

CITIZENS LEAGUE  
530 Syndicate Building  
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February 8, 1980

MEMORANDUM

TO: State Senator Clarence M. Purfeerst, chairman, Transportation Committee  
State Representative James Casserly, chairman, Local & Urban Affairs Committee

SUBJECT: Citizens League position on MTC financing.

Several proposals have been made to the Legislature concerning the MTC deficit.

One proposal is to close the gap between revenues and expenditures with a fare increase and service cutbacks.

Another proposal is to use state taxes only, with no fare increase and no service cutbacks.

The Citizens League proposes a balanced approach, which maintains service while closing the gap with a mixture of state and metropolitan taxes and fares.

Here is what our proposal would mean in dollars:

To expand service:	\$12 million	using state taxes
To pay for rising costs of existing service:	<u>\$11 million</u>	using metropolitan sources \$5.5 million in fare increases \$5.5 million in metropolitan taxes
Total projected gap:	\$23 million	

The enclosed statement of the Citizens League was prepared by the Tax and Finance Task Force of the Citizens League, Charles H. Clay, chairman. It is an update of a previous statement on MTC financing presented to the 1977 Legislature.

## CITIZENS LEAGUE UPDATE ON MTC FINANCING

### I. Introduction

The MTC's financial picture has changed dramatically in the last year. Demand for service has grown significantly, despite a fare increase in mid-1979. At the same time, operating costs have increased much faster than anticipated. Twelve months ago revenues were considered sufficient. Today, the MTC is projecting a \$23 million deficit by the end of the biennium unless additional revenue is raised.

Because of the way the MTC has been financed, the largest share of all cost increases over the last several years--regardless of whether they were due to service expansion or inflation--has been paid for by the public at large. This was necessary to keep fares down and thereby build ridership.

As a result of this policy, riders are almost completely sheltered against inflation in the cost of transportation. While inflation has resulted in constant increases in the cost of traveling by private automobile, there has only been one fare increase since 1969, making public transportation a better bargain than ever. So much so that contrary to past experience, the fare increase in 1979 did not cost the system riders. In fact in the months following the increase, ridership increased by about 6%.

Looking ahead, cost increases are likely to continue. Fuel prices are still rising. The overall inflation rate remains high. The MTC is projecting a 7% increase in ridership in 1980. Given current policies, that will mean a larger bill for the public at large.

A new policy is now needed for financing the operating costs of the Twin Cities' transit system--one which more effectively relates the cost of the system to those who benefit the most from it, specifically, the residents of the Twin Cities. The following guidelines should be followed in developing the new policy:

- \* As transit expenditures rise, they should be divided between (a) the Twin Cities community and (b) state government.

- State government should continue to finance the expansion of transit service.

- The Twin Cities community, at least for the immediate future, should pay for inflation-related increases in the cost of service once it has been established.

- \* The Twin Cities community should divide the local cost of transit between (a) riders and (b) general tax support.

- Part of the cost increase due to inflation should be covered through fare increases.

- Local tax sources should be used to raise the remainder of cost increases due to inflation.

This proposal was developed by the Citizens League's Tax and Finance Task Force. It is based on the League's 1977 statement on MTC financing. The Task Force

worked on this update during the fall of last year. Action was completed on the statement at the Task Force's January 30, 1980 meeting. The Tax and Finance Task Force is Chaired by Charles Clay. The members of the task force are: Frances M. Boddy, Allan Boyce, Frances Boyden, John Brandl, Fred Cady, Earl F. Colborn, Jr., Robert Erickson, Jay Fonkert, David Graven, Jean Heilman, Paul Hilstad, Eugene Kanff, Andrew Lindberg, Margaret Lulic, Medora Perlman, F. Warren Preeshl, Kati Sasseville, Margo Stark, Marcia Townley, and Gerald Weiszhaar.

All of the data used in this update was obtained from the Metropolitan Transit Commission. To our knowledge, the Commission is the only source of data on the region's transit system.

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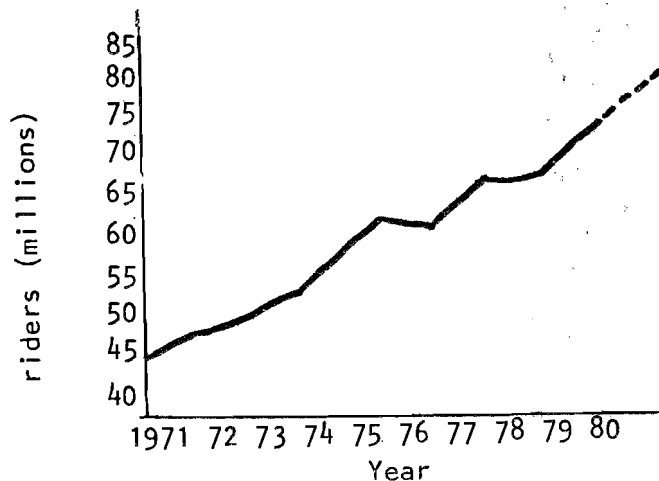
February 11, 1980

## I. Background

MTC ridership and operating costs have grown significantly since 1971.

