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A Guide to Innovative Financing Mechanisms for Mass Transportation

An Update

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A Guide to Innovative Financing Mechanisms for Mass Transportation: An Update

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Preface

The recent shift in emphasis from primarily Federal financial support of public transportation to greater local self-sufficiency has created an enormous challenge for our nation's urban transit community. The combined impacts of deteriorating transportation infrastructure and the need for expansion of transit in growth areas require financial support which simply cannot be provided solely from public resources. The traditional approach to planning, developing and maintaining transit, which has relied heavily on public subsidy, must change in light of the proposed New Federalism and the growing reluctance of local constituencies to increase taxation.

Accordingly, the generation of new sources of revenue and innovative applications of existing revenue to support transit must be encouraged on a widespread basis if the financial gap is to be filled.

The framework for innovation already exists. The Urban Mass Transportation Act provides several legislative incentives for local transit properties to ensure the maximum involvement of the private sector in supporting public transit activity and correspondingly, to reduce the financial burden on the taxpayer. Many state laws are being changed to accomplish the same purpose, and local transit authorities are applying innovative solutions to transit needs.

Moreover, the private sector is becoming increasingly aware of the importance of mobility to the future of its economic base. This translates in some situations into a willingness to participate financially, and otherwise, to support public transportation.

The purpose of this technical assistance report, therefore, is to present updated information on innovative financial mechanisms which have been utilized by local transit leaders and planners to create the financial base necessary to the future of public transportation.

Overview of Guide

This report presents a host of financial mechanisms which have been utilized successfully to finance transit needs. The report is designed to introduce both public and private providers to a range of funding sources available and to facilitate their efforts in examining the applicability of financing mechanisms potentially useful to their transit needs.

The guide is divided into two sections. The first section gives a short summary of each mechanism, including the definition of the mechanism, its financial impact and the major issues affecting its applicability. The second section, the Appendix, documents examples of local application of these mechanisms, including names, addresses and telephone numbers of officials who have helped put each mechanism to work. The mechanisms have been grouped by type as follows:

I. Assessments
II. Taxes and User Changes
III. Use of Property and Property Rights
IV. Issuance of Debt
V. Contracted Services
VI. Voluntary Participation Programs
VII. Initiatives and Ideas

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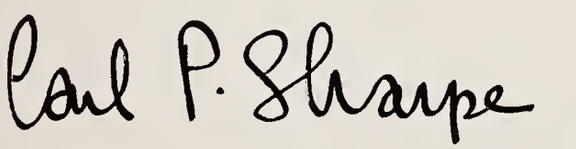

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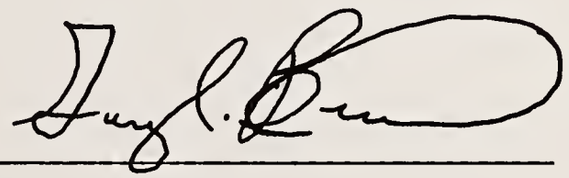

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I. Assessments

The three mechanisms described in this section all involve dedicated revenues or in-kind contributions from the private sector. Each mechanism involves an assessed or negotiated payment for special benefits received from a public investment or for the mitigation of an impact to public infrastructure caused by private development.

Using these mechanisms, transit agencies can raise revenue or defray a portion of project costs (either capital or operating) and reduce public subsidies. As distinct from general taxing mechanisms, these three mechanisms entail the collections from developments within prescribed geographical areas directly affecting - or affected by - the transit project in question.

The three mechanisms discussed are the following:

A. Special Benefit Assessments
B. Tax Increment Financing
C. Transit Impact Requirements

Definition

A special benefit assessment is a tax or fee on all properties within a special benefit district to pay for all or a part of the cost of specific improvements made within the district. The boundaries of the district are defined to include all properties specially benefitting from the improvement. Special assessments, like user fees, are justified on the premise that those who benefit from the public development of the properties should pay a price for those benefits that is equitable and commensurate with the value of the benefits to be realized. The assessments are levied as one-time or reoccuring liens by city councils or special districts, whichever has the appropriate authority. The revenues typically are used to retire bonds issued to finance construction of capital improvements; however, assessments have also been used to fund maintenance or operating costs.

Financial Results

Special benefit assessments can be used to pay for up to 100% of the capital and operating costs of transit facilities or services within a special assessment district. Special assessments on individual properties are set in accordance with a formula which, in theory, relates assessments to (1) the district's annual costs (debt service or operating costs) and (2) estimates of the value of the benefits associated with the property's proximity to the improvement. The rates usually are based on site size, floor area or other measures. Revenue potential can be reduced if high rates encourage businesses to move outside the special district.

Major Issues

Legal: Special state enabling legislation usually is required before a transit agency or other local entity can levy special assessments. Inter-governmental agreement authority for a transit agency or other local entity may be required in order for the agency to receive assessment revenues. In recent experiences, property owners have challenged the fairness of the assessment rate formula. Agreement by all parties on the dollar value of the special benefits is often difficult to obtain.

Political: This financing mechanism does not create a new community-wide tax and, therefore, may be a politically desirable method of raising revenues to address a specific need. Irrespective, gaining support from those whose property is within the proposed assessment district constitutes a major political activity.

Applicability: Special assessments have been used for transit services but have been primarily used to pay for sidewalks and street and alley repaving.

Experience

See Appendix A, page A-1, for examples and persons to contact in Denver, Colorado; Miami, Florida; and Los Angeles, California.

B. Tax Increment Financing

Definition

Tax Increment Financing (TIF) is a method of financing public improvements with dedicated property tax revenues. A Tax Increment Finance District is established in the area most directly benefitting from the improvements, and a "base-year" assessed property value is determined. Property taxes collected on the base year value within the district are distributed to pre-existing taxing jurisdictions as usual; however, taxes collected on any increases in property values above the base year value are dedicated to financing the public improvements within the district. The revenues may be used to secure bonds for the improvements or to pay for the improvements directly.

Financial Results

Tax Increment Financing has the potential of generating significant revenues. The magnitude of revenues available within a given district depends upon the local ad valorem tax rate, the size of the district, the amount of development or redevelopment which occurs after the base-year, and the cost of the public improvements to be made under the development plan. Tax Increment Financing can be used to pay for up to 100% of the cost of the public improvements.

Major Issues

Legal: State enabling legislation and subsequent local ordinances are required to establish Tax Increment Districts. In most states, the authority is given to urban redevelopment agencies and not to transit agencies. However, transit-related improvements usually are considered to be an eligible component of an urban redevelopment project. Tax Increment Financing can be utilized only by those jurisdictions with ad valorem taxing authority, which generally excludes most transit agencies. Accordingly, transit agencies desiring to use Tax Increment Financing must enter into inter-governmental agreements so that funds can be transferred from the taxing jurisdiction to the transit agency.

Political: Resistance to the creation of Tax Increment Districts has come from other taxing jurisdictions, such as school districts or hospital districts, which rely heavily on property tax revenues and who could be deprived of additional revenue by TIF districts.

In addition, in most states, funds backed by tax increment revenues are treated as revenue bonds, rather than general obligation bonds, and, therefore, do not require voter approval.

Applicability: Tax Increment Financing currently is allowed in 37 states. It has generally been applied to public improvements other than transit (such as streets, sidewalks, water lines, storm sewers, sanitary sewers, parking facilities). It assumes an increase in property values and is, therefore, limited to areas with potential new real estate development.

Marketability of tax increment bonds is highly dependent upon investor confidence in future development within the area. If lands were sold, and development did not increase as projected, the taxing jurisdiction would have to resort to ad valorem tax revenues (other than from the increment) to retire the bond debt.

Experience See Appendix B, page B-1, for an example and person to contact in San Francisco, California.

C. Transit Impact Requirements

Definition

Transit impact requirements are fees and/or obligations imposed upon developers to mitigate the impact of their new projects on transit services. These requirements have been justified on grounds that new development will exacerbate peak-hour traffic or transit problems and thus, developers should pay for solutions to mitigate the potential congestion.

The requirements fall into two general categories. The requirements may be specifically set forth in local ordinances as a condition for obtaining building permits. For example, payment of a fee based on square footage of new development or sponsorship of ridesharing programs. The requirements may also be negotiated by the developer and the local zoning authority when a rezoning request is made. In the case of "negotiated" requirements, local governments withhold permit approvals until developers commit to paying cash or in-kind transit related improvements needed to support new developments.

Financial Results

The revenue potential for transit impact requirements can be significant. In selected cases, the requirements have generated $600,000 to $37 million. However, overly stringent requirements may cause developers to locate their developments elsewhere.

Major Issues

Legal: For requirements specified by law, local ordinances are necessary. In some cases, property owners have challenged the ordinances, claiming that they are being required to pay more than their fair share of the costs of public improvements. Negotiated requirements have raised questions about the extent to which conditions may be attached to zoning approvals. For example, courts have objected that contract zoning unfairly confers special treatment on owners of rezoned land.

Political: Developers may object to requirements, arguing that they discourage growth and impose unfair economic burdens on their businesses. In the case of "negotiated" requirements, transit agencies must justify their request for impact requirements to both the developer and the local planning body that has the power to grant changes in land use regulations.

Applicability: Utilization has been limited to growth areas where the cost of the requirements will not drive development to alternative locations with less expensive requirements.

Experience See Appendix C, page C-1, for examples and persons to contact in San Francisco, California; Sacramento, California; and Portland, Oregon.

II. Taxes and User Charges

Several general taxing mechanisms are commonly used by states, municipalities and transit authorities to support transit development and operations. These include dedicated sales taxes and allocations from state or local income, property or excise taxes, and vehicle license fees.

This section, however, deals with three less common taxes and charges. As with the assessment mechanisms described in Section I, this second group of mechanisms targets the taxes or charges to those who benefit from transit, either because of their special proximity to transit services or because they are using premium service beyond prevailing service standards.

These three mechanisms, whose objective is to supplement general revenues, are the following:

D. Corporate Payroll Tax
E. Employee Income Tax
F. Local Option Motor Fuel Tax

D. Corporate Payroll Tax

Definition

A payroll tax is a percentage tax on all payrolls which is paid by employers within a defined geographical area. These tax payments, considered to be business expenses, are deductible from corporate income subject to federal, state, and local taxes. The tax may be applied to all private employers within the defined area, or it may exempt non-profit organizations such as private charitable or educational institutions. State and local public agencies are also usually exempt. Payroll taxes already are being used for various social security purposes such as retirement, medicare, unemployment, and pension and other benefits negotiated by labor unions. Nonetheless, it is argued that the payroll tax is an appropriate vehicle for charging employers for the benefits they receive from a transit system. Proponents point to the following benefits:

- The employer gains access to a larger work force than would be available with unreliable or no transit.
- Transit can reduce the need for parking spaces, which can be a major cost to employers.
- Employee morale may be improved if transit services relieve traffic congestion during peak rush hours and, thereby, reduce commuting time.

Financial Results

In Portland, Oregon, the payroll tax generated $38 million in revenues in 1984, representing 54% of the district's operating budget. In Eugene, the tax generated $4.8 million, or 63% of its 1984 operating budget.

Major Issues

Legal: State constitutions or statutes may restrict public entities from using the payroll tax at the local level.

Political: Employers may object to paying an additional employee-related expense for benefits difficult to quantify. In addition, employers may argue that this tax would discriminate against those employers whose employees do not have convenient access to transit.

Applicability: Utilization of the payroll tax for transit purposes has been limited; but where used, it has been successful in generating substantial revenues.

Experience

See Appendix D, page D-1, for examples and persons to contact in Portland, Oregon and Eugene, Oregon.

E. Employee Income Tax

Definition

The employee income tax is a percentage tax deducted from the employee's wages or paycheck. This type of tax is imposed upon all employees who work within a specifically designated area, regardless of place of residence. Traditionally, this tax has been utilized to raise general revenues. However, in the cases of Ohio and Kentucky, revenues from employee income taxes have been dedicated to support public transportation.

Financial Results

In 1983, Cincinnati, Ohio generated $14.3 million, representing approximately 37% of its transit operating budget. In 1984, Ft. Wright, Kentucky generated $2.2 million, or 36% of its transit operating budget.

Major Issues

Legal: Special enabling legislation must be passed by the state legislature before local entities can levy an employee income tax. If a state gives the taxing authority to overlapping jurisdictions, disputes may arise over which entity can utilize the tax. Some states resolve potential conflicts among overlapping jurisdictions by stipulating that a total fixed percentage of income may be charged for income taxes.

Political: This form of taxation has been difficult to sell at the local level. People who do not use the public transit system may conclude the tax is unfair. In addition, the public may object to the addition of a local income tax to federal and state income taxes.

Applicability: Only two states, Ohio and Kentucky, have authorized their local transit authorities to impose an employee income tax.

Experience

See Appendix E, page E-1, for examples and persons to contact in Cincinnati, Ohio and Ft. Wright, Kentucky.

F. Local Option Motor Fuel Tax

Definition

A local option motor fuel tax is a tax on motor fuel levied by local jurisdictions for local purposes. It is collected in addition to state and federal motor fuel taxes. Twelve states and the District of Columbia currently authorize local jurisdictions to levy such a tax. All localities assess a flat cents-per-gallon tax which is collected directly by the city, county or state. If the state collects the funds, it returns them on a monthly basis, minus administrative costs.

Financial Results

Experience to date indicates that local motor fuel taxes can generate significant revenues. Cities and counties have reported proceeds from $0.5 million to $20 million in FY 1982-83. Revenue potential appears to vary according to tax rates, population, area travel patterns and driver sensitivity to fuel price increases.

Major Issues

Legal: Local jurisdictions need state authority to levy local motor fuel taxes. State legislation often establishes the conditions under which a locality can impose the tax, including restrictions on use of the tax revenues, a maximum tax rate and procedures for local approval of the tax. Strict voter approval requirements for example, a referendum requiring two-thirds voter approval, could make it difficult for local jurisdictions to adopt such a tax.

Political: Referenda on local motor fuel taxes are not always popular. Recent experience indicates that referenda are more likely to pass if there is a clear and urgent need for increased revenue, and if voters are assured that the tax revenues will be used to address the need. A good publicity campaign may be needed to relay those messages.

Applicability: Only 12 states and the District of Columbia currently authorize their local jurisdictions to levy a motor fuel tax. Historically accepted as a legitimate user fee at the state and local level, the tax is a rational choice for communities which traditionally have relied on non-user revenue sources for transit.

Experience

See Appendix F, page F-1 for an example and person to contact in the State of Florida.

III. Use of Property and Property Rights

A transit agency undertaking capital projects (maintenance facilities, park-and-ride lots, guideways, and stations/terminals) leases or purchases real property, either in fee simple or in partial interest. Agencies can acquire property by direct purchase or by condemnation -- the latter requiring more stringent proof of public purpose. Once an agency has full or partial interest in a property it can -- subject to legal restrictions -- dispose of any portions which are not needed for the transit purpose. Such property which is available for disposition constitutes a portion of a transit agency's real estate portfolio.

The objective of the first mechanism described in this section is to reduce costs of land acquisition to a transit agency. The objective of the other two mechanisms described is to maximize the financial yield from a transit agency's real estate portfolio. These mechanisms generate capital, either in lump sums or income streams over a number of years.

The three mechanisms discussed are:

G. Negotiated Land Leases
H. Leasing/Selling Development Rights
I. Leasing/Selling Existing Facilities

G. Negotiated Land Leases

Definition

Negotiated land leases are agreements between private developers/land owners and transit agencies, under which land is leased to the agency in exchange for construction of a transit facility. Typically, land is leased for $1 a year for 20-30 years. In addition to obtaining a facility site for nominal cost, transit agencies have occasionally negotiated for financial assistance in constructing or operating the facility.

