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REPORT OF
LEGISLATIVE COMMISSION ON METROPOLITAN TRANSIT

February 24, 1984

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EXECUTIVE SUMMARY

Testimony received by the Metropolitan Transit Study Commission on the weaknesses of the region's transit system could be summarized by the statement--transit services in the metropolitan area are not sufficiently responsive to community needs and user preferences. The Commission isolated a number of structural conditions which it found hindered the delivery of responsive transit services. The Commission also found that the current method of paying for transit services worked against effective and efficient service delivery.

To correct these problems, the Commission is making a number of recommendations for changing the structure and financing of metropolitan transit. Structural changes revolve around the separating of operational and planning responsibilities and include:

1. Concentration by the Legislature on a broad policy oversight responsibility.
2. Closer integration of the metropolitan transit system into the region's entire transportation structure.
3. Creation of a Regional Transit Board to allow for the separation of operations from planning, to facilitate expansion of transit services and to foster new types of transit services.
4. Recognition of the Metropolitan Transit Commission as the region's primary provider of fixed route bus service to the fully developed areas.
5. Encouragement of more active participation by local units of government in the design and provision of transit services.

Financing recommendations include:

1. Moving from deficit-based financing to formula-based financing to promote stability and efficiency.
2. Setting the level of revenues to be received from fares for fixed route systems to approximate 35% of the operating costs.
3. Setting the contribution level of property taxes to the fixed route system to approximately 35% of the operating costs, and basing the tax rates on levels of transit service available.
4. Increasing the state's contribution to fixed route transit to 20% of operating costs.

INTRODUCTION

The Legislative Study Commission on Metropolitan Transit was created by the 1983 Minnesota Legislature (Laws of 1983, Chapter 293, Section 110). The purpose of the Commission was to evaluate: the effectiveness of metropolitan transit; the power, responsibilities, and external accountability of the MTC; the internal structure of the MTC, including the contractual relationship with the management company; current labor practices and contracts; governmental arrangements for transit planning and development in the metropolitan area, including the relationships among MTC, MnDOT, the Metropolitan Council, and the Transportation Advisory Board; the proper role of the MTC in governance, regulation and coordination of transit and other public transportation services in the metropolitan area, including fare structures and sources and amounts of subsidy; and the effectiveness of the metropolitan transit service demonstration program (opt-out).

The Commission was co-chaired by Senator Steve Novak and Representative Kathleen Vellenga. Other members were: Senator Marilyn Lantry, Senator Phyllis McQuaid, Senator Eric Petty, Senator Lawrence Pogemiller, Representative Chuck Dimler, Representative Dee Long, Representative Sidney Pauly, and Representative Carolyn Rodriguez. Staff, financing and administrative support for the commission were provided by existing legislative service offices.

The Commission began its work in September 1983. Fifteen public meetings were held from September 13, 1983, through January 25, 1984. More than 75 speakers appeared and numerous responses to Commission members' requests for information were received. In addition to the 35 hours of public hearing which were held, the Commission staff met in excess of 200 hours. Many of the staff meetings included the Commission members, state agency officials and representatives of transit users.

In addition to public hearings, the Commission members participated in the annual meeting of the Minnesota Public Transit Association (a statewide transit association representing transit users and providers of 42 transit systems) and the annual meeting of the American Public Transit Association (a national organization representing over 300 urban rapid rail and motor transit systems in the U.S., Canada and Mexico).

The Commission also co-sponsored a one-day metropolitan transit workshop conducted by a facilitator trained in collaborative problem-solving and dispute resolution. The participants in the workshop included MTC and Metropolitan Council Commissioners and staff, Department of Transportation Office of Transit Planning personnel, and Legislative Commission members and staff.

Early in the hearing process, it became apparent to the Commission members that time constraints would not allow for a thoughtful evaluation of all of the charges directed to them in the enabling legislation. The Commission decided to narrow the scope of the study by focusing in on five subjects for review:

1. Evaluation of Transit Service and Operation
2. Evaluation of Government Organization
3. Evaluation of MTC Internal Organization
4. Evaluation of Transit Purposes and Needs
5. Evaluation of Transit Finance

This document is the Commission's report on its evaluation of these issues. The report is divided into three sections:

Section I defines the problems the Commission identified in the structure and financing of the metropolitan transit system.

