁵
- There have been some increases in farebox revenue associated with increased services, but not nearly enough to offset the added cost of fuel and the added cost of service PRTC is adding to avert overcrowding on its commuter service.
- A partial offset to PRTC’s unbudgeted expenses is higher-than-anticipated State grant assistance. An estimated \$541,000 is available as a result of this. It is a by-product of overly conservative assumptions about what the State participation rate would be in FY 2009.

ACTIONS TAKEN TO RESPOND

PRTC conceived a plan to deal with increased fuel costs and increased ridership which the PRTC Board provisionally approved on July 17th. That plan asks for something from everyone – “belt tightening” by management, a fare increase so riders are part of the solution, and a supplemental appropriation. It is anticipated that the

⁵ It should be noted that local general funds for services on VRE are being squeezed as jurisdictions outside Prince William County are affected by the economy and reduced property taxes. The jurisdictions in Northern Virginia that participate in the WMATA compact use the entire proceeds from their 2% sales tax on fuel to fund the WMATA system.

combination of cost savings and increased revenue will allow the system to cover the increased cost of fuel and continue with needed services expansions.

Cost Saving Actions

- Budgeted, non-mission critical things are being deferred to free up resources for additional fuel and service expenses. These are primarily administrative actions, not affecting service to customers.

Service Changes

- PRTC had overcrowding on many routes as fuel prices rapidly increased, necessitating additional revenue hours of service to avert overcrowding as the fiscal year began. With no signs of this abating, the plan calls for a further supplement of daily revenue hours – 10.5 – so management can continue to add service as necessary throughout the course of the remainder of the year to avert newly arising overcrowding.
- PRTC is reaching out to its riders and the community to explain the pressures of increased fuel prices on the system; articles have appeared in the *Washington Post* and the PRTC Newsletter.

Revenue Generators

- As mentioned, the system is projecting an increase in farebox revenue from increased service hours on their existing routes (\$91K). Note: If the system had the capacity to absorb new riders onto existing services, they could have been realizing increased farebox revenue from the increased ridership. However, the increased demand has been for commuter, peak hour service which was already overcrowded, making it necessary to add more service hours to accommodate new riders.
- PRTC also has asked for supplemental appropriations from each member jurisdictions from their share of the proceeds from a 2% sales tax on motor fuels. PRTC has made the case for increasing the amount they receive since this pot of dedicated funding is experiencing a windfall. As a percentage-based tax, yields are increasing with gas prices and are projected to increase even further; although the projections account for the assumptions that fewer gallons of gas may be sold. PRTC is asking for only a portion of the projected increase in the motor fuel tax revenue.

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- A fare increase is being proposed for the second half of FY 2009, which is anticipated to generate an additional \$367K. The proposed FY09 fare increase will only be in effect for six months so it will be more effective next year than this. PRTC anticipates that the fare increase would reduce ridership 4%, but increase passenger revenue 11%.
 - The proposed fare increase is structured by service type to account for “ability to pay”, knowing that some riders cannot afford a dramatic increase in fares and that Metrochek and other employer subsidy programs are not available to many local riders.
 - To accommodate increased costs in the future, PRTC is asking that they be allowed to increase fares every two years – fare indexing – at a rate of 10% or higher depending on how the Washington – Baltimore urban wage earners index (“the index”) and fuel prices change over time. The index is the escalator embedded in PRTC’s service contract to adjust compensation for its service contractor on account of inflation. This would avoid a negative impact on ridership, be more predictable, and make it easier to budget.

Constraints

- One major constraint on expanding services is the lack of buses since there is no more room for expansion with the existing PRTC fleet. Fortunately, PRTC has had a long-standing practice of retaining over-aged buses when newly purchased buses as replacements arrive, so it can stockpile them as a separate contingency fleet. But the recent service additions required them to deploy most of the buses in a contingency fleet; they are left with only 3 19-year old buses in reserve. The system expects that the four new buses budgeted for acquisition will take at least 5-9 months for delivery. The bus storage/parking facility is strained to limit even though just finished a \$1M storage yard expansion. PRTC has a second maintenance facility in planning and design phase, but the funds to construct are not available.

WHAT CAN BE DONE ON THE FEDERAL LEVEL?