Developers are often interested in having transfer centers adjacent to shopping centers or high density residential or commercial projects. Developers hope that the centers will encourage greater use of public transportation in and around their projects and thus, reduce traffic congestion in the area and the related need for costly parking facilities.

Financial Results

Transit agencies benefit from not having to condemn and buy needed land and possibly from receipt of actual funding for operating or capital purposes. In one instance, an agency has built a transfer center on a 1 acre parcel, worth $175,000. The parcel is leased for $1 a year for 20 years.

Major Issues

Legal: Transit agencies need authority to contract with private property owners.

Political: Transit agencies rarely encounter public opposition to land leases. Political considerations are more important during negotiation of the lease terms.

Applicability: Land leases are attractive to developers/land owners whose projects benefit from their proximity to transit facilities. Such projects typically generate large amounts of traffic and require expensive parking facilities.

Experience

See Appendix G, page G-1 , for examples and persons to contact in Tacoma, Washington and Phoenix, Arizona.

H. Leasing/Selling Development Rights

Definition

Transit agencies may capture partial to full value of their land holdings, in many cases, by leasing or selling development rights associated with space above, below or adjacent to their facilities. Transit agencies have leased space developed and undeveloped. Space above rail and bus stations has been used for hotels, office and retail centers. Adjacent space has been sold to neighboring businesses interested in improving access to stations by construction of connecting tunnels.

Whenever the financial analysis is supportive, transit agencies prefer to lease development rights. In contrast to a one-time payment from a sale, transit agencies prefer the steady stream of income for the term of the lease. In either case, the funds can be used to offset operating costs or to finance future capital investments.

Financial Results

Leasing/selling air or subsurface rights is a way of generating substantial amounts of revenue for transit agencies. In one city, the agency will receive $2 million in direct annual income from 4 joint development and system interface projects.

Major Issues

Legal: Recently, property owners have begun to question in court whether local eminent domain powers permit public entities to acquire the air and subsurface rights associated with condemned land parcels. Questions have been raised in cases where development rights are not essential to achieve the public purpose for which the land has been condemned.

Political: The public may complain that the lease/sale agreement benefits the private developers more than the public sector, particularly if the agreement obligates the transit agency to build a portion of the facility or to offer extremely favorable terms to the developer.

Applicability: Lease/sale of development rights are of interest to developers when prime real estate is scarce. For retail and commercial businesses, proximity to public transit for their employees and exposure to large volumes of potential clients, lease/sale of development rights are also of interest.

Experience

See Appendix H, page H-1, for examples and persons to contact in Washington, D.C. and Dade County, Florida.

I. Leasing/Selling of Existing Facilities

Definition

Local governments and transit agencies in need of additional funds may be overlooking vacant or underutilized properties as a source of revenue. Transit terminals, park and ride lots, and maintenance facilities may be free for other uses because of shifts in demographics, changes in anticipated real estate development, construction of new facilities, or creation of new authorities. In these instances, transit agencies have the opportunity to generate additional revenues through the sale or lease of existing facilities. For example, agencies might be able to lease a portion of their terminals to compatible service providers or to sell the entire facility to an inter-city bus or trucking industry. In other cases, new construction provides an opportunity to plan for space that might be leased to the private sector.

Financial Results

Leasing or selling facilities will generate low to moderate amounts of revenue. The revenue potential depends on three major factors: (1) the availability and condition of underutilized facilities or property; (2) the strength of the real estate market surrounding the facility; and (3) the proportion of the original investment by the transit agency, because both the municipality and UMTA may require transit agencies to return a percentage of lease or sale proceeds from projects partially financed with local or UMTA funds.

Major Issues

Legal: Transit agencies need special authority to purchase and dispose of land or facilities no longer needed for transit purposes. Condemnation of land for the sole purpose of leasing or selling land for a profit is unconstitutional.

Political: Proposals to lease or sell transit facilities rarely generate political opposition.

Applicability: Utilization by transit agencies has been limited, although leasing facilities is not new to municipalities.

Experience

See Appendix I, page I-1, for examples and persons to contact in Fargo, North Dakota and Santa Cruz, California.

IV. Issuance of Debt

Transit agencies today face an ever increasing need to maximize available capital to meet development and operating needs in the most cost effective manner. The passage of the 1981 Economic Recovery Act and recent use of a myriad of debt instruments have enhanced the ability of the transit agency to replace outdated equipment and to expand transit services. The early acquisition of transit equipment has helped to reduce the impact of inflation and increase ridership.

Each of the 4 mechanisms presented in this section have their own characteristics relating to the cost of borrowing, security for the debt, risk, and cash flow. The objectives of the potential investors is equally important to those of the transit agency.

The basic objective of the transit agency in utilizing these mechanisms is to spread payments for capital expenditures over time to more closely match revenue sources. Implicit in this objective is the desire to minimize the associated interest cost.

Transit agencies are strongly advised to seek legal advice before using any of the 4 mechanisms presented in this section. Tax laws change periodically and consequently, past experiences of agencies with these mechanisms (See Appendices.) may not be directly related to future financial arrangements.

J. Certificates of Participation
K. Safe Harbor Leasing
L. Vendor Financing
M. Zero Coupon Bonds

J. Certificates of Participation

Definition

A certificate of participation, sometimes known as an equipment trust certificate, is a certificate (much like a bond) which serves as evidence that an investor owns a percentage of interest in a piece of equipment or property. Certificates of participation allow the cost of the equipment or property to be spread among many investors. Each investor owns a percentage of the title to the equipment or property and "leases" his share back to the municipality. Certificates of participation commonly are utilized to finance lease-purchase agreements.

The maturities of certificates approximate the life of the asset, usually 10 to 12 years on buses, 20 or more years for rail cars. At maturity, the sum of the monthly lease payments equals the investors' principal plus interest. The certificates usually are retired with monthly payments by the public entity through a trust bank. Investors are attracted to certificates by their tax-exempt interest and semi-annual payments on relatively short term maturities on certificates related to buses.

Financial Results

Certificates of participation can be used for both small and large capital projects. One major transit agency raised $29 million to help finance the purchase of 1,000 new buses.

Major Issues

Legal: In order for the interest component of the monthly payments on the certificates to be tax-exempt, the agency must qualify as a political subdivision under Section 103 of the IRS Code and the contract must be structured as an installment sales contract. Such a contract differs from a true lease, where the lessor retains ownership of the asset before, during, and after the contract.

Political: In most cases, this form of debt issuance does not require new legislation.

Applicability: Certificates of participation can be used to finance a variety of capital acquisitions through lease-purchase agreements, but not to finance operating budgets.

Experience

See Appendix J, page J-1, for an example and persons to contact in Los Angeles, California.

K. Safe Harbor Leasing

Definition

The "safe harbor" provisions of the Economic Recovery Tax Act of 1981 and the 1982 Tax Act permit public transit agencies to "lease" their rolling stock from private corporations, and, thereby sell the depreciation deductions associated with that equipment to private corporations seeking shelter for their taxable income. This opportunity currently is available on the purchase of vehicles placed in service by December 31, 1987.

In a typical safe harbor lease transaction involving buses, the transit agency "sells" the buses to a private corporation. The corporation pays for the buses with a 13 1/2 year note for 85% of the purchase price and a cash payment for the remaining 15%. The corporation then leases the buses back to the transit agency with a contract for 13 1/2 years. The monthly payments on the note are exactly the same as the monthly payments on the lease.

The private corporation must put up cash equal to at least 10% of the purchase price. A minimum of 1% of the transit agency's share must be from a non-taxable funding source. Only tax benefits on the non-federal share of the purchase can be transferred to a private investor. At the termination of the lease, usually 13 1/2 years for buses and over 20 years for rail vehicles, the transit agency purchases full ownership of the equipment for a nominal sum.

Financial Results

Since August of 1981, at least 50 safe harbor transactions have been negotiated by transit agencies across the country.

Major Issues

Legal: The transit agency must finance at least 1% of the total purchase price from a tax exempt funding source. The private investor must contribute at least 10% of the purchase price. Tax benefits can only be transferred on the 20% local share of the purchase when UMTA Section 3 Capital Grants funds 80% of the purchase.

Political: This financing mechanism results in a direct loss to the U.S. Treasury, because it reduces federal tax liabilities of participating private corporations. However, others will argue that increased transit productivity will provide additional revenue to the Treasury. This dispute makes extension of the safe harbor provisions uncertain.

Applicability: Public entities can only use safe harbor leasing to purchase mass commuting vehicles. Under current law, the mechanism will expire on December 31, 1987 and its extension is uncertain.

Experience

See Appendix K, page K-1, for examples and persons to contact in New York City, Los Angeles and Philadelphia.

L. Vendor Financing

Definition

Vendor financing is an arrangement by which manufacturers of transit vehicles provide financing to local governments for the purpose of purchasing their equipment. Transit agencies, as part of the competitive bidding process, may request vendors to offer attractive terms for loans, loan guarantees and other devices to give the agency access to credit in amounts sufficient to finance the purchase. Vendors may respond with a financing proposal involving a loan from their own resources or a bank, or involving a lease-purchase agreement with a financial institution. Foreign vendors sometimes have won competitive bids by obtaining low interest loans from the export-import banks in their respective countries. The debt usually is secured by the vehicles and is retired with tax or operating revenues.

Financial Results

Vendor financing can be arranged for any amount up to the value of the equipment serving as collateral. Vendors sometimes offer financing at below-market interest rates, because the vendors are anxious to demonstrate their vehicles in use. However, attractive vendor financing may be a substitute for a lower purchase price. Transit agencies should compare the financing costs of the vendor's offer with the terms of financing available from other sources.

Major Issues

Legal: Transit agencies will need authority to issue long-term debt. Vendor financing backed by the purchased equipment does not generally require a specific revenue pledge.

Political: "Buy American" advocates have criticized transit agencies for accepting subsidized loans from foreign vendors.

Applicability: Vendor financing is the most common form of debt used to finance the local share of UMTA-funded transit buses and train cars.

Experience

See Appendix L, page L-1, for an example and person to contact in New York City.

M. Zero Coupon Bonds

Definition

Zero coupon bonds are bonds sold at prices substantially below their face value and at a zero coupon rate. Upon maturity, the issuer pays the face value of the bond in one lump sum to the investor; no interest payments are made during the life of the bond. The discounted price is set so that the difference between the bond's purchase price and value at maturity will provide a yield that is competitive with other investments in the marketplace. As a result, a 20-year zero coupon bond with a face value of $1,000 may sell for around $17 or less. The IRS considers the discount to be interest income and tax-exempt for bonds issued by public entities.

Financial Results

Public entities may be able to achieve savings of 0.6-4% on the relative interest cost of zero coupon bonds. In 1982, one major transit authority saved an estimated $6 million (in real terms) on the total cost of borrowing $8.2 million worth of conventional bonds. The yield of zero coupon bonds has ranged from around 7-10%, compared with the 13% for conventional bonds. The magnitude of the savings depends on the maturity, the timing of the sale, and the credit rating of the issue.

Major Issues

Legal: Because zero coupon bonds are offered at very low prices, the amount of indebtedness (the face value of the bonds) will be many times larger than the value of the bond proceeds. This difference between the purchase price and the face value may cause the entity to rapidly approach or exceed its debt limitation. However, issued without a specified interest rate, zero coupon bonds may be helpful to entities unable to offer competitive interest rates.

Political: There are no political problems associated with the issuance of zero coupon bonds.

Applicability: Utilization of zero coupon bonds is gaining popularity among public entities for such purposes as water and sewer systems, health care facilities and housing.

Experience

See Appendix M, page M-1, for an example and person to contact in Boston, Massachusetts.

V. Contracted Services

This section presents three types of services which, under contractual arrangements, can be provided by the private sector. The focus of discussion here is not on ad-hoc taxi service or ridesharing, but rather on organized attempts to augment or substitute for regular transit service.

A transit agency's objective in using these mechanisms is to provide public transportation at a reduced cost compared to its own regular fixed-route bus service. These mechanisms might be particularly useful in low-demand areas or during off-peak times. The contractor is usually a transit authority, but can also be a city/county/state or regional governmental agency. It could also be a large employer or group of employees seeking more convenient and direct service.

N. Contracted Taxi Service
O. Contracted Fixed Route Service
P. Turnkey Process

N. Contracted Taxi Service

Definition

Contracting for taxi service is a cost-effective way to provide public transit service to areas with (or during times of) low demand, where fixed-route scheduled bus service is economically inefficient. Often referred to as demand-responsive or dial-a-ride service, taxi services typically offer shared ride transportation between any two points within the service area. Taxicab companies are reimbursed for their services with provider-side or user-side subsidies.

Under the provider-side subsidy arrangement, the transit agency contracts directly with the taxicab company for service at a given unit cost, usually on a per-vehicle, per-hour or per-mile basis. Under the user-side subsidy arrangement, riders select the taxicab company of their choice and pay for all or a portion of the fare with discounted tickets or coupons which they have purchased earlier or received free of charge from the transit agency. The providers turn in the tickets for reimbursement.

Financial Results

Contracting with taxicab companies for delivery of public transit service may be less expensive than operating conventional bus service. One public transit agency saves $600,000 a year by contracting for city-wide taxi service on Sundays, a low demand day. The user-side subsidy approach is advocated as a more cost-effective approach than provider-side subsidies. Day-to-day competition is presumed to foster lower fares; however, this will depend on the number of providers and the degree of competition that exists between services.

Major Issues

Legal: Section 13(c) of the Urban Mass Transportation Act constrains the flexibility of transit agencies to replace existing service with contracted taxi service.

Political: Union-management agreements may include provisions that prohibit the transit agency from contracting out for services.

Applicability: Transit agencies have had limited experience with using taxicab companies to provide public transit services.

Experience

See Appendix N, page N-1, for examples and persons to contact in Sante Fe, New Mexico; Phoenix, Arizona; and Ann Arbor, Michigan.

O. Contracted Fixed Route Service

Definition

Transit agencies may contract with private carriers to provide transit services, such as line-haul express bus service, regular route service or specialized services for the elderly and handicapped. Contracting for service may save transit agencies the cost of purchasing additional equipment. In addition, private carriers may provide services at a cheaper rate, because of lower overhead costs and of their ability to hire non-unionized or part-time workers.

Financial Results

In general, contracting with private companies is used when the transit agency does not have the capability to provide needed services. The alternative of acquiring the equipment or expertise in a short period of time could be unreasonably expensive. The level of competition among private companies will directly affect the cost of contracted services.

Major Issues

Legal: Legislatively created transit agencies usually have the authority to contract for services.

Political: Union-management agreements may restrict the use of contracting. Proposals for contracted service can result in union-management disputes.

Applicability: Experience has shown that contracting for transit services, maintenance and management may be better suited to the provision of new services rather than replacing existing services.

Experience

See Appendix O, page O-1, for examples and persons to contact in Houston and Dallas, Texas.

P. Turnkey Process

Definition

The turnkey process permits transit agencies to contract with one developer for delivery of a fully-completed and operational project. The process has enabled transit agencies to rapidly acquire ready-for-use projects and sometimes to achieve cost-savings. Typically, agencies acquire land for a project before issuing bids for different phases of its development. The winning bidder in the turnkey process is given overall responsibility for project construction. Tasks may range from selection of the site to landscaping the project. Agency staff involvement is minimal. After certification of project completion, the developer turns "the project keys" over to agency staff, as an indication that the project is prepared for immediate use.

Financial Results

The turnkey process is usually adopted as a time-saving device, but it often has the benefit of saving money, relative to the standard capital improvement process. Houston METRO has estimated that the costs associated with development of turnkey Park & Ride lots have been 20% less than the cost of lot development using conventional-processes. Interest payments and cashflow problems are also minimized with the turnkey process by the practice of paying the agreed upon cost at closing. Under the standard process, the land cost is borne early and design/construction payments are spaced out over the development phase.

