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# FITNESS IDEA FOR METRO TRANSPORTATION: PUT RTD ON A TAX DIET

By Spencer Swalm

## Introduction: Transit Customers and Owners in Need of Relief

Fast, efficient, and economical movement of people and goods within the Denver metropolitan area is important to the economic health of the entire state and region. Improving the transportation system of the West's regional hub was the goal when mass transit operations were transferred from private to public ownership 16 years ago. But it is now difficult to argue that the Regional Transportation District is progressing toward the goal in any meaningful way.

Since its creation in 1969, RTD has spent nearly one billion tax dollars on mass transit operations in the Denver area. Despite this staggering investment, RTD's impact on metro traffic and pollution problems has been minimal at best. The whole operation needs to be given a tough performance evaluation and a better set of incentives by those whom the system supposedly serves.

The road map that will help guide RTD toward cost-effective operations must come in the form of feedback from the citizens of Denver, Jefferson, Arapahoe, Adams, Boulder, and Douglas Counties -- 1.8 million people comprising 56 percent of the whole population of Colorado -- who simultaneously constitute RTD's customers, owners, and financiers.

The Colorado General Assembly, acting on behalf of these longsuffering subsidy-payers and bus riders (or more often, nonriders), could move during the current session to both save public funds and potentially improve public service.

Immediate reduction of RTD's district-wide sales tax rate would begin accomplishing both purposes.

Restoring the requirement of voter approval for RTD bond issues would further strengthen the system's accountability and prevent backdoor action on major new projects.

In 1985, RTD realized about $84.7 million in sales tax revenues. These are generated from a tax rate of 0.6 percent, or 6 cents on every 10 dollars of retail sales. A modest reduction in the tax rate -- perhaps to 0.5 percent -- would produce significant savings for metro area taxpayers. It would, as well, discourage the sort of improvident expenditures that have, all too frequently, characterized RTD's operations.

Finally, putting RTD in a position of being more dependent upon farebox revenues might encourage the kind of innovative thinking that is essential if mass transit is to play a meaningful role in the Denver transportation puzzle.

## History of RTD

RTD was created by the legislature in 1969 to run a mass transit system in the six-county Denver metro area. In 1973, voters of the district authorized the funding of RTD with a sales tax.

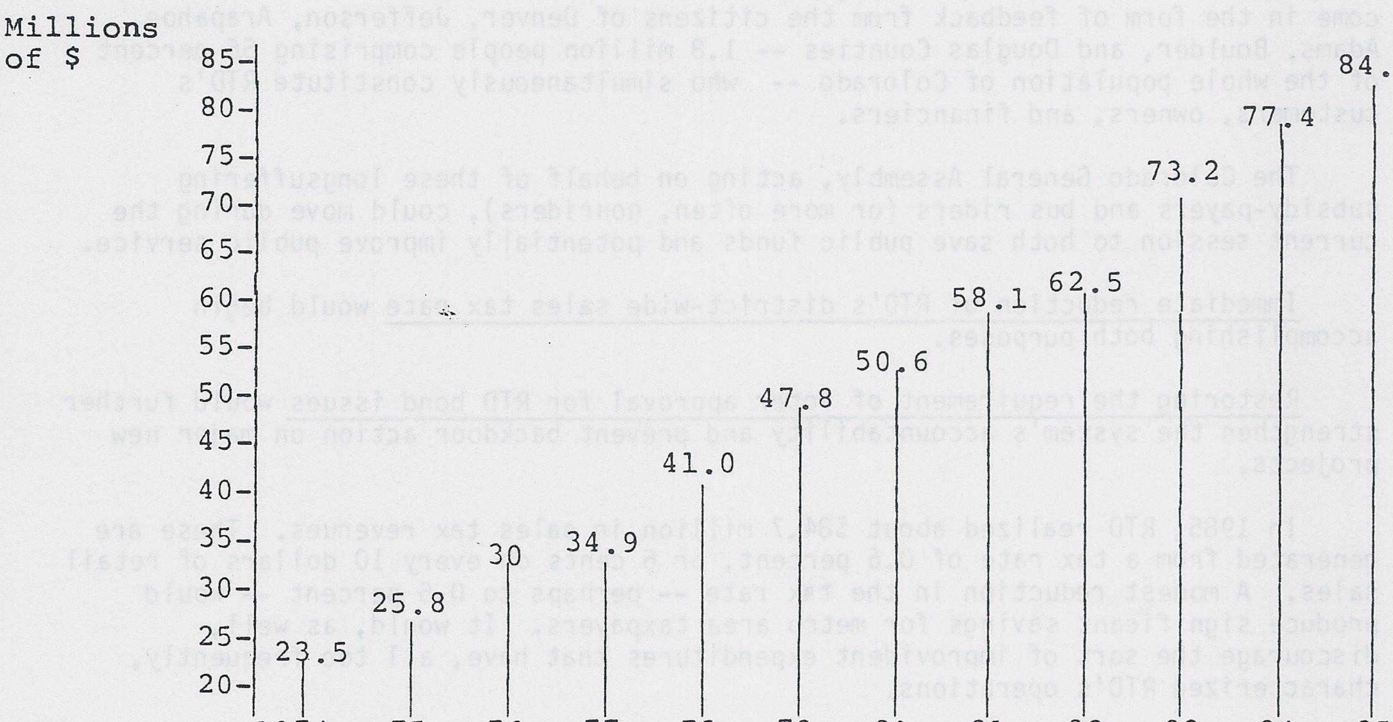
During the next several years, RTD expanded rapidly, taking control of all bus operations in the 35 cities in its service area. Annual ridership peaked in 1981 with 45 million passengers. This was nearly three times as many passengers as were carried by the Denver Tramway Corporation in 1970, its last year of private ownership before being taken over by the City of Denver. (RTD, in turn, took over from Denver in 1974.)