\* MTC ridership continues to grow---faster in 1979 than in previous years. Ridership has almost doubled since 1971, going from about 45 million riders in that year to an estimated 75 million in 1979. The growth in ridership was particularly dramatic in 1979, increasing by slightly more than 6% (compared with an increase of about 3% for 1978). A 7% increase has been projected by the MTC for 1980. (See graph 1)

Graph 1: Growth in MTC Ridership  
1971-1980<sup>1</sup>



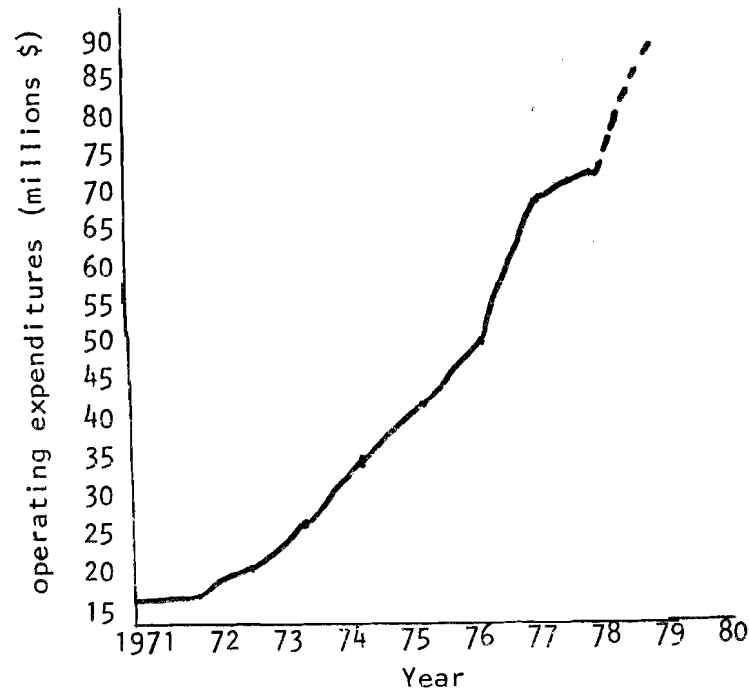
<sup>1</sup> Source MTC

\* Operating costs have also grown dramatically, increasing more than four-fold since 1971. In 1971, The MTC's total operating expenses were \$15.9 million. By 1976, operating expenses had grown to about \$42 million. For 1979, the MTC estimates that total operating expenses will be about \$71 million, increasing to a projected \$88.8 million in 1980. (See graph 2)

Recent increases in operating expenditures are due to three major factors:

1. Increases in the cost of diesel fuel. In December, 1978, this fuel cost approximately 44 cents per gallon. The MTC has projected that the cost of fuel will reach \$1.39 per gallon by June, 1981. Approximately \$5.0 million or about 28 percent of the MTC's total projected increase in operating expenses for 1980 will be the direct result in the increases of fuel.

Graph 2: Growth in MTC Operating Expenditures 1971-1980<sup>1</sup>



<sup>1</sup> Source MTC

2. Increases in the cost of labor. Wage changes for most MTC employees are tied to changes in the cost of living. Employees may receive a cost of living adjustment every three months, depending on the rate of inflation. According to the labor contract negotiated in 1979, the maximum driver's wage (currently \$9.63/hour) is to be increased 6 cents per hour for every 1% increase in the consumer price index. Accordingly, the hourly rate for drivers at the top of the pay scale increased by 22 cents per hour in November, 1979. Drivers not at the maximum rate (i.e. those with less than two year of service) and other MTC employees received pro rated increased based on the 22 cents. In total, the November increase added about \$88,000 per month to the MTC's wage bill, excluding any related increases for fringe benefits. Further increases could come in February, June, August, and December, 1980.

According to the MTC's budget summary for 1980 (dated August 1, 1979), approximately \$7.9 million or about 44% of the projected increase in operating expenses for 1980 will be the direct result of "inflationary increased in labor costs and materials." The \$7.9 million increase assumes a 12% increase in the cost of living during 1980.

3. Increases in service. Between 1971 and 1976, the number of miles traveled by buses increased by about 60%, going from 18.6 million miles to 29.7 million miles. Since 1976, the miles traveled has remained relatively constant. In 1979, buses traveled approximately 29.7 million miles. For 1980, an increase of about 7% (to approximately 31 million bus miles for regular service) has been projected. About

\$5 million or 28% of the MTC's projected total increase in operating expenses for 1980 will be the direct result of the cost of increased service.

Operating costs are also expected to rise significantly during 1981. The same three factors will account for the increase.

