

## House Proposal Erodes Credit Ratings, Ties Hands of American Communities

**O**n February 3rd, the House Ways and Means Committee approved the tax title for the House Surface Transportation Authorization bill. The Ways and Means title removes the Mass Transit Account in the federal Highway Trust Fund that was created by the Reagan Administration, to provide dedicated, multiyear funding for public transit investments. The Ways and Means action also transfers the funds in the Mass Transit Account to the Highway Account; replaces the current Mass Transit Account with a new “Alternative Transportation Account” funded with a one-time cash infusion of \$40 billion from the General Fund. Funding from the new Alternative Transportation Account would fund the federal transit program in fiscal years 2013 through 2016, as well as the Congestion Mitigation and Air Quality program and several other Federal Highway Administration programs.

### **New and Dedicated Revenues Must Bolster Highways and Transit Together**

As transit agencies around the nation grapple with constrained local and state budgets, they have made significant improvements to the customer experience, reconnecting younger generations with transit in a way not seen in the post WW-II era. As ridership continues to increase and new advances, such as real-time transit arrival data reach a tipping point, now is not the time for the federal government to end its role as a dependable partner. The changes proposed by the House Ways and Means committee threaten to derail transit’s contribution to the nation’s recovery, and would

have the following deleterious impacts on public transportation:

- Hinders the ability to plan long-term, multi-year projects
- Makes transit managers subject to the politics of annual federal appropriations, rather than providing service to their communities
- Discourages state, local and private-sector investment
- Increases the cost of borrowing

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Both the Highway Trust Fund and its Mass Transit Account are in need of additional revenues. Such revenues should bolster both accounts, while maintaining dedicated motor fuels taxes as the base funding for both.

### **Reliance on General Funds Creates Inefficiency**

The Reagan Administration supported creating the Mass Transit Account and funding it from motor fuel taxes because: 1) a surface transportation system requires multimodal

mobility solutions; and, 2) dedicated funding encourages more efficient and effective multi-year planning.

The House bill undermines multimodalism and dedicated funding; instead, it provides public transportation a one-time infusion of \$40 billion in federal General Funds. At the end of this authorization bill, the account would be left with a zero balance and no source of revenue. With pressure to cut general fund spending from the recent deficit deal, federal support for a transit program could well be on a track toward sunset. Further, the initial \$40 billion in funding falls far short of the \$52 billion program authorizations in the account, setting the program up for chaos.

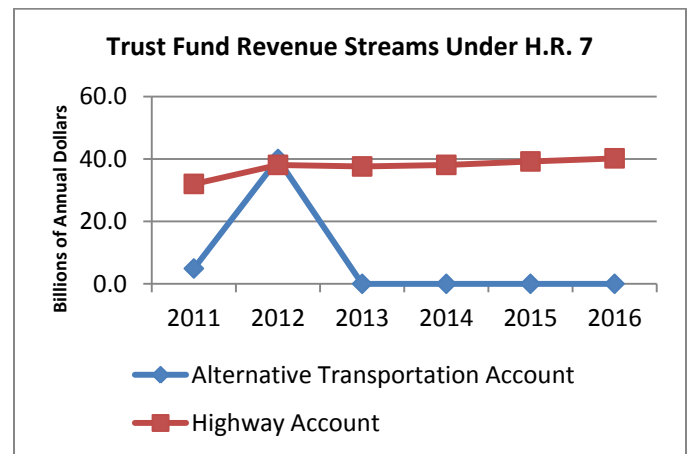
The end result of the House proposal is a return to the pre-Reagan era of ad-hoc, inefficient federal investment. Furthermore, the General Fund infusion approach erodes the purchasing power of appropriations by eroding the ability to leverage non-federal funding. State and local governments are more inclined to devote funding to projects that have secure, long-term federal funding.

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### Dedicated Revenue vs. General Fund Support

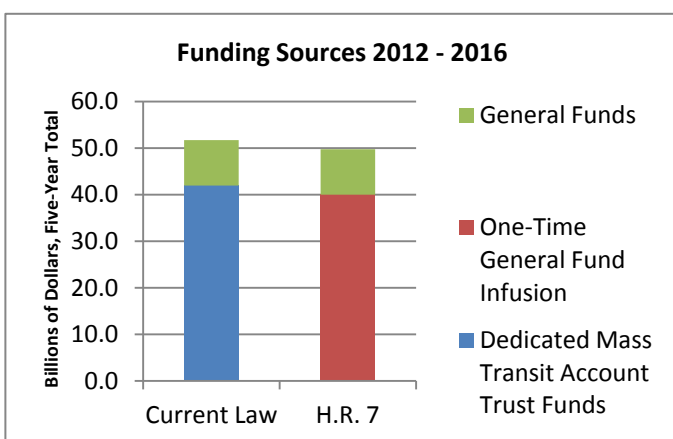
Since the Reagan Administration, transit has received a multiyear dedicated stream of revenue. This has provided states and communities the ability to plan for multi-year transit projects; secure Wall Street investment; develop comprehensive transportation programs to relieve congestion; enhance regional economic development; and, fuel a renaissance in the way a new generation of Americans travel.

The House proposal makes transit projects and services subject to the political vagrancies of Washington's budget, placing at risk a legacy of ridership growth and contributions to local economies.



