Funding a State of Good Repair: Emerging Problems with Reliance on Dedicated Sales Tax Revenues

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Overview

• Setting the context
• Use of sales taxes to fund public transportation
• Problems with reliance on sales taxes
• Potential solutions
Setting the Context
The “1% Principle” No Longer Applies

• Beginning in the 1970s and continuing through the 1980s, the following transit funding principle emerged:
  – A mature metropolitan transit system with aspirations for a regional rail transit network requires 1% regional sales tax to fund the non-Federal share of operations & maintenance and system expansion

• Many regional rail networks advanced toward completion with a 1% sales tax:
  – Examples: Atlanta, Houston, Dallas, Los Angeles, San Jose

• Evidence began to mount by the 1990s that the “1% Principle” was weakening
  – Example: MARTA (Atlanta) immediately after the highly successful 1996 Olympic Games began to erode its considerable cash surplus because expenses exceeded revenues
Many Transit Systems with a 1% Sales Tax Can No Longer Deliver the Regional Rail System Originally Promised

• Existing operations & maintenance and infrastructure renewal are consuming funds originally intended for system expansion

• Many rail transit expansion programs have been delayed

• Some of the programs that did advance did so by securing additional tax revenue:
  – Los Angeles Metro: Measure R of 2008 is a 30-year 0.5% tax on top of the existing perpetual 0.5% Measure A tax of 1980 and 0.5% Measure C tax of 1990
  – Denver RTD: 6-county sales tax increased from 0.6% to 1.0% in 2004
Infrastructure Renewal Needs Are Large and Growing; Aging “New Starts” Systems are Not So New Anymore
Recent Asset Inventory-Based Analysis Reveals Large and Continuing Infrastructure Renewal Needs …

San Francisco MTA Projection of SGR Needs

Spending on SGR backlog if funding available

20-Year Avg. Need: $510m
Use of Sales Taxes to Fund Public Transportation
Sales Tax Revenues are the Largest Source of Dedicated O&M Funding for US Transit Systems

All Transit Systems

- Other Dedicated Funds: 7.6%
- Tolls: 0.6%
- Other Taxes: 4.8%
- Gasoline: 5.6%
- Property: 7.0%
- Income: 0.9%
- Sales: 73.5%

New Fixed Guideway Systems

- Other Dedicated Funds: 10.4%
- Tolls: 0.0%
- Other Taxes: 5.5%
- Gasoline: 4.7%
- Property: 2.3%
- Income: 0.0%
- Sales: 77.2%

Source: 2008 National Transit Database
Sales Tax Revenue are the Largest Source of Dedicated Non-Federal Capital Funding for US Transit Systems

**All Transit Systems**
- Sales: 53.9%
- Other Dedicated Funds: 32.1%
- Tolls: 1.2%
- Other Taxes: 5.1%
- Gasoline: 4.0%
- Property: 3.4%
- Income: 0.3%

**New Fixed Guideway Systems**
- Sales: 78.5%
- Other Dedicated Funds: 16.0%
- Tolls: 0.5%
- Other Taxes: 2.5%
- Gasoline: 2.6%
- Property: 0.0%
- Income: 0.0%

Source: 2008 National Transit Database
Most Transit Sales Taxes are 0.5% and 1.0% Taxes

Legend

2008 Sales Tax Revenue ($)
- 1,739,801 - 50,643,141
- 50,643,142 - 120,139,717
- 120,139,718 - 272,969,920
- 272,969,921 - 501,303,492
- 501,303,493 - 792,116,316

Sales Tax Rate
- 0.3%
- 0.38%
- 0.5%
- 0.6%
- 0.68%
- 0.88%
- 0.9%
- 1%

Source: 2008 National Transit Database
Most Transit Agencies with Sales Taxes Are Heavily Reliant on Them to Support Operations

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Source: 2008 National Transit Database
Some Transit Agencies Are Heavily Reliant on Sales Tax Revenues to Support Capital, but not NE Illinois

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Some Transit Agencies Are Heavily Reliant on Sales Tax Revenues to Support Capital, but not NE Illinois

Source: 2008 National Transit Database
Problems with Reliance on Sales Taxes
Changing Demographics and Economics Drive the Long-Term Downward Trend in Sales Tax Revenue Growth

