Testimony before the House Committee on Government Reform
"Keeping Metro on Track: The Federal Government's Role in Balancing Investment with Accountability at Washington's Transit Agency."
July 28, 2005

Robert Puentes
Fellow
Metropolitan Policy Program
The Brookings Institution

THE BROOKINGS INSTITUTION
1775 Massachusetts Avenue, NW Washington, DC 20036-2188
Tel: 202-797-6000 Fax: 202-797-6004
www.brookings.edu/metro

"Keeping Metro on Track: The Federal Government's Role in Balancing Investment with Accountability at Washington's Transit Agency"
Robert Puentes, Brookings Institution

Mr. Chairman and Members of the Committee, thank you for inviting me to testify today on the unique funding challenges of the Washington Metropolitan Area Transit Authority (WMATA). I am Robert Puentes, a fellow with the Metropolitan Policy Program at the Brookings Institution.

The mission of Brookings' Metropolitan Policy Program is to provide decisionmakers with research and policy analysis on a range of issues related to the shifting realities of cities and metropolitan areas. To this end, the Program initiated a Transportation Reform Series designed to highlight the most pressing transportation challenges facing the nation's cities, suburbs, and metropolitan areas. The series aims to introduce objective facts and figures into this policy arena and provide Congressional leaders, local elected officials and other transportation players with sound and practical policy recommendations for reform.[1]

In June 2004, Brookings released a paper entitled, "Washington's Metro: Deficits by Design."[2] This research examined the unusual financial structure of WMATA and found that the agency's serious budgetary challenges owe in large part to its problematic revenue base. Most notably, Brookings found that WMATA's extraordinary lack of dedicated funding sources has necessitated an over-reliance on annually appropriated support that makes the agency vulnerable to recurring financial crises. The report concludes by describing a number of potential revenue sources for WMATA that officials might consider to supplement local operating subsidies over the long term.

I will focus my comments this morning on key elements of that research, including the importance of a stable and dedicated revenue source for WMATA.

A history of federal engagement

WMATA operates under arguably the most complex metropolitan governance structure in the nation. In addition to serving the District of Columbia, which functions as both a state and city and is reliant on Congress to review or approve its annual budget, WMATA provides direct and seamless services to two separate and very distinct states.

[1] The current set of reports, commentary, and coverage of the Transportation Reform Series can be found on Brookings' website: http://www.brookings.edu/es/urban/issues/transportation/transportation.htm.
[2] Robert Puentes, "Washington's Metro: Deficits by Design," Brookings, June 2004.

But in addition to serving the Washington area's states and local governments, the federal government is also a primary partner in WMATA. Serving federal employees was a key early purpose of the system. And since the beginning the federal government has sited most of its new facilities to take advantage of this investment: Half of the rail stations directly serve federal facilities.[3] As a result, one in every two WMATA passengers is a federal worker or contractor.[4] In addition, many of the 20 million annual visitors to the nation's capitol ride WMATA's buses and trains each year.

It became clear while conducting this research how profoundly important the region's transit system, and the rail system in particular, was to the federal government during the early years. Once in 1980 and then again in 1990, Congress passed legislation authorizing a total of $3 billion in capital assistance to complete the original system.[5] The final price of the 103-mile rail system, which was completed in January 2001, was $9.4 billion of which $6.4 billion came directly from the federal government and the rest from state and local governments.[6]

One of the Congressional laws that authorized WMATA funding—the National Capital Transportation Amendments of 1979, or the Stark-Harris bill—required that local participating governments "demonstrate that they have a stable and reliable source of revenue" sufficient to meet both their payments to WMATA for debt service as well as their share of the operating and maintenance costs of the system as a condition of authorizing the funds. This concept was not new, and to this day every other large transit system in the nation relies on dedicated sources for capital or operating costs—or both. However, the WMATA jurisdictions could not agree on a uniform tax and the requirement has essentially been ignored ever since with the localities themselves picking up the tab.

In fairness, Congress did not specifically define the terms from which the "stable and reliable" source should be derived. The U.S. Department of Transportation (U.S. DOT) issued written guidance in December 1979 but as it was not specific, many local governments simply passed resolutions pledging their fiscal support. However, according to a report from the U.S. Government Accountability Office (GAO), the U.S. DOT orally told the jurisdictions that 70 to 75 percent of the stable and reliable funding should come directly from dedicated, earmarked sources.[7] At the time the federal government was more concerned with capital costs associated with the construction of the system than its operation, but the aggregate local subsidy has never come close to the level requested by the U.S. DOT 25 years ago.

---

[3] Richard White, "Testimony to U.S. Senate Committee on Governmental Affairs" (December 13, 2001).

[4] Alex Marshall, "Love (and Hate) That Metro," *Planning*, February 2004, pp. 18–24.

[5] *National Capital Transportation Amendments of 1979*. Public Law: 96-184; and *National Capital Transportation Amendments of 1990*. Public Law: 101–551.

[6] Marshall, "Love (and Hate) That Metro." It bears noting that this federal support remains less than the 80 percent many capital projects, especially highways, have enjoyed over the years.