In the summer of 1982, unionized RTD employees went out on a 29-day strike. The walkout had a devastating impact on ridership. From its 1981 peak, ridership plunged 15 percent to 38 million in both 1982 and 1983. In 1985 annual passenger counts again began to approach pre-strike levels.

## RTD's Runaway Budget

Fueled by buoyant retail sales in the metro area, RTD's sales tax levies have increased rapidly since 1974, the first year of the tax. The District has been able to amass rapid gains in revenue, almost as a windfall, from trends unrelated to its own productivity. As shown in the chart below, Denver taxpayers have experienced an increase of 260% in their RTD tax burden in only 11 years.

FIGURE 1. RTD SALES TAX REVENUES

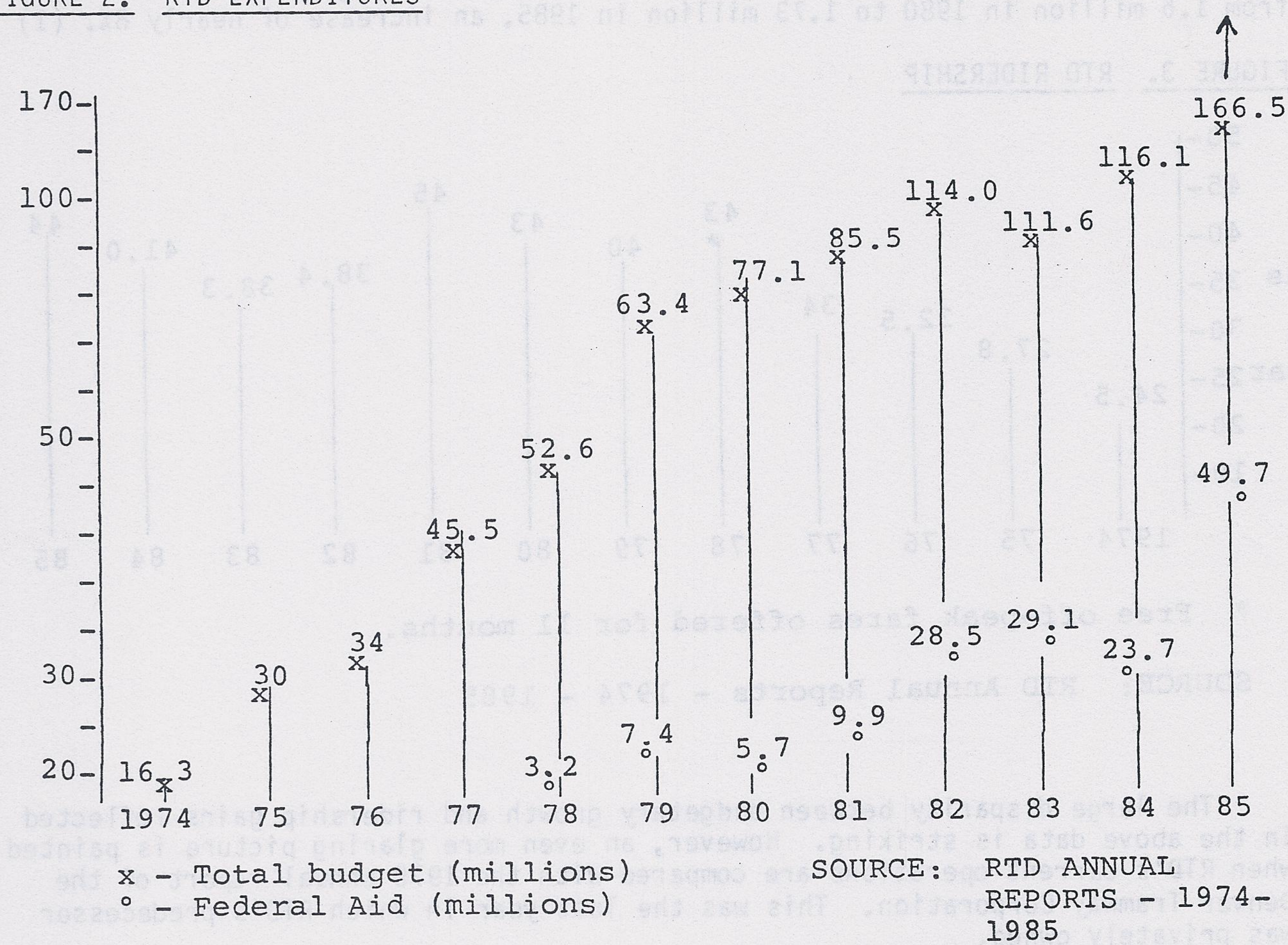



Source: RTD ANNUAL REPORTS - 1984-1985

