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Innovative Funding for Intercity Modes

A Casebook of State, Local, and Private Approaches

July 1987

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Final Report
July 1987

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1

NEW PROGRAMS AND SOLUTIONS FOR MAINTAINING INTERCITY TRANSPORTATION SERVICES

THE CHALLENGE TO ELECTED OFFICIALS

State and local officials in rural areas and small cities across the country -- including both high-growth areas and low-growth areas -- are facing new and increasing concerns about the freight and passenger transportation services that have long connected such areas with major urban areas. Some communities are facing major changes in the price, availability, or quality of intercity transportation services which are often seen as essential to the social and economic fabric of these communities. Radical changes to these transportation services may even have important effects on the continued viability of many rural areas and small cities.

In the past, private companies provided intercity bus, rail passenger, rail freight, and air service to rural areas and between cities with minimum public involvement in the provision of service. However, those firms were regulated at the Federal, state, and sometimes local levels with regard to entry and exit from routes or services, the fares or rates they were allowed to charge, and, from time to time, safety issues. These regulations were intended to create widely available transportation services through cross-subsidies from profitable routes to support otherwise unprofitable services, such as those found in some rural areas.

Recent changes in the economics of transportation plus management decisions made possible by Federal and state regulatory reforms have combined to eliminate many of these cross-subsidies, which has led private carriers to reduce or even completely discontinue service on those routes where costs exceed revenues. Such routes are often those serving rural areas and small cities. Furthermore, Federal assistance programs that recently provided some financial assistance are scheduled to expire or cannot accommodate additional demands. Therefore, state and local officials must increasingly turn to innovative funding techniques, such as those discussed in this report, in order to maintain essential intercity services.

Regulatory Reform

Regulatory reform by the Federal government affected all the intercity modes serving rural and small-town America. In 1977 the Airline Deregulation Act deregulated the airlines, setting in motion a number of changes in the amount, quality, and price of air service. A series of legislative acts during the 1970's dealt with the problems of the rail industry, beginning with the creation of Amtrak in 1971 to handle a vastly reduced level of intercity passenger service, the creation of Conrail in 1976 to consolidate freight service in the Northeast, and culminating in the Staggers Act of 1980, among other regulatory reforms, which provided increased ratemaking and contracting flexibility to the freight railroads. Interstate trucking was partially deregulated by the Motor Carrier Act of 1980. In 1982, the Bus Regulatory Reform Act was signed into law, providing bus companies with greatly increased flexibility to drop or add service, as well as change rates.

A number of states followed the lead set by these changes in policy, deregulating intrastate services for some or all modes in line with the Federal actions. In some cases, the Federal statutes included pre-emption of state regulation of intrastate service under particular circumstances, such as bus service abandonments or intrastate rate cases. For other modes, state regulation has historically been minimal, as in the case of air service.

Economic Changes and the Declining Demand for Intercity Modes

Changes affecting rural areas and small cities have come about because the underlying demand for transportation has changed. Economic decline and

technological change in basic industries, including coal, steel, and agriculture, has reduced rail freight demand in many areas. Completion of the interstate highway system has lowered the costs of transportation by auto, bus, and truck, often resulting in growth for many small towns in the outlying areas of major metropolitan areas. Declining fuel costs have benefited all modes with regard to the cost of operation, particularly those that are more fuel intensive. Air travel has particularly benefited from reduced energy costs. At the same time, common carrier modes have suffered due to high labor costs, ushering in new non-union carriers.

These changes have also affected the ability of public officials to depend on the private sector alone to provide the services needed for continued social and economic well-being of rural areas. The resulting changes include:

- the decrease in the rail share of freight transportation, and the increased role of trucking to carry even bulk commodities,
- the decline of rail passenger service, with only the core Amtrak system remaining,
- the decline in demand for regular-route intercity bus service,
- the growth of air travel, including the development of commuter and regional carriers serving small cities on hub-and-spoke route systems, and
- the development of local rural and small community transportation systems to serve the mobility needs of those unable to use the private auto.

For rural areas, the results of these changes have been mixed. Auto use has increased mobility for many, and commuter airline services have increased the frequency of service to many small cities. Trucking service continues to be provided, sometimes at lower rates than before deregulation. However, many places lost rail freight and passenger services as the rail network operated by the major carriers serving the United States shrank from 211,459 miles in 1955 to 145,764 miles in 1985. Intercity bus service was discontinued at almost 4,000 points out of the 15,000 served prior to the regulatory reform era, and service frequency has been reduced on much of the remaining network.

The question for state and local policy-makers is how to ensure the continued provision of service that meets mobility needs at prices that permit those in need of transportation to actually use the service. Increasingly, officials in urban areas are turning to partnership activities with the private sector as a means of reducing costs and increasing effectiveness. While rural areas receive substantial Federal funds for highway and bridge construction, the Federal programs assisting public transportation services are limited, and in many cases are being phased out as the transition period from the era of regulation is ending.[1] Solutions in rural areas and small communities will increasingly have to come from creative and cooperative efforts by the private-sector carriers and state and local officials. Many states have succeeded in recent years in pursuing public/private partnerships as a means of preserving essential services (for example, rail freight service on light density lines).

Possible Source of Initiatives for Action

The initiative for these partnerships may originate in the public sector, the private sector, or both. On the public side, state or local governments represent the most likely source of concern for maintaining or improving services, though other governmental bodies such as regional councils, transportation districts, port authorities, and economic development groups may also take the initiative.

Private sector actors may include the intercity carriers themselves, shipper groups or associations, or other business groups. Shipper groups, which stand to gain much from continued service, can be the most critical component for insuring the success of new or replacement services, as they control, to

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[1]The Administration has annually recommended reduced or discontinued funding for rural transportation programs, along with other reductions in transportation spending, to help reduce the national deficit. Congress has continued to authorize transportation funds for the rural area and small communities. DOT funding for FY87 was nearly $7 billion for roads and bridges, essential air service guarantees, airport improvements, local rail assistance, public transportation, technical assistance and highway safety programs. About $6 billion of the total funding was for highways and bridges. The transportation funding levels in FY88 are about the same, with increased funding for rural technical assistance programs.

a large extent, the demand for service. Often the initial action in the development of joint efforts is taken by the private carrier, when they seek to discontinue or change services or to increase rates in response to changed economic and regulatory conditions.

Occasionally the initiative comes from citizen groups, such as shippers affected by a change in services, business development groups, commuter groups or Chambers of Commerce. Even if these groups may not instigate actions that lead to transportation improvements, they can often be quite helpful in the development and promotion of workable options, and should be included in the processes that are used to develop and implement solutions.

Benefits of Partnerships

The benefits of private-public partnerships to maintain or improve intercity services can be many. The private carriers who have been providing transportation often have considerable expertise in the effective operation of the service. The efficiency and productivity typical of private sector transportation operations can be brought into partnership with the public goals of maintaining services. Enhanced competition resulting from deregulation may be brought to bear on behalf of the public by competitive bidding.

The public sector brings a number of beneficial roles to a joint transportation effort. It must identify the actual needs that should be met if the public interest is to be served. The public sector can provide technical assistance to carriers to identify markets and develop feasible transportation solutions. Finally, the most important role of the public sector may be in providing appropriate assistance to the private provider to enable public needs to be met in the most efficient way.

Public officials must be aware of the problems facing the private carriers in the new economic environment of regulatory reform. They must work with and encourage private carriers to provide the needed passenger and freight services where they are likely to be profitable. In cases where not all the costs of services will be met by the revenues but services are needed, officials may need to provide incentives or assistance. These will not necessarily always be financial. In some cases, state and local officials will have to encourage

local acceptance of unavoidable changes, rather than attempting to provide services that are not viable in their own right or justifiable in terms of the benefits received for the costs of subsidy.

The role of the state is particularly crucial to the intercity transportation modes, a fact that has long been recognized by the Federal-state partnership in the highway program. Most intercity services, of whatever mode, cross several county and city boundaries, creating the need to develop coordinated strategies at a higher level than the strictly local arena. The transportation modes discussed here have been regulated at the state and Federal levels, with local involvement affecting terminals, local routes, and speed restrictions.

THE PURPOSE OF THIS CASEBOOK

Unlike the highly structured Federal assistance programs that have developed to build highways or urban public transportation systems, which tend to prescribe solutions for particular problems, problems providing intercity services in rural areas may not have solutions that are immediately apparent. The possible alternatives may vary considerably, depending on the concern and the locality.

Often local successes in maintaining or expanding intercity services are not shared with other communities, as there is neither a central focus around a Federal program nor around Federal regulations to link interested parties. This casebook is an attempt to fill the resulting gap, by presenting an overview of recent changes in the intercity transportation industries and by providing examples of joint public-private efforts. The examples are presented in a non-technical manner, and contacts or references are provided so further information can be obtained.

Chapter 2 of this report presents a brief overview of the recent developments in each of the major transportation industries of concern: freight and passenger railroads, intercity bus, and regional airline service. Chapter 3 provides examples of joint public-private partnership actions to maintain intercity services in rural areas. Chapter 4 then summarizes the non-Federal funding sources used for intercity services, drawing together some basic themes of successful efforts.

2

INTERCITY TRANSPORTATION IN AN ERA OF REGULATORY REFORM AND ECONOMIC CHANGE

The private intercity transportation industries have each undergone tremendous changes in the last 15 years. Many of these changes have had impacts on the ability of these modes to provide services to rural areas and small communities.

It is important for state and local officials to understand the changes in both the economy and regulation of transportation, and how they have affected each of the modes. This chapter is intended to provide such an overview. This examination begins with rail service, both freight and passenger. It then turns to intercity bus service, and finally addresses the regional airline industry.

THE RAILROAD INDUSTRY

Freight Transportation

With the development of the automobile, motorized highway transport became an alternative to the railroad. As the technology of highway vehicles improved and the quality of the highway network did likewise, highway transport became increasingly attractive. Trucks have become the primary mode for local transport of freight, and have taken over much of the nonlocal market as well.

Except for short distances, truck transport is generally more expensive than rail. But trucks deliver freight faster and more reliably, they are more efficient for small shipments, and they can provide direct service to firms not located on rail lines. The railroads continue to be a very efficient means of transporting low-value commodities, such as coal, grain, other minerals, lumber, paper, chemicals, and primary metals.

Historically, when a deteriorated rail line could no longer be operated safely without major rehabilitation (or sooner, if traffic dropped significantly), the railroad operating the line could petition the Interstate Commerce Commission (ICC) for permission to abandon the line. Such ICC approval of a request to abandon an unprofitable line was not automatic, but was made easier to obtain by Congressional actions taken during the 1970's and by regulatory actions by the Interstate Commerce Commission since the Staggers Act of 1980. The Local Rail Service Assistance (LRSA) Program, which Congress authorized in the 1970's, is now being phased out. This program provided Federal financial assistance to states wishing to preserve service on lines that had been approved for abandonment.

Local Rail Service Assistance Program

Under the LRSA program, and under other programs established by the states, various combinations of Federal, state, local and private funds have been used to acquire, to rehabilitate track and for construction on rail lines that carry light density traffic of less than $3 million gross ton miles of freight per year, or which have been approved for abandonment.[1] Over time, many of the states acquired lines and entered into a variety of arrangements with other parties to operate them. It was often found that, when these parties had the experience and capability to manage such rail lines efficiently, they could provide service at lower cost than major railroads by making more flexible use of labor than the major railroads.

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[1] 49 U.S.C.A. Section 1654(f) (West Supp. 1983).

The Growth of Short-Line Railroads

In the last few years, several firms have purchased individual branch lines or entire systems of branch lines and light density mainlines which were not candidates for outright abandonment from major railroads. The Illinois Central Gulf (ICG), Conrail (CR), and the Chicago and North Western (CNW) have been particularly active in selling such lines, and the Burlington Northern (BN), CSX Corporation and the SOO Line have also recently announced their intentions to enter into such sales. In general, potential purchasers of financially viable lines are carefully screened by the selling railroad to make sure that they have the knowledge and financing necessary to operate the lines successfully. The selling railroad is then able to devote its financial and administrative resources to rail operations in which it is more cost effective, while having a reasonable expectation that it will be able to continue to provide linehaul service for much of traffic originating or terminating on the lines which it has sold. The ICG has been selling lines as part of a corporate strategy of reducing itself to a smaller, more profitable railroad which can easily be sold by its parent company. However, most major railroads are selling selected branch lines with the more limited goal of maintaining and improving the overall profitability of the remaining core railroad.

Preservation of Branch-Line Service

Communities which are served by railroad branch lines with only relatively light traffic densities may have some concern about the preservation of the rail service they receive. In general, the voluntary and unsubsidized sale of such a line to a new railroad operator should be viewed as a positive development, since the new operator will likely be able to run the line more efficiently and market its services better than the original railroad. The gradual disinvestment of a railroad in a line which does not generate enough traffic to make such a sale practical should be of more concern. Eventually, the railroad is likely to seek to abandon such a line, but in the interim, service deteriorates, railroad employees are furloughed, and no one benefits.

The first action that local officials should consider when they become aware that their community is served by a line which might eventually be abandoned is to consult with their state's rail planning office as quickly as

possible since the process can move forward rapidly once the railroad makes formal application to the Interstate Commerce Commission (ICC). (All states except Hawaii have such an office.) The next chapter presents background information about potential community responses and financing options, along with a number of examples of possible actions.

Passenger Service -- Amtrak

Intercity rail passenger service in the United States is now provided, with one exception, by the National Railroad Passenger Corporation, known as Amtrak. Virtually all of the equipment Amtrak inherited from the private companies from which it was formed has been rebuilt or replaced. The railroad took over ownership and operation of the Northeast Corridor from Washington to Boston, rebuilding with the aid of approximately $2.2 billion in Federal funds for high-speed operation. The remaining national service is operated under contract by the freight railroads that own the tracks outside the Northeast corridor.

Amtrak depends on Federal subsidies, though the percentage of operating costs covered by revenues increased to 62 percent in 1986, and the dollar amount of Federal subsidy has actually declined (by substantial amounts, if inflation is included in the calculations). In part these improvements have come about through increased productivity, and in part through additional revenues from mail traffic, real estate development, and use of rights-of-way for fiber optic telecommunications lines. Given the decline in funding, it is not surprising that service has not expanded in recent years.

The 403(b) Program

This program partially reflects the mandated structure of Amtrak's route system. Congress designated a basic route network as the national system for which the Federal government will pay the operating subsidies. Routes or services in addition to this basic network can only be operated if states and localities are willing to pay part of the additional operating costs. This program of state supported trains is called the 403(b) program, after the section of the Amtrak legislation that mandates Amtrak participation. A number of states have taken advantage of this program since its inception, including New

York, Pennsylvania, Massachusetts, Maryland, Delaware, Virginia, North Carolina, Florida, Mississippi, Louisiana, Alabama, Michigan, Illinois, Minnesota, and California. Not all of these states currently are involved. Under the 403(b) program, the state must pay 65 percent of the loss on avoidable costs for the operation of the service, plus 50 percent of the continuing costs of capital, including both equipment costs and improvements, necessary for passenger service (such as track improvements, standby power, stations, etc.)

Small Communities on the Amtrak System

Small communities make up the largest percentage of the 490 Amtrak stops, although the largest cities account for much of the ridership. Small communities basically fall into one of three categories with regard to Amtrak service -- (1) they are located on the network and have service, (2) they are located on a rail line with Amtrak service, but they are not a designated stop, or (3) they are located on a rail line without passenger service (of course, many localities may not have any rail service at all). In the latter two categories there are some possibilities for obtaining Amtrak service, but they are much better for those points already located on the network, as the additional costs of stopping a train are minimal.

THE INTERCITY BUS INDUSTRY

The intercity bus industry is often associated most closely with small community and rural passenger service, mainly because of the large number of points served when compared to the airlines or Amtrak. Only five years ago, it was estimated that over 15,000 points received intercity bus service; by January 1986 the ICC estimated that about 4,000 points had lost service, leaving about 11,000 still on the network. Though the reduction is substantial, this mode clearly is the major intercity passenger carrier serving rural America.