Major Issues

Legal: Agencies will need authority to acquire improved real estate through proposal and negotiation. This process is ineligible for federally funded projects because it deviates from federal bidding and labor requirements.

Political: Political problems may arise if contractors try to enlist political support for their projects.

Applicability: The turnkey process may become popular as a means of acquiring capital improvements with minimal agency involvement and lower costs.

Experience

See Appendix P, page P-1, for an example and person to contact in Houston, Texas. Also see Appendix O.

VI. Voluntary Participation Programs

The three mechanisms described in this section are ways that an authority can supplement revenue from other sources. The common element of the three is that they are voluntary on the part of employers, individuals, and/or businesses. Employer passes can supplement fare box revenues. Lotteries have been used in several cases to provide significant percentages of an agency's overall annual budget. Private donations can be effective where there is a project which generates benefits to potential donors.

The objective of agencies using the lottery is to fund a significant part of the budget without taxation. The objective of the other two is to supplement revenues, on a smaller scale.

Q. Private Donations
R. Employer Sponsored Pass Program
S. Lottery

Q. Private Donations

Definition

In a few instances, local governments have successfully solicited donations from the private sector for transit-related purposes. The donations, cash or in-kind, are usually related to capital improvements which in some way benefit the donor. For example, the owner of a shopping mall might donate land for a bus transfer center, in order to attract more customers or to reduce the need for additional parking spaces. Transit agencies usually identify a project need, and then approach individual beneficiaries of the project. In some instances, a well organized and highly visible campaign has generated large amounts of money from multiple donors who value the return from good public relations.

Financial Results

Projects suitable for private donations are characterized by factors that influence the perceived value of the proposed service or improvement. Such factors may include proximity of the project to well traveled areas, expected ridership levels, level of congestion and times the level of public recognition received for the contribution.

Opportunities to solicit contributions are limited. For example, a donation of a local match, $100,000 was made in return for lengthening one of the transit system's routes to stop at the city zoo.

Major Issues

Legal: Legal problems are rarely encountered. Usually an agreement between the two parties is signed in acknowledgement of the donation.

Political: Persuasive presentations about project related benefits and politically sensitive negotiations with potential donors may be the key to successful solicitation of contributions.

Applicability: This financing mechanism is most successful for transit projects which generate easily identifiable benefits to individual donors.

Experience

See Appendix Q, page Q-1, for an example and person to contact in Grand Rapids, Michigan.

R. Employer-Sponsored Pass Programs

Definition

Transit agencies can raise revenues by attracting new ridership through employer pass programs. Firms participating in these programs distribute monthly transit passes through the workplace to their employees, usually at a discounted price. Experience indicates that lower pass prices provide strong incentives for employees to ride the transit system. The pass prices may be subsidized by the transit agency, the employer, or both.

Procedures for establishing and maintaining an effective employer pass program are relatively simple and do not generate a heavy work load for the transit agency. Agency staff time is needed to market the program and to advise employers on how to manage employee sales. In addition, agency resources are needed to print and distribute the passes as well as bill participating employers. Transit agencies rarely are involved in an employer's internal pass sales program.

Financial Results

Transit agencies can benefit from employer-sponsored pass programs in three ways: increased ridership, subsidy of passes by the employer and other cash flow advantages associated with receiving payment at the beginning of the month before the service is provided.

If the transit agency subsidizes the pass prices, the employer pass program might result in a revenue loss to the agency. The loss would come from the portion of existing ridership who switch from paying normal fares to buying discounted monthly passes. The potential loss, however, can be overcome if enough new ridership is attracted.

Major Issues

Legal: Transit agencies do not need special authority to implement employer-sponsored pass programs.

Political: Employer-sponsored pass programs have been well received. In some cities, major employers offer the pass program as a benefit to attract new employees.

Applicability: Successful employer pass programs are operating in large and small cities across the nation, typically where the transit service is reliable and where the central business district employs a large number of clerical and white collar employees.

Experience

See Appendix R, page R-1, for examples and persons to contact in Seattle, Washington and the State of Connecticut.

S. Lottery

Definition

Lotteries have the potential of raising significant sums of money for public entities. Seventeen states and Washington, D.C. currently operate lotteries, but only two of these states allocate a portion of lottery receipts to transit purposes. Operation of a lottery involves a number of functions including marketing, printing and distributing tickets, maintaining sales outlets and developing rules and regulations for conducting each game. Given the high potential for fraudulent practices, extensive security procedures are required.

Financial Results

A particularly successful lottery generated a $793 million profit in fiscal year 1983-84, of which $67.5 million was allocated to transit programs. The revenues generated by a lottery will vary by the number and type of games offered, and the number of players. Because the funding source is not related to transit use, transit agencies may have to share the lottery proceeds with other public agencies.

Major Issues

Legal: There must be state legislation enabling the state and/or local governments to establish a lottery. In some cases, where state constitutions prohibit gambling, a constitutional amendment may be required.

Political: While opponents of lotteries have pointed to the sins of gambling, the opportunities for corruption, and the high rate of participation by the poor, lotteries have been politically popular as a way to raise revenue without levying additional taxes.

Applicability: One-fourth of the states in the U.S. have lotteries.

Experience

See Appendix S, page S-1, for examples and persons to contact in Pennsylvania and Arizona.

VII. Initiatives and Ideas

The following is a collection of recent initiatives and new ideas for financing mass transit. Some involve the public sector, others only the private sector. In some cases, the approaches have been successfully implemented; others have not been tried. However, they are all representative of continuing efforts by federal, state and local governments to facilitate urban mobility at minimum cost to the public sector.

T. Decentralization of Regional Transit Systems
U. High Speed Rail System
V. Federal Private Sector Initiative
W. Non-Subsidized Commuter Bus Services
X. Non-Subsidized Commuter Vanpool Services

T. Decentralization of Regional Transit Service

In a number of areas around the country, localities are choosing to provide neighborhood transit service which coordinates with, but is operated independently of their regional transit systems. These localities have been frustrated by the rising costs of regional transit, inadequate neighborhood service and unresponsive regional bureaucracies. Described below are experiences in the Washington, D.C. area served by the Washington Metropolitan Area Transit Authority (WMATA) and in the Minneapolis-St. Paul area served by Metropolitan Transit Commission (MTC).

- o In the Washington metropolitan area, Montgomery County, Maryland has chosen to own and operate its own neighborhood transit service. RIDE-ON provides feeder service to WMATA metrorail and metrobus systems and circulation among the county's suburban centers. First offered in 1975, RIDE-ON service was expanded in 1978 and again in 1984. The Montgomery County Department of Transportation currently maintains 155 buses that carry 5.5 million passengers a year. The success of RIDE-ON has inspired every member jurisdiction of WMATA (except Arlington County, Virginia) to implement or seriously consider independent operation of similar service.

  Montgomery County first considered county-owned service when a 1973 study concluded that the county lacked any community-based service. The decision to own and operate a county system, as opposed to WMATA-run service, was based on (1) interest in establishing a flexible transit system that could be quickly modified as community needs changed, and (2) interest in minimizing costs. The county council decided in the early planning stages that a major savings could be achieved by foregoing federal funds because of the costly effects of Section 13(c) of the Urban Mass Transportation Act. For example, the 1984 starting salary of RIDE-ON operators was $17,500 a year or $7.09 an hour; for WMATA the starting salary was $22,500 or $9.03 an hour.

  The FY 1985 budget for RIDE-ON was approximately $1.5 million. Farebox revenues provide 30% of the budget; the county subsidizes the remainder from property taxes.

- In the Minneapolis metropolitan area, local governments are in the process of identifying the most cost effective mix of public and private transit operators to serve the region. Prior to 1982, the Metropolitan Transit Commission was responsible for service to the seven county tax jurisdiction. In the past three years, the state legislature has taken two actions in response to complaints by suburban communities receiving little or no MTC service: (1) passage of opt-out legislation and (2) creation of the Regional Transit Board. The final form of transit service to the region is still under review.

In 1982, the legislature approved a law giving communities within the seven county region the opportunity to "opt-out" of regional transit service, provided by the MTC. The communities were authorized to implement their own service and to use up to 90% of their tax levy for financing the service. The law expires June 30, 1985. Sixteen communities submitted notice of intent to opt-out. As of June, 1985, two communities, the cities of Plymouth and Shakopee, have done so. Plymouth is operating a small feeder bus system, and Shakopee is using a combination of contracted demand-responsive transit and vanpooling to satisfy its needs. Shakopee is considering expanding the service boundaries beyond its city limits to serve trips originating the city of Shakopee, but destined for outlying areas.

The recently created Regional Transit Board (RTB) is interested in this study, uncompleted as of June 1985. The RTB, created by the state legislature in July, 1984, serves as the policymaking and planning body for the metropolitan area and is responsible for delivering cost-effective transit to the metropolitan area. When the legislature created the RTB, it intentionally separated the policy role from the operating role of the MTC. The objective is to maximize use of taxpayer transit dollars by permitting a mix of public and private operators to serve the area. The MTC was accordingly reduced from a nine to a three member board and now serves strictly as an operating entity, under contract to RTB. The RTB is composed of 14 members plus the full-time chair appointed by the Governor. The RTB is currently waiting for the results of the study mentioned earlier, to make decisions about delivery of future transit service.

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Regional Transit Board
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U. Highspeed Rail System

The State of Florida plans to award within three years a franchise to a private company for construction and operation of a high speed rail system (HSRS). HSRS is defined as a system that is technically operable at speeds of 120 m.p.h. or greater. The Florida system will be financed 100% by the private sector and presumably will operate between Miami, Orlando and Tampa.

Florida public law 84-207, passed in 1984, authorizes the creation of the high speed rail commission, composed of 7 members, all from the private sector. The franchise will be competively bid and awarded for a 40-50 year term. The franchisee will be responsible for all aspects of the HSRS from selecting the route and terminii to financial arrangements for construction and operation. No public monies will be directly involved. However, in order to attract private investors, public law 84-207 provides for a number of financial incentives, including:

- the right of the franchisee to use free of charge the right-of-way (ROW) along state roads and the promise of state support in seeking the use of federal ROW;

- the right of the franchisee to acquire land by requesting the State Department of Transportation to exercise its eminent domain powers;

- the right of the franchisee to engage in land development around stations for revenue generating purposes;

- the franchisee's option to use state issued tax exempt bonds to finance the system. Bonds would be backed by revenue from the HSRS.

- the creation of a one-stop permitting process to avoid costly regulatory delays. After mandatory public hearings and an environmental review, the HSRS would need only the Governor's approval of the recommendation of the Commission; and

- the freedom to choose the most profitable routes. Political officials cannot, by law, specify the exact location of the termini; they can only identify the county within which the termini must be located.

The HSR Commission has held six meetings as of June, 1985. By Spring, 1986, the Commission expects to issue a request for proposals. Private sector interest has already been expressed through the submission of seven conceptual prospectuses in 1983 to the Governor's Ad Hoc Committee, studying the HSR idea prior to passage of the legislation. Public support for the concept continues to be strong, with environmentalists endorsing the system as a growth management tool; the airlines hoping to profit from speedy access to regional airports; and the elderly looking forward to improved transportation between their retirement communities and downtown areas.

For More Information Contact:

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High Speed Rail Commission
605 Suwannee Street
Tallahassee, Florida 32301
(904) 488-9451

V. Federal Private Sector Initiative

The Urban Mass Transportation Administration (UMTA) announced in October, 1984, a new policy regarding private sector participation in programs to be funded under the Urban Mass Transportation (UMT) Act. At the same time, UMTA announced the creation of a new office, the Office of Private Sector Initiatives to encourage increased use of the private sector in transit.

The policy statement (see Federal Register October 22, 1984) identifies principle factors UMTA will consider when determining whether a local property is eligible for assistance under Sections 3 and 9 of the UMT Act. The policy specifically addresses the requirements of Section 8e and 3e of UMT Act. Its key points are:

- Transit agencies should give the private sector an opportunity to fully participate in the planning and decision-making processes, especially at the early stages.

- When new service needs are developed or services are significantly restructured, transit agencies should consider, first, provision by unsubsidized private operators and second, provision by private operators who provide equivalent services at a lower cost.

- Transit agencies should use a method for fairly comparing the costs of publicly- versus privately-provided transit services, so that local public decision makers can rationally select the most cost-effective provider.

UMTA plans to enforce this policy by requiring that the state and MPO certify conformance with these provisions at the time of the annual or biennial element of the Transportation Improvement Program. In addition, compliance with the provisions will be monitored as part of the annual audits and biennial review by Section 9 of UMTA Act.

The Office of Private Sector Initiatives will oversee implementation of the new policy. The office will also serve as a clearing house for information of benefit to private operators, state and local officials.

For More Information Contact:

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Office of Private Sector Initiatives
Urban Mass Transportation Administration
U.S. Department of Transportation
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Washington, D.C. 20590
(202) 426-6385

W. Non-Subsidized Commuter Bus Services

Los Angeles - Six private bus companies operate 132 commuter-express routes with approximately 140 buses in the greater Los Angeles region. Five thousand people ride them daily. They typically serve non-downtown routes, such as the Ventura to El Segundo route which are not well served by public operators. Six public agencies operate 69 commuter express and 11 subscription routes, primarily to the downtown area. They operate 482 buses; 70,900 people ride them daily. The two largest agencies are the Southern California Rapid Transit District (SCRTD) and the Orange County Transit District (OCTD).

Legal Issues: The California Public Utilities Commission (CPUC) regulates all private bus operators.* All must meet CPUC "public convenience and necessity" requirements before receiving a certificate or permit to operate. The applicant must demonstrate that he/she will not be duplicating an existing well run bus service. If the applicant wants to serve a route with existing service, it must prove that its schedule, fares, and potential clientele are sufficiently different to avoid "unfair" competition with other private carriers. Although CPUC does not regulate public operators, transit districts have the opportunity to object to the proposed service on grounds that it will adversely affect public operations.

The CPUC also regulates fares. The applicants' fares are set at the time certification is granted. Thereafter, the operator must receive CPUC approval to increase fares.

In general, CPUC decisions protect existing private carriers from "unfair" competition by other private carriers. However, recent CPUC decisions reflect some support for limited competition between operators. In January, 1980, CPUC issued a landmark decision granting American Buslines (Trailways) a certificate to compete on specified Southern California routes already served by Greyhound.

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*Public Utilities Code Div. 1, Article 2, Sections 225, 226, 1031-1063.5 and Div. 2, Articles 1-6 and Chapter 8, Sections 5351-5419.

Political: The CPUC certification process allows both public and private operators to protest an application. If the commission decides the protest is substantive, a hearing is required. Both public and private operators will protest if the proposed service will compete with their existing services. Both the SCRTD and OCTD have protested many commuter bus applications. Usually, their formal protests are withdrawn if the private carrier will consent to future expansion of public transit that may "directly or indirectly . . . divert, lessen or compete for the patronage or revenues" of the private operator's proposed service. Both transit districts seek this kind of waiver because their respective enabling legislation prevents SCRTD from competing with private operators without their consent and requires OCTD to buy out competing operators.

Timing: A private operator may receive a CPUC permit to operate in less than three months. However, if a hearing is required, the application may be delayed anywhere from three to six months.

Financial Results: The Southern California Association of Governments (SCAG) estimates that the cost of operating private bus service in the SCRTD and OCTD areas is approximately $2.79 per revenue mile. SCAG estimates that private companies, on average, could operate 22 public routes for 50% of the public operator cost. In addition, SCAG estimates that if the private companies, under contract, took over operation of these 22 public lines, with no changes in fare structure, the needed public subsidy would be reduced by $5 million or 97%. SCAG attributes the lower costs to five advantages that private operators have over public operators:

- Lower salaries are paid to drivers;
- Overhead expenses are less;
- Part-time drivers can be used more;
- Worker-drivers who work near the bus's destination, eliminate dead heading; and
- Terminal locations can be strategically placed if the operator's service is in one geographical location.