Despite this very rapid increase in taxes, total RTD expenditures have grown at an even brisker pace, thanks largely to growth in federal aid. Over the same 11 years, RTD budgets have gone from slightly over $16 million to about $166 million, an increase of more than 900%.

Even allowing for inflation, which exactly doubled the consumer price index from 1974 to 1985, the budget increases are remarkable. In real purchasing power, local taxpayers are laying out $18 on RTD today for every $10 they laid out in 1974. The District itself is spending, in real terms, more than fivefold above its levels of the early 1970s.

FIGURE 2. RTD EXPENDITURES

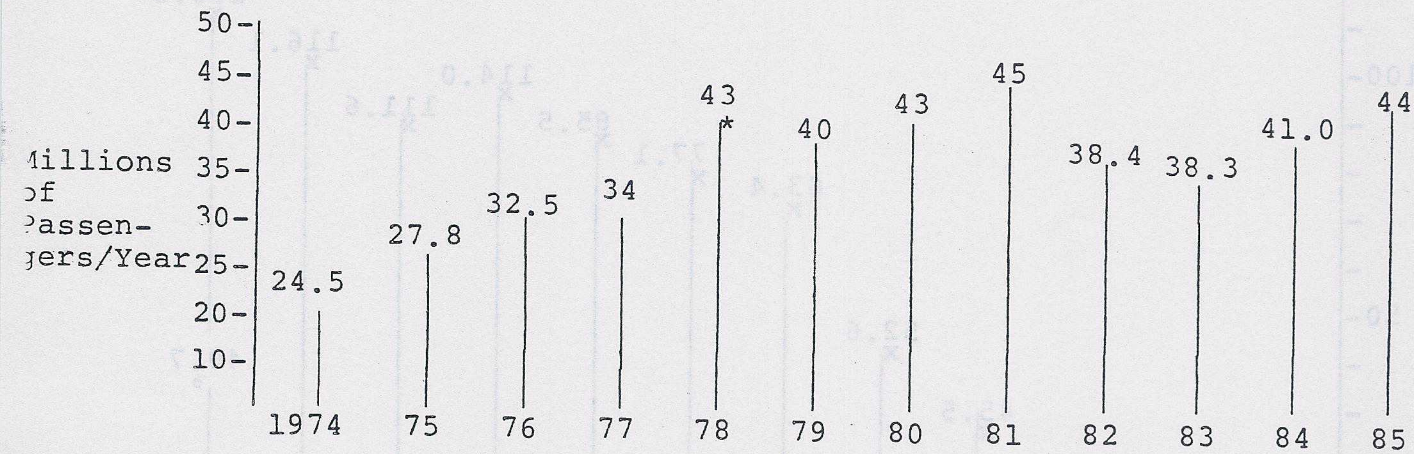


Given the explosive growth of both RTD tax levies and expenditures, one might assume that the District was in the midst of an equally spectacular rise in ridership.

