

## ACT Comments on Metro Funding Panel Report

In late 2004, WMATA and the Greater Washington Board of Trade established a Metro Funding Panel which issued a draft report on potential Metro funding mechanisms. The report was never issued in final form.

The report performed a valuable function by demonstrating the value of Metro service to the Greater Washington region and identifying crucial needs for operating and capital funds to operate the existing Metro system and meet the anticipated demand for service on the existing rail system. But it had serious defects.

ACT believes that the local jurisdictions can and must do more to support Metro than the panel assumed. The financial projections in the draft report assume that the local jurisdictions' real per capita contribution to WMATA's operating budget increases by only 1.7% in 2007 and 0.2% in 2008, and then actually declines by 0.3% in 2009 and 0.8% in 2010. As for the capital budget, the panel projected that aside from the already-committed contribution to Metro Matters, there will be an annual real per capita decrease in local contributions of 1.5%.

Even with these miserly assumptions, the budget gap remains quite modest through the next six years, rising to \$120 million in 2010. Filling this gap requires some \$40 million from each of the three jurisdictions. Certainly, this amount can be easily accommodated in a Maryland Transportation Trust Fund whose stewards assure us that it has the capacity to spend \$2 billion on a single highway. We believe that it can be handled under current arrangements by the other jurisdictions as well.

The projected needs for capital funding rise sharply in 2011 and thereafter. In Maryland, the state has developed plans to begin construction of a new rail line, the Baltimore Red Line, in the 2011 time frame. ACT strongly supports this project, which Baltimore needs badly; but we believe that this commitment must be matched with an equal commitment to transit in the Washington area. Any planning for transit funding in Maryland must take into consideration the Baltimore Red Line and concomitant increases in Washington-area transit funding.

The most important finding in the entire report is unfortunately buried on Page 17. By 2015, the existing rail network will be operating at 90% of its ultimate capacity. This implies a need to begin planning new rail lines through downtown DC to come into service starting in 2015 or shortly thereafter. Construction of such expansions would need to begin in roughly a 2011 time frame as well, and would of course require a major financial commitment. The panel did not address this issue. We believe the public would be far more willing to fund a comprehensive Metro expansion package that included new lines than to tax itself for a maintenance and incremental capacity expansion program that left the system overcrowded almost as soon as it was finished.

The panel recommended that the WMATA Compact be amended or supplemented with a new compact. We disagree with this recommendation. On the whole, the WMATA Compact has served the region's transit riders well, and we do not think this is a propitious time to change it. (We are also puzzled why the panel,

after suggesting the reopening of the Compact, did not analyze the very simple and highly effective mechanisms that would then be available to provide dedicated funding without new taxation. For example, the panel should have evaluated the pros and cons of establishing a popularly elected WMATA Board with majority voting, no jurisdictional veto, and the ability to enforce its budgetary assessments in Federal court.)

Based on these considerations, ACT in comments submitted to the panel recommended the following funding strategy:

- 1) The budget shortfalls identified by the panel through 2010 should be fully funded by increasing subsidies from the three jurisdictions. Construction of the Purple Line and Dulles Rail projects would begin under the current system where individual jurisdictions take the lead in funding major system expansions.
- 2) A new panel should be established to make recommendations for 2011 and beyond. This panel should design a program of capacity expansion that will truly meet the region's needs. It should provide new downtown core capacity, completion of the Purple Line and Dulles Rail, and additional DC light rail and suburban radial and circumferential rail projects. A funding plan should be developed for this entire program. The panel's membership should be representative of transit riders, labor, and environmentalists along with the business groups that were represented on the Metro Funding Panel.

#### Detailed Critique

Page 10, Table 1 - The option described here as "capping" the state/local subsidy is actually a 4.1% annual decrease in real per capita tax contributions. This option amounts to defunding Metro.

Page 11, third paragraph - The assertion that WMATA's local support "must compete at every level on an annual basis for scarce funds with schools, ... health care, and other priorities" is incorrect because Maryland's transportation funding comes from a separate trust fund with dedicated revenue sources. Transit spending does not compete with schools or health care.

Page 13, Table 2 - The panel assumes an annual inflation rate of 2.88% and an annual job growth of 1.4%. (These assumptions are stated in footnotes to Table 5, Page 28.) Thus the nominal subsidy to the operating budget must grow by 4.32% annually to be constant in real per-capita dollars.  $(1.0288 \times 1.014 = 1.0432)$  The assumed increase barely exceeds this rate in 2007 and 2008, and falls short in 2009 and 2010.

Page 17, Line 3 - The projected annual increase of 2.75% is not "modest growth" in state and local funding. It is a very slight decline in real dollars, and a substantial 1.5% annual decline in real per capita spending. Over 10 years, this accumulates into a decrease of almost 20%.

Page 25, first bullet - The two "capping" options described here would cut the real per capita local/state subsidies at a rate of either 4.1% or 0.6% annually.

Page 28, Table 5, footnote 4 - The cost recovery from fares from the additional transit usage caused by a parking fee would be much greater than the 50% assumed here. First, the average recovery in the current WMATA system is 57%. Second, the marginal recovery from added riders will be higher than the average recovery. Third, the main impact of a parking tax will be in suburban job locations, since the tax will be negligible on top of the existing parking cost in downtown DC. Thus the parking tax will mostly add reverse commuters to the Metro system, who ride in seats that now travel empty.

Page 28, Table 5, footnote 5 - The panel proposed to exempt income over \$100,000 from the payroll tax. Why? Imposing the tax on all income would provide additional revenue while improving the equity of the tax.

Page 31, Table 6 - The analysis is biased against gasoline taxes. The gas tax can be piggybacked on existing mechanisms just as easily as a sales tax and much more easily than a payroll tax. Parking taxes will be affected by world oil prices just as much as gas taxes. Sales taxes are more easily avoided by going out of state than gas taxes, since gasoline cannot be purchased over the internet. The only remaining reason that the panel gives here to reject the gas tax is that it would compete with highway funding needs. Is the Panel trying to fund Metro, or to free up state transportation money for more road building?