Private Sector Benefit: Private carriers benefit from the profits they collect for providing their services.

Contact: Bill Wells
Manager of Transit Planning
Southern California Association of Governments
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Los Angeles, California 90005
(213) 385-1000

References

"Commuter and Express Bus Service in the SCAG Region: A Policy Analysis of Public and Private Operations." Southern California Association of Governments, Transit Section. Draft report. February 1982.

"Overcoming Barriers to Private Sector Transportation Contracting with Public Agencies." Airport Ground Transporation Association in consortium with the American Bus Association and the International Taxicab Association. Draft Executive Summary. September 1982.

X. Non-Subsidized Commuter Vanpool Services

Vanpooling, simply stated, is the sharing of the costs of operating a single commuting vehicle equitably amongst its 10 to 15 occupants.

There are three basic types of vanpooling... private owner-operator, employer-sponsored, and third-party. The fastest growing segment in the last two to three years has been third-party vanpooling.

Private owner-operator vanpooling is appealing from a financial perspective only in states where "for-profit" vanpooling is legally allowed. Because of the financial and legal risks inherent to private owner-operator vanpooling, third-party vanpooling, where available, is a much more viable commuting option.

Employer-sponsored vanpooling, currently the largest segment of vanpooling, is feeling the effects of the recent economic downturn in many cities across the country. Employee-layoffs, early retirement option offers, longer work hours, and corporate austerity programs have led to steep slides in the numbers of employer-sponsored vanpools in operation. Energy and insurance companies, particularly supportive of corporate-sponsored vanpooling in the last decade, have been experiencing significant financial pressures. Accordingly, where third-party vanpooling is available, many corporations are opting for external management and responsibility (both financially and legally) for their employee's commute.

Third-party vanpooling offers some unique financial advantages to public agencies, private corporations, and individual commuters alike. Third-party vanpooling can require no financial, legal, or administrative responsibility to be maintained by a sponsoring entity for the provision of the vanpool services (depending upon the potential growth market and the financial capacity of the third-party operator). These services can include any or all of the following components of a professionally-managed and -operated vanpool program:

- Market research
- Development and implementation of a marketing program (including all public relations and advertising)
- Computer-matching of interested applicants by home locations and work hours
- Vanpool group formation
- Vanpool driver interface
- Vehicle provision
- Comprehensive insurance coverage and risk management
- Preventive vehicle maintenance programs (sometimes involving mobile-servicing, pick-up and delivery of back-up vans, and twenty-four hour wrecker services)
- Fare computation and collection
- Administration and management of the vanpool fleet.

Public agencies may sponsor the operations of third-party provider under the public name of a ridesharing program by paying for the administrative expenses of an operator. This $40,000-100,000 expense enables a public agency to leverage it's operating monies to obtain the use of an unlimited number of vehicles, comprehensive insurance coverage on those vehicles, and the management services of the third-party provider. In some instances, where the potential for vanpool fleet growth is particularly high, third-party vanpool operators have entered the commuting market at their own risk and expense. Public agencies have then been afforded the opportunity to promote the vanpool effort by emblazoning the privately-owned and volunteer-operated vehicles with a public identity/logo, in exchange for the publicly-funded provision of marketing services... a true public/private partnership.

Some third-party operators will operate these services on an exclusive contract basis, while other third-party operators will operate in strong market areas on a non-exclusive basis subject to "free market" competition.

Some third-party vanpool operators will purchase a sponsor's existing fleet of vanpool vehicles and continue to operate the program for the sponsor; thereby, relieving the sponsor of all financial and legal responsibility for the provision of the program. This enables a company to reinvest it's capital assets into the primary business of the company, where it will be making money for a company instead of diluting it. That is not to say that corporate-sponsored vanpooling is a bad idea, but where

third-party vanpooling is available, corporate-owned or corporate-leased vanpooling has been considered a bad financial investment by many companies. A company may be able to avail itself of the services of a third-party provider and may subsidize the rates in a fashion not unlike employee-bus pass programs.

Typically, vanpool drivers are required to make 30-day agreements with the third-party operators concerning the use of the vanpool vehicle. Operations must be of a breakeven nature, all costs to be divided equally amongst the passengers. Drivers receive a free commute and personal use of the van during off-hours and on weekends, usually at a nominal charge.

Typical non-subsidized fares for a 50 mile daily roundtrip commute can be as low as $50.00 per month per passenger (includes all costs of operation, i.e. vehicle, insurance, maintenance, gasoline, and administration). This assumes 14 paying passengers in a 15 passenger van and no applicable parking charges.

Unlike most public transit services, the provision of third-party vanpooling services do not necessarily require direct operating subsidies.

Regions, cities, and states with at least one or more private third-party vanpool providers, are:

Los Angeles, California
New York City, New York
Houston, Texas
Dallas, Texas
Chicago, Illinois
Pittsburgh, Pennsylvania
Fort Worth, Texas
Austin, Texas
St. Louis, Missouri
Baltimore, Maryland
Washington, D.C.
Albuquerque, New Mexico
Denver, Colorado
San Francisco, California

Charlotte, North Carolina
Hartford, Connecticut
Stamford, Connecticut
Minneapolis, Minnesota
San Antonio, Texas
Boston, Massachusetts
The State of Virginia
The State of Ohio
The State of Florida
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Appendix A

Special Benefit Assessments

Documented Experience

Denver, Colorado - In October, 1982, the Rapid Transit District in Denver, Colorado opened a downtown transit mall which is located on 16th Street and covers a 14-block area from Broadway to Blake Street. The mall runs through the center of Denver and is bordered by a mix of retail, highrise office, and some residential development. The mall offers continuous free transit service via specially built shuttle vehicles.

Maintenance of the 14-block mall is being funded through a special assessment charged to property owners immediately adjacent to the mall corridor. The assessment and maintenance is being supervised by Downtown Denver, Inc. (DDI), which represents a group of downtown businesses. The assessment generated $1.52 million for the 1982-83 period and $1.675 million for 1984. The budget for the special assessment district was approximately $1.3 million in 1983, and $1.675 million in 1984. This budget covers maintenance services including administration and operation; clean-up and snow removal; maintenance of plants and flowers, electrical/plumbing repair and replacement, capital repair and maintenance, security, and supplemental water and electrical service.

Legal Issues: Enabling legislation for the creation of the special assessment district was passed by the Denver voters in 1978. The legislation (1978 Charter Revisions, Section A2.29) provides two methods through which a district can be legally constituted: (1) if 35% of the property owners agree to its creation or, (2) if the Denver Director of Public Works establishes the district by mandate. The latter was the approach actually used. DDI had difficulty with the first approach due to its inability to locate an adequate number of "property owners," defined by the enabling legislative as those who have authority to sell land within the district.

The enabling legislation which provides the authority for the creation of the special district and assessment collection expires 10 years after its establishment. Accordingly, DDI has signed a 10-year contract with the City of Denver and the "Transit Mall Maintenance District" to oversee the maintenance of the mall. The contract will be reviewed annually to determine both the adequacy of revenues derived from the special assessment for covering maintenance requirements, and the fairness of the formula utilized to derive income.

Political Issues: The implementation of the assessment district required skill in negotiation backed up by the ability to follow through on the terms agreed upon in the negotiation process. DDI was in a favorable position because of its stature as a widely supported business organization, its ability to hire consultants to provide needed technical material, and its desire to gain control over mall maintenance, management, and development.

Negotiations by DDI were conducted with three different groups: with downtown property owners to agree on the boundaries of the assessment district; with the city to agree on the maintenance contract; and with RTD to arrange provision of bus service and to agree on the final design of the mall.

The greatest conflict occurred over the definition of the district boundaries. In the original concept, two blocks on each side of the mall were to be included in the district. However, a consultant recommended that benefits would extend for only one block in each direction, and so the district was redefined. A majority of property owners within the one block district objected to the smaller district, complaining that benefits actually would be more widespread and that the limited district would place the financial burden unfairly on a small number of property owners. Fearing the assessment district plan would fall through, DDI persuaded 7% of the dissenting property owners to reverse their decision, allowing the district to be defined as originally planned. In return for the support, DDI agreed to redefine the district's boundaries for the second year to include 3 blocks northeast and two blocks southwest of the mall. Moreover, DDI also obtained voluntary contributions for the first year from businesses located in the second block who agreed that mall benefits extended to them.

Timing: After Denver voters approved the ballot measure, it took one and a half years to complete the hearings required to establish the district. During that time, the district was contested by property owners as mentioned above. Construction of the mall was completed in October, 1982, at which time DDI began to provide maintenance service.

Financial Results: DDI collected $1.52 million in 1982-83 and $1.675 million in 1984 through special assessments for maintenance of the Denver transit mall.

Assessments are based on distance from the mall and the amount of land area included in the individual property. There are ten categories of properties that take into account differences in distance from the mall and zoning limitations. Rates vary from a high of 45¢ per square foot for land adjacent to the mall to a low of 5¢ per square foot.

The first formula, which assesses property owners on the basis of expected increases in property values attributable to the mall, proved to be unworkable. Under the current formula, rates are adjusted annually as needed to cover the District's budget. In 1984, the assessment rates were increased by 6%.

Private Sector Benefit: Property owners within the boundaries of the district should benefit from increases in land values near the mall.

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Other Experience

Miami, Florida (1980 pop. 346,931): A special assessment district has been formed in downtown Miami. It will generate revenue to retire a bond issuance which will finance approximately $20 million of the cost of constructing a downtown people mover, the Metromover.

Metromover was begun in 1982 and is to be completed in 1986. The project will cost $145 million, of which $20 million for system construction was financed by a bond issue.

The Dade County Manager commissioned a group of representatives from private and public agencies to study the DPM's financing. They recommended the assessment district to the Board of County Commissioners, which passed an enabling ordinance in 1983. As the basis is not ad valorem, no referendum was required. The Dade County Code limits the term of the bond to fifteen years. The County Board approves the assessment ratio yearly, based on annual property appraisals.

During the public hearings, some opposition arose from property owners with under-leased buildings and owners who could not pass on increased taxes to their tenants because of terms of their contracts.

Financial Results: First year assessments are expected to generate $3.2 million. Over 15 years, the assessment charges will indirectly repay the $20 million special obligation bond issue. The bonds are backed by utility service taxes, which are collected as part of property tax bills. The utility services taxes are deposited in the general fund and are offset by the assessments also deposited in the general fund.

This two tier financing arrangement was necessary because, at the initiation of the process, the bonds would not have been rated. With no rating, the bonds would have carried extraordinarily high interest rates, resulting in unacceptable high assessments of 26-27 cents per

square foot. State law has since been modified to permit ratings. Local jurisdictions can now include special assessments on property tax bills, which are considered to be a very secure source of revenue from the perspective of the bond market.

First year rates were 18 cents per square foot of net leasable office space and are expected to decrease to about 10¢ per square foot as office space increases in the area. Churches and federal buildings are exempt from the charges. The district includes over 700 properties, or 16.78 million square feet of net leasable space.

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Los Angeles, California (1980 pop. 2,966,763): California legislation which allows special benefit assessment districts to be set up around Metro Rail rapid transit stations was recently enacted. The assessments will fund capital, maintenance, and operations costs.

The Southern California Rapid Transit District (SCRTD) Board asked State Senator Diane Watson to sponsor the assessment bill, S.B. 1238, which she introduced in March 1983. The bill was introduced in March 1983 and amended in April. It became law on October 1, 1983, without the governor's signature.

The bill amends the Public Utilities Code to allow for transit assessment districts. The Code already allows benefit assessment districts for other types of infrastructure, such as fire protection districts and water districts. Assessment districts would be set up for each of eighteen stations on the rapid rail line which will connect downtown Los Angeles and the San Fernando Valley. The districts can extend no further than one-half mile in radius from the station, if outside the central business district and no further than one mile from the station if within the downtown, and may also be divided into zones. Undeveloped land will be assessed according to parcel size and land improvements according to total floor area.

A proposed district will be described in detail by the SCRTD Board, and its creation resolved by it. The county board and city councils in the district's area then have the choice of approving, amending, or disapproving the resolution. After the SCRTD Board and the local governments reach agreement on the details of the assessment district, it becomes operational. Property owners in the area still have the option of petitioning for an election on the matter, however. The assessment invoice will be included with the county tax invoice.

Political Issues: The California Chamber of Commerce opposes the use of assessment districts for transit operation and maintenance, though not for capital costs. The Chamber opposition to this measure is based on a traditional and consistent approach to tax increases for mass transit operations, and maintenance costs. However, the Los Angeles County Chamber of Commerce and the Greater Los Angeles Transportation Coalition are fully supportive of this measure.

Financial Results: Five percent of the $3.4 billion construction cost of the Metro Rail, or about $170 million, is to be raised through benefit assessments. The remainder is to come from UMTA Section 3 funds (62%, or about $2.1 billion), UMTA Section 9 funds (7%, or about $240 million), two California Transit Capital Guideway programs (11%, or about $370 million), a 1/2¢ sales tax generated locally and taken from Los Angeles County (13%, or about $440 million) and from the City of Los Angeles (2%, or about $68 million).

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Appendix B

Tax Increment Financing

Documented Experience

San Francisco, California: Embarcadero Station is the main access and distribution location for commuters utilizing the Bay Area Rapid Transit System (BART). It is located in the city's waterfront/downtown commerce district. The station sits below 2.5 million square feet of office, hotel and residential space, called Embarcadero Center. The station was built in 1969 as one of BART's initial set of stations on the fringe of an area that was simultaneously being redeveloped by the San Francisco Redevelopment Authority.

Embaracadero Station is the key U.S. example of tax increment financing (TIF) support for a transit station. It is the result of coordination between the public and private sector over a 10 year period to enhance the viability of San Francisco's downtown redevelopment project, the "Golden Gateway Project."

Financing to cover the $29 million cost of constructing the station was achieved, in part, through the sale of $13.5 million worth of TIF bonds in 1968 by the San Francisco Redevelopment Authority (SFRA). The remaining $15.5 million was provided from funds originally earmarked by BART for the proposed, but never constructed, West Portal Station. The TIF bonds were retired nine years before their projected maturity date.

Legal Issues: The TIF bonds were issued by SFRA as part of the financing for the Golden Gateway Project. California law authorizes redevelopment areas eligible for urban renewal with proceeds from tax allocation bonds, referred to here as TIF bonds. By law, the San Francisco Board of Supervisors had to give specific authority to SFRA to issue the bonds. This authority was granted in late 1968, through a joint powers agreement among the City, SFRA, the San Francisco Transit Task Force (described below) and BART.

Political Issues: The financial arrangements for construction of Embarcadero Station were the result of negotiations over a 10 year period to amend plans by both SFRA and BART to include the station in the redevelopment district (so that the station would be eligible for TIF financing) and as an additional station on the BART line through downtown San Francisco.

At least 8 public agencies and private organizations were involved in the efforts. They included: The developers of Embarcadero Center (a group composed of David Rockefeller, Trammel Crow and John Portman & Associates); the city and county of San Francisco (the guiding force balancing public and private interests in the Golden Gateway Project); SFRA (the agency with overall responsibility for the Golden Gateway Project); BART; the Market Street Development Project (the organization representing property owners around Embarcadero and other stations which raised $500,000 as seed funding for Embarcadero's initial planning and design); the Technical Advisory Committee (the body organized by the Mayor to coordinate several private, quasi-private and public agency activities associated with BART development); and the San Francisco Transit Task Force (a group formed to administer the bond issue for street level improvements around BART stations and the TIF bonds for the station).

