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# A Framework for Creating a Financially Stable Public Transportation System for Massachusetts

## Lessons from the Blue-Ribbon Summit on Financing the MBTA and the RTAs

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## INTRODUCTION

On November 1, 2010, the Conservation Law Foundation (CLF) and the Kitty & Michael Dukakis Center for Urban and Regional Policy at Northeastern University (Dukakis Center), with the generous support of the Barr Foundation, convened a Blue-Ribbon Summit on Financing the Massachusetts Bay Transportation Authority (MBTA) and Regional Transit Authorities (RTAs). While the Commonwealth faces serious challenges funding and financing all modes of transportation, the Summit focused solely on financing public transportation because of transit's critical role throughout Massachusetts.

The transit services provided by the MBTA and RTAs in the majority of the Commonwealth's communities give access to housing, employment, education, health care, and other critical services to everyone, regardless of whether they own or can drive a car. Maintaining and expanding the Commonwealth's transit system is an essential strategy for growing the state's economy, connecting residents to jobs, and achieving important environmental and sustainability goals, including the reduction of greenhouse gas emissions. In order to achieve transit's potential, however, adequate funding needs to be put in place to support and improve existing services, maintain transit vehicles and assets, and expand service frequency and availability to better serve both current and potential transit users statewide. The purpose of the Summit was to inform the development of a long-term, politically viable policy and advocacy strategy to sustain a financially stable, world-class public transportation system throughout Massachusetts. The fifteen members of the Blue-Ribbon Expert Panel represented a carefully selected group of national and Massachusetts experts on transit and transportation finance.<sup>1</sup> In addition, four experts from Massachusetts-based organizations with extensive knowledge of local transit and transportation finance issues served as resource people to provide additional data, history, and perspective.<sup>2</sup> This Framework is based on the discussions that took place at the Summit, research for background and

options papers undertaken prior to the Summit, and discussions that took place before, during and after the Summit with those experts, resource people and participant observers from key Massachusetts stakeholder organizations. While it is based on information, input, and insights from all of these participants and stakeholders, this document solely represents the conclusions of CLF and the Dukakis Center.

<sup>1</sup> Geoffrey Anderson, President and CEO of Smart Growth America; Timothy Brennan, Executive Director of the Pioneer Valley Planning Commission; Astrid Glynn, Former Commissioner at the New York State Department of Transportation (NYSDOT); Paul Haley, Managing Director at Barclays Capital and former Chairman of the Massachusetts House Ways and Means Committee; JayEtta Hecker, transportation advocate at the Bipartisan Policy Center's Transportation Policy Project; Ray Ledoux, Administrator of Brockton Area Transit Authority (BAT); Jeff Morales, Senior Vice President of Parsons Brinkerhoff, former Director of the California Department of Transportation (CALTRANS) and past Executive Vice President of the Chicago Transit Authority (CTA); Jane O'Hern, member of the MBTA Advisory Board and former Budget Director of the MBTA; Don Pickrell, Chief Economist of the U.S. Department of Transportation's John A. Volpe National Transportation Systems Center; Robert Puentes, Senior Fellow with the Brookings Institution Metropolitan Policy Program and Director of the Program's Metropolitan Infrastructure Initiative; Paul Regan, Executive Director of the MBTA Advisory Board; Martin Wachs, Director of the Transportation, Space and Technology Program at the RAND Corporation; Robert Weinberg, Founder, former President, and a Director of Marketplace Development; Michael Widmer, President of the Massachusetts Taxpayers Foundation; and Robert Yaro, President of the Regional Plan Association.

<sup>2</sup> Eric Bourassa, Manager of the Metropolitan Area Planning Commission's transportation division; Brian Kane, Budget and Policy Analyst at the MBTA Advisory Board and author of "Born Broke;" Jeannette Orsino, Executive Director of the Massachusetts Association of Regional Transit Authorities (MARTA); and Terry Regan, of the John A. Volpe National Transportation Systems Center.

## LESSONS FROM THE BLUE-RIBBON SUMMIT

This Framework was developed based on the following ten lessons and conclusions that emerged from the Blue-Ribbon Summit:

1. Massachusetts should invest in transit state-wide, with the goal of creating the best public transportation system in the United States, one that can realize the full potential of transit as a transportation option of “first resort” and can help the Commonwealth achieve its mobility, economic development, and sustainability goals.

2. Transit providers and advocates will not be able to secure a sufficient and sustained level of investment in public transportation unless they can effectively communicate a bold vision for the future of transit throughout Massachusetts and build both political leadership and a broad-based coalition in support of that vision.