Section II contains the alternatives considered by the Commission and recommendations for changes to address the problems identified in Section I.

Section III, the appendices, contains: the minutes, written testimony, agency handouts, staff working papers and written responses to Commission members' requests.

I. DEFINITION OF THE PROBLEM

The existing transit system in the metropolitan area inadequately responds to the diversity of community needs and user preferences. Poorly served geographical and population groupings respond to this inadequacy in one of two ways--demanding more, different or improved service; or demanding relief from their funding responsibilities. The inability of the existing transit system to respond effectively to either of these pressures created the need for the study commission.

A. STRUCTURAL PROBLEMS

The transit system is a collection of people, equipment and facilities organized in a particular way to deliver transit services. In examining possible reasons for the inadequacy of service delivery, the Commission came to several conclusions regarding the current transit organization.

1. The effectiveness of the Legislature in promoting efficient and responsive regional transit service is impaired because it concentrates what attention it pays to transit on service development and operations and not on wider policy questions such as the purpose of government involvement in transit and the purpose of state subsidies.
2. The Metropolitan Council, the Metropolitan Transit Commission, and local units of government have been unable to systematically formulate and oversee metropolitan transit policy and transit service development.
3. There is a confusion of roles or perceptions of roles among the various officials and agencies dealing with metropolitan transit. The three functions of effective transit service--planning, arranging, and delivering--are misallocated among the various agencies and levels of government.

--The complexity of the existing government structure, unclear assignment of responsibilities among agencies and levels of government, and confusing lines of authority have interfered with or prevented decisions on needs and user preferences and the establishment of corresponding service objectives.

--Authority to arrange for a particular service is sometimes not assigned to the agency or level of government best suited to make decisions which are responsive to needs and objectives.

--In the delivery of metropolitan service (producing or operating transit services), an undue concentration of responsibility at the MTC has restricted the variety of services available and thus their capacity to respond to needs and preferences.

4. Transit services are not sufficiently responsive to community needs and user preferences in part because of inappropriate or confusing allocation of management and operational responsibilities at the MTC.

--MTC commissioners have sometimes been too involved in transit operations, in the actual production or provision of service, which has interfered with their responsibilities as policy-makers.

--Accountability and independent oversight of the operations side of the MTC has sometimes been ineffective and inadequate.

--The statutory statement of the responsibilities of the MTC chair and MTC commissioners is confusing.

B. FINANCING PROBLEMS

Besides being a collection of people, equipment and facilities, the transit system is also a complex arrangement of methods to raise and distribute the money to pay for necessary services. Just as organizational inadequacies have produced pressure for change, so too have financing inadequacies and inequities.

1. Financial support for transit services in the metropolitan area has not been correlated with nor supportive of established legislative goals for transit.
2. There is no articulated state policy regarding financial assistance for transit in the metropolitan area. The current mix of the funding sources (federal, state, local and fares) is perceived as being inequitable. There is dissatisfaction with the relative contributions of the various sources as well as dissatisfaction with the relationship of cost to benefit within each source.
3. There is a lack of legislative direction with regard to the distribution of the portion of the motor vehicle excise tax proceeds anticipated to be dedicated to transit.
4. The various existing or potential providers of transit services are not all given reasonable access to the available transit capital and operating funds.
5. The existing deficit based method of distributing state funds to both the Metropolitan Transit Commission and private providers does not encourage efficiencies.

II. RECOMMENDATIONS

A. ALTERNATIVES CONSIDERED

Having decided that the existing transit organizational and financing structures lead to inadequate service delivery, the Commission next turned to the task of designing an improved structure and an improved allocation of decision-making responsibilities. To do this, the Commission focused on four decision areas: planning (the determination of needs and strategies for meeting these needs), funding (who pays how much and who receives how much), arranging (the implementation of the strategy plan), and provision (actual delivery of the service).