Prior to passage of the Bus Regulatory Reform Act (BRRA) of 1982, the intercity bus industry was heavily regulated at both the state and Federal levels. The ICC regulated entry and rates for interstate service, while each of the states determined which carriers could operate intrastate service, their rates, and when they could discontinue services. Carriers were required to operate unprofitable routes and services as a condition of having the exclusive operating

authority to provide service on profitable routes and on charters. Rates were set to make the company profitable when taken as a whole. This provided internal cross-subsidies within the firm to support the rural services. However, by the late 1970's declining ridership on regular-route service had the effect of reducing or eliminating the available cross-subsidies from higher traffic routes to lightly traveled ones.

Regulatory Reform

The industry supported regulatory reform as a means of allowing the firms to restructure services, discontinue unprofitable routes and schedules, and add services and operations where financially feasible. The BRRA then became effective in November 1982. The Act not only changed the ICC regulation to allow open entry and exit and rate flexibility, but it pre-empted state regulatory authority in a number of key areas.

Carriers seeking to abandon unprofitable routes have never faced substantive objections from the ICC, but rather from the state regulatory agencies. Under the BRRA, carriers can file with the states to abandon service. If they are turned down by the state, they can now appeal that decision to the ICC. The ICC is directed by the Act to give great weight to whether or not the revenues from the services in question exceed the variable costs of the service. If not, the abandonment is generally permitted by the ICC. Similarly, the carriers can apply to the states for intrastate rate increases, and if rejected, they can appeal to the ICC. In that case, the ICC will generally grant the rate increases if the proposed rates do not exceed the permitted interstate rates. The BRRA also imposed a very strict timetable on the states and the ICC regarding regulatory actions, giving the states 120 days to rule on a carriers request regarding rates, rules or actions, and allowing only 90 days for the ICC to complete action on exit petitions.

The impact of the BRRA itself was to immediately permit bus carriers to abandon many unprofitable services, to raise intrastate rates to levels approximating interstate rates, and to begin competing over routes perceived as profitable.[1] Thousands of new bus companies applied for operating authority,

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[1]Motor Carrier Ratemaking Study Commission. A Report to the President and the Congress of the United States, Part Two: Implementation of the Bus Regulatory Reform Act of 1982: The Impact on Older Americans and the Effect on Intrastate Bus Services, pp. 328-334.

virtually all for charter and tour services. Existing firms shifted their emphasis to charter and tour service. New regular route services were primarily airport or casino operations.

However, the major impacts on the bus industry came from airline deregulation, which resulted in greatly reduced air fares for non-business travellers, and the decline in gas prices. The regular route industry lost almost half its ridership in the five-year period from 1981-1986.

Responses to Changes in the Industry

The increased competition on regular route services, coupled with the decline in demand, resulted in greatly increased pressures on bus firms to drop all unprofitable services. Competition in the charter and tour sector reduced profitability from those services as well, eliminating any possibilities of using charter and tour revenues to cross-subsidize regular route services. For these reasons, the pace of service abandonments has increased, even to the point that major national carriers are dropping all services in particular states or regions.

At the same time, several states have begun intercity bus programs. In 1985 Michigan began a state-funded program to develop intermodal terminals, provide low-interest bus loans, and fund limited operating assistance. Wisconsin and North Carolina, among others, have used funds from UMTA's Section 18 program (Formula Grant Program for Areas other than Urbanized) for operating assistance to contract for intercity bus services in rural areas. California developed programs to build intermodal terminals, assist carriers, and coordinate services between the various modes. New York reacted to proposed service reductions following passage of the BRRA by opening state transit operating assistance programs to intercity carriers, with the state contracting directly with the carrier if more than two counties were served. A number of states performed bus studies, documenting services and proposing programs.

REGIONAL AIR SERVICE

Today's "regional" or "commuter" airlines have their roots in the 1969 decision by the CAB to create a class of small, non-certificated airlines to fill the gaps in the nation's air transport system. These carriers, the

original commuter airlines, were defined as those which performed "... at least five round trips per week between two or more points and published flight schedules..." or which carried U.S. Mail. To be exempt from the Section 401 certification required of the large airlines, commuter aircraft could not exceed a take-off weight of 12,500 pounds which effectively limited them to 19-seat planes. In 1972 the limit was increased to 30 seats, and with the enactment of airline deregulation in 1978, the limit was increased to 60 seats.

The regional airline industry has in recent years been in a state of turmoil. Rapid growth followed airline industry deregulation in 1978 as small city services shifted from the major carriers to these regional carriers. Hub and spoke route structures also increased the role of the regional carriers. Recently, the major airlines have been entering into interline and code sharing agreements with the regional carriers, allowing regional carriers to be included in the computer reservation systems owned by the trunk carriers. By the end of 1985, the total had reached 59 code sharing agreements involving 53 airlines.[1] The opportunities for better interline service and lower fares under these agreements have certainly improved service to many communities. On the other hand, the end of the Essential Air Service (EAS) subsidy program in 1988 has many communities concerned about the future of service to their area.

Despite the competitive pressures, the regional airline industry is continuing to grow. Even though the number of carriers declined from 203 in 1984 to 179 in 1985, the remaining airlines saw a 13 percent increase in revenue passenger miles and a 4.5 percent increase in overall passengers. The "average" regional airline in 1985 operated ten aircraft, typically with 19 seats, and carried 152,000 passengers. The top 50 regional airlines carried 86 percent of the regional airline industry passengers in 1985, and flew 87 percent of the miles.[2]

Rising cost structures and declining yields have caused the carriers to turn their attention to ways of improving operating efficiency. This includes taking a hard look at cities with only a marginally profitable service, and considering their abandonment.

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[1]1986 Annual Report of the Regional Airline Association, p. 9.

[2]Ibid, p. 7.

Essential Air Service

Following deregulation of the airline industry in 1978, this EAS subsidy program was established to ensure continued service to communities where service might otherwise be abandoned. The program is now run by the Department of Transportation. "'Essential air transportation' at any given city is defined as scheduled service, at specific minimum frequency and at fair rates, to one or more other cities with which it has a community of interest."[1] A community becomes eligible for an EAS determination when the next-to-last air carrier pulls out of the market. DOT then determines, based on historical evidence, what level of service will ensure access of that community to the national air network. As of November 1985, there were 148 cities in 36 states receiving service under the EAS program. Alaska had 43 points receiving service, with 105 in the continental United States. Excluding Alaska, Federal cost per passenger enplaned was $50.88. The cost ranged from a low of $4.81 per passenger in Grand Island, Nebraska to $346.71 a passenger in Jackson, Michigan.[2]

The EAS program is scheduled to end in 1988. Many of the communities under the program are concerned about the future of their service, and it is unlikely that the communities with subsidies of several hundred dollars per trip will continue to receive service. On the other hand, 29 cities in the continental United States had subsidies under $50.00 a passenger. It is this type of city, especially those specific cities with a subsidy of only several dollars a passenger, which must carefully examine the service. There is a chance, in those cases, that a carrier operating with a lower cost structure than the present one might provide service profitably given the right incentives.

CONCLUSION

Clearly, one impact of regulatory reform at the Federal and state levels is that many of the internal cross-subsidies engineered to support unprofitable

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[1]Airline Deregulation, Eno Foundation for Transportation, p. 11.

[2]EAS statistics are from a report by Harold G. Vavra, North Dakota Aeronautics Commission.

rural services are no longer being maintained. With the regulatory role of the state diminished or pre-empted with regard to these modes, the state role is no longer to mandate service and set rates. Remaining regulatory processes have the role of moderating the pace of change and defining the services which should be the recipients of assistance, as there are likely to be services for which there is a social need but which are not profitable to the carrier.

The Changing Role of the Public Sector

Consequently, the public roles are changing. Under current Federal policies, Federal regulation is reduced or eliminated, and the transitional Federal subsidy programs are coming to an end. At the state level, the roles may be changing, but involvement is no less important. The states will have a key role in the new partnership with private carriers to provide services that are needed, but require some form of assistance to be viable. Local governments will have to become more involved, as the need for such assistance is best recognized at the local level. The close relationship of local officials to the affected parties and the carriers can often be critical to the development of cost-effective solutions, as can be seen in a number of the cases in the next chapter.

Private Sector Participation

Private sector groups are often willing to join with the public sector to maintain services. In part, this is due to the investments that carriers, shippers, and other groups have already made in transportation infrastructure or in plants and other facilities which depend on these services. Increasingly the major rail, bus, and air carriers are realizing that they need the feeder traffic from services in rural areas, even as they understand that often their cost structures will not allow them to operate these services. For that reason they are more willing to work with public officials and with local or regional carriers. However, most private carriers logically desire to expend their efforts on such projects only where the demand will offer an adequate sustainable return on the investment. This is true even when much of the funding is from public sources.

Solutions in an Era of Scarce Resources

As this chapter has made clear, solutions for intercity transportation problems in rural areas and small cities will have to be found in a context of limited resources. Carrier resources, Federal assistance, and state and local funding are all limited. In such an environment, a key question is when and what kind of assistance is warranted to maintain services. Actual usage of services has to be a key factor in determining where scarce assistance dollars should be spent. Unused services will disappear because of inadequate revenues or lack of justification for the subsidies. In some cases, the best state and local response may be to facilitate the change to completely private alternatives, such as the truck and the private auto. However, there are other solutions in cases where some form of assistance is justified.

3

PUBLIC/PRIVATE PARTNERSHIPS IN INTERCITY TRANSPORTATION

INTRODUCTION

There are a variety of examples of joint public/private efforts to promote or support needed intercity transportation modes. The level of efforts included varies from very small, but significant, joint projects at the local level to multimillion dollar investments. The funding mechanisms used include Federal, state, and local funding programs, revenue bonds, user fees, shipper contracts and surcharges, among others. Administrative arrangements also vary widely from handshake and letter agreements to formation of transportation districts, and direct contracting by state agencies. The presentations of specific cases in this chapter indicate the record of success of that particular effort, or the results. Most of the cases are relatively unique but have elements that are transferable to other locations.

The arrangement of information in this chapter is intended to follow a progression much like the development of such partnerships. This begins with steps that can be taken to develop understanding of the intercity transportation modes, and the particular problems each mode may be facing in a given locality. Steps that a community can take to support or promote such services are then presented, followed by examples of joint services. The examples are highlighted in separate boxes. States and local areas can also act to support private intercity modes by facilitating changes, through regulatory

reforms, for example. Following a discussion of possible steps in that direction, financial assistance strategies are presented in a series of cases. These vary from help with input costs, such as fuel or insurance, through capital assistance, to operating funding. Finally, direct public operation with state or local funding is discussed as a last resort means of providing needed services.

AWARENESS AND UNDERSTANDING

An initial step that state and local officials can take to prepare to work with the private sector on joint efforts is to develop an understanding and awareness of the role played by the various private intercity modes in their locale. Often these carriers have been providing services for so long that their existence is known, but taken for granted. Current conditions in these industries may not be known by public officials. A systematic approach to assessing intercity transportation, particularly in rural areas, is warranted.

Industry Studies by States or Local Governments

One way that state and local officials can be prepared for developments is to perform studies of the intercity industries, or to obtain and use existing studies and reports. The purpose of any such study is to identify the carriers and the transportation services they provide, and to analyze current issues affecting the ability of the industry to continue providing these services. Such factors can include the current demand for the service, changes in rates, the level of investment in the rolling stock and structures, competitive developments, and the projected impact of economic changes on the particular services. They may be conducted on a single modal or multimodal basis. Such studies can be prepared by state or local planning or economic development staffs, consultants, university research groups, and other government research institutes.

Rail Plans -- State Rail Plans

One excellent source of information on the rail freight services in a particular state is the state rail plan and its updates. These studies have

been prepared in virtually every state by the state rail planners. They are required of the states under Section 5(j)(1) of the Department of Transportation Act in order to qualify for local rail service assistance funding, and many states have continued to perform annual updates. Following a well-developed methodology, these studies include inventories of all the rail lines in a state, their current condition and ownership, and traffic levels. Lines identified as being in danger of abandonment (by the carriers) are the subjects of more indepth analysis of costs and revenues, potential traffic, and likely rehabilitation costs. A cost-benefit methodology was prescribed by the Federal Railroad Administration (FRA) to assess which lines should receive assistance. These studies generally represent a model of the type of analysis that should be applied whenever a public role is contemplated.

The list of state rail planning offices included as Appendix A provides a contact point for anyone interested in finding out the current availability of such studies for a particular state, as well as the possible funding sources available for rail freight line assistance.

Bus Studies

Unlike the rail industry, intercity bus has never been the subject of a Federal assistance program providing categorical assistance. Consequently, states have never been required to perform intercity bus studies of any sort. However, many states have used state or Federal funding (primarily the Urban Mass Transportation Administration (UMTA) Section 8 Planning Funds) to perform intercity bus studies. Many of these studies predated the passage of Federal regulatory reform laws, and so do not reflect the new laws or the changed structure of services. Most state intercity bus studies inventory the carriers, describe the services provided (the routes and schedules), discuss regulatory issues, and project future service levels based on current industry trends. Two recent examples illustrate the kind of material included:

Intercity Bus Study -- Pennsylvania

The Pennsylvania Intercity Bus Study (September 1984), performed by Pennsylvania State University for the Pennsylvania Department of Transportation, included an inventory of carriers and services, an analysis of the financial condition of the industry, a discussion of recent trends toward charter and tour services, and a discussion of the state role. Policy prescriptions were limited to support for local development of terminals, and possible revision of a state law providing free state licenses for some carriers performing local transit service. The study was funded by the state and UMTA.

Contact: William G. Underwood, Director, Bureau of Public Transit, Pennsylvania Department of Transportation, 1215 Transportation and Safety Building, Harrisburg, Pennsylvania 17120 (717-787-3921)

Intercity Bus Plan -- Nevada

The Nevada Intercity Bus Plan (January 1986), was prepared by the Nevada Department of Transportation. It too was funded by UMTA and the state. It is basically an inventory of services, and an analysis of the state network with regard to its potential viability. Estimated subsidy levels required for particular routes and segments are developed, in order to illustrate the magnitude of possible future state roles.

Contact: James Mallery, State of Nevada Department of Transportation, 1263 South Stewart Street, Carson City, Nevada 89712 (703-885-3464)

Joint Task Forces

Another means of gaining awareness and understanding of intercity transportation service issues is joint public/private task forces, consisting of industry representatives, elected public officials, public staff officials, and user group representatives. Such groups can function as advisory groups to direct technical studies performed by staff or consultants, developing consensus on needed policy changes or programs. Promotional activities also benefit from such combined efforts.

Air Service Task Force -- Michigan

One example, among many, of joint efforts is the Michigan Air Service Task Force. The State of Michigan has established a task force to improve air service in the state. The task force will gather data on the market for air service in the state, problems with air service, and the potential for expanded service. A survey of travel agents is being conducted to gather data on the quality of service. Funding sources being investigated include advanced block ticket sales by local industry or ticket purchase guarantees. Additionally, they will develop a marketing plan to promote air service. It is hoped that the final report will provide the data and analysis necessary to encourage air carriers to expand service.

Contact: Herb Badke, Aeronautics Division, Michigan Department of Transportatation, P.O. Box 30050, Lansing, Michigan 48909 (517-373-1834)

Northwest Airline regional airline service at Lansing, Michigan

Intercity Promotion Using Oil Overcharge Refunds

Under Department of Energy regulations promulgated during the oil crises of the last decade, oil company pricing restrictions were enacted. In some cases the companies overcharged consumers during this period, and the refunds have been returned to the states. Uses for this money are quite varied, but at least one state has used this money to fund intercity bus marketing activities and intercity rail match for Amtrak 403(b) service.

