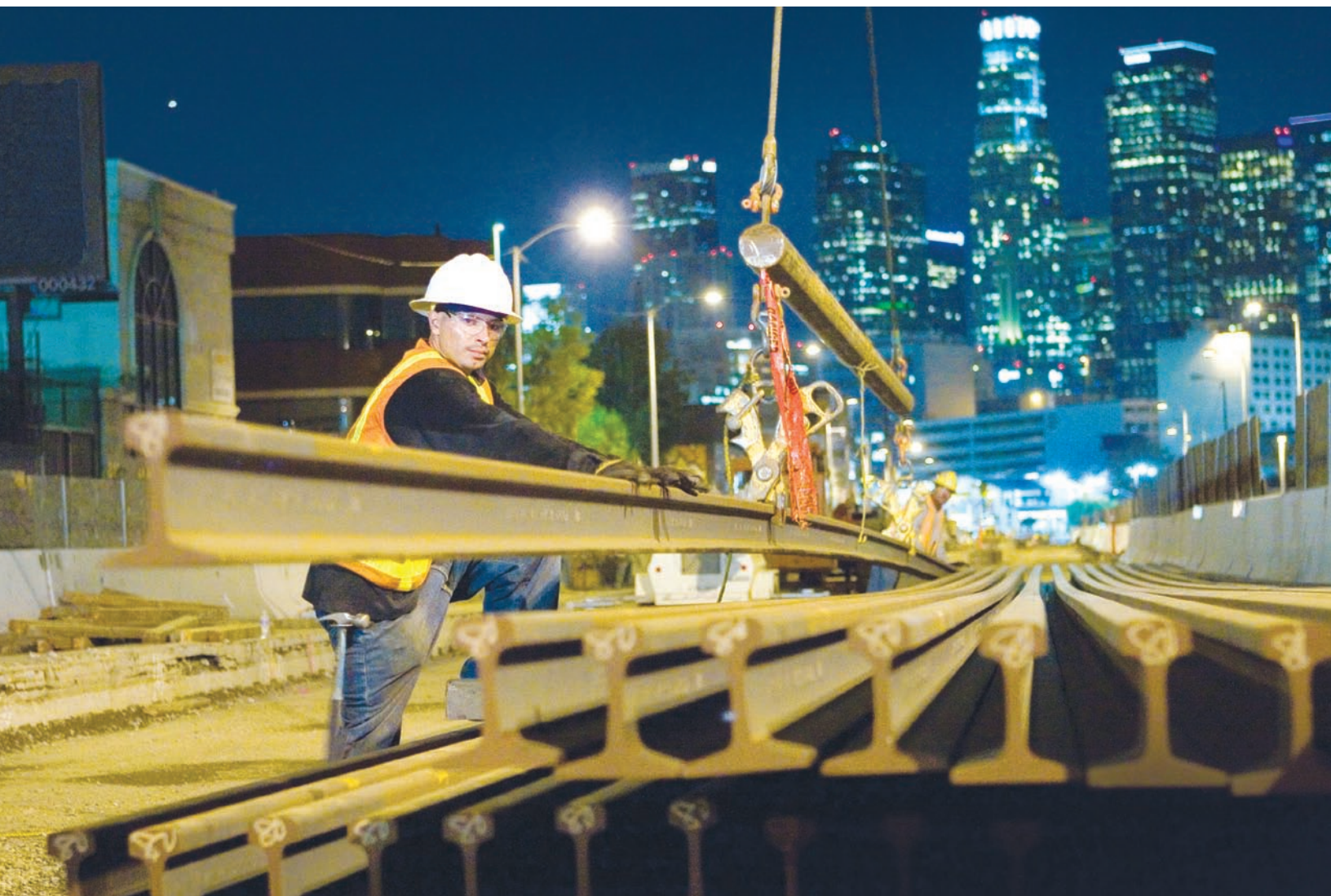
AMERICAN PUBLIC TRANSPORTATION ASSOCIATION