The Commission examined a continuum of possible assignments of decision-making responsibilities. The continuum moved from centralized responsibility at the state level on one end, to completely decentralized local control at the other end. For purposes of focus, the Commission isolated four structures on this continuum: one with state centralized responsibility; two with regionally centralized responsibility, and one having shared responsibility between regional and local units. These four models were used to elicit specific thought and comment on possible restructuring proposals. They were not seen as rival candidates for plans but as a means of systematically examining a wide range of options. Testimony and discussion analyzed these models and a myriad of combinations of their constituent elements.

1. DOT Model (Model I). This model would elevate more decision-making authority to the Minnesota Department of Transportation. MnDOT would approve plans as submitted by the Metropolitan Council, would make the funding choices, and be the ultimate arranger of services, with the possibility of sub-contracting out this latter responsibility. Providers would be the MTC or others.
2. Metropolitan Council Model (Model II). This model would consolidate more decision-making authority at the level of the Metropolitan Council. Planning functions, now split between the Met Council, MnDOT and MTC, would all go to the Council. The Council, operating with advice from affected parties, would also make the funding and arranging decisions and evaluate the performance of the providers whether they be MTC or others.
3. Regional Transit Agency Model (Model III). This model would transfer decision-making responsibility to a new, non-operating, metropolitan-wide transit agency. This agency would be responsible for all transit planning, financing and arranging. MTC and others would provide the service.
4. Regional-Local Model (Model IV). In this model, the Metropolitan Council would monitor the transit activity performed by the MTC in the fully developed service area and by local units in other areas, acting independently or jointly with other local units. Long-range planning would continue to be the responsibility of the Council, but mid-range planning would be done by the MTC for its service area and the involved local units in the other areas. The Council, in conjunction with a transit advisory group, would make the funding decisions. Arrangements outside the MTC district would be made by the sub-regional and local

units. The MTC would provide service in its district. Other operators would serve the other areas under contract with the appropriate local unit or sub-regional unit.

After receiving testimony on the strengths and weaknesses of the various models and suggestions for alternatives, the Commission evaluated the proposals and came to a number of findings and recommendations. These findings and recommendations are listed below in two sections. The first deals with structural questions, the second financing.

B. STRUCTURAL RECOMMENDATIONS

1. Legislature

Historically, the Legislature has established relatively specific performance stipulations for the Metropolitan Transit Commission and has not been concerned with broader transit goals for the region. As a result, the flexibility of the MTC has been reduced as new demands are placed upon it; and at the same time, there has been no overall guidance or evaluation of transit in the region. In addition, the Legislature has spent too little time evaluating the performance of the other transit actors.

Recommendations:

- a. The Legislature should formulate transit policies which are consistent, realistic and appropriate in level of detail. Specific performance goals and objectives should not be set by the Legislature but rather by the various metropolitan transit agencies. The Legislature should review these goals and objectives for conformity to the state's policies.
- b. The Legislature should establish the following goals for regional transit:
 - *To contribute to the social and economic viability of the metropolitan area by providing, to the greatest extent feasible, a basic level of mobility in the metropolitan area.
 - *To arrange for the provision of a comprehensive set of transit and para-transit services to meet the travel needs of various population segments within the metropolitan area.
 - *To cooperate with other other private and public entities which build, operate and maintain the metropolitan transportation system to assure the most efficient use of the existing and planned transportation infrastructure.
 - *To be prepared to maintain public mobility in the event of unforeseen emergencies or future energy shortages.

2. Metropolitan Council

There is a lack of coordination between the transit planning done by the Metropolitan Council and by the MTC. This has led to gaps and inconsistencies with a detrimental impact on transit services. In addition, the current structure restricts much of the Metropolitan Council's effort to capital activities to the exclusion of important operating considerations.

Recommendations:

- a. The Metropolitan Council should continue to prepare the region's long-range transit plan as part of its comprehensive transportation plan. This transit plan should include an analysis of goals, needs, and issues for a prospective five to fifteen year period. The plan should be amplified to include specific and prospective policies on such matters as funding levels, fund distributions, revenue sources, service objectives and allocation of service. The Legislature should review this plan.
- b. The Metropolitan Council should have approval authority over the plans, capital budgets, and operating budgets of implementing agencies.
- c. The Metropolitan Council should be required to approve the Regional Transit Board's capital and operating budget prior to its presentation to the Legislature (see recommendation three below).
- d. The Metropolitan Council, in consultation with affected legislators and local governmental officials, should appoint the members of the Regional Transit Board (see recommendation three below). In addition, the Metropolitan Council should advise the Governor on the appointment of the chair of the Regional Transit Board by submitting a list containing at least three recommendations.