Provision of federal financial support for fuel purchase.

Beaver County Transit Authority (BCTA) Rochester, Pennsylvania

BACKGROUND

BCTA provides county-wide public transportation in Beaver County, Pennsylvania, including commuter bus services into Pittsburgh. BCTA is also working on a transit-oriented development project on land that it owns adjacent to its Rochester terminal, and a potential new Transit Oriented Development (TOD) project in southern Beaver County. The service area is home to about 176,000 people and is located northwest of Pittsburgh.

Services include six fixed routes (both in-county and commuter-oriented) and a county-wide demand-response transportation program serving a variety of general public, disabled, elderly, and human service agency clients. BCTA also administers the County's Medical Assistance Transportation Program. Annual ridership in FY 2008 on the fixed-route program was just over 754,000 passenger trips with 40% commuter based trips. The fixed-route segment of BCTA's services is the focus of this discussion with regard to fuel cost, ridership, and revenue.

The fixed-route operating budget for BCTA is about \$4.6 million annually and is funded through a combination of state funds (56%), local general revenue funds (7%), federal Job Access and Reverse Commute program (9.7%), and fares (26%). The total annual operating budget for BCTA is \$8.6 million.

Current Situation

BCTA ridership has been growing steadily over the past five years, with FY 2008 ridership nearly 60% higher than FY 2003 ridership. Local funding has been flat, but state funding increased 50% in FY 2008 and another 17% in FY 2009; a direct result of PA Act 44, which is a new funding mechanism for transit and highway projects in the State. BCTA had planned to use the increase in State funds to stabilize its operating budget and also provide much needed service improvements, however the increased price of fuel has meant that a significant amount of the new funding is being used for fuel, rather than service improvements and creating an uncertainty with respect to the long-term financial stability of the agency. A fixed-route fare increase is planned in January 2009.

Impact of Increase in Fuel Cost

- In FY04-05, BCTA's fuel expenses were \$350,000. In FY07-08, BCTA's fuel expenses were \$750,000, a 114%. The fuel budget for FY 2009 is just over \$1 million.
- In addition to increased fuel prices, BCTA has also experienced cost increases for utilities. Even though the operations and maintenance facility in central Beaver County followed a number of LEED standards, utility costs are significant for the agency and growing every year well beyond the inflation rate. BCTA is exploring cost saving alternatives through a consulting arrangement.

Impact of Gas Prices on Ridership

- Ridership achieved six consecutive record ridership years. Records have been set on every route in the system including local fixed routes, commuter routes, weekday, and Saturday services. Ridership on the system has grown significantly over the past five years (averaging about 12% growth each year), while the service levels have remained constant. More recently, BCTA has had standees on its express commuter services as well as on its local routes.

Impact on Revenue

- Since Act 44 was passed during FY07-08, the largest portion of BCTA's budget is derived from State revenue. This act substantially increased funding for transit agencies across the State through a combination of sales tax and proposed new toll revenues from Interstate 80. Act 44 is a major overhaul of the State's transit and highway programs and funding mechanisms. Local funding, allocated from the County's general revenue fund, rose modestly in 2008, but prior to that had been flat since 1998. BCTA receives no federal operating aid.

ACTIONS TAKEN TO RESPOND

New Revenue

- BCTA is planning a fare increase for January 2009, but the Board has not yet determined whether the fare increase will be \$.25 per trip or \$.50 per trip. Fares were last raised in January 2006 (\$0.50 increase) and BCTA did not see a drop in ridership.

Energy Saving Measures

- BCTA is focusing on ways to reduce its electric and natural gas consumption for its administrative and operating facilities. BCTA recently purchased a capacitor to better regulate electric use. This purchase will likely pay for itself through lower electric bills in about 17 months.

Request for Technical Assistance

- Management staff has requested technical assistance from the State to help them evaluate the fixed-route service system and develop solutions to address the overcrowding issues on some of their buses.

Constraints

- BCTA has been working on a number of interesting initiatives, including joint development projects. These projects will require capital investment to implement, and management staff are concerned that increasing fuel prices and demand will result in capital funds being diverted for operating purposes, thereby limiting the investment in TOD projects.
- With the increase in ridership and the increase in State funds under Act 44, BCTA would have liked to have new and improved services, but this has not been possible given the significant increases in fuel expenses.