3. Changes to the current structure and level of transit finance in Massachusetts need to address both current, shorter-term needs as well as move toward the level of long-term investment that will support this bold vision. Different approaches may be needed for addressing immediate funding needs associated with chronic underinvestment and the recession and for securing additional revenues that support longer-term goals for world-class public transportation statewide.

4. While the MBTA and the Commonwealth’s fifteen other RTAs share many attributes and challenges, there are fundamental financial and operational differences that will in some cases require different policy approaches. The MBTA has more than five thousand employees and a similar number of retirees and owns (and must therefore maintain) its many assets. All of the RTAs, by contrast, provide services through competitive procurement of private contractors and so have a far smaller workforce and fewer capital assets to be maintained; however, RTAs often cannot provide robust levels of service due to severe financial

constraints. While many of the policy and revenue strategies discussed apply to both the MBTA and RTAs, proposed policy changes need to be crafted to meet the varying needs of the MBTA and of all of the RTAs.

5. Reform efforts must continue and expand in order to build credibility and confidence among elected officials, taxpayers and public transportation users that all available revenue is being used wisely and that transit is being operated as cost-effectively as possible. New revenue cannot, however, wait for the full reform process to be exhausted and new revenue measures should be adopted simultaneously with ongoing and additional reforms.

6. A financially stable public transportation system requires a healthy and diverse portfolio of revenue sources, yet both the MBTA and RTAs rely heavily on a small number of sometimes volatile revenue sources. The sales tax is the MBTA’s single largest revenue source, while the RTAs continue to rely primarily on a combination of annual state appropriations and assessments from increasingly financially-strapped cities and towns. Public transportation in Massachusetts not only requires more revenue, it requires more and different sources of revenue.

7. The current financing structure essentially consists of two different types of revenue: revenue generated by users of the system (primarily in the form of fares) and tax revenue provided by local and state government. This creates a zero-sum game: in order to maintain fares at affordable levels, government support must increase. Conversely, if government funds are not available then user costs must increase (or service must be cut). A sustainable financing structure for public transportation throughout Massachusetts requires rethinking both user-generated revenue and government funding as well as creating completely new types of revenue.

8. With respect to user-generated revenue, as long as the chronic under-pricing of automobile travel persists, sharply increased transit fares are not a good source of revenue because they send

the wrong price signals to transportation users. Changing fare structures—rather than just raising fares—as well as maximizing ridership are key strategies for meeting reasonable user revenue targets in an equitable and affordable manner.

9. With respect to government funding, Summit experts noted that Massachusetts transit operators (particularly the MBTA) are unusually dependent on state—as opposed to local—revenue sources for transit operations and capital spending. This state-centric approach can undermine the role of local elected officials and stakeholders as transit champions and key partners in coalitions supporting increased transit investment. Local revenue in other states is not usually generated from core local revenue sources (such as property taxes) but instead from special revenue sources dedicated to transit investment. In Massachusetts, however, cities and towns generally lack the legal authority to generate such revenue. Thus, the Commonwealth should authorize cities and towns to implement transit-supporting local option taxes.

10. In order to ensure affordable fares and reduce the need for general tax revenue, new types of revenue need to be tapped. Non-user beneficiaries of public transportation—those individuals and entities that do not necessarily use public transit themselves but nevertheless gain many specific benefits from the public transportation system—should support public transportation in proportion to the value they receive.

Based on these lessons and conclusions, this Framework proposes a comprehensive approach to the development of a long-term, politically viable policy and advocacy strategy that can sustain a financially stable public transportation system throughout Massachusetts, one which at the same time:

- lays the groundwork for additional resources through a confidence-building strategy focused on enhancing cost-effectiveness, building credibility, improving communication and expanding coalitions in support of stable transit funding statewide, and

- secures additional resources to meet the operating, maintenance and capital needs of the MBTA and RTAs, through a portfolio of expanded and new revenue sources that provide a balanced and equitable set of proceeds from local, state, user and non-user sources.

## LAYING THE GROUNDWORK FOR ADDITIONAL RESOURCES

While reform at the MBTA and MassDOT has been underway for many years and substantial progress has been made, reform efforts must continue and expand in order to build credibility and confidence among elected officials, taxpayers, and transit users that all available revenue is being used wisely and that the MBTA and RTAs are being operated as cost-effectively as possible. Efforts to secure additional resources in the absence of a simultaneous and comprehensive strategic effort to broaden reforms and build credibility are unlikely to succeed. Therefore there should be a focus on four C's: cost-effectiveness, credibility, communication and coalition-building.