Timing: The need for the Embarcadero Station was first identified in 1959 by the developers of Embarcadero Center. In 1965, the station site was officially adopted as part of the Golden Gateway Project. SFRA issued TIF bonds in late 1968, which were retired in 1974, 9 years earlier than expected.

Financial Results: SFRA issued $13.5 million in TIF bonds for construction of Embarcadero Station. The retirement schedule projected repayment of the bond issue in 1983, 15 years after the issuance at a 6% interest rate. However, the bonds were retired in 6 years, because of the significant increase in property values in the redevelopment district. Subsequent to bond retirement, tax proceeds derived from the property value increases were transferred to the city's general fund.

Private Sector Benefit: Investors in TIF bonds benefit from the tax-exempt return paid on the issue. Developers of hotel, office and retail space in Embarcadero Center have benefitted from their proximity to the station which served a weekday average volume of 22,506 trips in 1983.

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Appendix C

Transit Impact Requirements

Documented Experience

San Francisco - The San Francisco County Board of Supervisors enacted in 1981 the Transit Development Fee Ordinance which authorizes the city to collect a one-time fee of $5 per square foot from owners or developers of new downtown office space. The fee must be paid as a condition of obtaining a certificate of occupancy. The proceeds from this fee will be used to pay for the capital and operating costs of additional peak-period public transit services.

The rationale for the fee has been that downtown development brings additional people into the city and their demand for service creates additional costs for the transit system. The additional peak-period traffic may require San Francisco's Municipal Railway System (MUNI) to acquire new buses, to install new lines, and to hire more personnel to operate and maintain the system. Therefore, it is argued, the new development should pay for the incremental costs of expanding MUNI's capacity to carry passengers generated by new office uses.

The fee is set annually by the Board of Supervisors. The fee is computed at a level so that the proceeds will be sufficient to pay for all capital and operating costs incurred in providing the additional peak-hour services. The fee is expressed in terms of a sum per gross square foot using the general formula: annual peak-period MUNI person-trips per gross square foot times current cost per additional peak-period MUNI person-trip. By ordinance, the fee cannot exceed $5.00 per square foot. The proceeds from the fee are held in trust by the city treasurer and distributed according to San Francisco's budgetary process.

The Finance Bureau of the Public Utilities Commission administers the program. It is informed of planned construction or conversion work by the city's Bureau of Building Inspection when the developer files for a building permit. After the developer is notified of the development fee, the Bureau of Finance and the developer agree on the amount of square footage that is subject to the fee. Sometimes this agreement requires detailed review of the architectural plans to ensure the common space is allocated fairly between the office space and the hotel or restaurant.

Legal Issues: The San Francisco County Board of Supervisors approved the ordinance in May, 1981. MUNI successfully argued that office development creates more congestion at peak-periods than any other type of development. The ordinance defines the boundaries of the

downtown district and requires the $5 per square foot fee be assessed on "all accessible office space plus ancillary space," such as elevators, lobbies and other "common space." Hotels restaurants, and retail space are exempt from the fee. In buildings where hotels and restaurants are mixed with office space, the fee is based on the square footage of the office plus a proportionate share of the common space that can be assigned to the offices' use.

Litigation has been filed challenging the legality of the Transit Development Fee. MUNI has received a tentative verdict at the Superior Court level upholding the fee. However, the decision is being appealed and MUNI does not expect a final decision for two years.

Political Issues: The May, 1981 ordinance was approved amid political controversy. Opponents of the ordinance objected on the grounds that the fee was a measure to control growth and, therefore, not in the city's economic interest. Some developers whose projects were already under construction protested that their projects would be taxed unfairly in a retroactive manner.

Timing: The political controversy surrounding the fee proposal delayed approval of the ordinance establishing the $5.00 per square foot development fee in downtown San Francisco. MUNI is collecting fees and holding them in escrow until the litigation is resolved.

Financial Results: No fees have been spent to date because the fee program is under litigation. However, the Bureau of Finance has reviewed all eligible office projects and estimates that the 58 projects which have received permits since May, 1981 would owe $37 million in fees to MUNI -- if the fee is upheld by the courts. $4 million has been collected to date.

Private Sector Benefit: In the highly dense and desirable downtown San Francisco, mobility is essential to the success of any new office development. Expansion of MUNI, financed by development fees, will improve access to the downtown area, where the City Planning Department has been denying developers permission to construct new parking spaces for several years.

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Other Experience

Sacramento County, California: In 1983, Sacramento County recently adopted two trip reduction ordinances which require both developers and employers to take actions which encourage employees to practice

ridesharing. The main impetus for the ordinances was the air quality in Sacramento County, which violates federal standards for a few days every year. The public sector employers in the county, to a large degree, already practice ridesharing. From 30% to 60% of the employees at the state capitol, at two military bases, and at county and city offices rideshare, use bicycles, or ride a bus to work. However, the private sector has lagged behind. The adopted ordinances were designed to encourage developers to build transportation management oriented support facilities, and for employers to promote the practice of ridesharing or bicycling to build transportation management oriented support facilities. The Planning Department worked on the ordinances under an EPA Section 175 grant.

The first ordinance requires developers of new or expanding projects to provide passenger loading areas, preferential parking spaces for carpool and vanpool vehicles, shower and locker facilities for pedestrian and bicycle commuters, and transit waiting shelters. The numbers required differ according to building use, size, and number of expected employees, but are approximately as follows: a passenger loading area large enough to accommodate the number of waiting vehicles equivalent to 0.5% of the project's regular parking; preferential parking spaces which number 15% of regular spaces; one shower and eight lockers for every 200 employees; and a number of transit shelters to be determined by the local transit agency. Projects which will employ 1000 or more persons are required to submit a comprehensive Trip Reduction Facilities Plan as well, which might include a park-and-ride lot or a rail station, in addition to the base requirements. Smaller projects also may be asked to submit such a plan.

The second ordinance requires employers of 100 or more persons to demonstrate annually the provision of an on-site transportation coordinator, preferential parking system management, information on commuting alternatives, and carpool-matching questionnaires.

Earlier zoning and code changes reduced the number of required parking spaces, if carpool spaces, bicycle parking or shower locker facilities were required. Therefore, the new ordinances add no new incentives or reduced parking requirements.

Financial Results: The ordinance has been in effect for only a short period. The goal is a 30% reduction in total trips. It is hoped that the ordinance will increase developer and employer awareness of solutions to the region's traffic and pollution problems. The costs to the county of implementation and enforcement of the new codes are estimated at not over $10,000 per year, which will be largely recoverable through permit fees. The approximately $7,000 start-up costs were covered by an EPA grant for which Sacramento County has applied.

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Portland, Oregon: A private developer, Transpacific Development Corporation, is being required to work with TRI-MET in its construction of a transfer center in return for a conditional use permit for multi-use development.

The developer has planned a major commercial project (anchored by a shopping center) along the edge of a proposed light rail line which exceeded the permitted building size for its zoning category. At the request of TRI-MET, the County Planning Commission required that the developer participate in the construction of a transfer center and a park-and-ride lot. In return, the developer would receive a conditional use permit for the entire project.

The developer has agreed to provide the local match for the 80% UMTA grant, through a dedication of land. The cost of the land acquisition is approximately $2.1 million, and the cost of the engineering work is $840,000. The developer, who owns the needed land, can make the donation in one of two ways: by accepting an appraised value of the parcel at 20% less than its market value, so that TRI-MET pays only 80%, or the amount of the UMTA grant; or by mapping out the amount of land corresponding to 20% and deeding that to TRI-MET, selling the remainder to TRI-MET for the amount of the grant.

TRI-MET requested that the Planning Commission require a dedication of land and other specific aids to construction. However, the commission required only unspecified cooperation and participation. This opened the door for certain disagreements over site plans and the disposition of prime access-road footage between TRI-MET and the developer. If agreement proves impossible, the two parties will have to return to the County Commission to clarify its requirements as to the developer's participation. Negotiations about the donation and its timing have lasted over a year, and are continuing.

Financial Results: TRI-MET will receive land and engineering work for its proposed transfer center and parking lot along the light rail right-of-way at no cost. The value of this local match is approximately $588,000.

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References

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Appendix D

Corporate Payroll Tax

Documented Experience

Portland, Oregon - To date, only the State of Oregon has authorized local transit agencies to use a payroll tax to generate revenue. Since 1970, the Tri-County Metropolitan Transportation Authority has imposed a .6% payroll tax on the payrolls of all employed and self-employed people within the district. The state government pays a tax in lieu of the tax on the payroll of its employees. The state legislature permits the district to adjust annually the tax rate as long as the rate does not exceed the statutory ceiling of 0.6%. Revenue from payroll taxes in Oregon must be used for operating expenses before the revenue can be used for any capital expenditures. In 1983 and 1984, the Portland tax generated $36 million and $38 million, respectively, or 49% and 54% of the system's operating budgets in those years.

Taxes are paid quarterly, along with other state taxes collected by the state treasurer, by employers within the transit districts. The state, however, serves only as the collector of this tax. All revenues, except handling costs incurred by the state, are forwarded to the transit district.

Major Issues

Legal: The Oregon legislature enacted a state statute, ORS #267, in January, 1970 which enabled the creation of the Tri-County Metropolitan Transportation Authority. The legislation also permitted Tri-Met to impose a payroll tax of up to 0.6%. By law, certain non-profit organizations are exempt from paying the tax.

Political: The Portland business community strongly objected to the additional tax burden created by the corporate payroll tax. After the tax became law, it was challenged in court, but was found to be constitutional.

Financial Results: The payroll tax generated approximately $36 million for the TriMet District, which accounts for 49% of the agency's 1983 operating budget.

Taxes are paid quarterly by employers within the Transit District along with other state taxes, which are collected by the State Treasurer.

Private Sector Benefit: Mobility for employers and employees reduces the need for subsidized parking and the cost of commuting and enhances the value of the business district.

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Other Experience

Eugene, Oregon - This jurisdiction has also taken advantage of Oregon's corporate payroll tax to support public transportation. Lane County Mass Transit District imposes a .54% tax on the total payroll of local businesses, effective until March 31, 1985. Every year the tax rate is adjusted to meet budgetary requirements. In fiscal year 1983-84, Eugene received $4.8 million, or 63% of its operating budget.

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Institute of Public Administration. Financing Transit: Alternatives for Local Government. Prepared for U. S. Department of Transportation, Urban Mass Transportation Administration, Office of the Secretary. Washington, D. C. 1979.

Appendix E

Employee Income Tax

Documented Experience

Cincinnati - An example of an employee-paid tax is provided by Cincinnati, Ohio. A 0.3% tax dedicated to transit is deducted from the paycheck of each employee who either lives or works in the City of Cincinnati. Money raised by the tax goes directly into the Transit Fund which is administered by the city for capital and operating expenses. The Southwest Ohio Regional Transit Authority (SORTA) is funded in part by the Transit Fund. In 1983, approximately $14 million was received by SORTA from the employee income tax, or as it called in Cincinnati, the "payroll earnings" tax. This represented about 37% of SORTA's total operating budget.

This tax was instituted April 1, 1973 when the City of Cincinnati purchased the assets of the private transit system which served the city. Voters approved the imposition of an employee income tax, in order to lower bus fares to 25 cents. Since 1973, revenue from the employee income tax has continued to rise.

Legal Issues: In 1972, the voters of Cincinnati approved a municipal ordinance that would raise the employee income tax from 1.7% to 2%, the additional 0.3% to be used for the purchase and operation of the nearly bankrupt local private transit company. At the time, the State of Ohio did not have a state income tax and municipalities were authorized to implement their own tax structure. When the state income tax was introduced, municipalities were allowed to retain their existing local income taxes.

Political: There was very little opposition to the original tax increase, because the public perceived the tax to be a means of improving poor transit service. The city-operated transit system and the employee payroll tax have been so successful that an effort was made two years ago to expand the system to a county-wide service and to broaden the tax base to include the entire county. This effort failed to obtain voter approval. Residents of the outlying areas voted against this measure, presumably because they were not willing to be taxed for a service without evidence that the service would be directly useful to them.

Timing: The tax increase was implemented April 1, 1973, less than a year after the voters approved it.

Financial Results: In 1981, the employee income tax generated $12 million, 30% of the $40 million operating budget for SORTA; in 1982, $12.9 million or 34% and in 1983, $14.3 million or 37%.

Private Sector Benefit: The cost of the tax to employees is offset by the benefits of increased mobility and low cost transit.

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Other Experience

Ft. Wright, Kentucky - A combination of employer-paid and employee-paid taxes is used in Newport, Kentucky to generate revenue for its local transit system, the Transit Authority of Northern Kentucky (TANK). Employees are taxed 0.4% of their earnings or may choose to pay an annual fixed amount of $100. Employers are taxed 0.4% of their net profits or may choose to pay an annual fixed amount of $150.

Under Kentucky law, this tax officially is classified as a license fee. Payment of the tax is a requirement for persons, associations, corporations, or other entities to engage in business activities in the county.

Financial Results: This combination tax provided $1.4 million to TANK in 1981, or 24.4% of its total operating budget for that year.

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References

Institute of Public Administration. Financing Transit; Alternatives For Local Government. Prepared for U. S. Department of Transportation, Urban Mass Transportation Administration, Office of the Secretary. Washington, D. C. 1979.

Appendix F

Local Option Motor Fuel Tax

Documented Experience

State of Florida: Florida has two types of local fuel taxes. The first, the voted gas tax, was approved by the state legislature in the early 1970s. This tax is limited to 1¢ per gallon and is subject to voter approval via county-wide referendum. Eleven counties have exercised the voted gas tax. The second local tax, the local option gas tax, was approved by the state legislature in 1983. The tax rate is limited to not more than 4¢ per gallon (in whole pennies). Implementation of a local option fuel tax of 1¢ or 2¢ requires a majority vote of a county's governing body, while a tax of 3¢ or 4¢ requires a majority plus one.

The state's Department of Revenue is responsible for collection of local fuel taxes from the wholesalers. 94% of the funds collected are distributed, on a monthly basis, back to the counties/cities according to a distribution formula established in an Interlocal Agreement. The state keeps 6% of the revenues collected to cover administrative and overhead costs.

Funds are dedicated for transportation items, both highway- and transit-related. The specific categories on which local fuel tax revenues can be spent include the following:

- Public transportation operation and maintenance
- Road and right-of-way maintenance and equipment
- Road and right-of-way drainage
- Street lighting
- Traffic signs, engineering, signalization, and pavement markings
- Bridge maintenance and operation
- Debt service and current expenditures for capital projects in the above areas, including construction and reconstruction of roads.

Legal Issues: Both the voted gas tax and the local option gas tax were legislated by the state to be carried out at the county level. Both are optional taxes. The voted tax requires a referendum, while the local option tax is implemented by a county governing board.

Political Issues: The voted gas tax has been more difficult to impose as it requires electoral approval. The counties which have adopted this tax successfully are geographically concentrated along major interstate highways. Therefore, much of the tax has been passed on to tourists.

In the case of Hillsborough County, which has both types of local fuel taxes, the voted gas tax failed the first time it was put before the voters. During the second attempt, a well-funded and highly-publicized campaign was mounted to promote and advertise the tax.

Another issue of interest is two of the 31 counties that had passed a local option fuel tax now have repealed it. The first county to repeal the tax, Gadsden, did so when adjacent counties failed to pass it. The major concern expressed by the county commission was that revenue would be forfeited to the surrounding counties having no local fuel tax. Holmes County, which also repealed the tax, did so on similar grounds.

Financial Results: Eleven counties have passed a voted gas tax, and 35 counties now have a local option gas tax. Among those counties, 10 counties have adopted both kinds of taxes of those 6 counties, have enacted the maximum 5 cents (1¢ plus 4¢). Urban counties tend to generate more revenue than rural counties. For example, Dade County, which includes Miami, levies a 4¢ local option gas tax which is expected to generate $29 million in FY 1985. Dixie County, on the other hand, levies a 2¢ local option tax which is expected to raise only $110,000 in FY 1985.