WHAT CAN BE DONE AT THE FEDERAL LEVEL?

- BCTA staff would like to see the federal government develop a transportation program that is fully funded to address both short-term and long-term operating and capital investments required to maintain current services, equipment, and facilities and at the same time provide funding for required service expansion and continued capital investment.
- Provide incentives (\$) for TOD, alternative fuel, and other energy savings as part of the reauthorization and a comprehensive energy policy.
- Promote SB 3380 as a companion to HR 6052.
- Ensuring the “100 Bus Proposal” is a part of the reauthorization to maintain operating funds for increased fuel and energy costs.

- Include investment in transit as a part of any stimulus package considered by Congress.
- Changes in FTA's charter regulations are also needed, as BCTA staff had to spend a great deal of time and effort on the FTA process that allowed the agency to continue providing service to Pittsburgh Steeler games, a service that they have been providing for many years and consider "public". This type of service saves energy and reduces traffic congestion.

Utah Transit Authority (UTA) Salt Lake City, Utah

BACKGROUND

UTA operates bus, light rail, and commuter rail in Salt Lake, Weber, Davis, Box Elder, Tooele, and Utah Counties. The agency has been significantly affected by both the increases in fuel prices as well as the downturn in the economy.

UTA is undergoing major expansions, including 70 miles of light rail and commuter rail budgeted for in the 20-year financial master plan. UTA has a regular program of increasing fares every three years, with the next increase scheduled for January 1, 2009. UTA's total operating budget is approximately \$200 million.

CURRENT SITUATION

In addition to the potential need to cut services if the current fiscal situation continues, UTA is concerned about its bond rating, needed to build capital projects for future rail service expansions. Financial reserves are needed to protect UTA's AAA bond rating.

Impact of Increase in Fuel Cost

- Rising fuel costs are expected to result in an additional \$1.8 million in 2008.

Impact of Gas Prices on Ridership

- UTA's ridership is skyrocketing. The commuter rail line that opened only three months ago is carrying 20-30% more passengers than projected, and is operating at standing levels now that school is back in session. The service is carrying 8,000 trips a day, operating at 15-minute headways during peak hours and 30-minute headways during off-peak. The 10-mile bus rapid transit line is also experiencing high demand.

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- At the beginning of 2008, ridership was projected to be 36 million; forecasts now predict 39 million.

Impact on Revenue

- UTA's revenues are decreasing with the downturn in the economy. The first half of the calendar year (which is UTA's fiscal year), revenues were on target as budgeted. However, they are dropping during the second half. UTA's operating budget is funded 75-80% by sales taxes. The drop in sales tax revenues is expected to be \$4-6 million.

ACTIONS TAKEN TO RESPOND

New Revenue

- UTA instituted a fuel surcharge policy this year. Two months ago its board approved a matrix tied to the national price index, based on the quarterly cost of diesel fuel as reported by the United States Department of Energy. When fuel prices reach \$3.00 to \$4.00 per gallon during a quarter, a 25-cent surcharge is added to the established adult cash fare (with corresponding increases for other fare types) during the next quarter. This charge is in effect for the current quarter that began July 1, 2008. When the price reaches the \$4.00 to \$5.00 range (as it did during the current quarter), a second surcharge is added to the quarter that follows (going into effect Oct. 1). The surcharge policy is described on the UTA Web site at <http://www.rideuta.com/ridingUTA/payingFare/fares.aspx#surcharge>. (Bill Millar was credited with this concept.)

Service Reductions

- UTA has reduced costs with cutbacks in staff through a hiring freeze and not renewing contracts, deferring maintenance, and other belt-tightening savings that have not yet included service reductions.
- However, in 2009, UTA is planning to modify ADA complementary services to charge the maximum allowable fare and scale back the service area to meet minimum federal requirements (3/4 mile, which they currently go beyond). They also plan to seek State support in coordinating specialized transportation services to assist in serving ADA paratransit riders.

Maximizing Fuel Efficiency

- UTA is ISO-certified for environmental quality standards. Fuel-saving policies and procedures are already in place, and the agency is now looking at replacing diesel buses with hybrid-electric buses.