The Case for BUSINESS INVESTMENT in Public Transportation



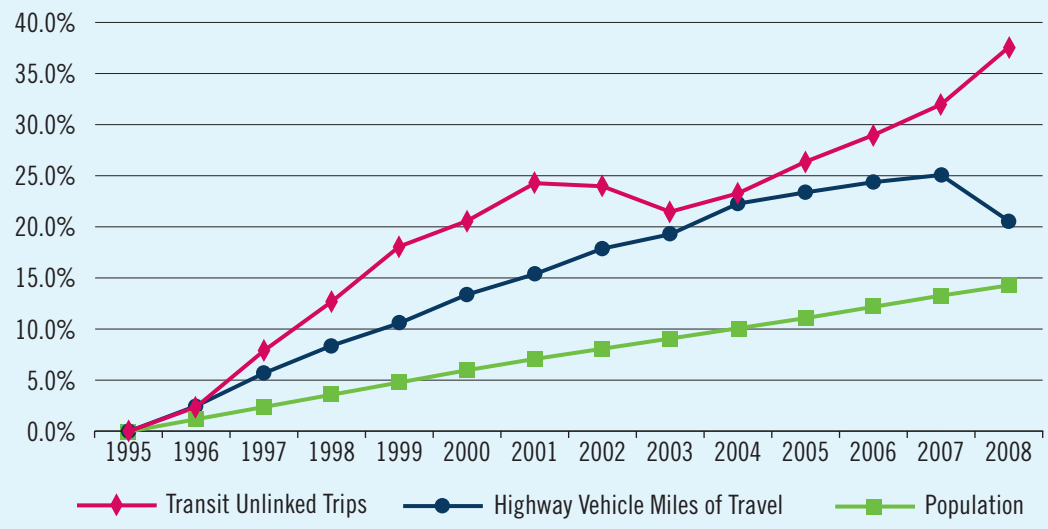
The Case for BUSINESS INVESTMENT in Public Transportation

This report focuses on key issues critical to private investors as they consider investments or future expansion into the public transportation industry. Investment questions typically focus on transit financing, sources, process, and dependability, funding targets for investments, and funding needs.

State of the Transit Industry – Growth in Ridership, Service and Funding

The transit industry has recently experienced significant growth; in ridership, in funding levels, and in service provided. In 2007, America's transit systems carried more than 10 billion passenger trips for the first time since 1957. Between 1995 and 2008, public transportation ridership increased by 38 percent, as compared to a 14 percent growth in population and a 21 percent growth in highway vehicle miles of travel.

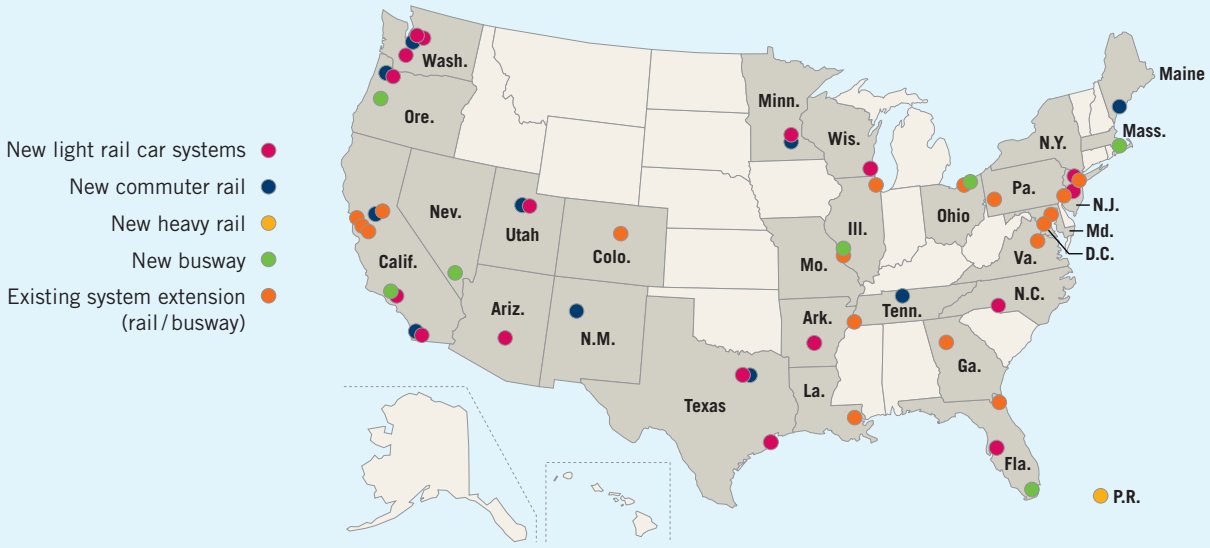
Figure 1 Since 1995 Transit Passenger Trips Have Grown More Rapidly Than Population or Highway Vehicle Miles of Travel



Source: APTA Fact Book 2009

Systems have responded to increasing demand for service with expanded service and a number of new rail and bus rapid transit systems. Since 1995, 17 new light rail, heritage light rail, and streetcar systems, and 10 new commuter rail lines, one new heavy rail system, and seven new busways have opened. Extensions of a number of existing systems have also been completed since 1995 including 7 busway extensions, 9 commuter rail system extensions, 18 heavy rail system extensions, and 71 light rail, heritage light rail, and streetcar system extensions.