Intercity Bus and Rail Program -- North Carolina

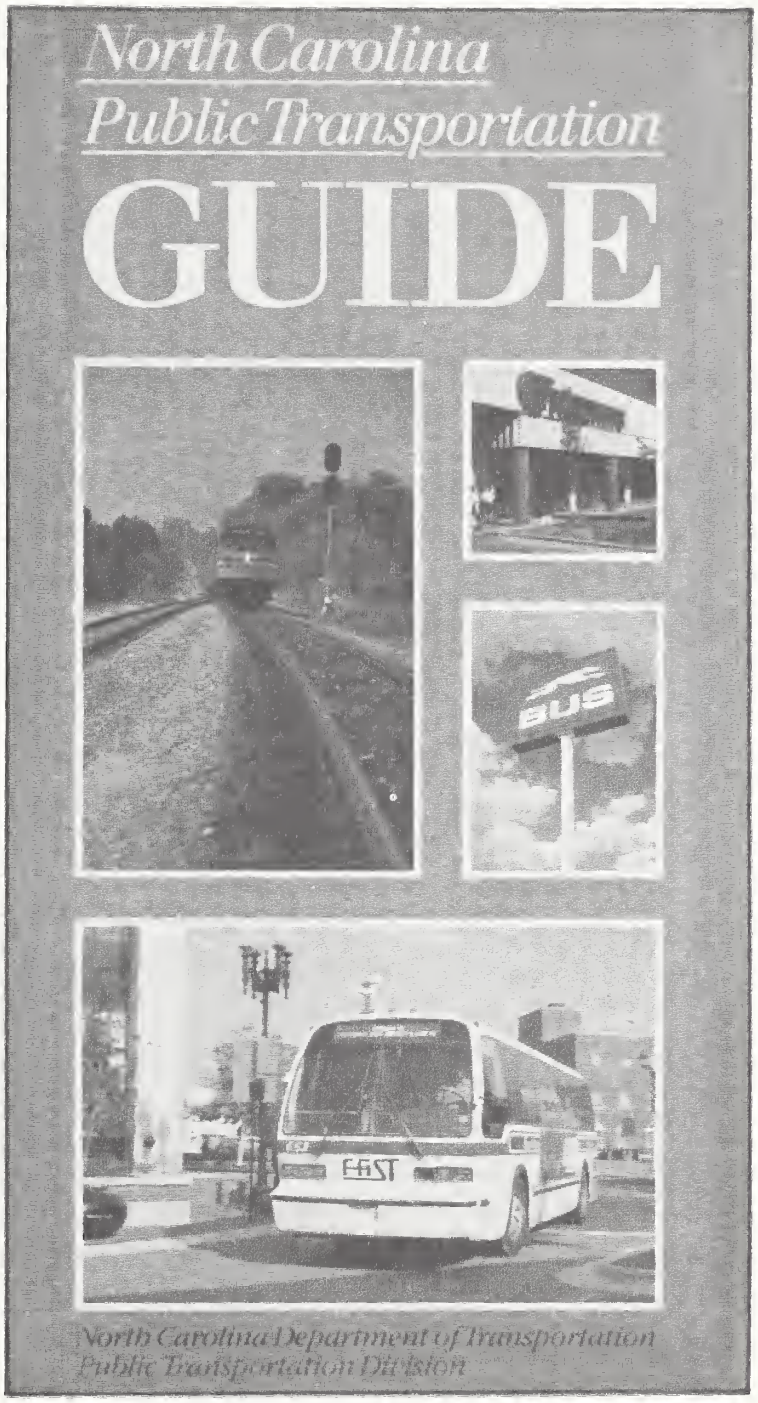
The North Carolina Department of Transportation Public Transportation Division has had an Intercity Bus and Rail program since 1980, using state general funds, Section 18 funding, carrier contributions, and Amtrak 403b funding to support a variety of activities. Recently, oil overcharge funds were used to implement the marketing recommendations resulting from a joint state/private carrier market research effort (discussed elsewhere in this report). The funded intercity promotions included:

- Preparation of a North Carolina Public Transportation Guide to assist visitors and residents to plan and make trips using public transportation. The guide consists of a large foldup map, with one side detailing the routes covered by the intercity bus firms, Amtrak, major airports, ferry services, and cities with local transit systems. The reverse side presents a description of the services. Ten thousand copies were printed for distribution through the state and the transportation companies.

- Intercity bus station directional signs, to be placed on roads and highways leading to intercity bus stations. 340 signs will be installed in all cities and towns in the state with full service bus stations. The signs have the words "Bus Station" inscribed on them, along with a directional arrow.

- Supplemental state funding, using the remaining funds, for the non-Amtrak costs of operating the "Carolinian", a Charlotte-Raleigh-New York train. The combined funds are used to pay the short-term avoidable operating costs and the capital costs associated with the service.

Contact: Charles Glover, Intercity Program Manager North Carolina Department of Transportation, Public Transportation Division, P.O. Box 25201, Raleigh, North Carolina 27705



1986 edition of the North Carolina Public Transportation Guide showing intercity bus, Amtrak, airline and local transit services across the State

TECHNICAL ASSISTANCE

Another aspect of joint public/private partnership that involves increased knowledge and understanding is technical assistance. Public agencies at the Federal, state, and local level are often involved in developing expertise and sharing it with each other and the public. Less common is the provision of such assistance to the private intercity carriers. In part this is because of the operational expertise already possessed by the carriers, and in part due to public reluctance to be seen aiding one firm, but not others. For these reasons, technical assistance efforts have tended to be provided from one level of government to another, typically state to local. Assistance to the private intercity operators is generally for the purpose of performing tasks that are difficult for the single firm, such as ridership surveys and market research. The results of such information are then made available to the industry, and not just to a few firms.

To Local Government

Technical assistance from the states to local governments is not unusual in the transportation field. However, assistance in developing local government expertise to work with private carriers is still relatively unique. An increasing amount of effort is being expended at the national level to assist local governments with increased utilization of the private sector for urban transportation. Although such efforts as the Public Private Transportation Network, an UMTA-funded resource center, are focused on urban transit, they may also be called upon for assistance with privately operated intercity bus modes serving rural areas. However, it is more likely that intercity issues will be dealt with at the state level, as is happening in two states that have developed their own private sector liaison programs.

Private Sector Liaison Demonstration Projects -- North Carolina and Wisconsin

In North Carolina, an UMTA-funded demonstration project is enabling state staff to work with local private and public operators to encourage private sector involvement and to create contracting opportunities on the local level. While the urban areas are included, the focus of the state is on creating opportunities in small urban and rural areas for private operators such as intercity bus operators and taxicab companies.

Activities to date have included meetings with urban operators to discuss Federal regulations regarding privatization, compilation and review of local policies, meetings across the State to develop contracting opportunities, and providing on-site technical assistance to private operators. The latter form of assistance is provided by a private operator under contract to the program.

This effort is complemented by particular program efforts aimed at intercity bus service through a continuing role of technical assistance and contracting by the state Public Transportation Division. Elements of this program have included a state bus plan, a marketing study, demonstration projects, Section 18 operating contracts, and an intermodal terminal. (Some of these will be discussed in more detail elsewhere in this report.)

In Wisconsin a similar program has also begun. Initial efforts have focused on urban areas, though in the future the private sector coordinator will also be working with the private operators in rural areas.

Contact: Sanford Cross, Private Sector Liaison Manager, North Carolina Department of Transportation, Public Transportation Division, P.O. Box 25201, Raleigh, North Carolina 27607 (919-733-4713)

Contact: John Duffe, Private Sector Coordinator, Public Transit Section, Bureau of Transit, P.O. Box 7914, Madison, Wisconsin 53707 (608-267-7350)

General Assistance to Localities by States for Rail and Air Programs

Other private intercity modes have had more systematic programs of technical assistance from the states to local governments and carriers. Virtually all states have a state rail planner, if not a full state rail planning office. These contacts are listed in Appendix A. Any locality or rail line that has concerns about the viability of services whether for freight or passenger service, should contact these offices for further information about available assistance, technical or otherwise, in that state.

Similarly, most states have offices providing air system planning and technical assistance, for both airports and air services. Appendix B presents contacts by state and localities or firms seeking information or assistance regarding air service.

Technical Assistance to Firms

Technical assistance for carriers is often provided in areas where the individual management prerogatives of the firm will not be affected, and for purposes that may be difficult for a single operator to justify the effort. One area already mentioned is assistance in the processes involved in contracting or obtaining assistance. Another area is market research, including user surveys, studies of potential markets, and demand analysis.

State Funded Research -- Michigan User/Student Surveys

Several good examples of such projects illustrate the concept of providing data to the operators in the industry and allowing them to decide the appropriate response. Michigan has recently performed an intercity bus user and ticket survey, a similar Amtrak rail user survey, and a study of the potential bus market represented by college and university students. These studies were funded by the state, were performed with the cooperation and assistance of the carriers, and the results were distributed to all carriers serving the state. Few carriers have the resources to perform such surveys, yet all can use the available data to decide which markets to serve.

For example, the Michigan University/College Student Home Location Study surveyed the college and university campuses to determine, from registration records, the location of student home towns. The numbers of students potentially travelling from the campuses to particular areas in the state were then developed, and included in the report. This was made available to the carriers. Greyhound recently instituted special services from East Lansing (Michigan State) to Pontiac, and Ann Arbor (University of Michigan) to Southfield. These services depart on Friday evenings after classes, and the return run is Sunday afternoon.

Contact: Robert L. Kuehne, Supervisor Surface Systems Unit Bureau of Transportation Planning, Michigan Department of Transportation, P.O. Box 30050, Lansing, Michigan 48909 (517-373-1880)

Greyhound Lines coaches on the ready line

Joint Private/Public Funding of Technical Assistance -- North Carolina Market Study

In North Carolina a similar survey of intercity bus users and non-users was undertaken jointly by the state Public Transportation Division, and the four major regular-route intercity bus carriers: Greyhound, Carolina Trailways, Seashore Trailways, and Trailways Lines. The project originated when the state Utility Commission granted a rate increase request, but as a condition ordered the carriers to participate in the market effort to help determine user satisfaction and possible marketing improvements. The Public Transportation Division offered to participate in the funding, and 50 percent of the $40,000 study was funded by the state. The other $20,000 of the cost was divided equally among the four carriers. An advisory committee consisting of state and carrier representatives oversaw the development of a request for proposals, the selection of a consultant, and the final report.

While the funding of the study represents a unique example of joint public-private efforts at technical assistance, it revealed that a significant consideration with such arrangements is the additional time that must be allowed for any innovative funding. The carriers had to contribute their funds to the state, which then was the contracting agent. However, as there had never been any previous example of such a joint venture, the contracting procedures required a great deal of additional review, and the project required almost two years to complete from the initial Commission order until the report was delivered.

Contact: David D. King, Director, North Carolina Department of Transportation, Public Transportation Division, P.O. Box 25201, Raleigh, North Carolina 27706 (919-733-4713)

COMMUNITY SUPPORT

Often the first awareness of the role played by intercity services in small towns and rural areas comes to local officials when they are notified of a carrier's intention to discontinue service. At this point, it is often too late to accomplish very much toward preserving the service, unless some form of financial assistance is available. Carriers are often made out to be the villain for seeking service reductions, but they in turn often asked where the community's support and concern was in the years preceding the crisis. One major intercity bus carrier, Jefferson Lines, Inc., of Minneapolis, Minnesota has recently taken the initiative to try to avoid this situation by contacting mayors and other local officials in many of the towns and cities it serves, asking their assistance in a public awareness campaign to generate local support for continued regular route service.

The Jefferson Approach

1. Community Awareness

The Jefferson approach begins with a letter to the mayor, describing the declining fortunes of the regular route business, and asking for a meeting between a company representative and the mayor or other officials to discuss the services currently offered and the desire of the company for support.

Concurrently a letter describing the program is sent from the company to the local commission agent, along with a press release about the awareness campaign which the agent can transmit to local media after adding specific details about the frequency and connections of the services available locally.

If the meeting with local officials is positive (about 90% of the time, according to Jefferson Lines), a follow-up letter is sent to the mayor asking for specific action on a number of items discussed in the meeting. Jefferson has nine suggested areas of local support, and if a community takes action on five, the carrier continues its service to that community. The nine areas are included in an action plan, which is the responsibility of a particular local official or group, with a specific person who becomes the contact for the carrier. The actions include efforts to link the local agent with the business community, to improve the bus depot, and to market and promote services, as described in the following sections.

2. Local Bus Agency Improvements

One group of elements in the Jefferson action plan for local support to maintain bus service deals with the local agent, the agency itself, and the connections with local transit services. It asks that the agent be made a member of the Chamber of Commerce, if not already one. The plan asks the mayor or other local officials if the present depot is suitable for the community, including both its location and condition. If it is not, the town is asked for a commitment to assist in relocating the facility to a more suitable place, and/or help in defraying the costs of remodeling. In addition, if the community has local transit service of some sort, the mayor is asked to make the intercity bus depot a scheduled stop.

Baltimore-bound, the morning Greyhound loads at Frederick, Maryland

3. Promotion of Bus Services

The other elements of the Jefferson action plan for community awareness are oriented toward marketing and promotion. The carrier asks the mayor or other lead official to send a letter on their stationary to area businesses, civic groups and other organizations, informing them of the existence and role of intercity bus service in the community. Local officials are asked to develop and distribute public service announcements to local media, including placement of bus schedules in the local newspaper. Cooperative advertising, with local participation in the expense, is also suggested. Finally, Jefferson offers the locality the chance to promote itself by attending travel shows (where group tourism destinations and services are sold to tour brokers and travel agents) with the carrier.

In addition, Jefferson asks local officials to keep the carrier informed about activities in the community that might require additional or special transportation. Similarly, special groups that might require new or modified schedules (such as schools, institutions, plants, training programs, etc.) are to be identified by local officials so that the carrier can be responsive to local needs. The action plan also includes an open-ended task, in which local officials can make any other suggestions to the carrier about ways in which the community and the carrier can work together.

This public awareness program has resulted in some extraordinary joint promotions. In Lamoni, Iowa, a town of 1,500 persons, a combined Jefferson Bus Day/Yellow Ribbon Day festival included the use of new coaches in a town parade, free demonstration rides (over 700 persons rode the new buses), a free lunch, full page ads in the local newspaper, and drawings for bus tickets and tours.

Contact: David Aarsvold, Director of Regular Route System, Jefferson Lines, P.O. Box 978, Minneapolis, Minnesota 55440 (612-332-8745)

While the initiative in this case came from the private carrier, it is clear that a strong local role in creating awareness of bus or other intercity service is vital to maintaining the availability of services. Most of the elements included in the Jefferson action plan are low in cost, and do not involve any kind of operating assistance. Financial costs are low, and are generally restricted to local advertising costs or the costs of improvements to the local terminal.

Promote Airport to Carrier -- San Joaquin County, California

San Joaquin County is a rapidly growing county in central California served by Stockton Metropolitan Airport. The airport has in the past received some Essential Air Service (EAS) funds, but currently carriers are operating without subsidy. The County has long been involved in supporting air service to the community. At various times in the past several years the county has:

- done studies to identify market demographics and perceived strengths and weaknesses at Stockton compared to other competing airports
- undertaken a $30,000 marketing campaign to promote the airport
- dropped all parking fees at the airport
- reduced fuel flowage fees for all jet carriers that pay a landing fee from five to one cent a gallon
- required all county employees to begin and terminate travel at Stockton Airport whenever reasonably possible
- frozen terminal and landing fees, and
- hired a part-time employee to visit potential airline users (travel agents, businesses, etc.) to promote available airport services.

Additionally, the County has in the past paid subsidies beyond the subsidies being paid by the EAS program to various carriers.

Contact: Leila Gains, Stockton Metropolitan Airport, 5000 Airport Way, Stockton, California 95206 (209-982-4270)

State Air Promotion Groups -- State of Virginia

The State of Virginia has an air service and airport promotions program designed to promote existing and new services, increase public awareness, and stimulate economic development. This program was established in 1982, and provides grants that pay up to 2/3 of the cost of promotional programs up to $15,000 depending on the size of the airport. All of the funds must be matched at various levels by local airports, and are drawn from funds raised through aviation fuel taxes and licensing fees.

Contact: Mike Waters, Air Service Development Division, Virginia Department of Highways and Transportation, 1221 East Broad Street, Richmond, Virginia 23219 (804-786-1364)

Local Air Service Task Force -- Sierra Vista, Arizona

The city of Sierra Vista, Arizona, with a population of approximately 30,000, has convinced Golden Pacific Airlines to begin service to the community through an Air Service Task Force which collected and analyzed data to determine if a viable market for air service existed. The task force, formed at the direction of the mayor, was made up of representatives of the local car rental agencies, travel agencies, Tucson International Airport, and the Army's Fort Huachuca, as well as members of the local Economic Development Foundation, Chamber of Commerce, and Industrial Development Association. Also represented were the airport fuel sales company, the State Department of Transportation, several regional airlines and one major airline, and the district representative. The task force was headed by the city airport manager.