[7] U.S. Government Accountability Office, "Applying DOT's Rail Policy to Washington, D.C.'s Metrorail System Could Save Funds," January 1983, GAO/RCED-83-24.

Over the years, the multi-jurisdictional nature of WMATA, coupled with the substantial federal interest and reliance in the system has presented interesting funding challenges and opportunities.

WMATA's funds come from a patchwork of sources

Brookings' analysis found that over half of the total capital spending for the nation's transit systems came from dedicated sources of one kind or another. For WMATA, none did. For operations spending, about one-third of total funding came from dedicated sources. For WMATA, less than 2 percent did.

As a result, the budget process at WMATA is very different than other agencies. When WMATA develops its budget each year, it estimates the revenues it expects to receive from internal sources (i.e., from fares, advertising, etc.) As this is not nearly enough to cover all operating expenses, the majority of the balance comes from direct subsidy payments from the localities, which must authorize these payments each year through their normal budgeting process. Funds for the Washington region's transit agency are therefore derived from a patchwork of different sources.

The District of Columbia's portion of the local subsidy comes exclusively from general fund revenues which are fed, in part, by the 20-cent tax on gasoline.[8] Other WMATA funds come from parking meter fees, traffic fines, vehicle registration fees, and restaurant and hotel taxes. These funds are earmarked for WMATA, but they are not dedicated. That is, they are legislatively—but not statutorily—authorized each year. The District is unique in that it acts as both a state as well as a local funding source, but for the purposes of WMATA funding, the funds are considered part of the local subsidy. The District is also unique in that it receives direct allocations from the federal budget as an "other independent agency." In FY 2005, the District's department of transportation received $3 million to offset a small portion of the District's operating subsidy for WMATA.[9] WMATA funding (12.0 percent) trailed only public schools (16.8 percent) as the District's largest authorizations over the last 18 years.[10]

In Maryland, the state pays Montgomery and Prince George's counties' local share of the WMATA subsidy through an annual grant to the Washington Suburban Transit Commission, which acts as the financial conduit for funding the WMATA subsidy as well as other transit

[8] The District's funds for WMATA come from its highway trust fund which is considered to be a subset of the general fund. For budgetary purposes, the District's Office of the Chief Financial Officer does not consider motor fuel tax revenue part of the general fund. However, the mayor's proposed FY 2004 budget shows that the WMATA subsidy came out of "general funds" and federal highway statistics on the disposition of the gas tax receipts also consider the highway trust fund a subset of the general fund.

[9] Budget of the United States Government, Fiscal Year 2005 – Appendix, " Other Independent Agencies," p. 1109.

[10] GAO, " District of Columbia: Structural Imbalance and Management Issues," GAO-03-666, p. 80.

projects in the counties. [11] These funds are derived from the state's transportation trust fund which is fed primarily by the state's 23.5 cent tax on gasoline, vehicle taxes, and fees. [12] Yet for all that, not even this state money is dedicated. To be sure, the funds allocated to WMATA flow from the revenues generated by the trust fund, which is separate and distinct from the state's general fund. But even these funds are also subject to annual legislative appropriations and are not guaranteed for WMATA. At the same time, while there are dedicated funds for transit from a portion of the property taxes in Prince George's and Montgomery counties, these are programmed to support local bus service.[13]

The five Virginia cities and counties, meanwhile, are the only jurisdictions in the WMATA service area that have any dedicated funding for the local subsidy. In northern Virginia, a 2-percent tax is levied on gasoline sellers and retailers (in addition to the 17.5 cent state tax). These funds are provided to the Northern Virginia Transportation Commission (NVTC), which was created by the Virginia General Assembly in 1964 to plan and develop transportation projects in that part of the commonwealth. NVTC then administers these funds to supplement the localities' share of the WMATA subsidy. [14] But while these are dedicated funds, they only make up a small portion of the jurisdiction's total subsidy amount. In FY 2004, the gas tax generated $17 million for WMATA—only about 13.2 percent of the total northern Virginia subsidy. Another 43.2 percent comes from state transit aid and federal funds not allocated directly to WMATA. Local jurisdictions provide the remaining 43.3 percent through allocations from their general fund.[15]

The lack of dedicated funds is problematic

Because of the lack of a stable and dedicated revenue stream, WMATA must rely excessively on general fund revenues from its state and local partners just to keep the system functioning. This is, of course, a difficult problem for any transit agency. But for the fourth largest agency in the country such an over reliance is extraordinary and problematic for several reasons.