### Cost-Effectiveness

Many key stakeholders do not believe that existing funding is deployed effectively and therefore will not support additional revenues for transit. In fact, in recent years many successful efforts have been made at the MBTA and the RTAs to cut costs and use resources cost-effectively; some panelists were concerned that the MBTA and RTAs were close to exhausting their ability to find substantial additional cost savings without impairing service. Nevertheless, additional cost-efficiencies will need to be identified. Some cost efficiencies can be implemented unilaterally by the MBTA and RTAs, others will require collective bargaining with unions and still others may require legislative authorization. Summit participants were split on the extent to which further changes in employee benefits (particularly health care and pensions) at the MBTA would provide meaningful savings, especially in the near term, and whether such savings are politically achievable. Work rules, which affect

required staffing levels and therefore the ability of management to effect cost savings, were identified as a potential area to explore for cost savings at the MBTA. While cost efficiencies can be controversial and run the risk of incurring the opposition of transit workers—who should be allies supporting additional revenue for transit—issues of cost structure and operational efficiency will have to be addressed as part of the process of building support for additional resources.

### **Credibility**

New revenues will not flow to transit providers unless elected officials, taxpayers and transit users believe that they will be spent well and on the “right” things. One suggestion made at the Summit was to have an outside entity conduct an independent audit of how funds currently are spent at the MBTA and RTAs. Another way to address this credibility problem is through the implementation of performance-driven management, which establishes transparent performance benchmarks and systems for ensuring that they are achieved at the MBTA and RTAs. MassDOT and the MBTA currently are in the process of developing performance metrics as required by the recent transportation reform legislation, an effort which must be accelerated and implemented comprehensively. RTAs have cost controls embedded in legislation that tie funding to performance metrics, which lends a level of public accountability to each RTA that does not exist with the MBTA. Performance-driven management would allow the MBTA to set and adhere to priorities in the face of insufficient revenue to accomplish a broader agenda. The process of establishing prioritization criteria and performance metrics must be transparent if it is to contribute to greater confidence in the management of the MBTA and RTAs.

### **Communication**

Transit operators and supporters need to do a much better job of “getting the message out” about the benefits and importance of public transportation. This will require both reaching general agreement on what the message is and telling the story well.

One strategy that has been used successfully in systems such as Chicago, New York, and Atlanta is to communicate the reality of what will occur if underinvestment continues and revenues are not forthcoming. In Atlanta, for example, Metropolitan Atlanta Rapid Transit Authority (MARTA) General Manager and CEO Beverly Scott had giant red “X”s painted on buses that would have been removed from service if additional funding was not provided. The communications strategy needs to have both an “offensive” strategy (communicating the benefits of transit investment) and a “defensive” strategy (providing specific information about how operations and maintenance will be affected if funding is not increased).

### **Coalition-Building**

The final element in this confidence-building strategy involves substantially expanding the number of stakeholders who choose to become deeply involved in the effort to secure additional revenue in support of public transportation throughout Massachusetts. In other states, success in securing public transportation revenue frequently is associated with the existence of a broad-based coalition that has the staff and other resources to advance a proactive revenue agenda as well as to respond when service is threatened. Massachusetts needs a coalition which includes civic, business, labor, and environmental organizations which can support a campaign to restore, maintain, and expand public transportation and educate residents on the problems of transit finance, provide fresh solutions, and build consensus. While several transportation coalitions already exist in Massachusetts, a well-resourced and broad-based coalition will be necessary to support and sustain a successful campaign.

## **CREATING A DIVERSIFIED PORTFOLIO OF REVENUE SOURCES**

The MBTA and RTAs need both a larger and more diverse and stable portfolio of revenue sources to address both their shorter-term and longer-term operating, maintenance, and capital needs. Not

surprisingly, the Blue-Ribbon Summit experts did not identify any single funding source that was politically viable and could generate sufficient resources. Instead, they stressed that transit systems across the country are increasingly working to expand the number and diversity of revenue sources as a strategy for stabilizing their finances. Massachusetts needs to expand the sources and types of revenue available for public transportation—an effort which may take many years and require several rounds of organizing and legislative activity.

Prior efforts to address transportation financing shortfalls in Massachusetts have tended to focus on proposing a single, usually state-level, funding source (such as the gas tax or sales tax). Because of the magnitude of the state’s public transportation needs, the proposed revenue strategy is either too great to achieve political support (e.g., Governor Patrick’s proposed increase in the gasoline tax) or inadequate to address outstanding needs (the welcome but insufficient appropriation of additional sales tax revenue to the MBTA and RTAs in 2009).