The facts, unfortunately, do not bear out such an assumption. In 1974, RTD buses carried 24.5 million passengers. By 1984, ridership had not yet doubled, reaching 41 million. Although final figures for 1985 are not yet available, bus officials are "hopeful" that ridership will have climbed back to its 1981 (pre-strike) level of 44 to 45 million.

Since 1978, ridership has been, at best, stagnant. During this period, passenger counts have not kept pace with metro population growth, which went from 1.6 million in 1980 to 1.73 million in 1985, an increase of nearly 8%. (1)

FIGURE 3. RTD RIDERSHIP




* Free off-peak fares offered for 11 months.

SOURCE: RTD Annual Reports - 1974 - 1985

The large disparity between budgetary growth and ridership gains reflected in the above data is striking. However, an even more glaring picture is painted when RTD's current operations are compared with the 1970 annual report of the Denver Tramway Corporation. This was the last year in which RTD's predecessor was privately owned.

As shown in Figure 4 (facing page), the Tramway Corporation in 1970 carried 16 million passengers on 213 buses at a total cost of $5.8 million. Despite a great deal of public concern over the Tramway's financial condition, expenses exceeded revenue by only about $6,000.

RTD, on the other hand, hopes to carry 44 million passengers on 755 buses in 1985. In both cases, this represents an increase by a factor of about three or four. Expenditures, however, at 1985's level of $166 million, have increased by a factor of 13 (adjusted for inflation, which equates the buying power of $2.40 today with that of $1.00 in 1970).

Even more remarkable is the deficit, which, during RTD's watch, has grown from a meager $6,000 to more than $144 million. Expressed another way, the Tramway's defict was about one cent in every ten dollars it spent. RTD's deficit is $8.70 in every ten dollars it spends.

FIGURE 4. DENVER TRAMWAY - 1970/RTD - 1985

| | (a) 1970 | (b) 1985 | (c) '85 expressed in constant '70 $ | % Increase (c over a) |
|---|---|---|---|---|
| Annual Riders | 16 million | 44 million | -- | 175% |
| Buses | 213 | 755 | -- | 252% |
| Fare Box Revenue | $5.6 million | $22.1 million | $ 9.2 million | 64% |
| Total Budget | $5.6 million | $166.5 million | $69.4 million | 1,139% |
| Deficit | $6,000 | $144.4 million | $60.2 million | 10,000-fold |
| Cost/Rider | $.35 | $3.78 | $1.56 | 356% |

SOURCES: RTD 1985 Facts and Figures
RTD A History: 1969-1982
Denver Post: 2/14/71

The above facts demonstrate that RTD has, throughout its existence, enjoyed budgetary growth that can best be characterized as uncontrolled. The picture is one of ever larger quantities of tax dollars being spent in pursuit of an increasingly elusive mass transit patron.

At a minimum, Denver area taxpayers are entitled to an accounting on their enormous investment in mass transit. What is more, urgent action is indicated if taxpayers are to realize anything like a reasonable return on that investment.

## Minimal Impact on Traffic and Pollution

There are two arguments that are usually made in support of current, high funding levels for RTD. First, that mass transit helps reduce traffic congestion. And, second, that RTD combats automobile-related air pollution. The small numbers of people that use RTD cast doubts on both of these claims.

In the spring of 1985, the Denver Regional Council of Governments did a study on the commuting habits of metro area residents. As shown in Figure 5, the survey reveals that only a small fraction of commuters, fewer than one in 20, rely on RTD to get to work. Despite the expenditure of hundreds of millions of tax dollars on public mass transit, those commuters who did not drive alone displayed a 3 to 1 preference for getting to work in private, unsubsidized car and van pools rather than riding "The Ride."