The task force began by reassessing the need for air service to the city. Three attempts had previously been made to provide air service to the city. One attempt failed when the airline was closed by the FAA because of safety violations. The other two attempts resulted in large financial losses for the airlines and service was halted after approximately six months each time.

It was decided that air service was a reasonable goal for the community after much discussion about why the other carriers had failed. Poor unreliable service and a lack of use by military traffic were cited as primary reasons for the failure. All of the airlines lacked interline agreements with the major airlines in Tucson and had a history of late or cancelled flights. Additionally, the Army did not have a military "contract" fare with any of the earlier airlines, making it difficult for their personnel to use them. With Tucson only 75 miles away by interstate highway, poor service was hard for an airline to overcome. Still, it was felt that if the city was going to develop the light industrial economy it desired then air service was necessary. Limitations on the availability of express mail and overnight delivery services was pointed out as just one drawback of not having air service.

The task force then turned to the basic questions of whether, with support from officials at the military base, the community could support air service. Sierra Vista being only 75 miles from Tucson by interstate, the competition from ground transportation is intense. Several firms offer limousine service to the airport at slightly under half the cost of air service.

Using information supplied by the Satellite Airline Ticket Office at Fort Huachuca and the travel agents in the city, the task force identified the major travel patterns in and out of the city. They also examined the times of the week and day business travel took place, realizing that a successful service would have to be carefully tailored to these needs to be successful. Finally, by examining previous year's data, they identified a $7.8 million a year civilian and military travel market in Sierra Vista.

Local Air Service Task Force (continued)

Using a regional planning commission study, state DOT resources, and first hand information, the task force decided that the community could support air service if it was high quality, reasonably priced and supported by the military. It was also recognized that the city must provide financial incentives to attract a service.

The major breakthrough came when the Department of Defense solicited bids for government contract air fares (TCA rates) from Sierra Vista to El Paso, Texas and Tucson and Phoenix, Arizona. This would allow military personnel to use the commuter air service.

Additionally, a series of programs to offer incentives to airlines was put together. Local hotels and motels were contacted through the Chamber of Commerce; working with the airlines, they developed a three phase program to offer free or substantially reduced rates to the airline's flight crews, with the prices increasing over a period of 18 months to an airline serving Sierra Vista. Finally, Golden Pacific, the airline that will begin service to the community, purchased the airport fuel supplier when they went out of business. Golden Pacific is currently building a new fuel facility which will keep its costs down.

The key factor in the success of the Sierra Vista project, according to the head of the task force, has been the dedication of the task force members. Additionally, the ability to compile market size figures and trip pattern figures from the travel agents was crucial in making a comparison with other cities. Not to be overlooked is the nature of Sierra Vista's population white collar, with an average income of $18,000 a year. Additionally, the city made known early on in the process its desire to support service as an aid to economic growth, which allowed the task force to be realistic in its expectations about what kind of support could be expected. This also made it easier to get information from the airlines, since they realized that the city was very serious about having service. This information made the planning of the service easier and, again, the expectations more realistic.

Contact: Mike Waters, former Airport Manager, Sierra Vista, Arizona. Now at New Haven, Connecticut City Airport (203-787-8286)

JOINT SERVICES

Another way in which privately-provided intercity transportation services can be assisted is by coordinating publicly-operated services to jointly provide intercity transportation. In areas where there are both public and private operators providing services, arrangements can be made to allow passengers to use either service for the same fare. Services provided by local rural transit can be coordinated with privately-provided intercity services in terms of schedules and routes to allow persons living in areas no longer served by intercity buses to reach the nearest bus terminal. Sharing of station facilities often makes sense, particularly when it results in better service for passengers by linking local transit with intercity carriers.

Examples of each of these types of joint service provisions are presented below.

Service Coordination -- Iowa

A demonstration project in Iowa attempted to use the regional rural public transit systems as feeders to connect rural areas to points where passengers could board intercity bus services for trips to points outside the region. The major private intercity bus carrier in the region, Jefferson Lines, worked with the State Department of Transportation under an UMTA-funded demonstration project to develop and monitor the feeder services.

According to published reports, the results of the project were mixed. The major difficulty in attracting ridership on the feeder buses came in areas where there had been no previous intercity bus service, or where services had been discontinued for some time prior to the implementation of the new feeder service. It appears that for some rural areas that have already adjusted to the absence of intercity travel options (other than the private auto), ridership may be difficult to attract back to the bus. However, in areas where the feeder service represented a substitution for direct intercity bus service, with no hiatus in operations, ridership was more acceptable. For state and local officials faced with the loss of intercity bus services in rural areas, a key message is that service must be maintained while alternatives are being developed, rather than allowing a lapse in service.

Contact: Mr. Don Alexander, Iowa Department of Transportation, 5268 N.W. 2nd Avenue, Des Moines, Iowa 50313 (515-281-4265)

Fare Coordination -- Butte County, California

An example of one way in which privately provided intercity bus service can be coordinated with local or regional public transit is a program operated by Butte County Transit in California. Under this program, passengers who ride on routes served by both Greyhound and Butte County Transit can ride either carrier for the same fare. The result is that the frequency of service on one of the major corridors in the County is increased substantially at a moderate cost to the local transit operator, who pays Greyhound the difference between the Greyhound tariff rate and the transit fare.

The program came about when Butte County Transit was established, as it sought to run services on the Butte County portion of a route long served by Greyhound. The carrier objected, citing the possible diversion of revenue from local passengers. The County transit system agreed to pay Greyhound the difference between their own fare (now $0.70 mid-day) and the Greyhound tariff rate for trips on the routes served by both carriers, on days when Butte County Transit provided services (weekdays).

The County has two major corridors, Highway 99, which is the major north-south route, and Highway 70, which serves the eastern part of the County. The Highway 99 route from Chico at the North, through Paradise to the South County and Oroville is served by both the transit system and Greyhound, and is covered by the arrangement. The portions of the Route 70 corridor that are served by Greyhound alone are not included.

The approximate annual cost to the local transit district is $5,000 in billings from Greyhound. Greyhound sells its own tickets, collecting only the Butte County transit fare from the passengers. A copy of the ticket is then submitted to the County at the end of the month along with a bill for the difference between the amount collected by Greyhound and its current fare. This program is beneficial to local transit users in that it provides additional frequencies, including service at night, at low cost. It also provides additional revenue to Greyhound which makes the services through the county less subject to reductions or elimination.

Contact: Lynn McEnespy, Transportation Planner Butte County, Department of Public Works, Seven County Center Drive, Oroville, California, 95965 (916-538-7681)

Joint Agency/Station

One possible way in which local rural public transportation programs can help ensure the continued provision of intercity bus service to their area is by becoming the commission agent for the intercity carrier, selling tickets and handling bus package express service. Such an arrangement can help the intercity carrier overcome the problem of retaining reliable agents in small towns. The local public transit service also can act as a feeder to the intercity carrier, bringing passengers to the bus stop and delivering package express. Although such arrangements have been rare, one example is White River Transportation Services, Inc., which uses the name Stagecoach for its local transit services.

Stagecoach operates 14 vehicles in a mixture of fixed route transit, contracted social service transportation, and limited school and charter services. It has a staff of 11, and provides about 60,000 passenger trips per year on its own services. It is also the agent for Vermont Transit, one of the major intercity bus companies in the region in Randolph, Vermont. As it is a bus agency, it is a shipping and receiving point for bus package express service, and it does use its own vehicles to deliver packages along its route.

The role of Stagecoach as an intercity bus commission agency began several years ago when Stagecoach purchased a former gas station on the main street in Randolph to renovate as its new operations center. The result was an attractive facility, with an off-street apron for bus parking. Subsequently, in a letter written to Vermont Transit as part of the Section 18 notification of private carriers, Stagecoach offered to take on the commission agency in Randolph. Previously, the bus agency had changed hands several times, and the existing agency location required on-street bus loading. Vermont Transit responded favorably, and Stagecoach became the agent.

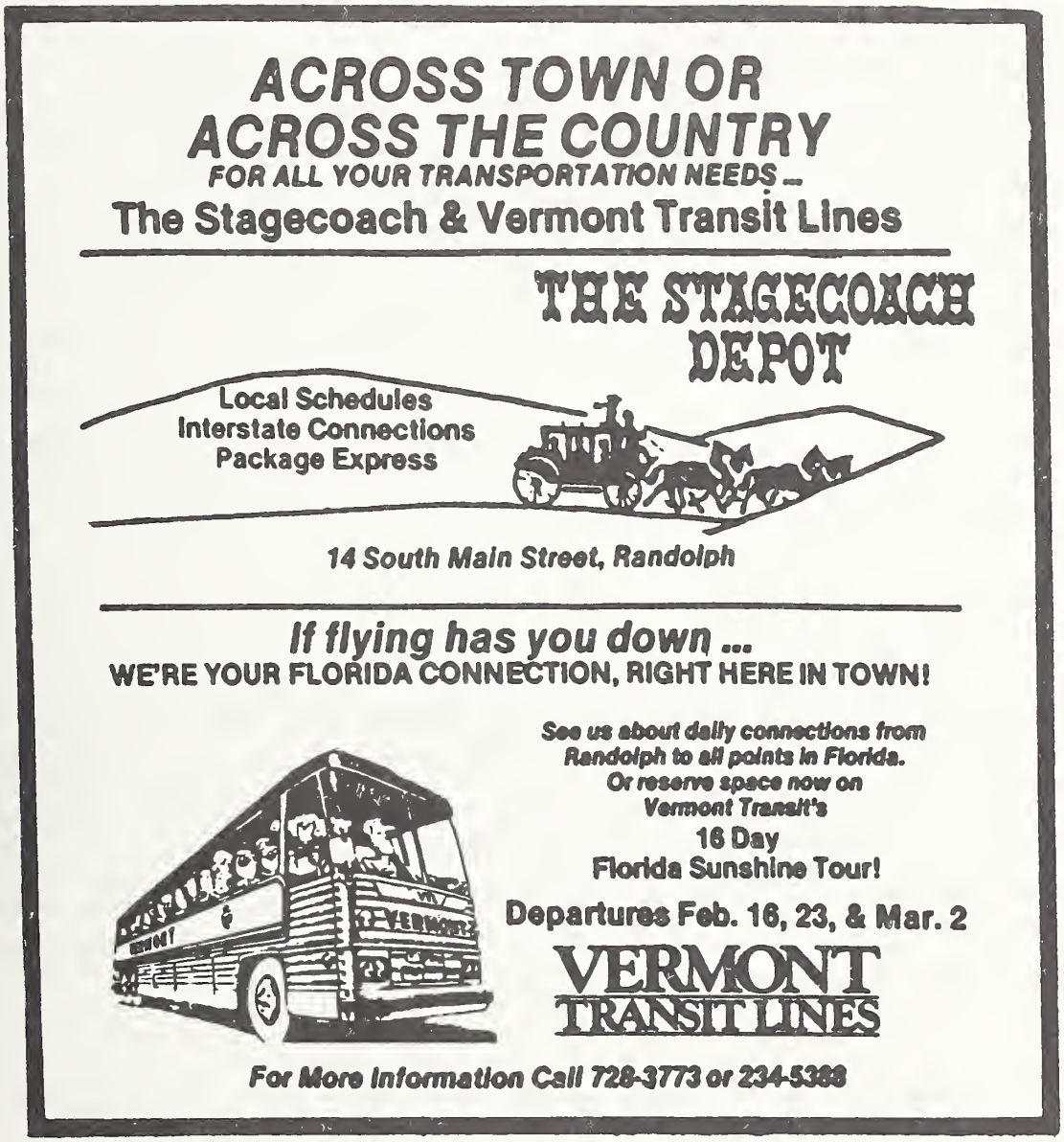
Stagecoach sees several benefits to being the agent for a private carrier. One is that it contributes favorably to the image of the local operator as the transportation provider for the area, as it can advertise "across town, or across the country" as the scope of its services. Intercity bus riders are a different market segment from those normally receiving most rural transit services, so it puts Stagecoach in touch with a broader cross-section of the community. The agency also creates a cooperative relationship between the public local operator and the private intercity carrier. Another benefit to the local operator is, of course, the revenue paid by the private carrier as commission on tickets, package express shipments, and charters sold by the agent. In small towns with infrequent service, this may not amount to large amounts, but it can be used as local match, greatly increasing its value to the local operator.

Joint Agency/Station (continued)

For Stagecoach, this revenue amounts to $4,000 to $5,000 per year, much of it from commissions arranging Vermont Transit bus charters for persons in its areas. In this case, the public operator is able to benefit from private carrier charter operations.

Contact: David Palmer, Manager, White River Transportation Services, Inc. (Stagecoach), Box 356, Randolph, Vermont 05060 (802-234-5388)

Vermont Transit Intercity Coach loads at the Stagecoach Depot in Randolph, Vermont



Local newspaper advertising by the Stagecoach emphasizes both the local rural services and the prospect of interstate travel and package express on Vermont Transit

Introducing or maintaining intercity services in rural areas may not always be feasible without some form of financial assistance from local or state authorities. However, this assistance need not always be in the form of operating or capital subsidy payments. Depending on the situation, limited financial assistance to the carrier or help with particular costs may be all that is necessary. The levels of financial assistance can include this limited kind of help with inputs (such as crew lodging costs, fuel costs, landing fees, etc.); help with capital costs (loans for or direct public purchase of track, terminals or vehicles); operating subsidies (using combinations of state, local, and other government funding), and finally, in some cases, direct public operation. The remainder of this chapter presents case examples illustrating the many types of financial assistance that have been used to improve or maintain intercity transportation services in rural areas.

Input Subsidies

Input subsidies are those kinds of assistance that are provided to reduce or eliminate the costs to the carrier of a particular input required to operate the service. The amount and nature of the subsidy are not linked to any particular output or service. The inputs for most transportation services include labor and related costs; fuel; operating and maintenance costs; user fees for public facilities such as runways, roads, and terminals; and capital costs of vehicles, track, terminals and garages.

Reduced Landing Fees -- Spencer, Iowa

Spencer, Iowa is a city of about 12,000 served by Great Lakes Aviation, Ltd., based in Spencer. The city supports the service in several ways. No landing fees are charged and the airline receives reasonable rent on terminal, hanger, and shop space. Additionally, the airline receives exclusive fuel sales through airport equipment. The airport pays approximately the same Fixed Base Operator Management fee to the carrier as it charges for rent of facilities, virtually eliminating the cost to the airline. The arrangement has been quite satisfactory for the community, and they feel that the benefits of air service have been worth the effort.

Contact: Harold Home, Chairman, Spencer Municipal Airport Board of Directors, Box 3125, Spencer, Iowa 51301 (712-262-2403)

Local Subsidy for Crew Lodging Costs -- Fort Bragg, California

At the beginning of 1983, Greyhound Lines sought to reduce its losses on scheduled service from Ft. Bragg, California, to Santa Rosa (with connections to San Francisco) by changing its schedules. Prior to that time, Greyhound had offered citizens of the Ft. Bragg area an early morning departure to Santa Rosa, a regional center, with a connecting bus to San Francisco. Late afternoon return schedules from both places allowed local residents to spend the day without having to stay the night. On January 4, 1983, Greyhound reversed the schedule to leave Fort Bragg at 4:50 p.m., arriving in San Francisco at 9:45 p.m., leaving San Francisco at 9:30 a.m., arriving in Fort Bragg at 2:50 p.m. Greyhound cited the costs of putting up a driver overnight in Fort Bragg as a major reason for the change.