This Framework instead proposes that, at the outset of the effort to diversify and expand public transportation financing, the broadest possible range of revenue sources should be “on the table.” Specifically, the new effort should look at revenue sources in addition to new or expanded state revenue streams, in order to minimize the need for additional state investment, taking into consideration that state revenue already supports a significant share of the transit operating budget (particularly for the MBTA). This comprehensive revenue-raising approach would focus on four categories of potential revenue: user-generated revenue, revenue from non-user beneficiaries, local dedicated revenue sources and new and expanded state revenue.

### **User-Generated Revenue**

Transportation finance in the United States has always relied in part on user fees and public transportation is no exception. Fares and other user

fees (for example, parking) already generate a substantial amount of revenue for the MBTA and RTAs. Both the MBTA Blue-Ribbon Committee and the Transportation Finance Commission recommended that the MBTA achieve a “revenue recovery ratio” (a measure of how much of a passenger’s trip is covered by the fare they pay and other revenue they generate) of fifty percent; the FY2011 MBTA budget comes close with a ratio of close to forty five percent (if debt service is excluded). Fares must, of course, be structured to ensure that transit remains affordable and is equitably priced with respect to vehicle travel.

### **Revenue from Non-User Beneficiaries**

As noted above, the current transit financing structure in Massachusetts essentially consists of two different types of revenue: revenue generated by users of the system and general tax revenues provided by local and state government. In order to ensure affordable fares and reduce the need for subsidies from general sources of taxation, an additional revenue stream needs to be tapped, from “non-users” who benefit from the transit system. Non-user beneficiaries of public transportation—those individuals and entities that do not necessarily use transit themselves but nevertheless benefit from its existence in many ways—should support public transportation in proportion to the value they receive from the transit system. The Massachusetts Port Authority, for example, benefits because airline passengers and its employees can use the MBTA’s rapid transit and Silver Line services to travel to Logan Airport. Similarly, universities, housing developers, and employers located close to transit stations benefit from increased accessibility, lower costs (e.g., for providing parking) and improved environmental performance because their students, residents and employees can make use of transit; it is therefore reasonable to ask them to support transit services in proportion to the benefits they receive.

### **Local Dedicated Revenue Sources**

Massachusetts cities and towns in the MBTA and RTA service districts have assessments deducted from their state aid in order to support public

transportation. But local funding accounts for only ten percent of the MBTA's operating budget, compared to twenty to twenty-five percent of revenues for both capital and operations nationally. In most states, however, local revenue for transit is not usually generated from core local revenue sources (such as property taxes) but instead from special revenue sources dedicated for transit investment. In Massachusetts, however, cities and towns lack the legal authority to create such dedicated local revenue sources to support transit, even if they want to. Part of the public transportation revenue package could, therefore, grant such "local option" authority to cities and towns for contributions to transit.

### **New and Expanded State Revenue and Debt Relief**

Panelists identified additional areas to explore in order to cut costs and realize operating efficiencies. First, it was suggested that the MBTA could focus on modifying work rules, rather than benefits, in order to realize operating cost efficiencies. Second, paratransit service may be assessed for opportunities to reduce costs at the RTAs and MBTA. A suggestion was made to explore whether paratransit operators could collect Medicaid reimbursement for paratransit trips provided in connection with medical appointments for Medicaid recipients. Some RTAs already waive fares for paratransit users who voluntarily disclose that they receive Medicaid and then seek reimbursement from Medicaid for the cost of the trip. This approach could potentially be expanded across all RTAs and the MBTA. Panelists noted that any cost saving measures that the RTAs or MBTA choose to employ should be vetted to ensure that they will not have an undue effect on ridership.

While Blue-Ribbon Summit participants did not generally discuss the uses to which the additional resources should be put, two issues should be highlighted. Summit participants noted that RTAs face a substantial "gap" between the level of service they can afford to provide and the frequency and level of service that their customers need; additional resources could be directed to addressing all or at least part of the RTAs' identified service

gap. The second issue raised was debt relief for the MBTA. The MBTA's current outstanding debt is over \$8.6 billion in principal and interest; it devotes the highest percentage of its budget to debt service of any transit authority in the United States. Payments on the MBTA's debt, including principal and interest, extend through 2039 and will be more than \$400 million annually until 2022, even if no additional debt is issued. Retiring this debt may well be financially impossible and may not even make fiscal sense, since MBTA bonds are rated higher than those of the Commonwealth and issued at favorable interest rates. The Commonwealth could, however, reclaim responsibility for principal and interest payments on all or part of the MBTA's debt. Such debt relief would free up tens or even hundreds of millions of dollars annually for the MBTA to devote to operating expenses, maintaining its assets in a state of good repair, and strategic system expansion.