Figure 2 Transit Systems Being Constructed Across the Country (1995-2009)



Over that period new light rail, heritage light rail, and streetcar systems opened in Charlotte, NC; Dallas, TX; Houston, TX; Jersey City, NJ; Kenosha, WI; Little Rock, AR; Los Angeles, CA; Minneapolis, MN; Phoenix, AZ; Portland, OR; Salt Lake City, UT; San Diego, CA; Seattle, WA (2 agencies have opened light rail lines in Seattle); Tacoma, WA; Tampa, FL; and Trenton, NJ. Since 1995, ten new commuter rail lines have opened in Albuquerque, NM; Dallas, TX; Minneapolis, MN; Nashville, TN; Portland, ME; Portland, OR; Salt Lake City, UT; San Diego, CA; Seattle, WA; and Stockton, CA; a new heavy rail system opened in San Juan, PR.

Diverse and Stable Source of Public Transportation Funding

Public transit funding is provided from a mix of federal, state, local and transit agency sources. In total, industry revenues reached $49.9 billion in 2007, of which $35.5 billion was provided for agency operations and $14.3 billion for agency capital programs. This report focuses primarily on the capital program. Transit revenue is generated from four primary sources:

- **Directly Generated Revenues** are acquired by the transit agency by their own activities including through fares, taxes levied by the system and other revenue, such as advertising, concessions or parking revenues.
- **Local Revenues** are taxes or fees generated by a local or regional government. Examples include a local sales tax or income tax, a property tax or other local fees.
- **State Revenues**, are taxes or fees is imposed by a state government.
- **Federal Revenues**, originate from federal government funds.

Most operating revenue is generated by the agency or local tax revenue sources, with only 32% of funds coming from state or federal sources. Capital funds are generated from a more diverse range of resources with the federal government providing more than 40% of these funds.

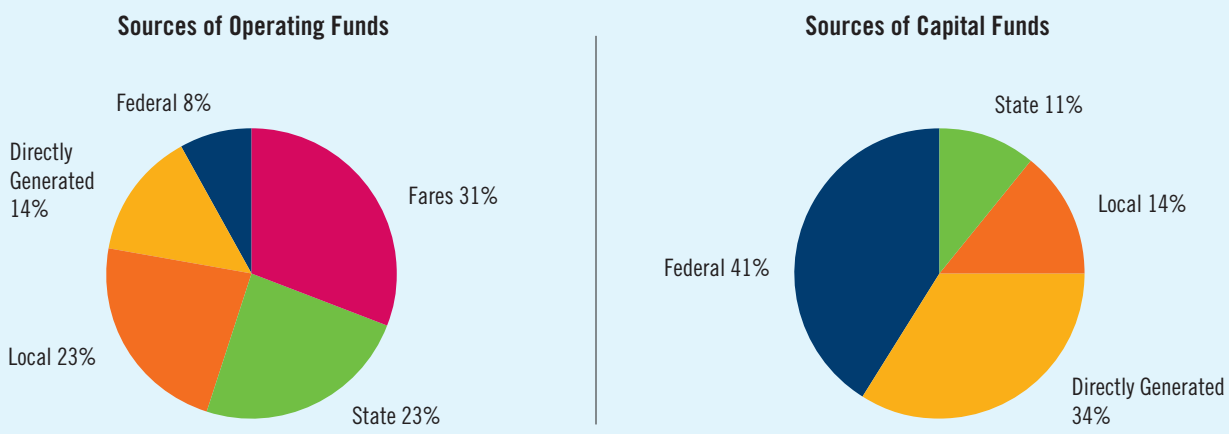
A relatively large proportion of funds are generated from dedicated revenues with the majority coming from sales taxes. Dedicated revenues are taxes or fees levied with the express purpose of funding public transportation and are, therefore, less susceptible to short-term changes in political support. Dedicated revenues may vary depending on economic conditions.

Myth

"The transit business is subject to city hall politics."

Response: Most transit systems are self-governing stand-alone entities within some form of local or regional government structure. A large proportion of transit agency budgets are covered through dedicated revenue sources that are, in comparison to many industries, stable and include a mix of local, state and federal resources.