\* The MTC has four major sources of operating revenue: fares, local operating subsidies (property tax), state operating subsidy, and a federal operating subsidy. In 1979, the four sources contributed at the following rates:

Fares	33%
Subsidies:	
Local	21%
State	24%
Federal	19%
Miscellaneous	<u>3%</u>
TOTAL	<u>100%</u>

Based on the current rates for both fares and subsidies, the breakdown by source for the MTC's proposed 1980 budget will be as follows:

Fares	32%
Subsidies:	19%
Local	19%
State	16%
Federal	<u>2%</u>
TOTAL	<u>88%</u>
Deficit	12% (\$10.7 million)

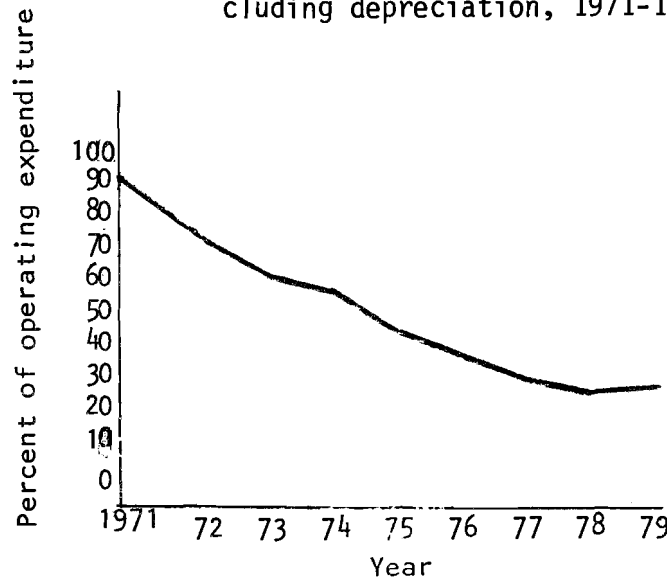
As the table above shows, the MTC's proposed 1980 budget will result in a deficit of approximately \$10.7 million.

The sources of revenue listed above do not reflect capital costs. The MTC finances capital expenditures through grants from the federal government and by the sale of bonds which are repaid using revenue raised through the regional property tax levy. If capital costs are included in the calculations, then the subsidies from the federal and local government would be higher. For example, in 1979, the MTC's combined operating and capital budget was about \$104.3 million (\$35.3 million for capital expenditures and \$69.0 million for operating expenses). Assuming that the capital expenditures are depreciated over ten years, the MTC's total budget for 1979 would be about \$72.5 million. The sources for this revenue breakdown as follows:

Fares	30%
Subsidies:	
Local	25%
State	22%
Federal	21%
Miscellaneous	<u>2%</u>
TOTAL	<u>100%</u>

\* Until the fare increase in 1979, the share of MTC operating revenues from riders had been declining. In 1971, riders paid approximately 89% of all operating costs, excluding depreciation. In 1978, riders were paying about 31% of operating costs, excluding depreciation. (See graph 3)

Graph 3: Passenger Fares as a percent of MTC operating expenditures, excluding depreciation, 1971-1979<sup>1</sup>



<sup>1</sup> Source MTC

The subsidy per passenger has increased from about 3 cents per passenger in 1971 to about 55 cents per passenger in 1979. Based on the MTC's 1980 proposed budget the subsidy is likely to exceed 56 cents per passenger. (See table 1)

TABLE 1: MTC Subsidy Per Rider, Excluding Capital Costs and Special Grants from the Federal Government

	1971	1976	1979	1980*
local	3¢	15.2¢	18.8¢	19.7¢
state	-	14.0	20.8	20.3
federal	-	19.8	15.3	15.5
TOTAL	3¢	40.0¢	54.9¢	55.5¢

1. Based on the MTC's proposed 1980 expenditures, includes deficit of about \$10 million. Depending on how the \$10 million is raised, the subsidies from state and local sources could increase

Since 1975 subsidies from the state and federal government have grown the most. The amount of subsidy collected through property taxes has remained relatively constant, increasing only during the current biennium. (See Table 2.)

TABLE 2: Estimated MTC Operating Revenues (\$ Millions) from Federal, State and Local Tax Sources: 1975-1977, 1977-1979, 1979-1981<sup>1</sup>

	1975-1977	1977-1979	1979-1981 <sup>2</sup>	Percent Increase 1975-1981
federal	\$11.0	\$18.2	\$24.8	125.5%
state	24	28.3	31	29.2
local	26.1	26.5	32.1	23
TOTAL	\$61.1	\$73.0	\$87.9	44%

<sup>1</sup> Excludes special grants from the federal government.

<sup>2</sup> Estimate for 1981 property taxes based on 15% growth in tax base and tax rate of 1.72 mills. Based on the MTC's proposed 1980 budget and projections for 1981 and assuming no fare increases, expenditures will exceed revenues by about \$23 million for the biennium.

Both Table 1 and Table 2 reflect the status quo with respect to subsidies. No provision has been made for any cost increases that were not anticipated at the start of the 1979-81 biennium (i.e., July 1, 1979). As a practical matter, unanticipated expenses could be made-up through an increase in the state subsidy, revenues from the local property tax, or through fare increases. While the federal government's subsidy has increased at a rate of about \$1 million per year, this is not considered as reliable a source as the MTC's other revenue sources.