FIGURE 5. METRO COMMUTING HABITS - 830,000 Workers Daily

| | How Many | Percent |
|---|---|---|
| Drive Alone | 664,000 | 80% |
| Car Pool, Van Pool | 124,500 | 15% |
| RTD | 35,000 | 4.2% |

SOURCE: DRCOG 1985 Transportation Survey (Percentages Add to Less than 100% Because Some People Use Bikes or Walk to Work.)

Plainly, the above figures do not speak well of RTD's role in alleviating rush-hour congestion and pollution problems. But disappointing though it may be, RTD's rush-hour performance is considerably better than its overall contribution to a Denver area traffic solution. The DRCOG survey indicates that RTD handles only 2.5 percent of all trips generated in the metro area.

With so few people using RTD, one can expect a minimal impact on both traffic and pollution. Experience, in fact, bears out this assumption.

During the 1982 RTD strike, Denver newspapers reported that traffic moved with "scarcely a ripple". Pollution levels were largely unaffected.(2) A study by Denver's traffic engineering department concluded that while a strike produced modest traffic gains, it did not "impede normal traffic operations."(3)

DRCOG's 1985 metro commuting study confirms, yet again, what was made obvious during the 1982 strike: RTD contributes little to a solution of congestion and pollution problems. Despite this fact, RTD's budget continues to expand at a near geometric pace.

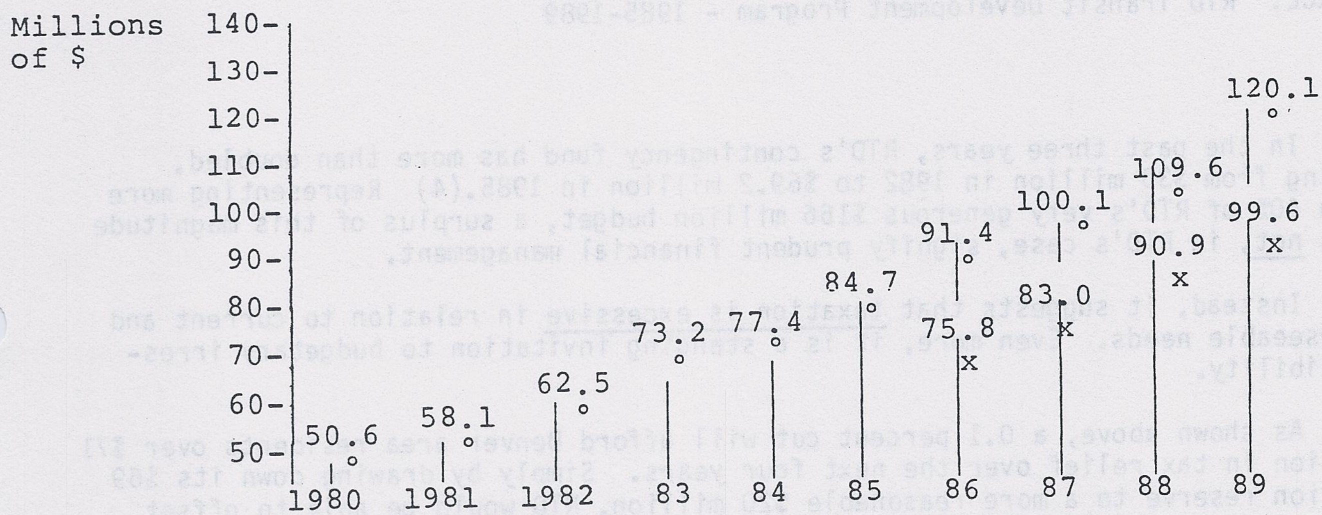
For too long, myth and wishful thinking have dominated the discussion of RTD's role in solving traffic and pollution woes. Wise stewardship of limited public resources demands that wishful thinking be replaced with reasoned analysis and myths with hard facts.

## If the Tax Rate Were Reduced...

The suggested 0.1 percent reduction in sales tax would do little more than slow the growth of RTD's burden on metro taxpayers. To cushion what slight impact a tax cut may have, RTD can draw upon a "contingency fund" which has balloned to enormous proportions in recent years. The low productivity of funds invested in RTD raises a strong question whether some current tax revenues could not be put to better use in the private sector.

RTD studies indicate it will continue to enjoy substantial gains in sales tax revenues in 1986 and years following. This scenario is in keeping with recent experience, as shown in Figure 6 below.