However, this change prevented persons from Fort Bragg and Mendocino County from being able to make day trips to either Santa Rosa or San Francisco. County and City officials were contacted by affected citizens, as was Greyhound headquarters in Phoenix, Arizona. Greyhound cited the $300 per month cost of lodging for the driver of the run as the major reason for changing the schedule, and the company offered to maintain the old schedule if the locality would reimburse Greyhound for the lodging expenses. Initially, members of the Fort Bragg Chamber of Commerce offered to put the driver up for free in a local motel as a possible solution. The final arrangement that enabled service to continue on the old schedule called for Greyhound to bill the Mendocino Transit Authority on a monthly basis for lodging expenses at the rate of $10 per night, or approximately $300 per month. On February 4, 1983, Greyhound service returned to the old schedule, with a morning departure from Fort Bragg at 6:50 a.m., returning at 8:10 p.m. six days per week. Mendocino Transit Authority dial-a-ride service is available in the evening to take passengers home from the Greyhound stop.

By inquiring into the reasons behind Greyhound's schedule change, local city, county, and transit authority officials were able to work with the carrier to maintain the service needed by the predominately rural area. The dollar costs of the arrangement are very low in comparison to the cost of providing public transit service to the nearest regional center.

Contact: Mr. Bruce Richard, General Manager, Mendocino Transit Authority, 241 Plant Road, Ukiah, California 95482 (707-462-1422)

Capital Funding

As the previous sections of this chapter indicate, there are a wide variety of potential arrangements for ownership, management and financing of the capital costs of intercity services. The following examples show some of the arrangements which have been used in the past, and they illustrate various ownership and management arrangements, as well as actual financing. The first examples deal with funding alternatives used for railroad track purchase and rehabilitation, while subsequent cases present capital funding for terminals and vehicles.

State Loan to a Private Shipper Group -- Tippecanoe Railroad

The Tippecanoe Railroad was formed in 1980 by a grain elevator and other rail users in Monterey, Indiana, to operate a 16-mile segment of the former Erie-Lackawanna (EL) mainline. The line had not been included in Conrail, and two previous companies which had attempted to operate the entire 195-mile Indiana segment of this line had been unsuccessful, at least in part because of management problems and undercapitalization.

The 16-mile line was purchased for $1.5 million from L.B. Foster, a rail-salvage firm, with the assistance of an $800,000 loan from the state rail loan fund but no Federal funds. The principal owner of the line is the grain elevator, with minority shares held by other rail users, employees, and 12 outside investors.

The line is operated by two full-time employees (both former EL employees), a part-time bookkeeper, and a part-time tariff man. The line, a former mainline, was in good condition and no rehabilitation was necessary. The railroad is happy with its rate divisions (the revenue split with connecting carriers) and with the cooperation it receives from the Chessie, with which it interchanges traffic. The line generates 65-80 carloads per mile annually, nearly all of which is grain which is moved 25 cars at a time for assembly by the Chessie into unit trains. The combination of high traffic volume, economical movement of the traffic, close cooperation with rail users, first-rate track, low overhead and operating costs, and a cooperative connecting carrier has made the Tippecanoe a profitable railroad with an excellent outlook for long-term success.

Contact: Mr. Bob Garner, Division of Railroads, Department of Transportation, 143 West Market St., Suite 300, Indianapolis, Indiana 46204 (317-232-1491)

Track Lease with State Funds -- Tillamook Branch

The Tillamook Branch is a 115-mile Southern Pacific (SP) line in Northwestern Oregon from Williamsburg Junction to the port of Tillamook, where it connects with the Port of Tillamook Bay (POTB), a small terminal railroad. The line has numerous bridges and tunnels as well as steep grades as it crosses the Coast Range, and accordingly is expensive to maintain and to operate. Much of the area served by the line was reforested in the 1930's following a bad fire, but this timber will not be ready to be harvested for another 20 years. The SP has filed for abandonment of the last 91-mile segment of the line.

To preserve service on the line, the POTB has arranged to lease and to operate it while an attempt is made to arrange for its purchase. The state has provided the POTB with a $155,000 grant for this purpose, and the POTB experience is being used to determine whether or not additional funding for purchase is warranted.

Contact: Claudia L. Howells, Manager, Rail Line Abandonment Task Force, Public Utility Commission, Labor and Industries Building, Salem, Oregon 97310 (503-378-6218)

Track Purchase/Local Funds -- Crab Orchard and Egyptian Railroad

The Crab Orchard and Egyptian Railroad (CO&E) was established in 1973 as a tourist excursion railroad operating on Illinois Central Gulf (ICG) track in southern Illinois. When the ICG sought to abandon the line in 1976, the CO&E claimed trackage rights and the City of Marion agreed to lend it $200,000 to purchase the easement from the ICG. The CO&E raised an additional $300,000 by selling common stock and used the funds to construct an interchange with a Missouri Pacific mainline in Marion. These funds were combined with $192,000 in Federal Local Rail Service Assistance Funds for Rehabilitation and Construction.

The CO&E has low labor costs and strong support from the city and from local rail users. Repayment terms for the $200,000 loan are very lenient. The line has the principal piggyback ramp in the area, and piggyback traffic accounts for about half of the total traffic which it handles. Total annual traffic generated on the line is about 85 carloads per mile, and the line is marginally profitable.

Contact: Chief, Program Management Section, Bureau of Railroads, Department of Transportation 300 North State, Room 1015, Chicago, Illinois 60610 (312-793-5668)

Track Purchase With Economic Development Funds -- Nevada, California and Oregon

In 1984, the Southern Pacific filed to abandoned the 55-mile Lakeview Branch from Alturas, California, to Lakeview, in South-Central Oregon. The line served four large lumber mills in Oregon and generated about 1,400 carloads annually (26 carloads per mile).

The postmaster in Lakeview organized an effort to save the line, and the line was eventually purchased by the County with the aid of a $475,000 economic development grant from the state and $84,000 from the lumber mills. The mills also agreed to pay a $157 per carload surcharge on all shipments. Because most of the line is in California, this arrangement required a new State law permitting the county to own land outside of Oregon. The purchase was completed in January 1986, and the Great Western Railroad of Loveland, Colorado, took over operation, under contract. A freak storm occurred shortly thereafter, causing a washout, and emergency funding to bring the line back into operation has been provided by FRA and the States of California and Oregon. FRA provided $295,921 in LRSA funding.

Contact: Claudia L. Howells, Manager, Rail Line Abandonment Task Force, Public Utility Commission, Labor and Industries Building, Salem, Oregon 97310 (503-378-6218)

Shipper Funding of Track Rehabilitation -- Shelby County, Indiana

In 1982, Conrail received permission to abandon a 58-mile line segment running southeastward from Shelbyville in southeastern Indiana. Prior to receiving approval, the users of this line reached an agreement with Conrail to hold the line intact to allow them to arrange to reactivate the line.

The rail users formed a corporation, and Shelby County formed a Port Authority which then obtained a $540,000 loan for track rehabilitation from the state. The loan is to be repaid by the shippers over a five-year period. (The shippers, as a private corporation, were not eligible to receive the loan directly.) Conrail applied for and received a $1.26 million grant for track rehabilitation and obtained ICC approval for it to provide a non-common carrier, non-regulated service on the line. Using the $1.8 million in public funds and an additional $2.1 million of its own money, Conrail rehabilitated the line and restored it to service. The line is now in service under a contract that requires Conrail to maintain service on the line until 1990.

Contact: Bob Garner, Division of Railroads, Department of Transportation, 143 West Market St., Suite 300, Indianapolis, Indiana 46204 (317-232-1491)

State-Funded Track Rehabilitation -- Delaware Otsego System

The Delaware Otsego (DO) was incorporated in 1966 and began operations in 1967 as a small tourist railroad in Oneonta, New York. In 1971, it acquired the 16-mile Cooperstown Branch of the Delaware and Hudson Railroad which it incorporated as the Cooperstown and Charlotte Valley Railroad (CACV). The following year, the DO acquired the 22-mile Richfield Springs Branch of the Erie Lackawanna (EL) which it incorporated as the Central New York Railroad (CNY). In 1974, the DO purchased the Fonda, Johnstown, and Gloversville Railroad (FJ&G), a 20-mile short-line. In 1976, the State of Pennsylvania purchased a 25-mile EL branch line in northeastern Pennsylvania which was due to be abandoned upon formation of Conrail and awarded the DO a contract to operate this line as the Lackawaxen and Stourbridge Railroad (LASB).

In 1980, the DO acquired the bankrupt New York, Susquehanna and Western (NYS&W), a 59-mile line in New Jersey, northwest of New York City, and the DO began operations on 30 miles of this line. In 1982, Conrail sought to abandon two former EL lines in New York State, from Binghamton to Utica and to Syracuse; these lines (totaling 157 miles) were purchased by the DO and operated under the name of the NYS&W.

The DO has used Federal and state funds for rehabilitating most or all of the lines it has acquired and, in the case of the LASB, an operating subsidy from the State of Pennsylvania.

DO acquisitions have been made only after a careful analysis of track conditions, a comprehensive survey of rail-user demand, and negotiated agreements for capital and operating subsidies. The capital subsidies have primarily taken the form of Federal and state funding for required rehabilitation. The operating subsidies have taken the form of shipment surcharges, on the FJ&G, CACV and CNY, or an annual operating subsidy from the State (Pennsylvania) for the LASB.

The rail lines are operated by five different subsidiaries (identified above), each with local community and rail-user representatives on its Board of Directors. Support from the communities and rail users is strong, and in some instances rail-user organizations played key roles in preserving rail service when the lines were faced with abandonment.

Employees are obtained from the local work force and paid at locally prevailing wage rates. The use of a central administrative staff and sharing of maintenance-of-way crews among the railroads contribute to operating efficiencies for the DO system.

Contact: Mr. C. David Soule, Executive Vice President and Chief Operating Officer, Delaware Otsego Corporation, 1 Railroad Avenue, Cooperstown, New York 13326 (607-547-2555)

Intermodal Passenger Terminals

Another capital facility that can be a candidate for public, private, or joint funding is the bus terminal. Often the intercity bus terminal can be combined with the intercity rail terminal, the central transfer point of the local transit system, airport limousine terminals, and other non-transportation uses to create an intermodal terminal. As terminals represent the major fixed cost for regular-route bus service, assistance in providing these needed facilities can aid the bus companies by reducing their cost to operate scheduled service. It should be noted, however, that an alternative to company-owned terminals in small cities is the commission agency, which may be another means of reducing carrier costs.

State Funding of Intermodal Passenger Terminals -- Michigan

The Michigan program of intermodal terminal construction is probably the most advantageous to the carrier. Over the past 12 years it has constructed or rehabilitated ten terminals. The state cost per terminal has varied from $75,000 to $3 million. It is funded out of a portion of the state gasoline tax which is dedicated to transit uses, including intercity transportation. The terminals are built by the state, but carriers must supply their own personnel to sell tickets and load baggage. Usually the carriers use independent agents, operating on a commission basis. The carriers must pay their pro-rated shared of the utility and operating costs of the facility, and they have a lease agreement. They are not charged any rent, and they do not have to contribute any of the capital costs. An evaluation of the program is currently underway, but the carriers support it as an important means of assisting regular route service.

Contact: Jerome J. Rudnick, Administrator, Intercity Division, Michigan Department of Transportation, Bureau of Urban and Public Transportation, 425 West Ottawa St., Lansing, Michigan 48909 (517-373-2953)

Other localities and states have developed intermodal terminal facilities using other sorts of funding, including UMTA capital funding and economic development grants. Many of these federal sources are now limited or restricted to an extent that precludes such projects, which is now one major disadvantage in using this as a means of aiding carriers. An additional disadvantage is that such terminal projects of necessity involve

many actors, some of whom are competitors, with the result that planning, engineering, and construction can take many years. Also, the combined desires of the different parties can result in construction costs that are greater than the sum of what is needed by the individual carriers, rather than less. Finally, in small towns and rural areas the use of commission agencies can provide the needed services (particularly if there is some local support) at a lower cost.

Local Funding of Air Carrier Facilities -- Salisbury, Maryland

Salisbury, Maryland, with a 1980 population of about 16,000, is the home of Henson Airlines, the nation's eighth largest regional airline and now an affiliate of Piedmont Airlines. Salisbury has been served by Henson since 1968, when Henson replaced Alleghany as Salisbury's airline. Since that time, the city (and now the county) has maintained an aggressive program to develop its airport facility. They built the first maintenance facility and leased it to Henson on a long-term basis, and built another several years later, connecting the two buildings to provide training facilities and office space. According to the head of the county airport commission, the community has felt very strongly that it is important to retain the Henson facility in the city. The county responded again several years ago when Henson obtained 50 passenger aircraft and needed to expand the maintenance facility. The county built new facilities at the airport and leased them to Henson. Having this facility at the airport has brought an extremely high level of service to the community. Henson now has 11 flights out of Salisbury daily, connecting to Piedmont's hub in Baltimore, and several additional direct flights to Washington. Additionally, the airport facilities have brought 400-500 jobs and a $20 million dollar payroll to the community.

The head of the airport commission attributes the good relationship of the county and the airline partly to the makeup of the commission. Wicomico County appoints seven members, and the city one. Most of the members are businesspeople, including a local roofer, insurance agent, and florist. Having people on the commission who realize the value of the airline to the community has been a deciding factor in the level of support.

Salisbury is now the only community on Maryland's Eastern Shore with scheduled service, and the State Department of Transportation is now involved with airport improvements, realizing the economic value of the airport to the area.

Contact: Tom Foltz, Vice President, Finance Henson Airlines, Salisbury/ Wicomico County Airport, Salisbury, Maryland 21801 (301-742-2996)

Henson-operated Piedmont Commuter Service in Salisbury, Maryland

Vehicles

The other major capital cost for most transportation operations is the cost of vehicles, whether locomotives, rail cars, ferry boats or airplanes. In general, the public role in procuring vehicles has been more limited than for track, airports, etc. However, in some cases state or local agencies have developed ways of aiding private carriers by providing vehicles. Several cases illustrate some potential alternatives.

Use of Revenue Bonds to Purchase Ferry -- Casco Bay Transit District

Casco Bay Lines was a private ferry boat operator which provided public passenger and vehicle services between Portland and six islands in Casco Bay. The firm filed for bankrupty in 1979, and became Casco Bay Transit District, which continues to provide the services using three passenger ferries and vehicle ferry. The Transit District is franchised by the state Public Utility Commission, who regulate rates, services, and entry. Rates are set at a level adequate to cover operations and allow debt service. No operating subsidy is required. The firm also provides charter and tour services in Maine's summer tourist season.

Although user charges allow operation without subsidy, portions of the facilities are funded in cooperation with various state, local and private concerns. The piers on the islands are owned and maintained by the State of Maine, while at the Portland terminus a new terminal facility is being constructed by the City of Portland. This terminal is to include a parking garage, with space set aside for terminal users. The parking garage will be operated under contract by a private firm.

Recently, the private capital markets were used to provide the local match for purchase of a new passenger/vehicle ferry with UMTA Section 3 funding. The Transit District sold revenue bonds (to be repaid from fares) for the local match portion, while the State Department of Transportation facilitated the UMTA grant application. No state funds are involved in the acquisition of the new ferry.

Contact: Robert D. Elder, Director, Division of Ports and Marine Transportation, State House Station #16, Augusta, Maine 04333 (207-289-2841)

Intercity Bus Loan Program -- Michigan

In the late 1970's, increases in the cost of new intercity buses threatened the ability of regular route carriers to provide reliable, attractive transportation. Interest costs at that time also made capital replacement prohibitive. In response, the state devised a plan that would utilize state funds to create a loan pool which private carriers could use to purchase buses at reduced interest rates and with a longer payback period than offered by usual financing sources. Although the state would hold title to the bus until repayment was completed, the carrier could order the equipment, and it would have the carrier markings. In order to be sure the buses were used to improve regular route service in Michigan, eligibility and use restrictions were placed on the vehicle, and carriers must agree to provide a 150 miles per day of regular-route service in the state.

The program has succeeded in reducing the average fleet age of the firms that participate, and has served as an incentive for operators to provide regular route service as a means of obtaining the buses at beneficial terms. Its value to the carriers has declined in recent years with the levelling off of bus prices, and the fall in interest rates. Nevertheless, it has proven to be one means of assisting carriers at little cost to the state, as the loan is repaid.