\* Since 1977, a portion of the MTC's operating subsidy from the state has been based on "performance funding." Previously, the state's portion of the total subsidy was based on the MTC's proposed budget. Now, however, the amount of state subsidy is tied to the number of riders. For example, during the 1977-79 biennium, approximately \$17 million (60% of the state's subsidy) was disbursed on the basis of performance--for each rider, the MTC was reimbursed at a predetermined rate. For 1979, "performance funding" accounted from \$9.7 million or about 62% of the state's share of the total subsidy. According to the MTC's proposed 1980 budget, "performance funding" will account for about 53% of the state's share of the total subsidy.

\* The subsidy is particularly great for longer routes--used mainly for commuting. For travel during weekdays in August, 1979, subsidies ranged from 16 cents per passenger to \$7.04 per passenger, depending on the route. Out of a total of 119 weekday routes:



- Eight (7%) had subsidies greater than \$2 per person.
- Twenty-six (22%) had subsidies between \$1 and \$2 per passenger.
- Routes where the subsidy was \$1 or more accounted for 4.5% of total weekday ridership in August; however, these same routes absorbed about 15% of the total operating subsidy. Among the most heavily subsidized routes are those providing express services via freeway and those traveling "cross town."

Action by the 1979 Legislature prohibits the MTC from cutting back on service outside of the zone #1 service area. Many of the most heavily subsidized routes are outside of zone #1. Since service must continue, the MTC's best opportunity for cost control may be through developing more efficient methods of providing transit service outside of zone #1.

Over the years, the Citizens League has made a number of recommendations for financing public services operated by metropolitan agencies, including the MTC.

\* In 1979, the League recommended that there should be a fractional sales tax in the seven-county metropolitan area. Revenues from the tax would be used to support public services operated by metropolitan agencies. The League recommended that a sales tax be substituted for property taxes which are currently levied to support metropolitan services. The League stressed that the revenues from a fractional sales tax should be used to finance metropolitan services in general rather than dedicating the revenues to a single purpose (e.g., transit).

\* In 1977, the League reached the following conclusions with respect to MTC financing:

- Fares should be increased to make sure that riders pay a portion of the increased cost of MTC operations. The League found in 1977 that "since 1971, when public subsidy of the bus operation began, the share paid by riders has decreased in absolute dollars. The increase in expenses has been paid for entirely by taxpayers."
- Fare increases should be "selective and differential." By "selective" the League meant that fare increases during the peak hours should be greater than those during off-peak hours. Furthermore, increases in the base fare during peak hours should be "differential" such that, "...the smallest increase falls on regular riders, a slightly higher increase falls on semi-regular riders, and the greatest increase falls on infrequent riders."
- Subsidies should be based on actual ridership and revenues and not projected expenses. The 1977 statement said, "We recommend that the Legislature change from basing its subsidy on projected expenses of the MTC to a measure which relates more closely to ridership and cost effectiveness." The statement outlined two approaches to relating the subsidy to ridership. It said that both should be considered. And, the League recommended that, "Whatever formula for distribution is decided, the MTC should have an incentive to operate its system cost-effectively,"
- The MTC should be encouraged to experiment with new methods of providing long-distance commuter service. The League found that among other things, the method of finance was encouraging the MTC to provide long-distance commuter service using large-buses, scheduled routes, and full-time drivers.

While this system works well and is cost-effective in the central cities, it is an extremely expensive approach to long-distance commuter service. As an alternative, the League concluded that, "smaller, more flexible vehicles are more appropriate for long-distance commuter service--the best way to connect low-density residential locations on the suburban fringe with employment locations closer in is to rely on smaller, more flexible vehicles, such as commuter-vans and car pools. In some cases subscription buses may be appropriate, but the scheduled-route, full-time-driver service of the MTC is too expensive for the area."

--"Because of its structure, the MTC is not well suited to be fully responsible for promoting all types of riding in the metropolitan area--the MTC is an operator of one type of transit and, therefore, has built-in constraints on the extent to which it is free to promote other forms of riding. Not that the MTC is uninterested in commuter-vans and car pools . . . but it would be best if the MTC were not given the final authority over whether a certain project or experiment for another form of riding were tried."

## II. The Current Situation.

The MTC needs approximately \$33 million in additional revenue to meet expenditures through the end of the biennium (June, 1981).

\* The \$33 million in additional (and unanticipated) expenses will come from the following sources:

- \$10 million due to increased fuel costs.
- \$2 million for additional Workers Compensation payment.
- \$12 million for additional bus service.
- \$9 million for cost-of-living salary adjustments.

The MTC expects about \$10 million of the additional revenue it needs to be made up through increased ridership, leaving about \$23 million to be raised through other means.

Of the \$23 million, \$10 million will be needed in 1980. The remaining \$13 million will be needed for the first six months of 1981.

\* Increasing fuel costs and wages are the major causes for the MTC's additional and unexpected need.

In developing its financing plan for the biennium, the MTC had projected that fuel costs would be 55¢ per gallon in June, 1981. It is now projecting that fuel will cost \$1.39 per gallon by the end of the biennium--153% greater than anticipated.