FIGURE 6. PAST AND PROJECTED SALES TAX REVENUES




o - Revenue at .6% rate
x - Revenue at .5% rate

SOURCE: RTD Annual Reports - 1980-1985
RTD Transit Development Program - 1985-1989

As the graph indicates, a 0.1 percent reduction in the current tax will do little more than defer, for a two-year period, anticipated revenue levels.

When the hypothetical sales tax cut is placed in the context of receipts from all sources over the next several years (Figure 7, next page), it is clear that RTD's financial strength would not be drastically impaired by a tax reduction.

FIGURE 7. TOTAL RECEIPTS: .6% + .5% TAX LEVELS
(millions of dollars)

| | .6% | .5% | Percent Decrease | Tax Savings |
|---|---|---|---|---|
| 1986 | $145 | $130 | 12% | $15.0 |
| 1987 | 214 | 196.9 | 9% | 17.1 |
| 1988 | 167.2 | 148.5 | 13% | 18.7 |
| 1989 | 194.5 | 174 | 12% | 20.5 |
| Four-Year Total | $720.7 | $649.4 | 10% | $71.3 |

SOURCE: RTD Transit Development Program - 1985-1989

In the past three years, RTD's contingency fund has more than doubled, rising from $30 million in 1982 to $69.2 million in 1985.(4) Representing more than 40% of RTD's very generous $166 million budget, a surplus of this magnitude does not, in RTD's case, signify prudent financial management.

Instead, it suggests that taxation is excessive in relation to current and foreseeable needs. Even more, it is a standing invitation to budgetary irresponsibility.

As shown above, a 0.1 percent cut will afford Denver area residents over $71 million in tax relief over the next four years. Simply by drawing down its $69 million reserve to a more reasonable $20 million, RTD would be able to offset over two-thirds of the "lost" tax revenues. Clearly, RTD is in a position to come to the aid of hard-pressed Denver area taxpayers.

This fact becomes even clearer when one considers the abysmal productivity of funds invested in RTD. The typical RTD bus seats 44 passengers and costs $150,000. But in both 1984 and 1985, these large and expensive vehicles had only 1.5 passengers on board during an average mile of travel.(5) In 1985, it cost $6.05 per mile to operate RTD buses. The average cost per passenger-mile was $3.78, of which only 13% was recovered at the fare box.(6)

In 1970, by contrast, privately owned Denver tramway buses ran at a cost per mile of 55 cents ($1.32 in today's dollars). The expense of each passenger-mile, 35 cents (equivalent to 84 cents today), was almost entirely recouped at the fare box.(7) Productivity, in short, is a forgotten concept at RTD.

A reduction in RTD's tax is long overdue. Year after year of unabated increases in tax receipts has left RTD with a "surplus" of disturbing proportions. This contingency fund is more than sufficient to cushion the slight impact of a 0.1 percent tax reduction. When its buses carry scarcely more passengers, on average, than the typical automobile, who doubts that the tax money saved can be put to some better use?

## How RTD Could Operate Leaner

Opportunities exist for reducing RTD's expenditures without significantly impairing service. At other agencies, innovative programs are being tried that have both improved the quality of mass transit and lowered the cost of its delivery. RTD's enormous tax resources may have actually had the perverse effect of discouraging the kind of improvements that are needed if the interests of both riders and taxpayers are to be equitably served.

1. Contracting with Private Bus Operators. The City of Denver, as part of the operation of Stapleton Airport, operates a park-and-ride service between remote parking lots and the terminal. To do so, Denver has hired Allied Aviation and Maintenance Company. By using a private operator, Denver is able to provide excellent service as much as 50 percent cheaper than comparable RTD park-and-ride services.(8)

Denver's favorable experience with private operators has been repeated throughout the country. In Kansas City, Chicago, San Francisco, Los Angeles, and Houston, transit agencies have turned to private operators to hold down costs while, in most cases, improving service. A University of Pennsylvania transit analyst, Edward Morlock, estimates that the practice can reduce costs by up to 50 percent.(9) Ralph Stanley, a federal transit official, has pressured RTD officials to "privatize" because the practice could cut costs by up to 60 percent.(10)

2. Utilize More Part-Time Drivers. The use of more part-time drivers at RTD would save money two ways. First, part-time drivers are paid $7.50/hour as compared to $19.03/hour for their full-time counterparts.(11) Second, part-time drivers work fewer hours because their services are needed only during peak periods. The use of part-time help has the added benefit of allowing RTD to concentrate its resources on rush hours, when it is both most needed and when fares come closest to covering operating expenses.