Contact: Jerome J. Rudnick, Administrator, Intercity Division, Michigan Department of Transportation, Bureau of Urban and Public Transportation, 425 West Ottawa St., Lansing, Michigan 48909 (517-373-2953)

Shortway/Northstar bus purchased under the Michigan Bus Loan Program for use in regular-route service

Other Sources of Vehicle Funding

Other sources of vehicle funding for intercity bus operators (aside from credit institutions and carrier financing) have included UMTA Section 18 capital funds, state discretionary funds, and UMTA Section 3 & 9 capital funds (if the vehicles are serving an urbanized area). Examples of public/private cooperation using these other funding mechanisms include:

- Prince William County, Virginia, used local and state discretionary transit funds to purchase and rehabilitate commuter buses, which were then leased at no cost to private commuter bus operators providing service into Washington, D.C.

- New Jersey Transit uses UMTA Section 9 capital and the state match to purchase long-distance commuter buses, which are then leased to private bus companies for $1 per year to provide commuter service into New York.

- Yolo County, California, uses its share of the Section 9 allocation for Sacramento to purchase buses which are provided to the private firm under contract to the County to provide bus service into Sacramento.

While each of these examples involves commuter bus service from distant suburbs and small towns to large urban areas, they each illustrate ways of using vehicle capital funds as a means of enabling private carriers to provide quality service on regular-routes, often with no other operating or capital subsidy. Such strategies are likely to work best in cases where the revenues from riders are sufficient to pay the labor, fuel and insurance costs, but not finance new equipment. Since vehicle capital costs may amount to 10-15 percent of total costs, bus capital funding by itself is not going to be a useful incentive when revenues are low. In that case, some form of operating subsidy may also be needed.

Operating Subsidies

Increasingly, community support and lower carrier costs are not sufficient to retain services in rural areas. If state or local officials are convinced that the services in question are needed, further inquiry may be made as to whether or not the likely costs of some form of operating assistance are equal to the benefits of continuing the service. While it is not the intention of this report to provide analysis of this decision, it should be noted that not

all services are automatically worthy of subsidy. Generally, the benefits of maintaining a given service are directly proportional to the current and anticipated usage of the service. Services with relatively high usage that are nevertheless unprofitable to the carrier might receive assistance priority over services with few, if any users, and little prospect of attracting any. One way of ensuring that subsidies go to services where there are at least some users is to require that revenues must cover some fixed percentage of the operating cost. Pennsylvania, for example, requires intercity bus services funded under its state program to cover 50 percent of the costs out of the fares. On the other hand, other jurisdictions may consider larger subsidies if other criteria are met, such as the provision of services to disadvantaged or isolated persons.

A second key factor to consider when contemplating operating assistance is the appropriate mechanism. This includes consideration of whether the funding should be through state or local bodies, and whether the actual procurement of services is negotiated with an existing private carrier, put out to bid, or provided directly by a publicly-owned operator.

Generally, intercity services, whether bus, rail or air, cross several county lines on a given route or schedule. This fact can make funding through strictly local agencies difficult, as all localities on a route must both contribute and agree on an allocation of costs. Sometimes regional bodies, such as transportation districts, can be used to avoid this problem, but often it means that operating assistance must be provided directly at the state level, rather than from the state to local governments and then to the carrier. North Carolina's Section 18 program permits the state to contract directly with carriers providing services that cross county lines, even though the program normally provides funding to local county and city governments. In New York state, funding can be provided directly by the state to services operating in three counties.

Operating Subsidies from States and Localities

One response to potential service losses has been the creation of state-funded operating assistance programs for intercity carriers, in the absence of any Federal categorical programs. The scale of these programs varies considerably, depending on the state concern and available funds. Four of these programs are presented briefly in this section.

State and Local Operating Assistance for Privately-Operated Ferry Service -- Beaufort County, South Carolina

Dafuskie Island, one of the barrier islands off the coast of South Carolina, has long relied on ferry service as its only link to the mainland. Recently, resort development has created new needs for transportation. A private ferry operation between Hilton Head and Dafuskie Island is fulfilling a number of different functions with some assistance from county government.

Broad Creek Transportation Co. of Hilton Head is a private firm providing passenger ferry service between Hilton Head, which has many public services, and less-developed Dafuskie Island. Weekdays the firm provides service to the general public as a common carrier, charging $10 per person round-trip. Three round-trips per day are provided, each taking two hours. On Mondays, Fridays and the first Wednesday of every month, a single round trip is provided under contract to Beaufort County. These trips originated as a means of providing transportation for high school students from Dafuskie to the nearest high school on Hilton Head. The students board during the week while attending school, and return home on weekends. The State Board of Education pays about $12,000 per year to the County for the service, which costs $46,700 per year. Other persons are carried on these contract trips as well, though the County restricts ridership to the permanent residents of Dafuskie Island. The County permits the firm to charge $2.00 per person on the contract trips, but no fare is currently being charged.

In addition, the development of Haig Point on Dafuskie Island operates its own ferry service for members and their guests. These services operate from 6:15 a.m. to midnight, seven days a week, every 45 minutes, between Hilton Head and Haig Point. Another development on Dafuskie by the Melrose Company also provides a similar ferry service for members and guests.

Contacts: Wick Scurry, Broad Creek Transportation Co., P.O. Box 1584, Hilton Head, South Carolina 29925 (803-681-7335)

Tom Mattox, Purchasing Agent, P.O. Drawer 1228, Beaufort County, South Carolina, 22903-1228 (803-525-7111)

Use of State Transit Operating Assistance for Intercity Bus Service -- New York

Following the passage of the Federal Bus Regulatory Reform Act (BRRA) in 1982, New York was threatened with the loss of a substantial amount of service. Rather than accept the loss, the state expanded its State Transit Operating Assistance (STOA) program to include intercity carriers. In 1982-83, about $9 million went to locally-sponsored intercity carriers that provided their own match.

In 1982 legislation was enacted enabling the state to contract directly with intercity carriers for services which serve seven or more counties. In 1983 this was reduced to three counties. The Department has directly sponsored nine major intercity carriers that were formerly sponsored by local counties. These firms received about $7.9 million in STOA funds. Another $6 million goes to localities that contract with private carriers for local and regional services.

For the directly contracted intercity services, the state has oversight responsibilities to make sure that the services are efficient and effective. In general the services are not put out to competitive bid, but are priced at a negotiated rate with the existing carriers who are willing to put up the local match.

Contact: Robert Knighton or David Weiss, Transit Program and Evaluation Bureau, State of New York Department of Transportation, Albany, New York 12232

State Operating Assistance for Intercity Carriers -- Pennsylvania

The State of Pennsylvania provides financial assistance to intercity carriers for operating subsidies, capital, demonstrations, and marketing or technical assistance under the Rural and Intercity Common Carrier Transportation Assistance Act of 1976 (Act 10). Most such assistance has been in the form of operating subsidies to private intercity carriers. The state will provide funds up to 75 percent of the carrier's losses. However, the services must cover 40 percent of the operating costs from revenues, a requirement which links the subsidy to usage to insure some level of effectiveness. Capital funding under the program is provided on a 50 percent state/local match basis for intercity bus firms or localities providing intercity bus facilities. Again, the contracts are negotiated with the carriers having Pennsylvania intrastate operating authority for the route.

Contact: William S. Parkin, Manager, Intercity Bus and Rail Program, Bureau of Public Transit and Goods Movement Systems, Pennsylvania Department of Transportation, 1215 Transportation & Safety Building Harrisburg, Pennsylvania 17120

Operating Assistance Using Competitive Bids -- Michigan

One example of operating assistance using the mechanism of a competitive bid procedure is the contract let by the Michigan Department of Transportation, Bureau of Urban and Public Transportation (UPTRAN), Division of Intercity Services for intercity bus service between Traverse City and Muskegon, Michigan. This one-year contract provided a replacement for service previously discontinued, though the state developed new schedules for the service to allow residents of intermediate points to spend the day in either of the end point cities. This is accomplished by alternating the schedule every other day to favor trips to either Traverse City or Muskegon. Twelve local communities along the route each agreed to designate a public building as a stop, and have available at that location a bulletin board with information about schedules and local services. The local governments also agreed to promote the service. The state government provided the funding to operate the service out of the transit proportion of the state gas tax.

With the state having designed the service and secured the cooperation and support of the local communities along the route, the remaining task was to find an operator. The state pre-qualified potential bidders based on their previous experience operating regular-route service, requiring at least one year of such service. The pre-qualification filings of interested carriers also had to include information on their previous operating costs. This information was kept confidential and was used by the state to develop their own estimate of what the service should cost, given a profit rate based on the prime interest rate. Pre-qualified carriers were then asked to provide a bid, with the lowest bidder taking the job. A critical element is that the carrier is allowed to keep all the revenues, thus requiring bids based not only on costs, but on the carrier's estimate of likely revenues. For the winning carrier, this also provides an incentive to achieve or surpass their own revenue estimate. The winning carrier, Shortway/Northstar, is now operating the service.

Contact: Jerome J. Rudnick, Administrator, Intercity Division, Michigan Department of Transportation, Bureau of Urban and Public Transportation, 425 West Ottawa St., Lansing, Michigan 48909 (517-373-2953)

States Using Section 18 Funding

One source of funding that is available for preserving intercity bus services in rural areas or between small urban areas is the Urban Mass Transportation Administration's Section 18 program of capital and operating assistance. These funds are allocated to the states on a formula basis, for providing transportation to the general public in cities of less than 50,000 persons and in rural areas. Within program guidelines, the states are allowed flexibility in how these funds are allocated. State Management Plans detailing the eligiblity and procedures are subject to UMTA approval, but permit states to address their own priorities. Not only can such funds be used to contract with private providers, such as intercity bus companies, such uses are encouraged by UMTA.

Despite the fact that such uses are permitted and encouraged, few states have used Section 18 to assist intercity services. One reason is historical, in that most states still depend on private enterprise to provide all such services. A second reason is the strong competition for these funds from local and regional rural transportation systems. A third reason is that many states limit their role in the program to that of a pass-through to local governments. Intercity services through a number of localities are difficult to assist in such situations, because each of the local units must agree to cooperate and contribute.

In order to present ways in which this source of funding can be used, two cases are presented. One is that of Wisconsin, which has the longest running and largest Section 18 program of intercity bus assistance. The other is North Carolina, which has used Section 18 funding in two very different regions to provide operating assistance to private carriers, and for capital funding of a new terminal to serve both local transit and private intercity carriers.

Use of Section 18 for Intercity Bus -- Wisconsin

The Wisconsin program provided $335,715 for intercity carriers in FY 1986 out of a total budget of $2.2 million. The funding was provided to local governments who contracted with carriers to provide the service. In prior years the state had contracted directly with intercity carriers, funding local and regional transportation through local governments. Most of the participating carriers previously had been small Wisconsin bus companies, such as Prigge's, Wisconsin Northern, and Chippewa Yellow Bus.

However, for 1986 Greyhound also applied for funding, in much larger amounts. As 1986 Section 18 funds were reduced, and previous carryover was gone, the state was forced to devise ways of prioritizing services. Local services were given priority, and direct state contracting eliminated as a means of ensuring that services were responsive to local needs. Cost categories inherent in private sector operation were made ineligible.

According to Greyhound, these changes had the effect of making private sector involvement difficult at best, and Greyhound appealed them to UMTA. The state subsequently changed a number of the regulations, but direct state contracting was still eliminated. This forced intercity carriers to apply to local governments along the routes on their behalf, increasing the coordination problems.

Greyhound succeeded in winning contracts for four routes, but did not receive local match from the communities. Instead, the state permitted Greyhound to count other revenues, such as package express, toward the required local match. Such an arrangement can aid the private carrier with sufficient revenues, but may make it impossible to find small firms who would otherwise provide low-cost service. No state funding was used to match Section 18.

Contact: John Hartz, Director, Bureau of Transit, Wisconsin Department of Transportation, P.O. Box 7914, Madison, Wisconsin 53707 (608-267-7350)

Use of Section 18 for Intercity Bus -- North Carolina

In North Carolina, Section 18 funding has been provided for three different types of intercity projects. The first began in 1981 when Virginia Dare Transportation, a small bus company operating regular-route service from Manteo and Ocracoke on the remote Outer Banks to Norfolk, Virginia, lost its lease on its two buses. The firm turned to the state, as it could not afford replacement buses based on its revenues alone. The state reviewed the carriers' services, and citing the important role of the carrier in providing transportation to low-income workers in the beach resorts, it approved funding of about $70,000 per year for operation of the regular-route service. The Section 18 local match is met by counting revenues from unsubsidized schedules and route segments, and bus package express as local match. The firm also has a contract with the U.S. Postal Service to carry the mail between Manteo, Ocracoke and Englehard. The service is continuing at this time. A second project was structured in a similar manner using Section 18 funding for service by Blue Ridge Trailways in a remote mountain area. Low ridership has caused this operation to be discontinued. The third project is a Section 18 capital expenditure as an intermodal terminal in Wilson, North Carolina. Located across the street from the Amtrak station, this facility will replace the worst bus station in the state. It will serve Carolina and Seashore Trailways, Greyhound and Wilson Transit, with a capital cost estimated at $650,000.

Contact: David D. King, Director, Public Transportation Division, North Carolina Department of Transportation, P.O. Box 25201, Raleigh, North Carolina 27611 (919-733-4713)

Virginia Dare Transportation Company uses vans between Manteo, Ocracoke, and Englehard, North Carolina to carry passengers, package express, and the U.S. mail

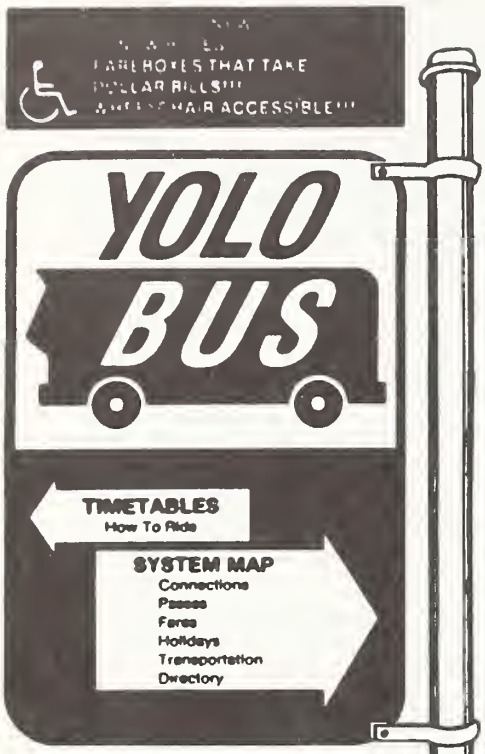
Outlying Areas Using UMTA Section 3 and 9 Funding -- Yolo County, California

Yolo County, California presents an example of a local county contracting for services to connect it with nearby urban areas at a lower cost than if the services had been provided by the regional public transit operator. In this case, the services connect Woodland, Davis, West Sacramento, Brighton and Broderick to downtown Sacramento. The service had previously been provided to the County by the Regional Transit District at an annual cost of $1.4 million, but the county felt that it could lower costs by contracting directly with a private provider.

Initially, a private operator was selected through a bid process to operate the service under a five-year contract. However, after three years problems were encountered and a new contract was put out to bid. This time it was structured as a three-year contract with renewal options. The County used UMTA funding to buy the buses, which are maintained and operated by the contractor, Transit Contractors, Inc., which is a subsidiary of ATE Management and Services, Co. The buses are maintained by Ryder at a facility it already had developed to service its fleet of rental trucks.

The service, now known as YOLOBUS, operates 12-peak period buses with two backup vehicles. The current annual operating budget is $1.1 million, which is funded using UMTA Section 3 and 9 funding. The county transit staff is limited to a transit coordinator and assistant, who also direct several local transit operations run directly by the County. They estimate that the contract service saves the county about 25 percent of what it would cost if provided by the public operator in the region.

Contact: Terry Bassett, Transit Coordinator, Yolo County, 292 West Beamer, St. Woodland, California 95695 (916-666-8025)



SERVING:

Woodland	662-BUSS
Davis	756-BUSS
West Sacramento	
Bryte	
Broderick	371-BUSS
Old Sacramento	
Downtown Sacramento	

EFFECTIVE: November 1, 1984
(Subject To Change Without Notice)

WELCOME!