The MTC had anticipated a 6% increase in wages for 1980. A 12% increase is now expected. And, wages are projected to increase by 8% during the first half of 1981. The MTC's labor contract with its drivers calls for four cost-of-living adjustments per year. Before the end of the biennium, there could be six adjustments.

There will also be some increases in service. The MTC plans to increase the number of vehicles in service during peak hours from approximately 800 in 1979 to about 890 by December, 1980. According to the MTC, between 15% and 20% of all peak hour trips now exceed the MTC's capacity standards. (According to MTC policy, a bus is "full" when the number of passengers exceed 140% of seated capacity.) The additional buses will be used to take pressure off of existing routes. This will be done by adding more buses to some routes and by adding some new alternative routes.

The MTC's financial problem go beyond the immediate need for \$23 million. Transit costs will continue to rise due to inflation and increased service.

\* Inflation--the force behind increasing fuel and labor costs--is likely to continue. The MTC can do very little about increases in the costs of diesel fuel. It has more control over personnel costs. While difficult, changes could be made in some provision of the driver's labor contract, reducing the number or size of the cost-of-living adjustments and/or increasing the number of part-time drivers. However, these changes are unlikely. (According to the current contract, 10% or 140 drivers may be part-time.)

\* Pressure is growing for increased service. Most of this is directly related to increases in the use of the bus system by commuters--that is, people who use the system to go back and forth from work. Requests have been made to increase the number of buses on specific routes. And, there also has been pressure to increase service in outlying areas--both to add new routes and to increase service over existing ones.

The cost (and subsidies) for bus service in outlying communities has usually been much greater than that for routes in the more densely populated central cities and first ring suburbs. For the most part, the MTC has provided service and managed routes within outlying communities in the same way that it serves and manages routes in the central cities. That is, it has used primarily large-bus, scheduled routes, and full-time drivers. In some cases, this approach is probably justified. But, in others, it might be best to use smaller vehicles, or flexible scheduling, and/or part-time drivers.

The public's attitude toward transit is changing as more and more people make use of the system a part of their daily routine and depend on it for travel.

\* Rising fuel prices and uncertain supplies of gasoline have virtually forced people to change their transportation habits. Instead of traveling to work by automobile, they are now turning to transit primarily because it is more reliable and, in some cases, less expensive.

The impact of the 1979 fare increase on ridership is evidence of the growing "seller's market" for transit. The conventional wisdom in transportation planning has been that for every increase in fares there will be some decline in ridership. In July, 1979, the MTC increased fares by 10¢. During that month and in subsequent months, MTC ridership increased at an annual rate of 6%.

Rising fuel prices and uncertain supplies are not the only factors pushing-up transit ridership. The cost of owning and maintaining an automobile is also increasing. By eliminating the work trip, owners may be able to reduce maintenance

costs and extend the life of their car. The cost of parking in the downtowns has also increased dramatically, for example, going from about \$2.00 per day in 1976 to over \$4.00 per day in 1979 for ramp parking just off of Nicollet Mall in Minneapolis.

With the exception of one fare increase in 1979, the policy has been to meet cost increases through increases in state and federal subsidies.

\* The policy of subsidizing operating costs was used to help build ridership. With the help of the subsidies fare increases could be avoided. Until recently, any fare increase would have reduced ridership.

\* The size of the operating subsidy has grown rapidly, particularly the shares from the state and federal governments. (See Table 1 and Table 2.) To date, the federal subsidy has been increasing at a rate of about \$1 million per year. Based on the MTC's 1980 budget and taking into consideration a fare increase as well as an increase in the federal subsidy, the MTC will still need additional revenue to meet proposed expenditures. The additional funds could come from an increase in the metropolitan property tax that is levied for transit or it could come from an increase in the state subsidy.

Table 3 projects the change in subsidy per rider assuming a \$1 million increase in federal grants and a \$5 million increase in state grants in 1980. (See Table 3.)

TABLE 3: Subsidy Per Rider  
by Source, Assumes a \$5 Million  
Increase in the State Subsidy in 1980<sup>1</sup>

	1971	1976	1979	1980	Percent Change 1976-1980
local	3¢	15.2¢	18.8¢	19.7¢	30%
state	-	14.0	20.8	26.5	89
federal	-	10.8	15.3	15.5	44
TOTAL	3¢	40.0¢	54.9¢	61.7¢	54%

<sup>1</sup> Based on MTC 1980 proposed budget and assumes 80.6 million riders in 1980.

\* Regular increases in the property tax for transit and passenger fares are not expected. In 1975, the MTC's property tax rate was 2.87 mills. Since 1976, it has been 1.72 mills. Given the Legislature's efforts over the last decade to reduce the use of property taxes, it seems unlikely that the MTC's mill rate would be increased at this time. Despite this, there will be some increase in the passenger subsidy from the property tax due to growth in the value of metropolitan area property. For example, the MTC's proposed 1980 budget anticipates an increase of about \$2 million in revenues from this source.