3. Raise Fares. RTD collects, on average, about 40 cents from each of its passengers.(12) Incredibly, this is the same fare that was charged by the Denver Tramway Corporation 16 years ago. To have kept pace with inflation since 1970, it should be about 95 cents today. At current levels, riders pay less than 15% of the cost of running the bus system.(13) Simple equity demands that fares be raised so that passengers cover a greater share of the costs. Such a move is not likely to significantly reduce ridership. Studies have shown that good service is more important to mass transit patrons than cheap fares.(14)

There are other cost saving measures that should be tried, but haven't been. The use of user responsive "Dial-a-Ride" services has reduced costs in low-density areas of Phoenix and other cities. RTD management, rather than being routinely granted large pay increases, should be rewarded on the basis of their ability to hold down costs.

In short, with a budget the size of RTD's, the difficulty is not finding opportunities for cuts. The trouble is deciding where to begin.

District's Federal Subsidy Appears Safe

Despite some uncertainty about spending for mass transit at the federal level, it appears that RTD can expect, at worst, to have its budget frozen at a high level. RTD's latest assumptions are that federal operating assistance grants will remain at 75% of 1985's very generous levels until 1990. However, total federal grants, as shown below, are projected to increase dramatically.

FIGURE 8. FEDERAL ASSISTANCE (millions)

| | 1986 | 1987 | 1988 | 1989 | 1990 |
|---|---|---|---|---|---|
| Operating Assistance | $ 5.5 | $ 5.5 | $ 5.5 | $ 5.5 | $ 5.5 |
| Capitol Grants | 31.9 | 13.1 | 19.7 | 8.5 | 12.7 |
| Busways | 0 | 15.2 | 29.6 | 56.6 | 70.3 |
| TOTALS | $37.4 | $33.8 | $54.8 | $70.6 | $88.5 |

SOURCE: RTD Transit Development Program 1986-1990.

Considering that RTD is expecting more than a doubling of its Federal aid over the next five years, it is irresponsible to suggest that present sales tax levels are required to protect against Federal budget cuts.

Hidden Implications of the Busway Argument

Arguments against reducing RTD's tax take are likely to lean less on paying for the District's existing operations and more on the "need" to fatten reserves for an ambitious construction project in the near future: the RTD Board's decision to build 58 miles of exclusive "busways" on major roads and freeways over the next several years.

While the bus lanes will cost less than a comparable light rail system, the expense is, nonetheless, high. Current estimates are that state and federal taxpayers will have to cough up an additional $1.6 billion to fund the busway scheme.(15) Even if it is possible to avoid cost overruns that have characterized such transit projects throughout the country, the busways would still rank as one of the most expensive single public works programs ever undertaken in the state.

If the decision is made to proceed with the full 58 miles of busways, RTD will need all of its existing tax subsidies and more. A large increase will be required as well. In its current planning, RTD is projecting a 66 percent hike in its sales tax rate to a full penny-on-the-dollar.(16) Assuming such an increase in July of 1987, the burden on District taxpayers will almost double in only two years, going from $86 million in 1986 to $165 million in 1988.(17)

Tax increases and building projects of this magnitude represent not merely a quantitative shift in the level of service provided by RTD. Instead, they signify a fundamental alteration in the character and policy of the District. From an agency that has simply run buses over streets owned and maintained by other governmental units, the District is now contemplating building and owning the streets themselves.

Such a radical and expensive transformation should, clearly, be subject to approval by those who will be footing the bills: the voters. However, at current sales tax levels, RTD will be able to make a start, building a busway on I-25 north to the Boulder Turnpike and beyond, without so much as a fare-thee-well from voters.(18)

As anyone who is familiar with government programs knows, once busway construction begins, it will be difficult, if not impossible, to stop. Busways will acquire a life, and a constituency, of their own. Even if voters are consulted somewhere down the road, it will be hard to say "no" to a project that has already consumed hundreds of millions of their tax dollars. In effect, a de facto decision for busways will have been made if the current sales tax rate is left in place. Supporters of other approaches will find themselves out in the cold.