3. Regional Transit Board

The Metropolitan Transit Commission is responsible for both implementing the entire region's transit plan and for operating the region's major fixed route bus system. As a result of placing these two conflicting responsibilities in one agency, many problems have developed: some areas of the region are inadequately served; there are not sufficient incentives to encourage the development of new methods of service; new providers have been discouraged from entering the market; the region's mid-range implementation plan speaks largely of capital development for a bus system and neglects regional and sub-regional service objectives, and service development plans, funding policies and policies relating to the allocation of services, and other matters.

The Commission was reluctant to expand the statutorily defined role of the Metropolitan Council by involving it in matters beyond its planning and coordinating functions. Rather, the Commission sought to give the Council the opportunity and direction to perform its duties effectively.

Recommendations:

- a. The officials who have responsibility for metropolitan transit planning should be different from those who have the responsibility for operating the metropolitan transit services.
- b. The Legislature has established a policy which provides that the Metropolitan Council should be confined to long-range policy planning and should not be involved in implementation plans. To perform the necessary implementation functions, a new organization, the Regional Transit Board, should be formed.
- c. The Regional Transit Board should consist of nine members, eight of whom represent the eight metropolitan commission districts as defined in current law. The members should be appointed by the Metropolitan Council in consultation with affected legislators and local governmental officials. These members should serve staggered two-year terms. The Board should be chaired by an appointee of the Governor. The Metropolitan Council should be required to make suggestions for this appointment. This position should be full-time. All initial appointments to the Regional Transit Board should be effective July 1, 1984. The chair of the Regional Transit Board should be authorized to propose the hiring of three persons to fill unclassified positions. The Board must approve the selections within 30 days or no salaries will be authorized to pay the individuals recommended by the chair to hold the positions. One of the positions should be an executive director. In addition to these unclassified positions, the Board should be authorized to hire a small number of professional staff. The number of staff hired by the Board should be reduced from the complement of the MTC and the Department of Transportation. All employees of the Regional Transit Board are accountable to the Board.
- d. The chair of the Regional Transit Board should present the metropolitan area transit budget to the Legislature. In addition, the chair should be responsible for the organizing of an annual regional transit conference before the annual legislative session at which all agencies involved in metropolitan transit would be expected to participate. The purpose of this meeting would be to facilitate communications, cooperation and coordination among the Legislature, metropolitan transit agencies, and other interested parties.
- e. The Regional Transit Board should:
 - prepare the two to five year mid-range regional transit plan, which would establish the specific objectives and programs to accomplish the goals identified in the long-range policy plan;
 - initiate, approve, monitor and evaluate contracts with providers;
 - establish and review fare policies, including social fares;

- establish temporary advisory groups for the purpose of planning on a sub-regional basis;
- establish transit-user group advisory committees;
- issue bonds and assume public debt;
- encourage new forms of transit;
- prepare the regional transit system's annual operating and capital budget; and
- receive and allocate available federal, state and metropolitan funds.

- f. All contracts issued by the Regional Transit Board for regular route transit service should include an evaluation of the impact these contracts may have upon the number of passengers, routes, schedules, fares and work force levels of the existing services provided by the MTC. Financial assistance should be granted to an applicant only if the Regional Transit Board determines that the service proposed for funding is consistent with the preservation of the public investment in human and capital resources at the MTC.
- g. The Regional Transit Board should complete an analysis of the degree of advantages and disadvantages of requiring that all contracts for regular route transit services contain provisions for the payment of prevailing wages. The results of this analysis and recommendations should be transmitted to the Legislature by February 1, 1985.

4. Metropolitan Transit Commission

Because of its multiple responsibilities, the Metropolitan Transit Commission has been unable to concentrate on its area of expertise--the provision of fixed-route service in fully-developed areas.

Recommendations:

a. The MTC should:

- provide service as authorized by the Regional Transit Board;
- manage the equipment and facilities of its transit operations;
and
- employ the workers of its transit operations.