Other Financing

- Something the UTA board is considering is the development of a smoothing reserve fund which would be 5-10% of total operating budget to help the agency weather downturns in the economy. UTA is considering this fund even if they have to borrow money to create it.

Capital Deferrals

- Deferring capital replacement has not yet been necessary, but it could be in the future.

WHAT CAN BE DONE ON THE FEDERAL LEVEL?

- UTA indicates they have been treated well by FTA in terms of capital funding, and noted that APTA has been very helpful as well.
- One helpful thing that could happen at the federal level is to develop a transportation funding program that will ensure that motorists pay and are aware of the true cost of auto travel, such as congestion pricing and VMT pricing.

King County Metro Transit Seattle, Washington

BACKGROUND

King County Metro Transit, based in Seattle, operates some 1,400 vehicles in bus, trolleybus, demand-response and light rail services. The transit agency is part of King County government.

King County Metro ridership increased over 20% over the past three years (approximately 6% per year), prior to the increase in fuel prices. Metro is now carrying some 400,000 trips per weekday.

In Fall of 2006, voters approved a 0.1% sales tax increase, resulting in a total 0.9%, the maximum allowed by State law, to fund service expansions and capacity increases. Annual sales tax revenues were until this year projected to increase by 5.65%.

In 2007, with this additional financing anticipated, King County began to increase frequencies on existing routes and expand to serve new areas.

King County Metro implemented a 25-cent across-the-board fare increase in March 2008, seven years after the last increase. Ridership growth in 2008 has so far been unaffected by this fare increase. A proposed increase several years ago was voted down, but King County Metro was able to balance its budget through belt-tightening.

CURRENT SITUATION

King County Metro is facing a \$72 million gap in its FY 2008-09 budget due to increased fuel and labor costs together with decreased sales tax revenues. This would be partially offset by a proposed additional fare increase in fall 2008, but even after this, the agency is looking at an operating deficit greater than \$50 million in its \$550-580 million operating budget.

Impact of Increase in Fuel Cost

- Metro's 2008 budget was based on a diesel price of \$2.60 per gallon, increased to \$2.70 for the 2009 budget year. Every 10 cents per gallon is annualized to about \$1 million. At the current price of \$3.60 per gallon, this amounts to \$10 million per year above budget for fuel.
- The price per gallon is expected to be \$4.25 by the end of this year and \$4.35 next year.

Impact of Gas Prices on Ridership

- Ridership was already rapidly increasing before the current fuel crisis, and capacity was already a concern.
- Ridership increased by more than 7% last year, and the rate of increase did not decline with a fare increase.
- Capacity is now close to overflowing on many of the most popular routes, with standing loads in buses with limited space for standees.
- Overcrowding is a concern at a time when, because of the price of fuel, transit has an unprecedented opportunity to attract new riders.

Impact on Revenue

- With the increased ridership came increased fare revenues; however, those additional fare revenues will not offset higher operating costs.
- Even though the local tax rate increased in last year's tax revenues, Metro's primary source of operating funding have begun to decline compared to budget plan in 2008, due to a weakening economy. Sales tax revenues last dropped in the 2001-2003 period.

Impact of Inflation on other Operating Expenses

- Metro is also facing increased labor expenses. Under its labor agreement, all represented employees of King County receive an annual cost of living adjustment, ranging from 3-6% correlated to the rate of inflation. In FY 2009, the increase is projected to be 6% for some 4,500 represented employees. The unpredictability of this cost of living adjustment is a concern.

ACTIONS TAKEN TO RESPOND

New Revenue

- Fares were raised by 25 cents, in March for the general public, and in July for seniors and students. Ridership showed no dip; instead, it continues to grow (by more than 6% per year). This was the first fare increase in seven years.
- Planning is underway to raise fares for the second time this year. Metro officials initially proposed a 25 cent increase, but the County Council asked them to plan for a higher increase, possibly as high as 50 cents. The modest 25 cent increase was proposed based on the uncertainty of fuel costs; the County Council felt a small increase may not solve the problem and would likely lead to additional incremental increases in ballot measures. The fare increase is expected to be implemented in November 2008. It could be 25 or 50 cents.
- A 25 cent increase provides approximately \$10 million per year in additional revenue.