Thus the argument of "don't cut the tax rate or we can't build the busways" is turned back on itself, revealing yet another reason <u>for</u> cutting the tax rate. Only by asserting their power of the purse string over RTD, can voters, through the legislature, prevent a fundamental policy change from being smuggled past them by an overfunded agency. So an immediate reduction in sales tax revenues is indicated if mass transit options are to remain open and citizens are to retain some control of their community's changing shape.

## Shouldn't Borrowing Face Voter Approval?

If the people of the six-county district are serious about having their say on the far-reaching economic, social, and physical consequences of a project like the proposed busway network, one additional step should be considered during the 1986 legislative session. That would involve placing a restraint on what is now the unchecked borrowing power of the RTD Board.

Through a little-noticed "technical" statutory change in the early 1980s, the Regional Transportation District was released from any requirement to seek voter approval for incurring bonded indebtedness. Most cities and other local government units are required to face a referendum before borrowing money against their primary (as opposed to special or secondary) source of tax revenues. RTD became an exception when the law was quietly changed to let it sell bonds secured by future sales tax income, simply upon a vote of its Board of Directors.

Knowledgeable sources close to the RTD Board have told the Independence Institute that Board action to borrow $100-$200 million is likely in late 1986 -- unless the law is changed again to require voter approval of RTD bonding.

Such a bond issue, together with RTD's unnecessarily high current tax rate and its large reserve fund, would make an early and major commitment to busways -- unratified at the polls -- virtually certain. Obviously, then, legislation to close the RTD borrowing loophole is a logical companion piece to legislation putting RTD on a tax diet. Neither would be very effective without the other.

## Conclusion

The facts regarding the Regional Transportation District are as clear as they are discouraging. Sales tax revenues have exploded. Expenditures have grown even more wildly.

But what is there to show for this massive investment in mass transit? Very little. RTD buses meet no more than 3 percent of the metro area's transportation needs. This is not enough to have a measurable impact on Denver's air pollution and traffic problems. A staggering thirteen-fold increase in RTD's budget (real dollars) has produced a paltry three-fold increase in bus riders.

RTD, in short, is a classic example of the futility of attempting to solve a problem by throwing tax dollars at it.

A cut of 0.1 percent in the sales tax may not be enough to prod RTD into the sort of innovations that are so clearly needed if the metro area is to be well served by cost-effective mass transit. But even that modest reduction would save metro area taxpayers over $71 million during the next several years. These are dollars that could be hard at work in the private sector, creating jobs and meaningful economic opportunities. Left with RTD, these same dollars would be chasing rainbows.

An accompanying requirement for voter approval of RTD bond issues would provide a checkpoint for thorough consideration of busways and other far-reaching commitments before, rather than after, construction begins.

Two final questions: First, if a one-point reduction in the RTD tax rate is beneficial, why wouldn't a two or two-and-one-half point reduction be even more so? It might well be. But the one-point cut would be a fiscally responsible beginning. Additional reductions could be legislated in coming years, based on experience with this first one.

Second, and last: Could all mass transit needs in the metropolitan area be met more effectively through profit-motivated private initiative instead of public ownership with heavy tax subsidies? Very possibly so. Privatization is truly the ultimate question underlying the current proposal to put RTD on a tax diet. But it cannot be resolved without extensive study and debate.

In the meantime, this preliminary action would serve to open the debate while achieving measurable tax savings and performance gains.

## FOOTNOTES

1. U.S. Census Bureau
2. Denver Post, 7-13-82
3. RTD Strike Traffic Impact Study. Denver Traffic Engineering, 8-19-82
4. RTD Facts and Figures, 1982-1985
5. RTD Transit Development Program, 1985-1989
6. RTD Facts and Figures, 1985
7. RTD: A History, 1969-1982
8. Denver Post, 6-21-85
9. Rocky Mountain News, 6-20-85; Wall Street Journal, 11-27-84
10. Rocky Mountain News, 10-31-85
11. RTD Spokesman, Stef Millard
12. RTD Facts and Figures, 1985
13. Ibid.
14. Rocky Mountain News, 6-20-85
15. Rocky Mountain News, 1-30-85
16. RTD Transit Development Program, 1986 to 1990
17. Ibid.
18. Ibid.



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