It has long been understood that the lack of a dedicated revenue source is both unique and challenging for WMATA. Over the years, several GAO reports discussed the problems associated with WMATA's unique financial framework. A 1979 GAO report stated that

---

[11] Maryland General Assembly, "1998 Legislative Handbook Series," Volume II: Government Services in Maryland, Chapter 9: Transportation.
[12] For more information on how states fund transit see: Robert G. Stanley, "Characteristics of State Funding for Public Transportation-2002," National Academy of Sciences, Transportation Research Board, TCRP Project J-6/Task 46.
[13] Todd Goldman, Sam Corbett and Martin Wachs, "Local Option Transportation Taxes in the United States," Part Two: State-by-State Findings, University of California at Berkeley, Institute of Transportation Studies, Research Report UCB-ITS-RR-2001-4, March 2001.
[14] Except in Loudoun County, which may use the proceeds from the tax for any transportation expense.
[15] Northern Virginia Transportation Commission, "Northern Virginia Transit Funding Resource Guide" (Arlington, VA: 2003).

inflationary costs, competition for local revenues, and the increasing burdens on property taxes made a new and dedicated revenue source for WMATA, "almost mandatory."[16] Another GAO report in 1983 noted that the Stark-Harris Act, which authorized $1.7 billion for construction expenses in 1979, required the local governments to establish a stable and reliable source of revenue. According to the GAO, the purpose of this requirement was to ensure that once the rail system was built, there would be sufficient revenues available to maintain and operate it.[17]

WMATA's financial arrangement differs sharply from how virtually all transit agencies throughout the country are funded. WMATA derives a significantly higher share of its funds from local general revenues than the national average or even just the large agencies. In terms of capital expenses, 20.6 percent of WMATA's funds came from local general revenues in 2002, compared to less than 5 percent nationally. On the operating side, WMATA's 14.6 percent local-revenue figure compares to only about 8 percent nationally.

A significant component of WMATA's annual funding is vulnerable to competition with other pressing local priorities. With essentially no dedicated revenues at its disposal, WMATA must rely on annual appropriations from each local jurisdiction, or from Maryland or Virginia. Thus, WMATA must compete each year with other basic local expenditures such as police, schools, and parks, as well as other transportation services.

The over reliance on local funds puts tremendous strains on the annual budget process. It is true that WMATA's local and state partners have time and again reaffirmed their generous commitment to the regional agency through their substantial funding assistance. But occasionally, jurisdictions have also threatened to withhold, eliminate, or unilaterally reduce their annual contributions on the grounds of perceived inequities. As a result, concerns that one or more partners may balk at its annual bill are ever-present.

The general lack of year-to-year assurance in the budget process makes it more challenging for WMATA to plan for large capital projects. As members of the Committee know, many capital projects extend, and must be financed, well over single year budget cycles. There are investments related to current maintenance and operations – such as additional buses, rail cars, station enhancements, and station connections – that are critical for the continued quality of the existing system. In addition, expansions of the system and other large capital investments have been proposed to meet the needs of this rapidly growing and expanding metropolitan area. A stable and dedicated source of revenue would provide WMATA the ability to more carefully and efficiently plan and finance such projects.

[16] GAO, "Issues Being Faced by the Washington Metropolitan Area Transit Authority." CED-79-52. (1979).
[17] GAO, "Applying DOT's Rail Policy to Washington, D.C.'s Metrorail System."

Finally, a lack of a stable and dedicated source of revenue also threatens the agency's credit worthiness. Moody's rating service recently pointed out that "as a multi jurisdictional entity without a dedicated funding source to support operations and capital needs …. WMATA is vulnerable to some degree of appropriations risk."[18] By that, Moody's meant that WMATA's lack of dedicated funds exposes it to some danger of the state and local legislatures not authorizing the annual resources. Among other things, this credit risk makes it difficult and more expensive for WMATA to borrow funds and issue bonds for capital investments.

Stable and dedicated funds in exchange for greater accountability

The politically fragmented nature of this metropolitan area argues that one option for WMATA may be some mix of dedicated revenue sources generated on the subregional level. In this way, dedicated revenue sources could be generated and administered in the District of Columbia, Virginia, and Maryland independently, according to their particular preferences and traditions.

However, given that WMATA is often cited as one of the few truly regional collaborations in this metropolitan area, and the wide distribution of benefits received from the service, a revenue source enacted at a regional level would certainly be preferable to collage of separate local sources.

It is true that the oversight and attention that the local and state governments give to WMATA is intense, due in part to the current funding arrangement and the natural parochialism of the local jurisdictions over how WMATA is spending funds coming directly from their annual budgets. But there is no reason to assume this oversight would not continue. The jurisdictions have historically been vocal supporters of WMATA and fundamentally understand how important high quality, functioning transit service is to this region. And given the legacy of the relationship between WMATA and the localities, that scrutiny is not likely to diminish anytime soon. Nevertheless, some measure of increased oversight and accountability should be made a condition associated with any dedicated regional revenue source.

Conclusion

As my comments and research have tried to illustrate, the challenges WMATA faces are very complex – and very unique. Few agencies are as reliant on annually authorized funds as WMATA – and certainly none as large or as important to its region's mobility and economy. WMATA needs a stable, reliable and dedicated source of revenue to better maintain and operate

[18] Moody's Investors Service, "Washington Metropolitan Area Transit Auth. D.C." (October 19, 1999).

the existing system, take the pressure off the region's local governments, and ensure better long term planning.

Certainly pitfalls exist and implementation is not easy. And yet, Mr. Chairman, the Washington metropolitan area cannot afford to have a transit system that is hampered from operating at its fullest and most efficient potential. It is important that federal leadership and attention to the nation's transit system continue.

Thank you very much for providing me the opportunity to appear before you today.