- b. The Metropolitan Transit Commission should be reduced to three members with the demonstrated managerial competence necessary to handle an operation the size of the MTC's. The Governor should appoint one representative from Minneapolis nominated by the mayor of Minneapolis, one member from St. Paul nominated by the mayor of St.

Paul, and one member from the MTC-served suburbs from nominees submitted by the mayors of those suburbs. The terms of the appointments should be staggered and for three years. Each member should serve as chair for one of the three years.

- c. Existing law, which provides for the Metropolitan Transit Commission to enter into a contract for the management of any public transit system, should be changed to make the transit management company more accountable to the Commission.

- The MTC should provide an opportunity for contract management firms to bid competitively for management of the transportation system.

- Clear operating objectives, performance criteria and management autonomy on operational decisions should be assured.

- The management contract should become effective upon execution and continue for a term of two years. The term of the management contract should be short because long-term contracts could not be satisfactorily evaluated due to uncertainty as to future policy objectives, available subsidies, costs and consumer preferences.

- The Commission should invite all known contract management firms to submit applications for participation in the bidding process. The MTC should supply applicants with particular information, including but not limited to the following:

- 1) clear operating objectives and performance criteria;
 - 2) delineation of available subsidy and tax revenue and quantities and quality of plant and equipment; and
 - 3) data on previous performance of the transit system.

- During the contract period, the MTC should review contract management on a spot-check basis to determine if performance criteria are being met.

- d. The Commission should employ a chief administrator.
- e. Internal audit activity should be managed directly by the Commission.

5. Local

Transit service in many areas of the metropolitan area is inadequate or non-existent, partly due to lack of involvement by local units of government.

Recommendation: Local units of government, acting either individually or in formal cooperation with other communities, should be encouraged and helped to plan, design and arrange transit services to meet their needs consistent with the overall regional transit plan.

6. Minnesota Department of Transportation

In an attempt to fill gaps in the regional transit system, the Legislature has tended to assign metropolitan transit responsibilities to a state agency, the Minnesota Department of Transportation. This assignment of increasing responsibilities over local and regional transit questions to a state agency is inappropriate.

Recommendations:

- a. To reflect the new structuring of the regional transit system, MnDOT should maintain its current involvement with outstate transit systems and relinquish its participation in the arrangement of metropolitan transit services to the Regional Transit Board.
- b. MnDOT should continue to enforce operating and safety rules for all transit providers.
- c. MnDOT should receive and directly pass on to the Regional Transit Board all legislatively appropriated metropolitan transit funds.
- d. MnDOT should continue its role in federal fund distribution for statewide programs. For projects receiving federal assistance in the metropolitan area from these funds, approval should first be obtained from the Regional Transit Board.

B. FINANCING RECOMMENDATIONS

1. General

The existing mix of funding sources (state, local, federal and operating revenues for transit services in the metropolitan area) is perceived as inequitable. In particular, questions have arisen as to the appropriate level of contribution among the sources as well as the relationship of cost to benefits within a funding source.

Recommendation: The Regional Transit Board should develop a long-term financing structure for public transit consistent with overall policy to be established by the Legislature. Funding formulas should be established which promote stability and revenue certainty. The use of a formula to establish fare-box recovery rates, as well as federal, state and local subsidy levels, will move the transit system away from its current deficit financing orientation, thereby reducing hardships on users and providers.

2. Fares

The ability of fare revenues to support transit services is limited by the sensitivity of transit users to increases. Too frequent fare increases or fares out of line with the cost of competing transportation modes will drive down ridership levels. On the other hand, fares that do not keep pace with inflation will eventually weaken the transit system. Additionally, fare systems which are overly complicated will have an adverse impact upon ridership levels.

Recommendations:

- a. Within the metropolitan area, fares for regular route transit services should approximate 35% of total operating cost.
- b. Fares and fare collection systems, with the exception of social fares, should be established which ensure that operating revenues are proportioned to the cost of providing the service so as to minimize the disparity in the subsidy per passenger on routes in the transit system.
- c. In conjunction with the implementation of formula recovery rates, the Legislature should avoid enacting stipulations with respect to recovery rates for operating revenues, including fare caps.
- d. As much as possible within other fare constraints, fare structuring should be simplified and should be consistent across the metropolitan area.