Private Sector Benefit: The private sector benefits from an adequately funded public transportation system.

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Appendix G

Negotiated Land Leases

Documented Experience

Tacoma, Washington - Pierce Transit is expanding its service by adding four transfer centers. The centers will be located on private land leased to Pierce at $1 per year for 20 to 30 years.

Pierce Transit hired a consulting firm to suggest areas for the transfer centers, requiring that each be within at least 25 minutes of another transfer point. After choosing four areas, the transit agency held public hearings on possible sites, finally deciding on land belonging to a community college, a school district, and a large shopping mall for three of the facilities. While negotiations on leasing the chosen sites were conducted, Pierce set up temporary centers for less than $2000 each (basically painted areas in parking lots). By late 1985, Pierce expects to have constructed three facilities with raised platforms and shelters. Funding comes from an UMTA grant (80% of cost) and from transit funds derived from a 3/10¢ state sales tax (20% of cost).

Legal Issues: Pierce Transit is designated as a municipal corporation and a public utility, and as such has the right to contract with private property owners.

Allied Stores of Tacoma Mall, one of the largest malls on the West Coast, had to apply to a city commission, hold public hearings, and gain final approval from city council for reduced parking requirements (from 5.5 spaces per 1000 square feet). This held up completion of lease arrangements with Pierce.

Political: Pierce Transit worked carefully with all parties involved in the leasing process, convincing them of the benefits of the centers and expediting the permit review process, when necessary. Pierce Transit conducted public hearings for each proposed center. In one case, the agency paid for a survey of mall shoppers to convince property owners of the proposed center site that 10-15% of their customers traveled by bus. In several instances, agency officials handcarried, on behalf of the lessor, variance requests and other paperwork through the Tacoma Planning, Traffic Engineering, and Public Works departments in an effort to avoid time delays and regulatory impasses. According to the agency, all of these efforts have contributed to successful negotiations.

Timing: Pierce began planning in 1980. The first lease, which took three months to negotiate, was recently signed. A second lease, which has taken three and one-half years to negotiate, due to parking space regulations, is also near signing.

Financial Results: Pierce Transit benefits from not having to condemn and buy the needed land. The 3.3 acre parcel on a corner of the Tacoma Community College parking lot is in an area of $3 to $5 per square foot land values, which might give it a comparable value of $430,000 to $720,000. The two acre parcel belonging to the Franklin Pierce School District might be valued at $130,000 to $170,000 ($1.50 to $2 per square foot). The 1.35 percel on the Tacoma Mall parking lot might be valued at $500,000 or more (over $5 per square foot).

Private Sector Benefit: The non-transit investors also benefit. The Tacoma Community College hopes to reverse a trend of falling enrollment by promoting the convenience of the transit center. The Franklin Pierce School District is leasing underutilized land in which commercial developers had been interested, but that the district preferred not to sell outright. Allied Stores used its commitment to a transfer facility as a bargaining chip with the city council during negotiations to reduce the parking requirements at the mall. Allied Stores also hopes to capture a portion of those workers going home by bus who could shop at Tacoma Mall before transferring to a final bus home.

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Other Experience

Phoenix, Arizona - Construction began in January 1985 on a transfer facility located on land leased by a shopping center association to Phoenix Transit at $1 per year for 20 years. Completion is expected by the end of 1985.

A park-and-ride lot had been located in the shopping center complex since 1975 on land leased at no cost to the transit agency by the association. However, as the center became more successful and as transit needs in the area grew, traffic and parking became a problem. Discussions began in 1980 about moving the location, but a transit advocate on the shopping center association's staff suggested donating land and building a shelter for the transfer facility. However, the association became reluctant to give up ownership when the recession occurred, so a lease agreement was worked out instead.

Construction of the $290,000 facility will be financed by UMTA (80%) and by Local Transportation Assistance Funds drawn from the Arizona State Lottery (20%). Operating and maintenance costs will be shared by Phoenix Transit and the retail association.

Financial Results: - Phoenix Transit avoided some of the major costs associated with establishing a new transfer facility, such as condemning and purchasing land. Phoenix Transit also reduced its maintenance costs for the new facility, since the costs will be shared with the shopping center association

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Appendix H

Leasing/Selling Development Rights

Documented Experience

Washington, D.C. - the Washington Metropolitan Area Transit Authority has developed formal procedures for identifying and implementing joint development opportunities. Following these procedures, WMATA has secured six joint development agreements with private developers, and if all goes as planned, the procedures will be used to realize joint development opportunities at 50 additional station sites over the next 10-20 years. As of September, 1984, construction had been completed at 4 of the 6 initial station sites.

One example of WMATA's joint development projects is located at the Van Ness/University of District of Columbia (UDC) station on Connecticut Avenue in northwest Washington, D.C. Prudential Insurance Co. of America leases a 1.5 acre site from WMATA for an initial term of 50 years on this site. Prudential has completed construction of a 200,000 square foot, 7-story office and retail building. The project incorporates an upgraded level for a 24 space bus and ride facility, as well as weather protected bus bays at the rear of the building.

Legal Issues: When Prudential Insurance Co. was selected as the Van Ness project developer, an unsuccessful bidder instituted a series of challenges against the decision, eventually leading to a legal action that was resolved in favor of WMATA. The lease terms require that Prudential pays a guaranteed annual rent of $260,000 plus a percentage of its net profits (if any) to WMATA. In other cases, WMATA has negotiated leases based upon gross project revenues in order to avoid the extensive auditing responsibilities associated with monitoring net profits.

Political Issues: WMATA invested significant amounts of time and effort in attracting the interest of developers and in obtaining public acceptance of the project at the Van Ness/UDC station. It conducted appraisals, prepared transit impact studies and requested zoning changes permitting more intensive development around the station which is expected to increase ridership levels. After many public meetings with local agencies and neighborhood committees, the scale of planned development had to be reduced in order to obtain necessary land use permits. Residents believed that more intensive development would increase traffic congestion in the area.

Timing: WMATA first contacted the District of Columbia Office of Planning and Development in 1977 about joint development opportunities at the Van Ness/UDC station. It issued a prospective for the site in January, 1979 and selected the developer in 1979. Construction began approximately two years later. The project was dedicated in the spring of 1983. While Prudential is paying WMATA its annual rent of $250,000, WMATA is not receiving any additional revenue from the percentage of net profit clause in the contract. Prudential had leased only 60% of its space due to unfavorable conditions in the real estate market.

Financial Results: WMATA will realize a total of $2.014 million in direct income from all joint development system interface projects during FY 1985. Based on contracted amounts, WMATA expects to receive $3.5 million from those projects in FY 1986. These figures do not include added income, which may result from improved financial performance of joint development projects (in whose cash flows WMATA will participate), or revenues generated by increased ridership. Direct annual income from joint development is expected to grow to $12 million when the final stages of Metrorail are operational.

Private Sector Benefit: Developers benefit from leases with higher rents attributable to the proximity of their projects to Metrorail stations.

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Other Experience

Dade County, Florida: In 1982 Metro Dade Transportation Administration (MDTA) for Metropolitan Dade County (MDC) received a one acre parcel of unimproved land from a developer to be used for the Dadeland South rapid transit station. In exchange, the developer was given exclusive rights to that site and adjacent parcels of land totalling approximately 5 acres.

Under the 99-year lease agreement, the developer is required to construct a 1000-car garage for transit patrons. Five hundred spaces are financed through Industrial Development Bonds which will be amortized through parking fees charged to transit patrons. The remaining 500 spaces will be paid for by Dade County. The air rights will enable the developer to build 600,000 square feet of office space, 50,000 square feet of retail space, and a 300-room hotel. At the end of the lease period, all improvements will become property of MDTA.

MDTA contends that its Rapid Transit Zone Ordinance strengthened its ability to attract a developer. The ordinance allowed the County to significantly increase zoning density in the "transit zone", as defined in the ordinance. In general, this is a very attractive feature to developers considering a joint development project.

Financial Results: The lease requires that the developer pay 4% of gross income for each year of the lease. MDTA chose to base lease payments on a percentage of gross rather than net income to avoid opportunities for the developer to manipulate his expenses for the purpose of significantly reducing his net profits and, thus, lease payments. Beginning in 1986, MDTA expects to receive annual lease payments of at least $500,000 and as much as $1 million a year in 1982 dollars.

Convenient access to the rail system will increase the value of the office, retail, and hotel development to renters and visitors.

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Appendix I

Leasing/Selling Facilities

Documented Experience

Fargo, North Dakota - The City of Fargo has constructed a city owned transit terminal which will be leased to the Greyhound Bus Company. The site also has an underground parking facility. UMTA funded 80% of the cost of the terminal. The city paid 20% of the cost with HUD Community Development Block grants. The Parking Authority sold revenue bonds backed by parking lot fees and special assessments to finance the underground structure.

Legal Issues: While UMTA is paying for part of the facility, it has agreed that as long as the city uses the lease proceeds to operate the public transit terminal, the City of Fargo does not have to return any of the proceeds to UMTA.

Political Issues: The public did not express any opposition to the leasing arrangement with the Greyhound Bus Company. However, the city encountered some difficulty in obtaining funds from UMTA for the project. It took a persistent local staff, with the help of the North Dakota congressional delegation, four years to secure the funds.

Timing: Negotiations with the Greyhound Bus Company took two years to complete.

Financial Results: Greyhound has agreed to lease its share of the terminal for $32,000 a year for 15 years, with an option to renew its lease for three 5-year periods. For the 11th through the 15th years, the annual lease would be $42,000 and for the 16th through the 20th years, $50,000. The agreement includes an inflation adjustment clause and the requirement that the city find a client for Greyhound's original building. Greyhound must pay for its own improvements, property taxes and utility bills. The lease payments are contributed to the farebox revenues of the transit system. The city estimates that $32,000 approximates the expected annual cost to the city of operating its share of the terminal.

The neighboring city of Moorehead contributes approximately $16,000 a year to the costs of operating the facility in return for using the terminal as one of its transfer centers.

Private Sector Benefit: Greyhound obtains a useful facility with no capital outlay and benefits from its linkage with intra-city transit.

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Other Experience

Santa Cruz, California - The Santa Cruz Metropolitan Transit District (SCMTD) is leasing office and retail space in its new downtown Intermodal Transfer Facility to offset operations and maintenance costs.

The Metro Center is located next to an outdoor shopping mall (the Pacific Garden Mall) and the local Greyhound Bus terminal. It includes pedestrian, bicycle, and bus facilities. Because of the facility's intermodal nature, it was possible to finance it with California state funds rather than federal funds. The total cost of the facility (land acquisition and construction) was approximately $3.0 million.

The Metro Center includes 2,215 square feet of restaurant and retail space on the ground floor; 1,777 square feet of office space on the second floor; and six 100-square foot concession booths in a separate landscaped island area. The island is surrounded by parking for 16 transit buses, with an estimated daily ridership of 20,000.

Planning for the Metro Center began in 1979. Tenants were selected in early 1984 and the facility opened in June, 1984.

Financial Results: SCMTD currently leases space in the lobby to a covenience store, breakfast-dinner restaurant and a pastry shop. A coffee shop, yogurt shop, Mexican specialty shop and an orange juice shop lease space on the island.

No formal cost or revenue figures are yet available. Total projected expenses for buildings and ground maintenance, management, utilities and security are $177,000 yearly. Total projected revenues are a minimum of $68,382 yearly ($16,872 from office space, $29,910 from lobby retail space, and $21,600 from island booth space), but based on the first quarter reports, revenues will far exceed this estimate. Rent is based on a fixed or flexible rate and/or a percentage (usually 6%) of gross income.

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SCMTD packet: Metro Center Leasing

Appendix J

Certificates of Participation

Documented Experience

Los Angeles - In 1980, the Southern California Rapid Transit District (SCRTD) raised $29 million towards the purchase of 1000 new buses by selling 10-year equipment trust certificates at 8% interest to private investors. The certificate holders have title to 20%, or 200 of the new buses, and are leasing them back to SCRTD for an annual amount equivalent to the principal and interest on the certificates.

The SCRTD named a bank to act as trustee for the certificate holders. An investment banking firm, selected through a competitive bidding process, sold the certificates to a group of investment banking firms for resale to the public. The certificates were secured by the following:

1. the buses served as collateral;

2. a cash reserve fund was established which must at all times equal 25% of the principal amount of the outstanding certificates; and

3. an insurance policy was purchased which raised the equipment trust certificates' credit rating from BAA to AAA, thereby saving approximately $2 million in interest payments.

Legal Issues: The enabling legislation, which created the SCRTD, permits "the sale of equipment trust certificates" backed by the value of the equipment and the "Collateral Equalization Reserve Fund".

Political: Over a year's delay was encountered while UMTA determined whether the federal government could finance 80% of the capital cost of the equipment through a normal UMTA grant. The central issue of UMTA concern is the continuing control of use provisions of the UMTA Act which requires equipment purchased by UMTA to be free from encumbrance during its useful life.

Under normal circumstances, UMTA would own an 80% interest in each of the 1,000 buses. However, UMTA finally agreed that its 80% grant entitled UMTA to own 100% of 800 buses and that the certificate holders owned 100% of 200 buses. This agreement enabled UMTA's interest to be totally unencumbered.

Timing: The equipment trust certificates sold very quickly.

Financial Results: SCRTD sold $29 million worth of certificates. SCRTD has deposited $7.5 million, or 25% of the $29 million, in the "Collatoral Equalization Reserve Fund" This fund protects the certificate holders' interests against fluctuations in the anticipated market value versus the original market value of the buses. It is similar to the reserve requirement on most debt instruments. SCRTD will earn interest from the "Collatoral Equalization Reserve Fund".

Under normal circumstance a transit agency would not receive the highest available credit rating on sales of equipment trust certificates. The highest available rating can be obtained by purchasing insurance from one of several companies which offer such insurance or by obtaining a bank letter of credit from a AAA rated bank.

Private Sector Benefit: Investors are attracted to certificates by their tax-exempt interest and monthly payments on short-term maturities.

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Appendix K

Safe Harbor Leasing

Documented Experience

New York City - In October of 1981, MTA made its first safe harbor lease agreement with Metromedia, Inc. for the purchase of 620 buses and 12 commuter railcars. No federal funds were involved. Metromedia put up $15.5 million toward the total purchase price of $102 million. The buses are leased for 13 years and the railcars for 20 years, after which each vehicle will be purchased by MTA for $1. Metromedia will make a 329% return over a 13-year period on its investment.

Since that time MTA has participated in 10 more safe harbor lease transactions, from which it has received over $130 million in equity. These leases involved $650 million of equipment, including buses, commuter rail and subway rail cars. Equity prices ranged from 13-14% for buses and 24% for rail cars.

Legal Issues: The Economic Recovery Tax Act of 1981 (ERTA) and 1982 Tax Equity and Fiscal Responsibility Act have revised the rules regarding leasing. The revisions provide transit agencies with the following advantages:

- Leases no longer have to demonstrate a before tax profit. They can be written for a nominal value
- Transit agencies and "mass commuting vehicles" now are eligible for safe harbor leasing
- Only the non-federal share of any mass commuting vehicle may be leveraged
- The lease term is based upon the longer of 150% of the Asset Depreciation Range class mid-point life or 90% of the useful life. Buses equate to 13-1/2 years (150% of nine years).

Political Issues: Safe harbor leasing results in a direct loss to the U. S. Treasury, because it substantially reduces federal tax liabilities of participating private corporations. The potential drain on the Treasury has made safe harbor leasing a controversial topic in Congress.

