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BTC Brief

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Getting Out of the Car: Current Trends Make Smarter Public Transportation Policies a Top Priority

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*Timely,
accessible,
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analysis of
state and local
budget and tax
issues*

Rising gas prices, the now evident dangers of greenhouse gas emissions, and high rates of population growth have fundamentally tilted the transportation equation in the last ten years towards public transportation.

Meeting the demand for public transportation and preparing for its future growth is the prudent policy choice. State leaders must take two steps. First, it is time to create a dedicated revenue stream for public transportation at the state level. Second, the state should grant local government greater freedom to raise revenues specifically for public transportation. Greater consideration should be given to funding sources that are stable and that apportion some of the costs on those that stand to benefit the most from expanded public transportation.

What has Changed in the Last Few Years?

- **Rising Gas Prices are increasing demand for public transportation**

Rising gas prices are causing higher demand for public transportation. One year ago, a two car family could save on average more than \$6000 per year if one member sold their vehicle and rode public transportation to work. Since then, gas prices have increased 35% in North Carolina. They have tripled since June 2003.

As a result, vehicle miles driven in North Carolina show an estimated 6.3% decline from March 2007 to March 2008. In contrast, the number of riders on the new Charlotte LNYX light rail line exceeded projections by over 40% through April 2008 and is expected to reach 2025 projections by 2015. Bus rider numbers in Charlotte rose 7% in April of this year alone. April 2008 rider volume on the Triangle Transit Authority bus system is 20.5% greater than in April 2007 figures. Nationwide, the number of public transportation riders is up 3.3% for the first quarter of 2008 compared to 2007. Light rail rider volume is up over 10% nation-wide.

- **Economic effects of greenhouse gas emissions are more evident**

Ten years ago, only a small portion of the population was aware of the dangers of greenhouse gas emission and its link to global warming. Today, global warming looms large on the political agenda. The best and most recent large scale study on the economics of climate change, the Stern Report, concluded that even mild global warming will have profound negative economic consequences for the planet, especially in more temperate areas such as the United States.

Transportation accounts for about 30% of greenhouse gas emissions in the United States. Of that, surface transportation makes up 85%. A 20 mile round trip commute using public transportation every working day reduces a household's greenhouse gas emissions by 10%.

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- **Population Growth and Battling Sprawl**

The population of North Carolina is expected to increase by 50% in the next 25 years. This projected growth, along with the growth that has already take place in recent decades, carries both transportation opportunities and threats.

The major threat comes from increased urban sprawl. In the absence of public transportation options, urban North Carolinians can expect longer commute times as distances traveled and congestion increase further over their present high levels.

The second threat comes from the unprecedented growth in the number of older adults. Between 2000 and 2030, the number of adults aged over 65 is expected to more than double to over 2.1 million. Many of these residents will not prefer or be able to rely on personal vehicles as their main means of transportation. Moreover, another 7% of households do not have access to a vehicle.

The expected population growth and demographic changes also presents an opportunity: public transportation will become more cost-effective. In addition, as demonstrated in Charlotte, rail transportation encourages higher density development in core urban areas. Public transportation has the ability to slow sprawl while offering congestion solutions in growing areas.

Are sales taxes the appropriate way to fund public transportation?

Public transportation should have a central role in our transportation policy and have revenue sources that are adequate and appropriate. The sources need to be stable, providing predictable amounts of money in the short to medium term, and they need to be balanced, taxing appropriate activities and having long-term viability. Sales taxes fall short on both criteria.

Sales tax revenue is not stable. During economic downturns, when more people use public transportation, sales tax revenue declines. Sales taxes are the largest source of non-federal funding for public transportation nationwide. Not surprisingly, despite growing rider volume, one-fifth of all transit agencies reduced bus and rail services in the last year, a time when diesel costs increased by 44%.

North Carolina's sales tax is narrowly applied, making it unfair and inadequate in the long-term. The tax applies primarily to goods only and not services. North Carolina is already a service-driven economy. It will only become more so. Hence the sales tax revenue base will decline over the long-term, with negative consequences for whatever public programs it funds. Revenue for public transportation should come from all those who benefit from it – potential riders, developers and business alike. Sales taxes fall harder on low-income households. Wealthier taxpayers as well as businesses and developers should not get a free ride.

Sources exist that are more reliable and balanced than sales taxes. Those include property taxes, business taxes, developer impact fees and fees tied to vehicle registration and use. These are preferable to sales taxes as it relates to funding public transportation. Where necessary, local governments should be given expanded taxation authority to tap into all these options for the purpose of funding public transportation activities.

The correct lesson from the Charlotte experience is that expanding public transportation is a popular and successful policy, not that sales taxes work. Sales taxes were unstable and unbalanced when Charlotte was originally given the authority to raise the sales tax to fund public transportation. At that time the idea of expanding public transportation was a novelty, so the trade-off was acceptable. The major attraction of sales taxes, their simplicity and broad impact, was appropriate given the newness of light rail and the unexplored terrain of expanded and upgraded bus systems. Today, the state is facing new challenges; of rising gas prices, a warming planet, and of booming population growth. The trade-off should not be acceptable now.

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