### Impact on Bonding Ability

Transit agencies often use bond financing, underwritten by fare box, sales tax revenue, or other dedicated funding streams, to support the agency capital program. Bond rating agencies pay close attention to the reliability of revenue streams and are particularly sensitive to funding pressures that lead to deferred maintenance, which in turn result in reduced ridership and farebox revenue — a vicious downward cycle for transit agencies.



Rating agencies are likely to view this cycle as cause to downgrade an agency's credit position, and increase the basis points necessary to service loans. Moody's, one of the big three credit agencies, explicitly notes that an increase in deferred maintenance, large cuts to federal funds and resulting increases in budget gaps could create pressure to downgrade an agency's rating.

Transit agencies around the country, could face all of the above impacts outlined by Moody's, should HR 7 be enacted as proposed. As a result, agencies around the nation could experience higher costs associated with routine bond issuances necessary to operate a transit system. Much like the average American may experience higher credit card interest rates as a result of a lower FICO score; transit agencies would experience the same increased costs. The associated cost increases in a constrained fiscal environment will lead to additional deferred maintenance, leading to less reliable service, fewer transit extensions, higher fares and potentially fewer riders—ending the generational shift towards transit use as exhibited by Generations X and Y. The associated impacts on transit-oriented development, and transit suppliers and manufacturers will have an impact on the national recovery.

Given the heretofore bi-partisan consensus on maintaining dedicated federal support for transit, Wall Street has grown comfortable with the use of grant anticipation notes backed by federal formula funds. The disruption of this funding source will lead to a plausible end of this financing vehicle, which helps projects finish on-time and under budget.

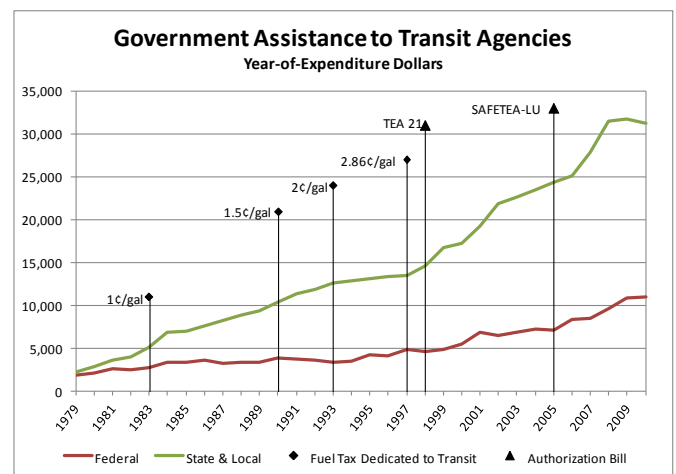
### Dedicated Federal Funding Helps Leverage Non-Federal Support

Dedicated federal funding for transit systems has provided a stable base of funding for the transit industry. Though federal funding currently makes up only 19 percent of public

transportation revenues, it is essential for attracting reliable state and local funding for the industry. Removing federal dedicated funding for public transportation will discourage state and local governments from contributing funds to transit agency operations and increases in service.

Federal funding guarantees encourage state and local actors to contribute their own sources of funding to transit projects and operations. Congress began dedicated funding for transit in 1983, dedicating one cent per gallon of the gas tax to transit funding. Since that time, federal funding for transit has increased 336 percent, and state and local funding for transit has increased at twice the rate, 672 percent. In 1979, federal funding represented 45 percent of government assistance for transit agencies. Government subsidies to transit have increased since then to over \$42 billion, but the federal funding portion has decreased to one-quarter (25%) of government funding for transit. Before state and local governments slashed their budgets due to the recession, federal funding made up 23 percent of government funding paid to transit agencies.

The chart below shows how funding guarantees increased state and local funding for transit. Starting in 1997, federal funding for transit grew at an annual rate of 5.7 percent through 2008. During the same period, state and local funding grew at a faster rate of 7.4 percent.



Funding guarantees at the federal level encourage state and local support because federal support focuses on capital projects. The federal program provides a bigger portion of the starting funds for new systems, extensions, and maintenance, and state and local actors decide how much transit service to provide. The separation of federal, and state and local roles into capital and operating funding respectively provides for the federal interest in transit funding and recognizes local control over transit services. Local control over services encourages state and local actors to invest more in their transit systems.

Removing guaranteed federal funding will reduce the growth in funding from local and state governments. Without the guarantee of funding from the federal government, local and state actors will see a shift in federal priorities and will put their money towards projects in other areas where they can leverage available federal funding in the long-term. State and local entities will shift funding away from transit capital projects and subsequently transit operations, reducing public transit service nationwide.

## Acknowledgements

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The primary authors of this report are Darnell Grisby, Matt Dickens, and John Neff, with support provided by William Ankner.

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## The American Public Transportation Association (APTA)

The American Public Transportation Association (APTA) is a nonprofit international association of more than 1,500 public and private member organizations, engaged in the areas of bus, paratransit, light rail, commuter rail, subways, waterborne services, and intercity and high-speed passenger rail. This includes: transit systems; planning, design, construction, and finance firms; product and service providers; academic institutions; transit associations and state departments of transportation. APTA members serve the public interest by providing safe, efficient and economical transit services and products. More than 90 percent of the people using public transportation in the United States and Canada ride APTA member systems.

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APTA is the leading force in advancing public transportation.

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