Until 1979, the Legislature's and the MTC's policy was to pay for cost increases entirely through increased subsidies. However, in 1979, part of the increased cost of the bus system was paid for through and across the board fare increase of 10¢. In addition, social fares were increased to 10¢. The MTC discussed and rejected a second fare increase at the end of 1979. Coupled with additional state subsidy, a 1980 fare increase make up for the \$10 million deficit anticipated by the MTC's 1980 proposed budget.

The MTC has no specific policy with respect to fare increases. Whether or not there will be any and the share of cost increases that they might cover is not a part of established policy. Furthermore, the Legislature has not given the MTC any incentive to develop a fare policy.

\* Increasing the state's subsidy may cause the state to spend more for transit than is necessary. Because of increases in the cost of traveling by private automobile, citizens appear willing to pay more through the fare box for transit service. The state could cut its expenses for transit by taking advantage of the apparent willingness of riders to pay more. Furthermore, continued reliance on state funds for any sub-state services (including the MTC) may lead to pressures for balancing state spending in one community with that in all others. This is not necessarily bad; however, the pressure may cause some state funds to be used to support services where the need in one part of the state is much less pressing than it is in other parts.

\* To a great degree, the current need is not consistent with the purposes of the state subsidy program. Over the years, the purposes have been:

--To help build ridership and expand the bus system.

--To keep the transit system affordable for lower income riders.

With the recent increases in the cost of traveling by private automobile, increases in the state's subsidy may no longer be as important to building ridership as they were in the past. Furthermore, the bus system appears to be largely in place. Maintaining this system is the major cause for the cost increases. Of the MTC's estimated \$33 million short-fall for the biennium, \$21 million is needed to meet expenses of the existing system. Only \$12 million will be used to expand service.

The problem of keep transit affordable for lower income persons remains. If current rates of inflation continues, this problem will become more pressing.

Because the state's subsidy served multiple purposes, and because the cost of transit to the individual was relatively low, it made good sense to give the state's subsidy directly to the MTC. However, it can be argued that the need today for additional state subsidy is more focused--that it should be used exclusively to keep transit affordable for lower income people. If this is the case, then perhaps the Legislature needs to reconsider the way in which it provides subsidies to riders.

There are other ways to address the problem of rising costs.

\* Fares could be increased regularly. They could also be restructured. Experience with the 1979 fare increase suggests that fares can be increased without losing

riders. Furthermore, if bus riders were traveling by some other means, they would now be facing regular cost increases due to inflation. Why should those who ride the bus be totally sheltered from the impact of inflation on transportation costs?

Fare increases are not only a means of raising revenue, but they may also be useful in changing patterns of ridership. For example, increases could be structured to encourage more ridership during off-peak hours and to get more people to become regular riders. By reducing the disparity between use during peak and off-peak hours, the transit system can operate more efficiently. Furthermore, the great majority of people using the transit system during the peak-hours are employed and therefore, better able to pay the higher fare.

People can be encouraged to become regular riders by providing a significant discount on the cost of monthly passes. There are two major advantages to encouraging people to become regular riders:

- The MTC can plan service more effectively.

- Second, fare increases can be more gradual. As long as riders pay at the farebox, the increases may be in nickel or dime increments. With a sufficiently large share of all riders purchasing in bulk, fare increases can be more gradual. Unlike a fare paid at the farebox, the cost of the pass can be increased by a few cents.

Monthly passes are already available. During the first 11 months of 1979, 11.2 million adult passengers or 22% of all adult passengers used monthly passes. Use of monthly passes in 1979 was up about 33% over 1978.

The passes can be purchased over the counter or through employers using a payroll deduction plan. When purchased over-the-counter, the pass sells for the equivalent of 44 rides at the base fare (40¢). Each ride in excess of 44 lowers the average cost and in effect, gives the purchaser a discount. When purchased through an employer, the cost of the pass is discounted by 12.5%. After the 39th ride, the purchaser begins to get a discount. At the start of this biennium the MTC projected that it would be selling 10,000 monthly passes through the payroll deduction plan by the end of the biennium. The MTC has recently increased this projection to 24,000.

\* More revenue could be collected from metropolitan taxes.

Twin Cities residents are the principal beneficiaries of the transit system. Those who use the system probably benefit the most. However, businesses located close to transit routes are also major beneficiaries. And, the population in general benefits through reduction in traffic congestion, air pollution, and energy consumption. While the state and federal subsidies have helped to build the service, it is not unreasonable to expect residents to take responsibility for the incremental costs associated with maintaining the system.

To a certain extent, this is already done through a special tax levy on property located within the MTC's service area.

One possibility would be to increase the property tax levy for transit. Property near or adjacent to MTC routes benefit from the service. As such it might be appropriate for property owners to pay a larger share of the cost of operating the transit system.

Another approach would be to use a portion of the revenue from a metropolitan sales tax. As is true of the other metropolitan services that might be supported through a sales tax, the MTC benefits the region as a whole--regardless of whether a person owns property or not.

