

SUBJECT: Allocating state public transportation grants by formula

COMMITTEE: Transportation — favorable, without amendment

VOTE: 6 ayes — Krusee, Hamric, Edwards, Garza, Harper-Brown, Mercer

0 nays

3 absent — Phillips, Hill, Laney

WITNESSES: For — None

Against — Veneble L. Hammonds, Jr., Texas Transit Association; John M. McBeth, Brazos Transit District and Texas Transit Association

On — Robert Nichols, Texas Transportation Commission

BACKGROUND: Transportation Code, ch. 456 governs the formula-based state funding of public transportation from general revenue, nondedicated State Highway Fund revenue, and the last remaining oil overcharge funds. The balance of public transportation funding comes from federal and local governments. All state and federal transit funds are channeled through the Texas Department of Transportation (TxDOT), which is governed by the Texas Transportation Commission (TTC).

Sec. 456.022 allocates annual state grants to transit service providers by category. Half go to rural areas (less than 50,000 population) and half to small cities and urban areas (generally between 50,000 and 200,000 population) that have no transit authorities and levy no transit sales taxes (except for Laredo). Sec. 456.024 requires the TTC to distribute 10 percent of each category's grants to public transportation projects it selects (discretionary program) and the remaining 90 percent to service providers (formula program). The rural transit providers' allocation is distributed through a formula that tracks the percentage of federal transit grant money awarded to rural recipients. Small cities' and urban providers' distributions must be in the same proportion to the total amount as was allocated in the preceding biennium.

Sec. 456.006 limits the amount of state grants that may be awarded to urban recipients that do not levy transit sales taxes but are located in urbanized areas with transit authorities that do so. Sec. 456.026 requires the TTC to set up a performance-based reporting system for all eligible recipients.

DIGEST:

HB 3185 would replace the current system of allocation by category with a formula-based allocation methodology. The TTC would have to develop rules for the formula, which could incorporate provider performance, ridership, residents' public transportation needs, population density, land area, and other factors established by the TTC. The bill also would repeal the provisions for distributing allocations under the current system.

The bill would take immediate effect if finally passed by a two-thirds record vote of the membership of each house. Otherwise, it would take effect September 1, 2003.

**SUPPORTERS
SAY:**

HB 3185 would do away with a rigid and ineffective set of allocation methods and formulas and would allow TxDOT to move toward more comprehensive, uniform, performance-based allocation, incorporating factors affecting transit services that address changes in their relative levels of need.

The 77th Legislature appropriated about \$54 million in state funds for fiscal 2002-03 for non-sales-tax-supported transit services. State grants to public transportation providers are distributed by a statutory methodology through TxDOT's formula and discretionary programs, augmented by TTC rules. The statute allocates half the grants to rural transit service providers and half to small cities and urban transit service providers. The proportion of grant money each small city and urban provider receives must remain the same from one biennium to the next. The distribution to rural providers must be calculated using a three-part mathematical formula that tracks prior federal grant receipts proportionally.

Currently, 41 rural transit districts and 28 urban transit districts and small-city providers participate in the program. State law effectively caps how much Arlington, Mesquite, North Richland Hills, and Grand Prairie may receive in state grants designated for small cities. Although they do not levy transit sales taxes, they are located in the Dallas-Fort Worth Metroplex, which has transit authorities that do so.

This combination of methods creates an arbitrary system, perpetuating historical funding patterns that complicate the introduction of new transit service providers. Also, it does not reflect the performance-based reporting system required by law. Consequently, the TTC has been unable to allocate funds so as to encourage, enhance, and reward efficiency and better service for users.

HB 3185 would allow the TTC to develop a more fair and equitable allocation method using a formula that includes provider performance and other relevant factors. It would replace the current methodology, predicated largely on past allocations, with one based more on incentives and real-world conditions.

Over the years, budget riders have superseded the prescribed statutory methods. For fiscal 2002-03, TxDOT Rider 4 in the general appropriations act applies the 50-50 rural/urban allocation only to \$20 million, skewing the overall allocation closer to 65-35. Yet, rural areas continue to lose population. Rather than continue this uncertainty, the TTC should be allowed to revise the allocation methodology to reflect population changes more accurately, using criteria that directly affect how transit services operate. This change also would allow the TTC to create a formula that would lift the cap on the four Metroplex cities.

Rather than reduce rural areas' grant funding, adopting a formula written by rule would allow the TTC to enhance rural areas. The TTC could overcome the current methodology's historical bias by reacting to population or ridership growth, including in rural areas. The TTC also could unlock the four Metroplex cities' fixed-funding formula allocation by allowing analysis of regional needs.

**OPPONENTS
SAY:**

HB 3185 is unnecessary. The current formula has been and is being reviewed, but any needed modifications can be accomplished by TTC rule changes. The methods now in use allow the TTC to spread transit grants across the state, assuring federal officials that their funds can be matched.

This bill would be a giant step backward in public transit fiscal policy. Before enactment of the existing statute, the TTC's grant awards were totally discretionary. The current methodology was added in the mid-1990s to allow legislative guidance on fund allocation. Under HB 3185, all granting authority

would revert to the TTC, which is not in as good a position to assess local transit needs as are transit district boards and staff. The bill would reduce local control by entities that contribute their expertise, along with local funds, to help provide transit services.

While actual funding amounts may vary from year to year and across biennia, the percentages remain constant. The predictability and stability of the current method should not be replaced with parameters that are vaguely worded and overly broad. HB 3185 would allow the TTC to transfer most, if not all, grant funding to any area, creating winners and losers. Ridership cannot be transferred, however. This change could cripple some transit providers, particularly in rural areas. They typically use smaller vehicles to provide demand-response service over longer distances than urban providers, who mostly operate fixed-route bus lines.

Riders in TxDOT's budget appropriating more money to rural areas are necessary to balance the impact of federal grant formulas, which are weighted by population to urban areas and do not address rural needs adequately.

Removing caps on the four Metroplex cities would create serious equity issues among their neighboring metropolitan transit authorities. Those cities have adequate sales-tax bases to support transit service. Smaller cities and rural areas do not, but their needs are just as important.

**OTHER
OPPONENTS
SAY:**

Any problems with the current allocation methodology should be addressed by amending existing statutes, not by eliminating them altogether and giving the TCC wholesale discretion over all grant funding decisions.

NOTES:

For the current biennium, TxDOT Rider 4 allocates more than \$25 million in state public transit grants to rural transportation contractors and \$9 million to urban contractors. The rider exempts both amounts from formula provisions of Transportation Code, ch. 456.

Neither the House nor the Senate version of the general appropriations bill for fiscal 2004-05 would provide any state general revenue for public transit.