3. Property Tax

Property tax as a percentage of total operating costs for regular route transit services in the metropolitan area has increased. In 1972, property taxes accounted for 28.4% of total operating expenses, but by 1983, property taxes accounted for nearly 45%.

Recommendations:

- a. Within the metropolitan area, the contribution of property taxes levied for regular route transit services should approximate 35% of total operating costs. Adherence to this policy will avoid an inequitable reliance on this source of financing for transit services.
- b. The property tax structure should be adjusted to reflect the levels of services provided from those funds. In particular, the structure should be modified to reflect the following rates:

Limited Peak-Hour Service	1.25 mills
Peak-Hour & Limited Off-Peak Service	1.50 mills
Full Range of Service	2.00 mills

Consequent revenue losses should be initially replaced by the surplus contained in the fund balance of the Metropolitan Transit Commission. Subsequent losses beginning in fiscal year 1986 should be replaced by funds available through the transfer of the motor vehicle excise tax proceeds deposited into the transit assistance account (see recommendation six below).

- c. The metropolitan transit service demonstration program (opt out) should be temporarily continued. The Regional Transit Board should review and make recommendations regarding the future direction of this program. Project approval should be the responsibility of the Regional Transit Board. A primary goal of

the Regional Transit Board should be to create incentives which would encourage the participation of local communities in establishing and meeting their transit service needs. Communities, in conjunction with the Regional Transit Board, should develop funding levels for needed service which would consist of an appropriate share of state, local and operating revenue support. In establishing a proper mix of funding sources, consideration should be given to the level of property taxes paid, particularly in those areas where taxes have been reduced through feathering.

4. State Grants

Financial support for transit services in the metropolitan area has not supported established legislative goals for transit. In addition, the Legislature has not articulated a state policy regarding the appropriate level of financial support for transit in the metropolitan area. State assistance for regular route services has varied from 9% to 40%, and currently stands at 12%.

Recommendations:

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- a. General Fund support for metropolitan transit services should not fall below current levels.
 - b. State assistance for metropolitan regular route service should approximate 20% of total operating costs.
 - c. Revenues needed to raise the level of state involvement in the provision of regular route transit services from current levels to the targeted 20% level should come from funds made available by the transfer of the proceeds of the motor vehicle excise tax (see recommendation six below).
 - d. Funding formulas for small urban and rural metropolitan transit services should remain as currently stated in MS 174.24, Subd. 3.

5. Federal Funds

Both federal operating and capital funds play a key role in supporting metropolitan transit programs. A reduction in the level of support provided by the federal government would place an extreme hardship upon transit services within the metropolitan area.

Recommendations:

- a. Federal support for regular route transit services should not be less than 10% of total operating costs. Efforts should be undertaken to improve information and enhance understanding of the need for a continued federal involvement in transit operating and capital programs. In particular, Minnesota's elected federal officials should be provided with information regarding the need for federal assistance.

- b. The Governor should designate the Regional Transit Board as the recipient of federal operating and capital funds which are available for the Twin Cities metropolitan area. These funds should be made available to all providers to the extent that they qualify under the federal guidelines.

6. Motor Vehicle Excise Tax - Transit Assistance Account

Under existing law, there will be made available to transit additional funds from the motor vehicle excise tax. Recognizing that these funds are available for use on a statewide basis, the Legislative Study Commission recommends the following distribution and uses of these funds.

- a. The distribution of funds for transit programs from monies available through the portion of the motor vehicle excise tax dedicated to transit should reflect both the existing percentage of state funds appropriated for each funding category as well as a consideration of statewide transit needs and priorities as determined by the Legislature during the biennial budget process.
- b. The current state level of General Fund support for transit programs should be maintained at its current fiscal year 1985 level.
- c. As funds for metropolitan public transit become available through the phased transfer of the motor vehicle excise tax, this money should be used as a supplement to bring the state portion of the subsidy for the Twin Cities metropolitan area fixed route service to 20% of total operating costs and in turn reduce to 35% the portion of the total operating costs supported through property taxes.
- d. Motor vehicle excise tax funds should also be used to meet the operating and capital needs of both existing and potential providers of public transit service throughout the state, including those proposing new transit options.