Finally, it might be desirable to do both--increase the share of operating revenues from the property tax and use some of the revenue from a metropolitan sales tax to support transit. The additional property tax revenue might be used to pay cost increases for the existing system. Revenue from a metropolitan sales tax might be used to support other forms of riding (e.g. commuter-vans, car pools, etc.).

\* There could be changes in the way outlying areas are served.

Smaller vehicles run by part-time drivers might be more efficient than using large buses and regular drivers. Some experiments with this approach will get underway during 1980. Three White Bear Lake area communities began operating their own van transit service on February 1st. The service will replace a demonstration van system that was operated for three years by the MTC. Members of the White Bear Lake Area Transit Commission expect to operate the service for slightly more than half the cost of the MTC's van system. The MTC plans to run a similar system in Minnetonka. The Fridley City Council has considered but rejected for now the idea of starting its own local transit system.

Regular routes to outlying communities and some "crosstown" routes might be shortened. They could be shortened permanently or only during the off-peak hours. If the reductions were permanent, commuters would get to their final destination through some other form of transit, perhaps a smaller vehicle or a car pool.

Fares could be increased so that they were more reflective of the true cost of bus service, providing an incentive for riders to seek another way to commute--car pools for example. The 1979 fare increase was the same for all routes. As a result, riders paying the regular fare (30¢) had their fares increased by 1/3rd--to 40¢. Those traveling from zone 1 to zone 4 by express service had their fare increased from 70¢ to 80¢ or by only about 14%.

### III. Conclusions and Recommendations

This is not the time to cut back on transit service.

Cuts in transit service should be avoided. With gasoline costs rising, and growing uncertainty about fuel supplies, maintenance and development of the region's transit system is important. With each gasoline price increase, transportation by private automobile becomes less and less practical. Where possible, people will respond by cutting down on travel. They will also, however, seek other means of traveling. Within the metropolitan area, this is likely to be increased demand for transit services. Furthermore, public acceptance of transit is growing. Cuts in service at this time might undermine what has already been accomplished with respect to ridership. As people search for alternative ways to travel, we do not want them to feel any reluctance about using the transit system. As such, maintaining a constant level of service is important.

As transit expenditures rise, they should be divided between (a) the Twin Cities community and (b) state government.

Twin Cities residents, businesses and institutions benefit from the transit system. The vast majority of riders are residents of the region. The routes make local businesses and institutions more accessible than they otherwise might be. For these reasons, it is perfectly reasonable to expect residents, businesses and institutions to help pay for the transit system.

It is in the state's interest to support transit in the metropolitan area because:

- \* Through transit the state's fuel supply can be used more efficiently.

- \* Many of the social and economic functions which take place in the Twin Cities but benefit the entire state could not take place without transit . . . increasingly so in the next few years. The region's transit system is an important part of its infrastructure. Without transit, many activities now carried on in the Twin Cities could not continue. The effect would be similar to cutting back on the road system linking places in rural Minnesota.

State government should continue to finance the expansion of transit service.

This has been the policy with other public services--the state or federal government has financed the start-up cost of a new public service. Local residents have then assumed responsibility for operating costs. The same principle should be applied to transit. However, the nature of the "start-up" cost is slightly different. For transit, start-up cost includes both the cost of purchasing vehicles and the initial cost of operating them. The initial operating costs must be included because the "new service" is not simply the addition of more buses to the fleet. Rather, it is defined by the way these new buses are used. That decision is, in many cases, more risky than the decision to purchase more equipment.

The financial risk for new service is high, compared with that on established routes. New service usually requires a relatively high passenger subsidy . . . mainly because ridership is likely to be low at the start. It may not pick up for several months. And, perhaps, it never will.

It would be unfair to ask riders on established routes to pay the start-up costs associated with new service. Furthermore, it is unlikely that there would be very much incentive to add new service, or to experiment with alternative forms of transit, if it was necessary to finance improvements with money from the fare box or with revenue from a local tax source. To stimulate any real innovation, state and federal financing will be needed. That has generally been the case for other public services. Transit is no exception.

Of particular concern to state government at this time should be improvements in transit service--that is, adding new bus routes, lengthening existing routes, or increasing the number of buses on existing routes.

The MTC has proposed some improvements in service, primarily increasing the number of buses on existing routes and to a much lesser extent, the addition of new routes. These additions complement the MTC's existing network of routes. As such, they seem appropriate.



The MTC's improvements do not, however, address the problem of service to outlying communities. The same forces that are pushing-up demand for transit service in the fully developed parts of the region are also at work in outlying communities.

Experience, while limited, indicates that the MTC cannot serve these communities efficiently. As the League observed in its 1977 statement, the MTC's expertise is in providing day-long, large vehicle service. To serve outlying communities efficiently and effectively will require more flexibility not only in the type of vehicle but also in scheduling.

To this end, the 1980 Legislature should assign responsibility for transit service in outlying communities to local governments. The Legislature should provide outlying communities with special funds for planning and then operating for a trial period alternative forms of transit. These alternatives should be designed to provide commuter service as well as transit during the off-peak hours.