## **MENU OF OPTIONS FOR NEW REVENUE SOURCES**

Within each of the four categories of revenue, numerous specific policy options are available. Many of these are described in more detail in the "options papers" prepared and distributed in advance of the Blue-Ribbon Summit. This final section of the Framework will therefore briefly list some of the options for new and expanded revenue discussed at the Blue-Ribbon Summit which fall under each of the four revenue categories included in the proposed comprehensive revenue strategy.

### **User-Generated Revenue**

Even if a transit system is currently under-priced, poorly-timed fare increases can result in an exodus of riders from the system and further exacerbate the system's financial condition. Rather than focusing exclusively on fare levels and base fares (the amount charged to a user per trip), the MBTA and RTAs should work to achieve revenue recovery targets in an equitable and affordable manner. Potential options include:

- restructuring fares so that off-peak fares are lower compared to peak fares (or even free);
- maximizing ridership (including by setting specific ridership targets) as a strategy for increasing fare revenue; and
- future regular, but modest, increases in fares (e.g., every three years) that may produce additional revenue without causing excessive ridership loss (offset by free or discounted fares to minimize impacts on those who can least afford higher fares).

### Revenue from Non-User Beneficiaries

One mechanism for raising revenue from non-user beneficiaries of the transit system is “universal pass” or “unlimited access” programs, which are directly paid for by entities such as universities or employers or residential developers (rather than riders), affording the transit provider a larger and more predictable revenue stream. Potential options include:

- a universal pass program for colleges and universities based on the Chicago Transit Authority’s “U-Pass” program, under which the CTA provides unlimited ride passes to all full-time students at forty colleges and universities for a discounted rate, paid for through student fees on a semester basis;
- a universal pass program like the EcoPass program run by the Santa Clara Valley Transportation Authority in California, in which housing developers (perhaps in return for reduced parking requirements and/or density bonuses) provide unlimited ride passes to all residents;
- a transit-ticket program in which sports and concert venues and large events held in close proximity to public transit would include the cost of a round-trip transit ride in the price of each ticket sold; and
- securing revenue from employers for transit by imposing a modest surcharge on the state’s payroll tax, like that now in effect in the New York metropolitan area.

### Local Dedicated Revenue Sources

Cities and towns benefit from higher property val-

ues associated with the availability of transit service and so are major contributors to—and critical supporters of—regional transit agencies in many metropolitan areas throughout the United States. Massachusetts cities and towns could provide revenue to support transit beyond that currently provided by local assessments (which are particularly low in the MBTA service area). Options include:

- restructuring and rationalizing local assessments so that the amounts assessed reflect and recapture a portion of the local property tax base increases that have been shown to be associated with transit service;
- granting “local option” authority to cities and towns to impose new fees and/or taxes for contributions to transit, such as a property transfer tax (on home sales), taxes on off-street parking or higher fees for on-street parking; as an added incentive for communities to adopt such dedicated revenue sources, the authorizing legislation could provide that a portion of the revenue generated would be retained by the community to support alternative transportation such as improved pedestrian and bicycle facilities; and
- having cities and towns provide municipally-funded transit passes for municipal employees, which would provide the transit operator with revenue while increasing ridership.

### New and Expanded State Revenue

The Commonwealth currently provides revenue to the MBTA and RTAs primarily from the statewide sales and gasoline excise taxes. Options for expanding and increasing state revenue support for transit include:

- increasing the gasoline tax (last raised in 1991) in small increments phased in over time (e.g., two cents per year increases for five years) or by changing the gasoline tax structure to be based on a proportion of the sale price (rather than the current fixed amount per gallon);
- increasing registry fees and title fees, and/or imposing new taxes such as a parking surcharge on private parking located near transit stations, with the proceeds either dedicated



to specific transit purposes or directed to the Commonwealth Transportation Fund for appropriation to the MBTA and RTAs; and

- conducting a Vehicle Miles Traveled (VMT) fee pilot study (larger than the one recently conducted in Oregon) and taking other steps to lay the groundwork for a longer-term imposition of VMT fees by addressing privacy and tax collection concerns.



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