The transit industry and its advocates argue that the safe harbor provisions will enhance the nation's overall economic picture and that the loss of tax revenues will be more than offset by the

significant investment in the transit industry created by the safe harbor provisions. In the 1983 Tax Equity and Fiscal Responsibility Act, safe harbor leasing was repealed for all but mass community vehicles, which received an extension through December 31, 1987. Only if the manufacturing contract was let prior to April 1, 1983 can vehicles delivered after December 31, 1987 be potentially eligible for safe harbor leasing.

Timing: Safe harbor leasing is available to almost any transit agency which has the power to enter into a lease with a private company. Usually, no special state or local enabling legislation is required to use the safe harbor provisions.

Financial Results: MTA recovered 15% of the purchase price.

Private Sector Benefit: Private corporations purchasing the vehicles can depreciate the full value of the local share of the vehicles over a five year period and deduct the interest costs of the underlying promissory note, which is part of the sale/leaseback transaction.

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Other Experience

Los Angeles - SCRTD entered into a safe harbor lease agreement with Border Pipeline Company in the fall of 1981 for buses which had been purchased earlier that year. Eighty percent of the purchase had been funded by the federal government, so SCRTD was only able to sell the tax benefits on the twenty percent ($23,820,000) funded locally by equipment trust certificates. Border Pipeline paid $3.9 million in cash up front and a "phantom debt" was written for the remaining $20 million. The lease extends for 13-1/2 years and at its termination SCRTD will purchase all the vehicles for $1.

Financial Results: SCRTD recovered 16% of the local portion of the purchase.

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Philadelphia, Pennsylvania: The Southeastern Pennsylvania Transportation Authority (SEPTA) used safe harbor leasing to finance light rail vehicles in 1981 and 1983 and buses in 1983.

The 1981 safe harbor lease was arranged by an outside financial advisor. Because the applicable regulations were still in the preliminary stage, it was very difficult to find an investor. The 1983 lease was also arranged by an outside financial advisor who set up package deals whereby seven investors each bought a portion of the tax benefits. It was much easier to find investors this time as the relevant laws had been passed. In each case, SEPTA's lease payments to the investors exactly offset the investors' payments to SEPTA.

Financial Results: In December 1981, SEPTA sold tax benefits on 66 light rail vehicles with a tax base of $7.367 million (20% of the total costs). Depreciated over 27 years, this provided a yield of 19.4% or $1.43 million. In March 1983, SEPTA sold tax benefits on 73 light rail vehicles with a tax base of $7.942 million. Depreciated over 25.75 years, this provided a yield of 18.925% or $1.5 million dollars. The benefits on 150 buses with a tax base of $4.269 million depreciated over 13.5 years yielded 10.49% or $448,000.

An accelerated depreciation schedule allows returns of up to twice the original investment for the private company. SEPTA receives private sector financing as well as a contribution from the investor, who is required to supply a percentage of the original purchase price.

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Appendix L

Vendor Financing

Documented Experience

New York City - The New York Metropolitan Transportation Authority (MTA) successfully has used vendor financing for the procurement of 825 subway cars from Bombardier, Ltd. Bombardier arranged for $750 million in loans from Canada's Export Development Corporation. Under the terms of the contract, MTA has agreed to repay the loan at a 9.7% interest rate over a 15-year period. Approximately $4 million were required as a down-payment. While the MTA will begin to make interest payments on the loan as soon as the contract becomes effective, payments on the principal will begin 6 months after delivery of the last car. The principal will be repaid with proceeds from long-term bonds and the interest will be paid out of MTA operating revenues.

The agreement with Bombardier is the result of MTA negotiations with both Bombardier and Canada's Export Development Corporation. Under a recently passed state law establishing negotiated procurement procedures, MTA had the flexibility to discuss the financial proposals with vendors after the bids had been opened and to bargain for modifications that were financially advantageous to MTA. Under standard competitive bidding rules, MTA would have been forced to accept the lowest bid, regardless of the terms of the financing package.

Legal Issues: State legislation was required for the MTA to undertake a negotiated procurement for the purchase of subway cars. With this legislation, vendors can offer terms for loans, loan guarantees, or other financial devices which may be more attractive to the transit agency over the long-term than the standard lowest bid.

The Organization for Economic Cooperation and Development (OECD), of which the U.S. is a participant, has an established minimum-interest floor, below which no trade agreement can be authorized (currently 11-1/4%). The MTA-Bombardier agreement violated the guidelines of the OECD. Accordingly, the Budd Company, a competitive vendor, sued the MTA for violation of OECD minimum interest requirements. Budd later dropped its complaint.

Political Issues: The MTA-Bombardier agreement has created significant controversy, both nationally and internationally. MTA has received considerable criticism for accepting subsidized credits from foreign institutions. Additionally, the U.S

Government has criticized the Canadian Government for subsidizing interest rates below the OECD minimum. MTA has countered that its first obligation is to maximize savings for New York City taxpayers and MTA riders.

Timing: No particular time delays were experienced during the negotiated procurement phase of the MTA-Bombardier transaction.

Financial Results: In the Bombardier car purchase transaction the MTA has secured a large amount of low interest credit. When the full price of the cars is escalated, MTA will have borrowed in excess of $660 million at 9.7%, a rate generally lower than MTA bonds can achieve in the public capital markets.

The benefit to MTA from the Bombardier transaction is hard to determine. If interest rates stay relatively high, MTA may accrue substantial benefit. However, if interest rates fall, then MTA may actually experience a net revenue loss over the long-term, although this has not happened to date.

Private Sector Benefit: Vendors of rail cars are willing to arrange financing at attractive interest rates, because their market is limited and because they are anxious to demonstrate their vehicles in use to other potential buyers.

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References

Downey, Mortimer L. "Generating Private Sector Financing for Public Transportation." Presented to the Transportation Research Board Public Transportation Section Conference. Charlottesville, Virginia. August 9, 1982.

Appendix M

Zero Coupon Bonds

Documented Experience

Boston - The Massachusetts Bay Transportation Authority (MBTA) issued $8.2 million in zero coupon tax free bonds out of a total bond issue of $68 million in April, 1982. The receipts are being used for capital investments such as new rail lines, buses and other improvements. The proposal required the approval of the MBTA board, which is an independent authority with powers to issue debt.

The MBTA and its underwriter claim the zero coupon bonds sold like "hot cakes". They were priced at $17 per $1000, a yield of 8.25% to the investor. MBTA saved $6.9 million over the life of the bond project by employing the zero coupon innovation. The financing mechanism was so successful that the Commonwealth of Massachusetts has issued zero coupon bonds several times since the MBTA experience.

Zero coupon bonds are issued in the same way as conventional bonds--except that they literally have no coupons for the investor with which to collect interest payments. Instead, upon maturity of the bond, the municipality pays in one lump sum the face value of the bond to the investor. The investor benefits from the opportunity to purchase the bond at a discounted price and from the appreciation of the bond at maturity. He also does not face the yearly task of reinvesting the interest payments from his clipped coupons. The IRS has ruled that the capital accumulation or gain from the appreciation of this form of bond is tax exempt.

Legal Issues: The municipality or transit agency will need the same authority to issue debt through zero coupon bonds that it needs for conventional bonds. In addition, depending on state law, it might be desirable to change the language of legislation establishing debt limitations. Most limitations concern the amount of money municipalities can owe. Because zero coupon bonds are sold at discounted prices, the state may want to modify the legislation to limit the proceeds gained from issuing bonds rather than the face value of the bonds. Otherwise, the issuance of zero coupon bonds may cause the municipality to approach rapidly its debt limits, precluding opportunities to borrow for other purposes.

Political Issues: Zero coupon bonds have sold well in Massachusetts, the major place they have been issued. However, there have been two major concerns about zero coupon bonds:

- The use of zero coupon bonds may be limited by the size of the investment market interested in this kind of arrangement. The yield of zero coupon bonds has ranged around 7-8%, which is lower than the going 13% rate of conventional municipal bonds. However, these bonds were designed to reach the special market of small, less risky investors which includes people with very little cash to invest, people interested in starting long term education accounts for their children, etc. This special market, which is small in size, is easily saturated. Municipalities may be forced to find other financing mechanisms.

- Because bonds are sold at deeply discounted prices, the municipality must sell them at two to three times their par value in order to raise the desired amount of funds. For example, the municipality might have to sell $31.8 million of bonds in order to receive up front the $10 million in cash it actually needs.

Timing: Zero coupon bonds may sell extremely fast because they lock in what may be a very attractive financing rate for the investor for an extended period of time. Administrative time and cost is saved since there is no need to disburse coupon payments with this financing device.

Financial Results: The MBTA estimates that it will save $6 million in interest payments using the zero coupon bond method, compared with conventional bonds. Additionally, zero coupon bonds effectively transfer the yearly debt service cost of alternative financing techniques into a lump sum capital payment in the future.

Private Sector Benefits: The investor benefits from the opportunity to purchase bonds for very little cash and from the tax-exempt gain associated with zero coupon bonds.

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References

Merrill, Lynch, White, Weld, Capital Markets Group. "Financing Options." Prepared for the Transit Finance Commission, Denver Rapid Transit District, Denver, Colorado. 1982.

Appendix N

Contracted Taxi Service

Documented Experience

Santa Fe - Sante Fe, New Mexico relies solely on three private taxi operators to provide public transit service anywhere within the city limits. Anticipating an increase in population and related needs for transit, the city decided to use a coupon program for taxi service as a cost effective alternative to setting up a publicly owned and operated bus system. The taxi companies provide 100,000 rides per year under this program. Ninety percent of the ridership is low income and people without access to a car.

Legal Issues: Local authority for this program is specified in special state enabling legislation (the 1978 Municipal Transit Law, Article 52, Section 3-52-1 through 3-52-13), giving cities broad authority to make a variety of arrangements for delivery of public transit service. Any taxi company that meets the city's criteria may participate in the program. The major criterion is that the company offer 24-hour, shared-ride service. They also agree to be paid through a user-side subsidy program. The city pays half the fare of each trip through the use of coupons. Individuals, regardless of their residence, can obtain a free packet of 10 coupons at any designated distribution center by registering their name and address. Taxis accept the coupons for 50% of the taxi fare and record the amount on the coupon. The coupons are periodically submitted to the city for reimbursement, which usually takes two weeks. The coupons can only be used for rides within the urbanized city limits. The city council by ordinance sets the taxi fares.

Political Issues: Santa Fe has not experienced any political problems with the contracted services, in part because any taxicab company in the city can participate in the user-side subsidy program.

Timing: In 1981, when the city decided to rely on taxi service for its public transit service, only two companies with limited carrying capacity offered taxi service. To stimulate the program, the city purchased three cars and a wheelchair van and leased them to one taxicab company at a rate sufficient to recover costs. Since that time, one new taxi company started business in Santa Fe and one of the original two companies has closed. Between the two remaining taxi companies, there is now adequate carrying capacity to meet demand. As a result, the city does not expect to purchase additional vehicles.

Financial Results: The City of Santa Fe provides public transit service with taxicabs at a total cost of $500,000 a year, of which $100,000 is UMTA Section 5 funds, $150,000 is local money and $250,000 is fare revenues. Administrative costs to the city range between 4-5% of total program costs. Staff work is handled by 1 person halftime.

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Other Experience

Phoenix - The City of Phoenix contracts with Arnatt Cab Service, Inc. to deliver its Sunday transit service for the general public. Arnatt uses 18-20 cabs and 2 wheelchair vans to pick up, upon request, and drop off about 300 people every Sunday between the hours of 7:00 a.m. and 7:00 p.m. The "Sunday and Holiday Dial-A-Ride" service costs the city approximately $150,000 a year, which is $1.4 million less than the cost of providing fixed route scheduled bus service.

Fares are based on 10 zones in the 346 square mile area. The adult fare is $1.75 for the initial zone and 60¢ for each additional zone. Senior citizens, handicapped, and children pay 85¢ for the base fare and 30¢ for each zone. Results of a 1984 passenger survey show that almost 60% of the patrons are elderly or handicapped, and 64% of the riders have incomes of $10,000 or less. Customer satisfaction is monitored through passenger surveys and consumer complaints*.

The contract provides that the city will pay Arnatt for its service on the basis of vehicle-hours in use -- $16.69 per cab and $17.69 per van. The per vehicle hourly rate covers all capital and operating costs, drivers' wages per hour, an additional 15% to cover fringe benefits, payroll taxes fuel, maintenance vehicle usage overhead. During Fiscal Year 1983-84, Sunday Dial-a-Ride operating expenses were $114,814. Farebox revenues were $17,047 or 15% of operating expenses $114,814.

The contract is renegotiated annually. New rates are determined after the city compares the costs with other dial-a-ride services in the Phoenix area and across the nation. The contract was based on the following three assumptions: (1) service should be tailored to demand on any given Sunday; (2) operators should make a reasonable profit; and (3) both parties consider a long-term relationship to be in their best interest.

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* The wait is usually no more than 30 minutes.

Arnett foresees that dial-a-ride programs will be of increasing importance in its future, especially because of the 1982 Arizona law deregulating transportation.

Financial Results: The City of Phoenix saves approximately $1,500,000 a year by contracting with a taxicab company to provide public transit service on Sundays.

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Ann Arbor, Michigan - The Ann Arbor Transportation Authority (AATA) subcontracts with a local taxi company to operate a late-night, shared-ride taxi service called Night Ride.

AATA was unable to find any examples of contracted taxi service being used for general transit purposes (rather than special purposes such as transportation of the elderly or handicapped), and so developed its own service criteria. The features AATA chose included costs which were determinable in advance, fixed fares, and service that was simple to administer. A contract for the service was awarded after a bid process.

Three or four vehicles are operated from 10:00 p.m. to 12:00 a.m., two vehicles from 12:00 a.m. to 2:00 a.m., and one vehicle from 2:00 a.m. to 6:00 a.m. The vehicles are dedicated to the service by the cab company, which provides the vehicles, drivers, fuel, maintenance, and dispatch. AATA pays a fixed subsidy of $7.50 per vehicle hour, and each passenger sharing the cab pays a fixed fare of $1.50 per ride. The fares are retained by the cab companies. Reservations for the service are made on the day service is needed.

UMTA funded the first year of service under a demonstration grant. The AATA Board of Directors recently elected to continue Night Ride with local revenue sources.

The municipal taxicab ordinance prohibited shared rides and required that fares be based on the taximeter. However, there was a provision exempting mass transportation service from these regulations, and the AATA convinced the municipal board which oversees taxi operations that this clause applied to Night Ride.

Financial Results: There were no specific figures reported for the prohibitive cost of a comparable late night bus service. Comparable taxicab prices are $1.00 per flag drop and $1.10 per mile.

Between Oct. 1983 - Sept. 1984, 20,537 passenger trips were taken on Night Ride, for an average of 3.7 passengers per vehicle hour. The subsidy amounted to 42,053 (at 7.50 per vehicle hour), or an average $2.04 per passenger.

Ridership is higher when the University of Michigan is in session, on Fridays and Saturdays, and from 10:00 p.m. to 1:00 a.m. Surveys showed that more passengers were diverted from automobiles than from taxis and walking combined. Since the main attraction of Night Ride is its provision of personal safety when traveling late at night, it may be that some drivers are now more willing to use public transit during the day, if they can return safely at night.

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Appendix O

Contracted Fixed-Route Service

Documented Experience

Houston - The Metropolitan Transit Authority (MTA) currently contracts with two private carriers to provide service on 7 of MTA's 17 park-and-ride routes. These two carriers operate a total of 74 buses. The rates range from $61 to $88 per revenue hour under recently negotiated contracts. Earlier contracts were based on a more expensive daily rate of between $363 and $375 per bus.