YOLOBUS is your public bus system jointly funded by the Cities of Woodland and Davis and the County of Yolo. **YOLOBUS** is operated through a contract with a private firm and serves Woodland, Davis, West Sacramento, Bryte, Broderick, Old Sacramento, and downtown Sacramento.

CONNECTIONS

YOLOBUS offers many connection possibilities to/from Regional Transit (in Sacramento), Unitrans (in Davis), and Minitran (in Woodland). Phone numbers of these and other operators are included in the Transportation Directory on the following page.

PASSES

You may ride both **YOLOBUS** and Regional Transit with the SAME monthly pass! (See FARES).

FARES Effective Feb. 1, 1986

(Subject to Change Without Notice)

	CASH FARES (PAID ON BUSES)					MONTHLY PASSES (Call RT at 321-2822)	
	OFF-PEAK HOURS	PEAK HOURS	ZONES(b)	DAILY PASS	BASIC		ZONES STICKER
Regular	60¢	75¢	+50¢	$2.00	$40		$10
Students (ages 5-18)(c)	60¢	75¢	+50¢	$2.00	$22		$10
Age 62 and over or disabled(d)	30¢	45¢	NONE	$1.00	$16	off-peak	NONE
					$22	peak	

(a) Monthly passes accepted on BOTH YOLOBUS and RT
(b) ZONE FARES are charged on all Eastbound trips (ELDERLY & HANDICAPPED EXEMPT) over the Yolo Causeway. Add this charge onto cash fare, daily and monthly pass.
(c) RT ID required for students using monthly pass (call RT at 321-2822)
(d) With RT ID or other valid ID, including Medicare Card.
(e) Add 25¢ for transfer slip to RT (10¢ for elderly/handicapped).

HOLIDAYS

Thanksgiving Day Christmas Day New Year's Day Washington's Birthday Independence Day Memorial Day Labor Day	Lines 40, 43, 44, 45 do not run Lines 41 & 42 run Sunday schedule
Day After Thanksgiving Veteran's Day Martin Luther King Day Lincoln's Birthday Columbus Day	Lines 43, 44, 45 do not run Lines 40, 41, 42 run Mon. thru Fri. sched.

TRANSPORTATION DIRECTORY

OPERATOR	PHONE #	SERV. DESC.
WOODLAND		
YOLOBUS	662-BUSS	a,c,h
Community Care Car	662-7800	b,d
Greyhound	662-4365	a,c
Sacramento Ridesharing	445-POOL	b,c
Yellow Cab	662-2834	b,c
Ambassador Limousine	758-5466	b,c,f
WEST YOLO COUNTY		
Minitran	666-6815	a,c,h
Sacramento Ridesharing	445-POOL	b,c
DAVIS		
YOLOBUS	756-BUSS	a,c,h
AMTRAK	758-4220	a,c,h
Capital City (van)	371-8151	b,c,g
City of Davis Special Transp. Program/Senior Transit	756-4020	b,c,h
Davis Lincoln Cab	753-8294	b,c
Greyhound	753-2485	a,c
UCD Center for Services to Handicapped Students	752-3184	b,d,e
UCD Ridesharing	752-6453	b,c
Unitrans	752-BUSS	a,c,h
Ambassador Limousine (van)	758-5466	b,c,f
EAST YOLO COUNTY		
YOLOBUS	371-BUSS	a,c,h
Capital City Taxi	371-8151	b,c
Paratransit, Inc.	454-4131	b,d
United Christian Center	372-0200	a,b,d
Villa Taxi Service	371-2768	b,c
SACRAMENTO		
YOLOBUS	371-BUSS	a,c,h
AMTRAK	485-8506	a,c,h
Capitol City (van)	371-8151	a,b,c,g
Paratransit, Inc.	454-4131	b,d,h
Greyhound	444-6800	a,c
Regional Transit	321-BUSS	a,c,h
Sacramento Ridesharing	445-POOL	b,c
Trailways	443-2044	a,c
Yellow Cab (van)	444-2222	b,c

(a) Fixed Schedule
(b) Requires Reservation (Usually Door-To-Door Service)
(c) Open to General Public
(d) Open to Elderly and/or Handicapped (Call Operator for Details)
(e) Available only to qualified UCD Students
(f) Serves Sacramento Metro Airport. Also, can be chartered to other airports.
(g) Serves San Francisco International Airport on a Fixed Schedule
(h) Wheelchair Lift/Ramp on Certain Runs. Call to verify.

YOLOBUS connects outlying areas with Sacramento using private contract bus operation

Direct Public Operations

When efforts at joint public/private action are not successful at arranging for continuation of needed services, it may be necessary, as a last resort, for public action to buy out the service and continue operations as a public entity. In some cases, public cooperation may be necessary in order to temporarily continue service while other arrangements can be made, since cessation of service can result in irreparable traffic losses. The following cases present two instances of this situation, both dealing with railroads.

Private Operation of a Publicly-Owned Railroad -- Eastern Shore Railroad, Maryland

If efforts to utilize private investment to preserve service do not result in a successful solution, but the service is vital to the local economy, then public intervention may include not only capital investment but direct operation. A recent example involves the 90-mile long Eastern Shore Railroad, which operates from Pocomoke City, Maryland to Norfolk, Virginia (by car ferry) on the Eastern Shore of those two states.

The Eastern Shore Railroad operates a portion of a former Penn Central line on the Eastern Shore of the Chesapeake Bay and a connecting barge service across the mouth of the Bay. The rail line extends 73 miles from Pocomoke, Maryland to Cape Charles, Virginia, and the barge service provides a connection from Cape Charles to Little Creek, outside of Norfolk. The line provides a direct routing to the South for rail users throughout the Delmarva Peninsula, as well as an alternate routing for other North-South traffic along the East Coast.

The rail and barge lines were not included in the Final System Plan for Conrail. When the Southern Railway failed to purchase the lines, as had been expected, the two Virginia counties traversed by the rail line formed a Transportation District which received Federal and state funds which were then used to subsidize operations of the line. The Transportation District was formed to avoid the problems caused by a constitutional prohibitation on the use of state funds for subsidizing a railroad.

Initially, the line was operated under subsidy by the Virginia and Maryland Railroad. The owners of this firm also operated the Maryland and Delaware Railroad, which provided subsidized service to other lines on the Delmarva Peninsula. In 1981, the Transportation District purchased the rail line and barge facilities for $8.6 million and formed the Eastern Shore Railroad as an agency of the district. A large construction and contracting firm guaranteed the loan which was used to purchase the line and took over management of the line for the Transportation District. This firm was interested in preserving the line as a possible route for shipping coal to a power plant in Southern Delaware.

Private Operation of a Publicly-Owned Railroad (continued)

Recently, however, the private owners, Canonie Atlantic, Inc., notified state and local governments that they would close the line unless it could be sold to a new operator. Although the Eastern Shore had previously received LRSA funding for rehabilitation from the FRA, operations were not sufficiently profitable. The line is seen as vital by both Maryland and Virginia, and by Delaware which is served by connection. Efforts to find another private buyer were not fruitful, despite the fact that the owners were seeking only $7 million for assets appraised at $9 to $12 million. The Greater Salisbury (Maryland) Committee, a private business group in a nearby city, had been interested in purchase, but was unable to raise the needed funds. With time running out, this left only the states to take action preventing closure.

The three states formed an entity called the Accomack Northampton Transportation District Commission to buy and operate the line. The Bank of Virginia loaned $4.5 million to this organization for the purchase, secured by the railroad assets. The seller, Canonie Atlantic, loaned the Commission the remaining $2.7 million. The Commission, working through the State of Virginia, would then sell $7 million in revenue bonds to pay off the bank and the seller. Each of the three states promised an additional loan of $1.5 million to provide start-up capital.

If this effort is successful in restoring viable rail service to the Eastern Shore, the states plan to eventually try to re-sell the railroad to another buyer in the private sector. It remains to be seen whether or not the railroad's traffic base of agricultural products such as grain, fertilizer and chemicals will produce enough revenue to allow debt repayment and pay operating costs. The line currently carries 8,000 to 9,000 cars per year of predominantly "overhead" (i.e., through) traffic. It has been estimated that about 12,000 cars per year would be required for profitable operation.

Contact: Mr. J.T. Holland, President, Accomack-North Hampton Transportation District Commission, Box 15, Nassawadox, Virginia 23413 (804-442-6100)

State Operation of Rail Service -- South Branch Valley Railroad, West Virginia

The South Branch Valley Railroad (SBV) operates a 51-mile line in the eastern panhandle of West Virginia. The line was formerly operated by the Baltimore and Ohio (B&O) unit of the Chessie System.

In 1975 and 1976, the Chessie filed petitions to abandon the line, but both petitions were withdrawn because of political pressure. The state, however, recognized that the Chessie would not continue to operate this unprofitable line indefinitely without subsidy. Accordingly, in 1977, the West Virginia Railroad Maintenance Authority (WVRMA) commissioned a consultant study to evaluate the line and to identify appropriate state policy alternatives. The consultant determined that abandonment would adversely affect several communities served by the line, and that the state should attempt to preserve rail service either by subsidizing continued operation by the Chessie or by arranging for the operation of the line as a short-line railroad. After exploring the rate divisions which the Chessie would be willing to provide a short-line operator, the WVRMA opted in favor of the latter alternative. To avoid a politicized abandonment effort, the Chessie gave the line to the state, at no charge, in October 1978.

The WVRMA solicited applications for operators of the line and reviewed 40 such applications. However, none of the applicants were found to be completely satisfactory, and the WVRMA decided to operate the line itself. It has done so since October 1978 using about 30 full-time railroad employees, additional temporary track workers, and part-time assistance by several WVRMA employees. All employees are non-union, allowing the railroad flexibility in work assignments.

The railroad lost $619,000 in its first full year of operation (1979), including about $250,000 in start-up costs, and lost about $450,000 in 1983 (with total operating revenue of only about $300,000). Operating deficits were originally met with a combination of Federal and state funds, and, since the end of Federal funding of operating deficits in 1981, have been met entirely with state funds. In addition, the state has provided $11 million and FRA has provided $2,535,579 in LRSA funding for rehabilitation. Traffic on the line has declined from 1,737 carloads in 1979 to 1,170 carloads (23 per mile) in 1983. The line is atypical in that it is operated entirely with state employees and it was given to the state by an operating railroad.

Contact: West Virginia Railroad Maintenance Authority, The Empletion Building, Room 422, 922 Quarrier St., Charleston, West Virginia 25301 (303-348-3980)

CONCLUSION

This chapter has presented a wide range of possible actions that can be taken by state or local officials interested in maintaining or improving intercity transportation. At a basic level, it is important for concerned officials to understand the current status of these industries, be aware of the services provided, and know what role they play in the communities receiving services. The various kinds of inventory and planning studies are one means of accomplishing this goal. If such studies indicate that there are problems in maintaining services or opportunities for expanding or improving services, a number of potential actions are available. Technical assistance may be all that is required, especially if coupled with community support activities to promote usage. Other small assistance activities may be all that is necessary, such as help in finding an agency or providing lodging for crews.

As the casebook reveals, it may be necessary for public officials to become more involved through the provision of financial assistance. Usually the capital costs of a particular service are seen as the primary focus of such assistance. This may include fixed capital, such as track, terminals, piers, runways, etc., or it may be rolling stock such as buses, locomotives or aircraft. The public role may be assistance in helping carriers or shipper groups fund such improvements, or it may be more direct public involvement such as loans, bond funding, or grants.

In some cases, operating assistance may be the best option for public actions to maintain or improve rural services. Funding of some portion of the operating costs is likely to be required if operating expenses make up the largest percentage of total operating costs, as in the case of bus service. Operating assistance can be provided in different ways, such as grants, negotiated contracts, or competitively-bid contracts. In the extreme case, a state or local government may find it necessary to operate services itself, if needs are to be met.

The next chapter presents an overview of non-Federal funding sources that state and local officials should consider when assistance for rural intercity modes is contemplated.

4

NON-FEDERAL FUNDING SOURCES FOR INTERCITY MODES

The previous chapter presented a number of examples of actions involving joint actions by the public and private sectors to improve or maintain intercity services. Often, but not always, the actions involved public sector assistance to private carriers, either as an industry or individually. Many different sources of support for this assistance were cited, along with a number of alternative arrangements for using these resources. The purpose of this chapter is to provide a brief overview of innovative funding sources, their use for the different modes, and the advantages and disadvantages of each. The sources to be covered include:

- user funding, including fares, rates, surcharges and contracts;
- cost reduction, including carrier actions that the public can allow or encourage to reduce operating costs to permit unassisted services;
- state and local assistance, including using bonding authority;
- equity investments, which can be used by a private carrier to purchase or recapitalize a service;
- borrowing; and
- contributions or grants.

USER FUNDING

Historically, user funding in the form of rates and fares has been the major source of funds for the development and operation of intercity modes, though user fees were often supplemented by forms of government assistance during the "infant industry" stages of each mode's development. Because of the limited funding available from other sources, user funding will continue to be the most important source of support for intercity transportation services.

Revenue Maximization

Carriers, of course, are well aware of the need to maximize revenue if service is to continue. They have responded to regulatory reform (which provided for increased flexibility in ratemaking for each mode) by developing new ways of setting rates, new rate structures, and by setting rates based on market and cost factors. Some examples include:

- the use of negotiated contract rates for rail freight,
- discounting of airline fares to maximize revenues from different market segments, and joint fare discounts with major carriers,
- intrastate bus fares and rates raised to levels approximating interstate levels, and
- development of simplified intercity bus zone rate structures for standard fares, and greatly increased discount and promotional fares.

Pricing flexibility can be quite important to the continued viability of intercity services in rural areas. Public actions in support of increased flexibility, such as regulatory reform and an acceptance of higher rates where needed to maintain service, are critical to maximizing the use of this funding source.

In addition, development of a marketing approach to pricing and selling is necessary for carriers to be able to take full advantage of the possibilities offered by regulatory flexibility. This can include market research indicating which users can pay more, and which can be attracted through discounts. Sales and promotion of service are also part of an expanded marketing effort. In some cases a public role providing technical assistance in these areas can be of assistance in helping carriers maximize revenues.

Contracts, Surcharges, Advance and Block Purchase of Tickets

Several of the case examples illustrate other innovative ways in which user funding can aid in the continuation of service. Shortline railroads working with on-line shippers having few alternatives may negotiate contracts with them for service at negotiated rates as a means of getting the commitment needed to obtain financing. Such rates may be higher than tariff rates, as a means of providing the additional funding needed to make the service viable.

Similarly, surcharges can be added by the railroad as a means of increasing rate revenue. These should also be negotiated with the major shippers, as setting surcharge rates arbitrarily might well force shippers to develop alternative arrangements, reducing the viability of the line.

Some small cities seeking to obtain or retain airline service have used analagous methods, such as having a major employer guarantee to purchase a certain number of tickets each year, or do a block purchase of a certain number of seats per year.[1] Such strategies could also be applied to intercity buses in cases where large employers may be paying for a substantial amount of the travel. For example, the insurance companies headquartered in Hartford, Connecticut, once funded a bus to carry employees to and from New York City; and the State of Florida once proposed to operate a bus from the state capital in Tallahasee for employees traveling to Jacksonville.

All of these strategies are means of increasing revenues from users, decreasing the risk, and moving the payment of user revenues "up front" to demonstrate viability and commitment to the service. They should be considered as the primary funding sources.

COST REDUCTION

At the same time that efforts are underway to make sure that no revenue sources are being ignored, attention should be directed to the cost side of the viability equation. Cost reductions should command the attention of every carrier serving rural and small city markets if such services are to continue. Increased market pressures resulting from regulatory reform and recent economic changes have made this obvious to those persons managing private carriers, who clearly have the lead role in this area.

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[1]This may be a particularly effective strategy for rapidly growing rural centers.

The public sector can assist private carriers by accepting needed changes in service characteristics, helping carriers lower their costs, and promoting public acceptance of the changing conditions. Such service changes may include the use of vans to replace intercity buses on rural routes, the use of commuter airliners to replace jets on small city service, or the replacement of a major railroad by a smaller shortline railroad as the operator of a local branch.