Other Financial Strategies

- King County Metro just began purchasing fuel under a hedging arrangement. State law was only recently changed to allow hedging by King County Metro (independent transit authorities already had that power).

Constraints

- While no action has been taken yet, King County Metro may need to make major capital program reductions, dip into reserves, and slow or stop service expansion and/or cut existing services if new revenues cannot be found to make up the deficit.
- Vehicle replacements and other capital improvements may also need to be deferred.

WHAT CAN BE DONE ON THE FEDERAL LEVEL?

- Bridge funding to help local transit systems get through the current crisis without having to cut service.
- Assisting advocacy efforts at the State or local level for a funding source that is more stable than sales tax.

Sun Tran Tucson, Arizona

BACKGROUND

Sun Tran operates bus service in the City of Tucson and portions of Pima County. A department of city government, Sun Tran's operating budget is primarily funded by the city from local tax revenues. In FY 2008, the total budget was \$46,059,000.

The last fare increase was eight years ago.

CURRENT SITUATION

Impact of Increase in Fuel Cost

- Fuel has cost the fixed-route system \$1 million more in FY 2008 than budgeted.

Impact of Gas Prices on Ridership

- Sun Tran's ridership has increased significantly, and while the agency indicated that they don't have any specific data indicating a direct relationship to fuel prices, they feel that the rise in gas prices is a big part of the increased ridership (based on interviews that the media has done with passengers, and comments received from the public). In FY 2008, ridership was up 8.9%, and totaled 19,491,376 trips. So far in FY 2009 (July 1 through mid-August), ridership is up nearly 19% from the same time frame last year.
- Increasing ridership has led to overcrowding issues on some of the routes which have been difficult to manage.

Impact on Revenue

- A majority of Sun Tran's funding comes from the City of Tucson, and because the city is seeing reduced tax revenue, both in gas tax and in sales tax, Sun Tran was allocated fewer dollars with which to operate.
- Increased ridership has led to increased fare revenue.

ACTIONS TAKEN TO RESPOND

New Revenue

- Sun Tran recommended a 25% fare increase to the City Council in June, which would have gone into effect July 1, 2008. The current base fare is \$1.00, with the economy fare being at \$.40. City Council voted not to increase the fares, but rather appoint a task force to review transit expenses/revenues/fare structure and report back by December, 2008. The agency is still contemplating a fare increase.
- Sun Tran indicates that it could look at taking monies out of the City's reserve account, but that money is diminishing quickly as well.
- They are also looking into other taxing options that state/local legislation would allow. This budget crisis comes at a time when we are slated to expand service with sales tax dollars that are specifically earmarked for expansion (not allowed to supplant current revenues with this RTA sales tax monies).

Capacity Management

- Sun Tran has used a few buses from the contingency fleet to try to "plug" fixed routes that are consistently overcrowded. This certainly is not enough to address all of our overcrowding issues, but all that the agency's current resources would allow.
- When customers call the customer service line regarding overcrowding, Sun Tran offers alternate routes, if applicable, on routes that may be less crowded. Also offered are travel options during off-peak hours when the buses may be less crowded.

Maximizing Fuel Efficiency

- Sun Tran analyzed the paratransit division and discovered that certain models of paratransit mini-buses get slightly better gas mileage than others. Sun Tran used these vehicles on longer runs, and throughout the year, the savings added up to thousands.

Belt-Tightening

- Sun Tran has cut costs in both fixed-route and paratransit divisions where possible, such as vacancy management of non-critical positions, fewer dollars spent on advertising/marketing, cutting nearly all travel and training, etc.
- No one wants to cut service, but there may be no other alternative.

Constraints

- Sun Tran has operating increases, with just normal inflationary items, such as bus parts, etc., plus labor contracts which outline planned increases in wages and benefits. Coupled with decreased tax revenues, increased fuel costs, and overcrowding, it quickly leads to budget deficits.

WHAT CAN BE DONE ON THE FEDERAL LEVEL?

- Continue to give transit systems data and ideas on how other member systems are dealing with these same issues.
- Offer deep discounts on training/workshops/meetings so that transit systems may still be able to offer employees professional development (travel and training is usually the first to go in a budget crisis).
- Lobby for more federal monies to transit.