• Significant growth in sales tax revenues in the 1980s and 1990s was driven by:
  – Large numbers of “Baby-boomers” reaching their maximum earning (and spending) potential
  – High home values, soaring stock market
  – Easy access to credit

• Downward trend in growth in the last decade was driven by:
  – Aging baby-boomers, spending less on taxable goods and more on non-taxable services
  – Younger cohorts, smaller in size, who are earning less
  – Lower home values, many households with negative net worth, unstable stock prices
  – Less access to credit
Trends in Sales Tax Revenues and Unit O&M Costs Are Not Aligned – NE Illinois

**Sales Tax Revenue**

- **Rail O&M**
- **Bus O&M**
- **Sales Tax**

- **Houston**
- **Dallas**
- **Atlanta**
- **Denver**
- **Seattle**
- **Salt Lake City**

Op$/Veh Rev Mile Index 2008 = 100

Sales Tax Revenue (Millions)
Trends in Sales Tax Revenues and Unit O&M Costs Are Not Aligned – California Transit Agencies

Sales Tax Revenue (Millions)

Sacramento
North San Diego Co.
San Bernardino
BART
San Diego
Santa Monica
San Francisco
AC Transit (Oakland)
Long Beach Transit

Sales Tax Revenue
DO Rail Op $/Veh Rev Mile
DO Bus Op $/Veh Rev Mile

Op$/Veh Rev Mile Index 2008 = 100
Transit Costs in the 1990s and 2000s Grew Quickly

• Operating & maintenance costs:
  – Wages: driven by growth in dedicated funding
  – Health care fringe benefits: 10% per year for 10 years
  – Energy costs: resulting from import price of petroleum products and
deregulation of the electric power industry

• Construction costs (for infrastructure renewal and new
capacity):
  – Rapid increases in unit costs resulting from economic development
  in China and India and limited supply of structural steel and Portland
cement
Wages at Many Transit Agencies Grew Faster than the Consumer Price Index

Source: National Transit Database

CTA and Pace = Bus operator wages
Metra = Train & engine crew wages
Wages at Many Transit Agencies Grew Faster than the Consumer Price Index

Growing slower than CPI (above dotted line)
Growing faster than CPI (below dotted line)

Source: National Transit Database
CTA and Pace = Bus operator wages
Metra = Train & engine crew wages
Construction Costs Accelerated in the Last Decade

1990 = 100

9 building types, all building components
3 commodities, common labor
3 commodities, 3 skilled trades

Potential Solutions
Potential Cost Solutions

• Manage operating & maintenance costs
  – Labor … productivity improvements, control absenteeism, competitive contracting
  – Health care benefits … employee cost sharing
  – Energy … new technologies, demand management

• Examine life-cycle costs
  – Higher annual maintenance and periodic overhaul extent asset life and reduce cumulative (acquisition + annual O&M + renewal) costs

• Consider public-private partnerships to deliver projects
  – Allocates risks to parties best able to manage risks
  – Allows for more rapid implementation
Potential Revenue Solutions

• Consider increasing tax revenues:
  – Increase the rate of taxation
  – Broaden the tax base: consider excise, ad valorem, and other taxes

• Consider increasing transportation user fees:
  – Vehicle ownership: vehicle registration, driver licensing
  – Vehicle use: motor fuels taxes (gallonage and sales taxes), VMT-based fees, tolls, parking fees, congestion pricing
  – Transit fares: Example: BART increased fares 3 times in 1995-1997 (3 x 15% each = 45%) with proceeds applied to infrastructure renewal

• Package revenue initiatives for transit investment with broader transportation programs
  – Measure M of 1989 in Orange County, CA
  – Measure A of 1980 and Measure C of 1990 in Los Angeles, CA
Potential Decision-Making Solutions

• Develop a compelling argument for investment:
  – Develop and execute probing analyses to reveal the depth of the problem and opportunities for solution
  – Acknowledge problems; demonstrate commitment to address them

• Promote statesmanship:
  – Compromise to balance competing public needs
  – Recognize that infrastructure renewal requirements will not go away as a matter of policy
  – Find a champion to promote the issue, ignite debate, and achieve consensus
Thank You

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