Carriers seeking to reduce costs often focus on operating costs as well as the size of the vehicle or the firm. As labor costs usually form the largest part of operating costs, increased labor productivity through work rule changes and flexible assignments are often sought by carriers. Smaller firms often can combine such improvements with lower wage levels, which can be a factor allowing continued service. Finally, incentive pay plans such as bonuses linked to profitability, or profit sharing, can also be used to increase productivity. While these are all actions primarily internal to the firm, public support for initiatives such as these, applied fairly and equitably, can be another means of funding intercity services.

STATE FUNDING

Rail Freight

Several states have grant or loan programs available for railroad projects. Table 4-1 summarizes information about these programs obtained by FRA's Division of State Programs. As can be seen in Table 4-1, 21 states currently have some type of rail assistance program, though the amount of funding and the eligible uses vary considerably. All of the states include track rehabilitation as an eligible use, and this is clearly the basic thrust of state rail assistance. Another 13 also permit use of state funds for acquisition of rail lines. Operating subsidies are provided by only four states: Delaware, Maryland, New York, and Pennsylvania. In the case of Pennsylvania, only the state-owned lines can receive operating subsidies.

A 1983 survey of state funding for rail assistance by the American Association of State Highway and Transportation Officials found that general obligation bonds comprised the largest source of state funding for rail assistance projects, followed by various special sources including special transportation funds.[1]

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[1]American Association of State Highway and Transportation Officials, National Conference of State Railway Officials, Survey of State Involvement and Unique Approaches to the Funding of State Rail Programs, September 1983, pp. 2-3.

Table 4-1: SUMMARY OF STATE RAIL ASSISTANCE PROGRAMS

State	Type of Program	Eligible Uses[1]						Maximum State Contribution	Annual Funds Available (millions of dollars)	Comments
		A	R	O	C	F	S			
Connecticut	Grant	A	R		C			70%	$1.0	
						F		90%		
Delaware	Grant		R	O					0.3	
Illinois	Loan/Grant		R		C		S		3.0	
Indiana	Loan	A	R						1.2	
Iowa	Loan		R					50%	1.0	Zero interest loans
	Loan/Grant	A	R						2.6	
Maryland	Grant		R	O				100%	1.0	
			R	O				70%	1.0	
	Loan	A								
Massachusetts	Grant		R						6.0	
Michigan	Grant/Loan Loan Guarantee	A	R		C				42.9 (2)	
Minnesota	Grant/Loan Loan Guarantee	A	R					90%	18.5 (2)	
Mississippi	Loan		R		C				47.5 (2)	
New Hampshire	Grant		R					80%	3.0 (2)	
New Jersey	Grant	A	R		C				2.0	

Table 4-1 (continued)

State	Type of Program	Eligible Uses[1]						Maximim State Contribution	Annual Funds Available (millions of dollars)	Comments
		A	R	O	C	F	S			
New York	Grant	A	R	O	C				15.0 (2)	
North Carolina	Grant/Loan	A	R						0.1	
Ohio	Grant/Loan	A	R						1.84 (2)	
Oklahoma	Grant		R		C				0.8	Only state-owned lines are eligible
Oregon	(No separate rail program, but rail projects may use economic development funds)									
Pennsylvania	Grant		R					80%		All freight lines
				O				50%	4.4	State-owned lines only
Tennessee	Grant	A	R		C				1.8	
Washington	Loan	A	R		C				0.5	Program is authorized but funds are not yet appropriated
Wisconsin	Grant	A	R				S		17.0 (2)	
	Loan		R							

[1]Eligible uses: A - acquisition
R - rehabilitation
O - operations
C - construction
F - construction of support facilities
S - substitute service

2 Cumulative, not annual, funds available.

Source: Federal Railroad Administration, Office of State Programs

General fund revenues are also used in a number of states, along with revenue bonds, diesel fuel taxes, and special rail user charges. The same survey found that 17 states provided funds on a loan basis, and that 15 of those returned the loan proceeds to special funds for rail projects, or to general transportation funds.

Intercity Bus

Most of the intercity bus assistance from public sources is provided by state funding, even though intercity bus services are eligible for Federal funding and assistance through the Urban Mass Transportation Administration's Section 18 program. (Only two states are currently using Section 18 funds for supporting intercity bus services; these cases are included in Chapter 3.) Table 4-2 presents funding of intercity bus service by the states in 1985. In some cases, the funds are included as part of a general transit assistance program, while in others specific programs for intercity bus are provided at the state level. Programs have included specific elements for funding of operating losses, terminal construction or rehabilitation, and vehicles, as described in the previous chapter.

As can be seen from the table, much of the assistance provided by the states to private carriers is actually for services that are commuter oriented, though the services are provided between cities. Only Michigan, New York, and Pennsylvania have programs that are expressly designed to deal with rural and small town services other than commuter in nature. California programs could also be used for rural intercity services, but may also be for commuter or local services as well.

In several states the intercity bus program is linked with the state regulatory system in that only the carrier holding the state authority to operate on a particular route can apply for and receive assistance. Subsidy levels are then negotiated, depending on losses. New York and Pennsylvania both follow this approach. In the case of New York, the bus regulatory function has been moved to the Department of Transportation from its former location in a state utilities commission. Michigan (along with Wisconsin and North Carolina who use Section 18 funding) has deregulated the intercity bus industry in the state, permitting the state to use competitive bids as a means of obtaining service at the lowest public cost.

Table 4-2: STATE FUNDING FOR INTERCITY BUS SERVICES IN 1985

State	Type of Program	Eligible Uses[1]	State Limits on Contribution	Annual Funding[2] Capital	Annual Funding[2] Operating	Comments	Contact
California	State Transit Assistance for Local Areas	A		Data on Use of Funds by Localities for Intercity Bus is Not Available		Funds may be used by localities for intercity uses	Don Dean Chief, Bus Transportation Caltrans P.O. Box 942874 Sacramento, CA 94274-0001 (916) 322-3624
Connecticut	Direct State/Carrier Contract	D	State contribution varies with route and revenue. Some bid, some negotiated rate		$ 419,000	Services are commuter buses operated by private carriers between towns and cities	James Moran Director of Bus Operations Bureau of Public Transport. Connecticut DOT 24 Wolcott Hill Road Wethersfield, CT 06109 (203) 566-2336
Delaware	State Ridesharing Program Contracts for Commuter Service Between Major Cities	D	Not fixed. Carriers bid a daily rate for service. State contracts with low bidder, guaranteeing that rate. Carrier bills state for difference between actual revenue and that rate.		$ 56,000	Services are commuter buses operated by private carriers: 1) Newark, DE - Wilmington-Philadelphia 2) Dover-Wilmington	Dan Logan Ride Sharing Admin. Delaware Transit Authority P.O. Box 778 Dover, DE 19903 (302) 571-7380
Maine	Direct State/Carrier Contract	D	Up to 10% of deficit on service, subject to budget constraint of amount allocated to that area of the state		$ 50,000	Amounts negotiated with carrier serving route	Arnold Leavitt Maine DOT Transportation Building Child Street Augusta, ME 04333 (207) 289-2841
Massachusetts	State Purchases Buses for Lease to Carriers, Some Operating Assistance	C,D	1983 bond issue program required carrier payback of principal and interest, 1985 bond issue program payback was principal only (retroactive to 1983)	$5,000,000 (1985 bond issue)	$ 400,000	Operating assistance funded through MBTA services are commuter oriented small town to Boston	Mr. Michael H. Sharff, Program Director Executive Office of Transportation and Construction 10 Park Plaza, Room 3510 Boston, MA 02116-3969 (617) 973-7000

[1]Notes:
- A Provided to localities who determine uses
- B Capital assistance for facilities
- C Capital assistance for vehicles
- D Operating assistance to carriers
- E Reimbursement for reduced fares for elderly

[2]Source for funding data: American Association of State Highway and Transportation Officials, 1986 Survey of State Involvement in Public Transportation, p. 12 and p. 21.

Table 4-2 (continued)

State	Type of Program	Eligible Uses[1]	State Limits on Contribution	Annual Funding[2] Capital	Annual Funding[2] Operating	Comments	Contact
Michigan	State Lease/Purchase Program Provides Buses for Intercity Carriers; Terminal Construction and Rehabilitation, Operating Assistance	B,C,D	Carriers participating in bus loan program must operate 150 mi/day of mi. regular-route service, payback period 6 yrs. @ 5% or 8 yrs. @ 9%. State portion of terminals and operating varies	$5,789,000	$ 100,000	Operating assistance limited to one route from Traverse City to Muskegon. Ten terminals built, 8 more in design or planning	Jerome J. Rudnick Administrator, Intercity Div. Bureau of Urban and Public Transportation Michigan DOT 425 West Ottawa Street Lansing, MI 48909 (517) 373-2953
New York	Under State Transit Operating Assistance Program, State Contracts Directly with Intercity Carriers Serving Two or More Counties	D	Cap on carrier profits at greater of 6.38% of line revenues, or 17% return on equity		$6,500,000	Program aimed at longer distance travel demand between places over 2,500 pop. not local or commuter services	Robert Knighton/David Weiss Transit Program and Evaluation Bureau New York DOT Albany, NY 12232
Pennsylvania	Direct State/Carrier Operating Assistance; State/Local for Facilities	B,D	Services must cover 40% of operating cost. Capital vs. operating at state discretion		$1,100,000	No capital assistance for FY85-86	William S. Parkin Bureau of Public Transit and Goods Movement Systems 1215 Transportation and Safety Bldg. Harrisburg, PA 17120 (717) 783-3996
Rhode Island	Fare Reduction Reimbursement for Elderly Persons Between Newport, Middletown and Portsmouth	E	State pays 50% of fare		$ 1,000	Reimbursement to carrier for reduced fares for elderly on Bonanza Bus Lines intrastate trips	Joseph Arruda Assistant Director for Planning Rhode Island Department of Transportation 372 State Office Building Providence, RI 02903 (401) 277-2694

Examination of Table 4-2 also reveals that most programs provide either operating funds or capital funds for vehicles as the predominant forms of assistance. Vehicle capital often amounts to a state role as banker, with reduction or elimination of the interest cost and extended payback as the subsidy. If demand is high enough that such a limited subsidy will suffice to maintain service, such programs may be beneficial as a means of providing assistance with minimal interference in management. However, if demand is low, capital assistance may not be sufficient to keep the carrier in the regular-route business, and the vehicles may be diverted to other unintended uses such as interstate charters.

Air Service

State funding for operation of airline services is not currently known to take place, generally because states have been able to rely on the marketplace and the Federal Essential Air Services (EAS) program subsidies to provide the desired small city services. The EAS program, which was created to ensure that all points receiving certificated airline service as of the date of the Airline Deregulation Act of 1978 would continue to receive air service during the ten-year period following deregulation, did not require a local or state match, and so has not resulted in the creation of state programs for matching. The EAS subsidy program is scheduled to expire in 1988. Other suggested ways of funding small city air service include equipment loan guarantees and privileges such as exemption from airport fees, business taxes, local property taxes, etc.[1]

Rail Passenger Service

The Amtrak 403(b) program requires state or local matching funds in order for the applicant to receive Federal 403(b) funds for operating expenses or capital purchases. State funding for rail service has therefore been focused on the match portion of this program, as well as matching UMTA funds from UMTA's Section 3 and Section 9 programs for commuter rail services in those areas with such services. No rail passenger services are completely state funded.

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[1]Kenneth C. Williamson, Lawrence F. Cunningham, Marc G. Singer. "Scheduled Passenger Air Service to Small Communities: A Role for State and Local Governments." Transportation Journal, Summer 1982, pp. 32-33.

Summary of State Funding

This section has presented an overview of the availability of state funds for intercity services. It has not dealt with the many ways in which states and localities may raise revenue for these purposes, as other reports have covered that topic in great detail. It should be noted that among the programs covered in this report, state funds have been generated through general taxation, through dedicated transit portions of state gasoline taxes, and by selling bonds.

OTHER FUNDING SOURCES

At least three other sources of funding may be available to providers of intercity services in rural areas and small urban areas. These include equity investments, borrowing, and contributions and grants. Each is discussed in the following sections.

Equity Investments

The sale of stock often provides the means to finance the purchase of branch line railroads, commuter airlines, and bus companies. Selling stock is a relatively low-cost form of financing since it does not bear interest and does not have mandatory payment features. Any group can receive authorization to issue stock by organizing as a profit or non-profit corporation. Stock issued represents part ownership of a corporation established to hold title to and to operate the transportation company.

Investors in stock may be attracted for several reasons. The service may have significant potential as a business investment. In other cases, investors may have a very strong interest in investing in the carrier to maintain service and to avoid the anticipated adverse impacts for local businessess and the community.

When stock is issued, it is usually decided whether to restrict the sale of stock to selected investors, such as the promoters and key users, or to open purchase to all interested investors. Selling large blocks of stock to private investors often makes the corporation easier to operate since it answers to a smaller number of stockholders who have tighter control.

A major advantage of stock investment is that it allows for large sums of money to be raised in a relatively simple fashion. Sale of stock may be particularly prudent in situations where earnings of a transportation corporation cannot be predicted to assure repayment of debt financing. It is often a good choice for new firm owners who do not expect to generate enough revenue to cover debt payments for a number of years. In the long run, equity investments make borrowing easier.

The risk of loss for stock investors is limited to the amount of the original stock investment. One disadvantage of stock is that it may be difficult to attract investors because the risks of investing in small carriers are often significant.

Borrowing

Many communities finance carrier acquisition, vehicle acquisition, or facility rehabilitation by borrowing funds. The two most basic sources of borrowed capital are loans and bonds.

Loans can often be obtained from a variety of sources and may be short- or long-term. A bank loan is common but may be difficult to obtain, since banks seek to minimize investments in high-risk projects, such as many intercity transportation projects. The prospects for a bank loan may often be improved when the property or other assets are used as partial collateral for a loan, or when an interested party guarantees the loan. In the case of railroads, major credit companies (for example, General Electric Credit Corporation) have shown a willingness to provide large loans to new railroads which can demonstrate that they are likely to operate profitably and which are willing to use their rail property as partial collateral.

Loans also may be available from a number of other sources. These include users of the service, local businesses, other transportation companies, venture capitalists, community development corporations, local government, and state agencies. Often these groups offer loans at very attractive terms in order to encourage investors. In some cases, these groups may also be willing to guarantee a bank loan.

Communities or other parties may also finance projects through the issuance of bonds. Local governments may issue general obligation or revenue bonds if there is sufficient public support. Community development corporations and private corporations are also authorized to issue bonds. Bonds issued for

projects are usually long term and may be nontaxable or offer other attractive features to encourage investments.

Both bonds or loans are usually considered when revenue or other income from a project are expected to be maintained well above interest and amortization requirements. Borrowing is usually preferred when investors do not wish to tie up capital or when investors prefer to raise capital without interfering with stock control of a corporation.

Contributions and Grants

In some instances, communities may finance intercity projects in whole or in part with private or public donations or grants. These monies are typically advanced to demonstrate strong support for a project. Local businessess, transportation users, community development organizations, and local, state, and Federal governments are all sources of contribution and grant funding.

Contributions and grants differ from other financing because they do not require that funds be repaid as long as certain conditions are met. These conditions may be simple, as with private donors, or more complex with government grantors. Most government grant programs require communities to apply for funds. When applying, there is usually a considerable time lag between the application for funds and the receipt of financing. This time lag may preclude the use of grant funds in projects that require immediate financing.

CONCLUSION

This overview of funding sources has presented a number of possible ways of financing intercity services in addition to relying on the marketplace. A key consideration that must be addressed in any attempt to utilize these sources is whether or not the public interest requires any intervention to provide the service in question, and if so, how much assistance is needed. The limited funding available, and the competitive pressures described in this report, make it clear that assistance efforts must be targeted on those services which, while not currently profitable to operate, still have enough current or potential usage to justify public intervention. Thorough analysis and sound planning are required to determine which services are likely to be viable on their own, which should be assisted, and which could be terminated without significant adverse public effects.

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