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Highlights

Highlights of GAO-06-516, a report to the Chairman, Committee on Government Reform, House of Representatives

May 2006

MASS TRANSIT

Issues Related to Providing Dedicated Funding for the Washington Metropolitan Area Transit Authority

Why GAO Did This Study

A regional panel estimated that the Washington Metropolitan Area Transit Authority (WMATA)—Washington, D.C.'s, transit system—will have total budgetary shortfalls of $2.4 billion over 10 years. The panel and others have noted that WMATA's lack of a significant dedicated revenue source may affect its ability to keep the system in good working order. Proposed federal legislation would make $1.5 billion available to WMATA if the local governments established dedicated funding.

This report addresses (1) the characteristics of dedicated funding and its effects on transit agencies and governments; (2) how potential revenue sources compare in terms of stability, adequacy, and other factors; (3) major actions needed to establish dedicated funding for WMATA and the progress made to date; and (4) issues that dedicated funding poses for the region and WMATA.

To address these issues, GAO reviewed financial data for the nation's 25 largest transit agencies, interviewed officials from 6 transit agencies and from the state and local governments that support WMATA, and reviewed literature on the financing of mass transit.

GAO provided a draft of this report to WMATA and the Department of Transportation for review. Officials from these agencies provided technical clarifications that were incorporated in the report, as appropriate.

www.gao.gov/cgi-bin/getrpt?GAO-06-516.

To view the full product, including the scope and methodology, click on the link above. For more information, contact Katherine A. Siggerud at (202) 512-2834 or siggerudk@gao.gov.

What GAO Found

Dedicated funding, an important source of revenue for many transit agencies, is described by the Federal Transit Administration (FTA) as a specific revenue source—such as a sales or gas tax—that is designated to be used for transit and is not subject to appropriations. According to data transit agencies report to FTA, 23 of the 25 largest transit agencies have dedicated funding, although the transit agencies GAO spoke with vary in the extent to which their dedicated funding corresponds to FTA's description. Most transit agencies with dedicated funding receive such funding from multiple sources and use it on both operations and capital expenses. Generally, dedicated funding is subject to the same oversight as other expenditures and is viewed by transit agencies as having a positive effect on their financial health, particularly with regard to long-range planning. However, dedicated funding has potential drawbacks: For example, it is vulnerable to economic cycles, and it limits the budgetary flexibility of state and local governments.

Selecting a dedicated funding source for WMATA involves consideration of the funding source's year-to-year stability and its longer-run adequacy. For state and local governments, another consideration is the political feasibility of the tax or fee rate required to collect a specified amount of revenue from a particular funding source. Revenue sources that GAO analyzed—the sales tax, payroll or income tax, motor vehicle fuels tax, property tax, access fees, and vehicle registration fees—have different characteristics when assessed using these considerations. If governments increase their overall tax and fee revenues to provide additional funding for WMATA, there may be equity, efficiency, and administrative cost issues for their tax systems.

To establish dedicated funding and conform to the requirements of the proposed federal legislation, WMATA's supporting jurisdictions would need to enact separate legislation to direct a specific revenue source to WMATA and to amend the WMATA Compact. As of April 2006, legislation to dedicate a portion of sales tax revenues to WMATA had been enacted in the District of Columbia, but neither Maryland nor Virginia had enacted comparable legislation. The only jurisdiction to introduce a bill to amend the Compact has been Maryland, and this legislation was later withdrawn. The District of Columbia and Virginia have not begun steps to amend the Compact.

The federal government and the jurisdictions that support WMATA will need to resolve several issues should they choose to provide WMATA with dedicated funding, including (1) the proportion of the jurisdictions' payments to WMATA that come from dedicated funding and how to mitigate its risks; (2) whether dedicated funding will result in a net increase in payments to WMATA and how the size of each jurisdiction's payment will be determined; (3) whether dedicated funding should be used for operations, capital expenditures, or both; and (4) whether increased oversight of WMATA is needed to ensure dedicated funds are properly accounted for.