The Twin Cities community, at least for the immediate future, should pay for inflation-related increases in the cost of service once it has been established.

Once a route or service becomes a part of the transit system (i.e., once it is established), increases in operating costs should be paid for by Twin Cities area residents. They are the principal beneficiaries of the system. As such, they should pay for its upkeep. Furthermore, local financing of cost increases will keep pressure on transit operators to control their costs. If the increases were paid by the state, there would probably be substantially less pressure on the managers of the transit system to control their costs. This policy (i.e., that the Twin Cities community pay for inflation-related cost increases) should be used for the remainder of the current biennium.

The Twin Cities community should divide the local cost of transit between (a) riders and (b) general tax support.

Part of the increased cost of operating the system should be paid through fares, in part through a general tax levy. All Twin Cities residents benefit from the transit system. Riders realize the most direct benefit. However, people using other forms of transportation benefit because streets and highways are less congested. Merchants, employers and entertainment enterprises benefit because transit makes them more accessible. Furthermore, the population in general benefits through reduced air pollution and energy saving.

The Legislature should ask the Metropolitan Council for a specific recommendation regarding the share of the local cost that is to be paid through the farebox and the share that is to be raised through a tax source. The Metropolitan Council is the policy-making body for the region. As such, the assignment is appropriate.

Part of the cost increase due to inflation should be covered through fare increases.

At this time, it does not seem unreasonable to have one-half of the cost increase due to inflation paid-for through fare increases. However, over time, it

might be desirable to change this. The Metropolitan Council should monitor the impact of a 50/50 policy and make recommendations accordingly.

Fare increases should be structured according to the following policies:

--At least, initially, fare increases should apply to peak hours only. This will serve as an incentive for greater and, therefore, more efficient use of the system during the off-peak hours.

--Increases should be based on a uniform percent of the current fares, rather than a flat rate. For example, if the base fare was increased to 50 cents or by 25%, all other fares should also be increased by 25%. This approach to fare increases will insure that all riders pay their fair share of the cost of inflation. By contrast, a flat rate increase assumes that the increase in operating costs is the same dollar amount regardless of the route. This is not the case. Some routes are more expensive than others. The use of a uniform percentage increase in fares would reflect cost differences, at least in part.

Perhaps the most equitable approach to fare increases would be to use a sliding scale . . . some fares might increase by 10% and others by 15% or 20%, depending upon actual cost increases. As the Legislature considers a long-term policy for financing the MTC, consideration might be given to using this approach to fare increases.

--Significant discounts should be provided to regular and frequent riders. The Twin Cities community benefits in several ways through increases in the number of regular riders. Energy is saved. The transit system can operate more efficiently. It is easier to plan for new service. And, more people will be paying for transit through monthly passes. As the use of these passes increases, it becomes more feasible to have gradual fare increases. The cost of the pass can be increased by a cent or two. Small increases of this type are not feasible through the fare box.

If the Legislature's long-term policy calls for regular fare increases, then the financial burden on lower-income riders will increase. In anticipation of this, a plan should be developed to provide cost-relief for lower-income riders.

Local tax sources should be used to raise the remainder of cost increases due to inflation.

At present, a metropolitan property tax is used to support some of the operating costs of the Twin Cities' transit system. Property tax revenue is also being used to help pay capital costs. In the absence of any major change in the policy for MTC financing, we would expect this to continue, particularly because growing use of the transit system will provide major benefits to property located on or near transit routes.

Because of the way property tax is levied and collected, and increase in the tax at this time would not provide additional revenue for the MTC until 1981. To meet

the MTC's 1980 revenue needs, the Legislature might make an emergency one-time appropriation to the MTC. By allowing the MTC to levy at twice its regular rate for one year, the state could be repaid for 1980 emergency appropriation.

In the Citizens League's 1979 statement about metropolitan finance, the League identified some concerns in the Twin Cities community regarding metropolitan property tax levies, including the one for transit. If legislators share these concerns, then, as an alternative to the property tax levy, a metropolitan general sales tax should be considered. Part of the revenues from this kind of tax could be used to finance the MTC's anticipated operating deficits for the remainder of the biennium.

The Legislature should develop a procedure for continuous and systematic monitoring of policy for financing the MTC.

For a number of reasons, the MTC's finances are extremely sensitive to inflation. In the last twelve months alone, the operating costs as well as the demand for service have changed dramatically. Action taken by the Legislature in 1980 is not likely to permanently solve the MTC's financial problems. In fact, it could have quite the opposite effect. If inflation persists, then the burden on riders and local taxpayers could become excessive. In short, the system's finances need to be watched carefully. As costs increase, the Legislature must be prepared to:

- Accept the increases and then devise some method of spreading the cost between riders, local taxpayers and the state.
- And/or work to reduce costs by cutting service or by seeking methods of providing transit service more efficiently.

With an established system for oversight, the Legislature--with the assistance of the Metropolitan Council--should be able to tailor its policies for financing transit to reflect changes in operating costs and demand for service.