MTA also contracts for maintenance of its vehicles, such as body work, interior refurbishing, air conditioning retrofit and transmission or engine rebuilding. Generally, a formal invitation to bid is presented to qualified vendors, although, in some instances, a "sole source" contract may be automatically awarded to a vendor which is clearly the only one capable of providing the desired services.

The terms of the contracts are based on a specified number of buses; however, the contract may be amended to include more buses if necessary. Most contracts for major work are one to two years in duration. Contracts for smaller tasks may be for 60 or 90 days.

Legal Issues: MTA is authorized to contract for services under provisions in its enabling legislation.

Political Issues: MTA went through significant negotiations to obtain concessions from the labor union to allow MTA to contract out for services. Currently, MTA has the labor union's consent to contract out for services which MTA is not capable of providing in-house.

Timing: Contractors normally are selected within two to three months after bid solitation; however, some bids have been awarded within 30 days.

Financial Results: The FY 1985 budget for contracted park-and-ride services is approximately $8.4 million. This provides for a total of 7 routes and 74 buses from two contractors. In October of 1984, these two contractors carried 160,000 passengers per month. Fares range from $44 to $90 per month, depending on the route. The contractors are paid from $61 to $88 per hour, depending on the route. In the past, MTA contracted for service on a daily basis, paying as much as $375 per bus per day on certain routes.

Private Sector Benefit: Private providers benefit from additional business requested by MTA.

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Other Experience

Dallas - In the spring of 1984, the Board of Directors of the Dallas Area Rapid Transit Authority (DART) approved a contract with Trailways Commuter Transit, Inc. for the provision of express bus service, linking suburban Dallas with downtown. The $15.5 million 3 year contract (with two one-year renewal options) is the first full turnkey transit service contract awarded by DART, created in August, 1983. Approval of the contract is consistent with DART policy to contract for as many services as possible in order to provide cost-effective service in a relatively short period of time.

Under the aegis of Trailways Commuter, Inc., 3 companies are providing DART with service on 11 routes, carrying approximately 8,000 trips per day.

- Trailways corporation provides the buses, drivers, drivers' training and management;
- Ryder Truck Systems provides the maintenance, facilities and manpower for cleaning, washing and mechanical upkeep of the buses; and
- ATE Management & Service Company provides a general manager for Trailways Commuter Transit, Inc., responsible for managing the umbrella organization.

DART is responsible for establishing the routes, schedules and fare rates. All farebox revenue belongs to DART.

The office of system monitoring at DART is responsible for monitoring and assuring the DART Board that the services delivered meet the specifications of the contract. This office reports that the monitoring function of a turnkey arrangement involves more extensive tasks than originally expected.

Financial Results: DART has agreed to pay Trailways Commuter Transit, Inc., $15.5 million for 3 years of service. Transit, Inc., provides its service for a cost of $3.20 - $3.25 per mile, including capital costs. No comparable figures were available for the Dallas Transit System, which also contracts with DART to serve the inner-city of Dallas. DART receives no federal money for its services; consequently, is not affected by section 13(c) requirements concerning labor unions.

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Appendix P

Turnkey Process

Documented Experience

The Metropolitan Transit Authority of Harris County, Texas (METRO) has purchased improved land in a turnkey process for 10 of the 15 park and ride lots it owns (2 others are leased). The process was developed to save time and money. The fifteen lots serve approximately 9,300 passengers every weekday (about 10% of the total passengers served each weekday). A total of 15,090 parking spaces are available and are utilized at 49% occupancy rate.

Metro begins the turnkey process by preparing and publishing a request for proposal (RFP), which contains instructions, proposal forms, and a sample earnest money contract. The two-inch thick Standard Technical Provisions which accompanies the RFP specifies the basic design characteristics (specified distance from parking ares to the bus loading area, entrance and exit requirements, etc.) locational standards (area within which the site may be located, visibility, accessibility), amenities (type of shelter, benches, enclosure and lighting), materials and administrative responsibilities.

Prior to the due date for proposals, a pre-proposal conference is held to clarify the technical requirements and evaluation process. When the proposals are received, an evaluation team with representatives from the planning, operations, right-of-way, engineering, and legal departments then reviews the proposals more thoroughly narrowing the choice to one or two. After interviews with the remaining proposers, the evaluation team selects one or rejects all the proposals.

The Metro Board of Directors awards the earnest money contract/ purchase agreement, which is an agreement to purchase the improved real estate provided that the improvements meet METRO's approval.

Staff involvement is minimal during construction. One week prior to completion, representatives from METRO's planning and engineering departments conduct a preliminary inspection to identify any major problems needing correction. After certification of completion by the developer's engineer and final inspection and approval by METRO engineers, the lot is transferred to METRO (usually within one week of final inspection).

Legal Issues: Metro is permitted to engage in the turnkey process under Texas law enabling METRO to purchase improved real estate through proposal and negotiation. However, the process is ineligible for federal funds. In 1982, UMTA rejected a turnkey

proposal by METRO staff for a federally funded project on grounds that the proposal deviated from strict federal bidding and labor requirements.

The major problem for developers is obtaining required permits for variances, such as large bus driveway radii or for offsite improvements which need multi-agency approval. METRO staff has been helpful in expediting the approval process for developers.

Political Issues: The primary political problem with the turnkey process is the tendency of contractors to enlist political support in favor of their proposals. Unlike the competitive bid selection process; which selects only a construction contractor, the turnkey process selects an improved parcel of land and is based on a greater number of subjective factors which are not necessarily spelled out in the RFP. Since differences among proposals are not discussed by METRO staff with the developers until after the METRO Board of Directors approves the final selection, contractors may seek any means possible, including political pressure, to give their proposals an advantage.

Timing: The acquisition of turnkey lots requires between 5 and 12 months, from inception to completion, with an average time of 8 months. This is 60% less time than the average of 20 months required for METRO constructed lots. Time savings to METRO staff are even greater since the developer finds and completes the property.

Financial Results: METRO initially adopted the turnkey process as a means to rapidly acquiring ready-for-use park & ride lots. A somewhat unexpected, but welcome benefit of the program was the cost savings associated with the process. METRO has estimated in a 1981 report on turnkey park & ride development that turnkey costs averaged 20% less than standard costs. Interest payments and cashflow problems are also minimized with the turnkey process by the practice of paying the agreed-upon cost at closing. Under the standard process, the land cost is borne early and design/construction payments are spaced out over the development phase.

Private Sector Benefit: Developers benefit from the opportunity to obtain more work projects.

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Appendix Q

Private Donations

Documented Experience

Grand Rapids, Michigan - A donation of the local match for a downtown bus system was made in return for the lengthening of one of the system's routes.

The Grand Rapids Area Transit Authority (GRATA) wanted to create a bus system downtown to complement the main bus route passing through the central business district. Several activity centers have been added or expanded in the downtown area in the past few years, such as the Gerald R. Ford museum, an art museum, and a performing arts center; thus, a system to connect them was needed. However, GRATA receives no general local funding; its services are supported by federal and state funding and by contracts with the city and various social service and educational organizations. A wealthy individual who supports the downtown zoo, and who had recently pledged $1,000,000 for its improvement, was approached for a donation. The individual agreed to donate the $100,000 local match for the five buses, if the system were expanded to include a stop at the zoo.

Legal Issues: Although GRATA has the legal power to accept contributions, the bus purchase money was donated to the City of Grand Rapids. GRATA signed an agreement with the city to accept the money.

Political Issues: GRATA was made aware of the potential donor only because of an informal discussion between the general manager of GRATA and the director of Grand Rapids Leisure Time Activities (whose jurisdiction includes the zoo).

Objections to the downtown bus system were raised by wheelchair advocates. However, as no state capital funds were involved, there was no legal requirement that the buses have lifts. The cost of ramped buses would have been prohibitive; only one potential bus supplier offered them, and he withdrew his offer before bidding began.

Timing: The donor was approached in late 1981. The system began operations in July 1983.

Financial Results: The new shuttle services will cost $239,000 yearly. Some service on a park-and-ride shuttle and on a main bus route has been replaced by the CBD shuttle for a savings of $94,800 yearly. This results in a net additional expenditure of

$144,200 yearly. $45,000 of that will be met by the farebox, $60,000 by advertising revenues (the "old-fashioned trolley" appearance of the buses and the density of downtown population during the day are expected to be attractive to advertisers), $4,000 by charter revenue, and $35,200 by Michigan state operating assistance funds. A net increase in ridership is projected at 350,000 to 420,000 annually, due to the convenience and low cost (no fare from park-and-ride lots, 10¢ within the CBD, and a half-fare of 25¢ to the zoo). Also, the increased transit service within the downtown area is expected to spur further development.

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References

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CBD Shuttles Services Operational Plan, June 1983

Appendix R

Employer-Sponsored Pass Program

Documented Experience

Seattle* - As of March, 1985, 205 employers were participating in the employers pass program, selling approximately 40-45,000 passes a month. About 50% of the passes were sold through subsidizing employers.

First time participants are visited by a METRO representative who delivers passes and helps set up the program. Passes are generally distributed on consignment through certified mail to assure security. Method of purchase is determined by the employer. Over-the-counter sales are used by most employers, although some utilize payroll deduction methods. Several methods of publicizing the program have been used in Seattle. Inside transit advertising appears to have been the most successful. Bus commuters have pressured their employers to join the program after seeing the advertisements. Telephone calls and personal visits are made to employers who are not participating in the program. METRO has placed press releases in local newspapers and has provided traffic reports in exchange for local radio spots. Funds have not been available for a major media advertising campaign.

Legal Issues: METRO did not need any special authority to promote the employer pass program.

Political Issues: The employer sponsored pass program has been well received in Seattle. A number of employers now cite subsidized transit passes as a benefit when recruiting through the newspaper.

Timing: Employer pass programs are relatively simple to administer. Two to sixteen hours of clerical time per month is necessary to distribute the passes for large companies, but less time is required for smaller companies.

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* Rice Center updated summaries of the Connecticut and Seattle programs found in draft version of "Establishing an Employer Pass Program," prepared by S.G. Associates for UMTA, 1982.

Financial Results: Pass prices were recently raised relative to cash fares. Based on a 21-day month, the pass discount is 12%. Most participating employers subsidize more than $2 of the pass price. 56 companies subsidize 100% of the cost. Participating employers are selling approximately 40,000 passes a month, at a price $2 below the transit agency's discounted monthly pass price.

Private Sector Benefit: Employers offer the pass program as a benefit to attract employees. In addition, employers benefit from improved employee morale and sometimes a reduction in the need to provide parking spaces for employees.

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Other Experience

Connecticut - There are currently 77 employers participating in the Connecticut Transit employer pass program in Hartford, New Haven, and Stamford. In January, 1985, 6,895 passes were sold through employers, and an additional 4,452 passes were sold through public outlets. A variety of employers are participating, including many of the major insurance companies and State agencies in the Hartford area.

Passes for each month are either hand-delivered or mailed to employers by the 20th of the preceding month. Both over-the-counter sales and payroll deduction methods are used by participating employers. Connecticut Transit provides pass sales to the general public throughout the month from its information booths located in downtown Hartford and New Haven.

At the beginning of the program, direct mailings were made to the 100 largest employers in the Hartford area, and presentations were made to the Hartford Chamber of Commerce and other industry groups. However, the greatest success has come through word-of-mouth communication among transit users. As a result, substantial investment in promotional activities has not been necessary.

As of January, 1985, monthly passes were selling for $29, based on a 75-cent fare. The price of passes is graduated for each of the system's five fare zones. Many companies subsidize the cost of employee bus passes. Travelers Insurance Company, which is the largest participating employer, subsidizes $9.00 for each employee pass. The State of Connecticut subsidizes $3.00 for passes sold to State employees.

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Appendix S

Lottery

Documented Experience

Pennsylvania - In 1972, the Pennsylvania legislature authorized a statewide lottery to benefit senior citizens. The lottery revenues were dedicated to programs by the State Department of Aging and the Department of Transportation.

The lottery law stipulates that 50% of the proceeds be returned to the players in the form of prizes. The remaining funds are to be appropriated annually to two transit and two nontransit programs, all for senior citizens. The Department of Transportation subsidizes mass transit services for the elderly by compensating the 16 transit districts for 75% of the total fares for senior citizens using mass transit during off-peak hours. The Department of Transportation also offers a 75% discount on taxi fares for the elderly, through an agreement with the Yellow Cab Company. Senior citizens pay 25% or 25¢, whichever is greater. There is an advance reservation (24 hours) requirement. The Department of Revenue also finances with lottery revenues, a "Property Tax and Rent Rebate" program and a "Senior Citizen Inflation Dividend" program.

Operating the Pennsylvania lottery is a complex business which includes, but is not restricted to, all of the following functions: marketing; security; printing, packaging and distribution of the tickets; sales; and developing rules and regulations to conduct each game and payment of prizes. Two functions are considered to be essential to the success of the lottery: (1) given the potential for fraudulent practices, extensive security procedures and measures are needed to guarantee the integrity of all lottery games; (2) marketing efforts are needed to increase the number of licensed sales locations and to promote ticket sales. Total costs of running a lottery have run as high as $35,000 in fiscal year 1983-84.

Legal Issues: In 1971, the state legislature passed a law (Act No. 91, the Laws of Pennsylvania, Session of 1971), authorizing the establishment of a statewide lottery. The law created a Division of the State Lottery within the Department of Revenue and gave it a $1 million budget to establish the lottery. The law specified that the lottery receipts would pay for payment of prizes, for payment of costs of operation and administration of the lottery, and for subsidy of the senior citizen programs. The law was amended in 1980 and 1981.

Political Issues: In general, lotteries are controversial sources of revenue. In Pennsylvania, the law was enacted after a long period of debate. Critics of the lottery pointed to the sins of gambling, the opportunities for corruption and the high rate of participation by the poor. The compromise was to use lottery proceeds to subsidize senior citizens programs.

Timing: After the lottery law was passed in 1971, it took the Bureau of State Lotteries approximately six months to establish the procedures for the games, the rewards, and the distribution network of retailers who sell lottery tickets. The senior citizen programs first received lottery funds in FY 1972-73.

Over the past 10 years, as the public has become more familiar with the lottery, the proceeds allocated to the programs has increased significantly.

Financial Results: The lottery has generated significant revenues for the State of Pennsylvania. Gross ticket sales in 1976-1977 totaled $152.2 million and in 1979-1980, $387 million. In 1983-1984, gross ticket sales were $2 billion, of which $793 million were net proceeds. Transit programs for senior citizens received $67.5 million of these funds. The remaining net proceeds were used for other specific programs for senior citizens, such as property tax, rent rebates, and inflation dividends.

Private Sector Benefit: The retail outlets selling lottery tickets receive a small commission for every ticket sold. In addition, they benefit from a larger volume of people visiting their stores.

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Other Experience

Arizona - The Arizona lottery was established as a result of a citizen's initiative, passed on November 4, 1980. The proceeds of the lottery were originally slated to be placed in the General Revenue Fund. However, in July, 1981, the legislature earmarked $190 million of lottery revenues over the next 10 years for the Local Transportation Assistance Fund. In 1991, the legislature will reconsider the issue of allocation of lottery funds.

The funds are allocated to each incorporated city and town in the state on the basis of population. The legislature has committed itself to appropriate sufficient funds out of the lottery proceeds, or other revenues if necessary, to meet a minimum distribution of $20.5 million a year. For cities over 300,000, namely Tucson and Phoenix, the funds must be spent on mass transit, as capital or operating assistance. Cities and towns under 300,000 may use their funds for any transportation purpose, including road maintenance. Each city or town is guaranteed to receive a minimum of $10,000 a year.

Financial Results: In FY 1981-82, a total of $115 million was generated by lottery sales; net revenue was $44 million. The City of Phoenix received $7.8 million, and the City of Tucson received $3.4 million. In FY 1984-85, a total of $50 million was generated by lottery sales; net revenue was $24 million.

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