Figure 3 Sources of Public Transportation Funds



Source: National Transit Database, 2007

Table 1 Diverse Funding with Significant Share of Dedicated Funds – Sources of Capital Funds

Year	Directly Generated by Transit Agency		Federal	State		Local		Total
	Other	Dedicated		General Revenue	Dedicated	General Revenue	Dedicated	
Amount of Funding (Millions of Dollars)								
2005	1,377	1,903	4,825	334	1,229	330	2,387	12,383
2006	1,713	1,971	5,808	455	1,322	515	1,557	13,340
2007	2,280	2,509	5,864	474	1,127	455	1,601	14,310
Percent of Annual Total								
3-Year Average	13.4%	15.8%	41.2%	3.2%	9.2%	3.2%	13.8%	100.0%

Source: National Transit Database, 2007

Table 2 Dedicated Revenue by Type of Tax Source (capital and operating purposes)

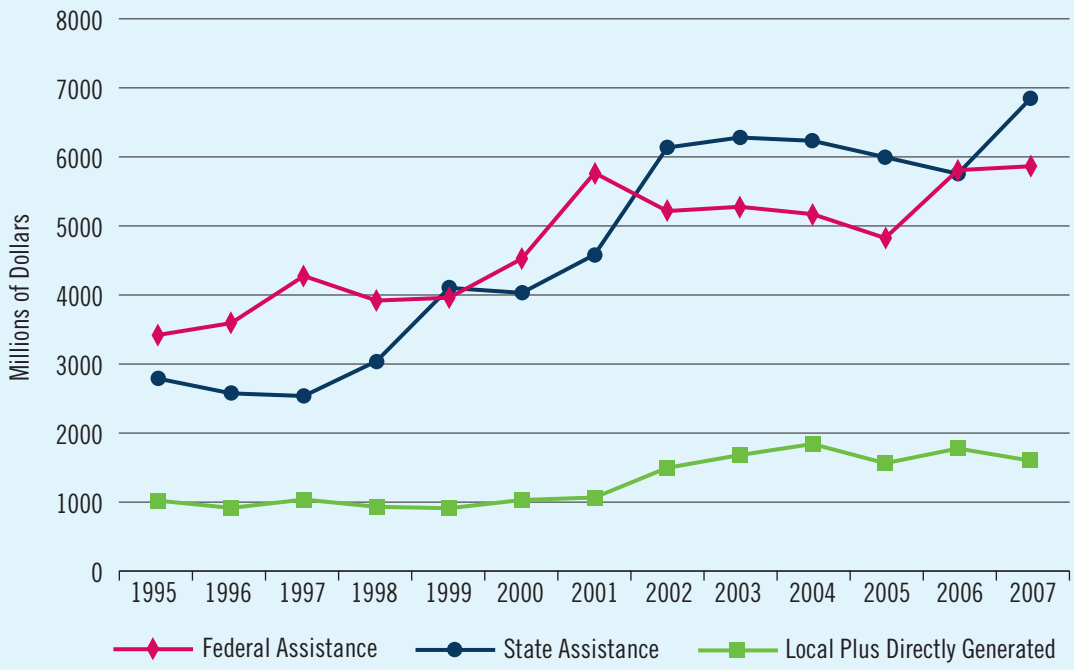
Type of Tax	Dedicated Operating Revenue (in millions)				
	Directly Generated by Transit Agency	State	Local	Total	Percentage of Total
Sales Tax	2,300	2,642	3,652	8,594	64%
Gasoline Tax	27	703	162	892	7%
Income Tax		696	81	777	6%
Property Tax	307	1	389	696	5%
Other Tax	286	1,082	1,019	2,386	18%
Total	**2,920**	**5,123**	**5,302**	**13,344**	**100.0%**

Source: National Transit Database, 2007

Consistent Growth in Funding for Public Transportation

Since 1995, capital funding provided by the combined total of directly generated and local sources increased by 145 percent, Federal funds have grown by 71 percent and state funds have grown by 57 percent.

Figure 4 Capital Funding by Source (1995-2007)



Source: National Transit Database, 2007

Myth

"But the cities are broke, budgets are drained, so how can a participant in the transit market be a good investment risk?"

Response: Transit systems are funded by local, regional state and federal resources, which provides a diversity of funding sources. Funding has continued to grow significantly for more than a decade and political support for transit investment continues to increase.

Federal authorizations for the transit program have grown from $5.1 billion in FY 1995 to $10.3 billion in FY 2009. The authorizing law passed in 1998 included a "guarantee" provision which has had the effect of improving the predictability of funding levels. Since its introduction, the appropriation has nearly matched the authorization every year. In addition to funds appropriated to Federal Transit Administration programs, some funds appropriated to Federal Highway Administration programs may be transferred to transit uses at the request of states. The amounts will vary from year to year. Some transit agencies receive limited amounts of federal funds from non-transportation programs that are not shown in these amounts.

Table 3 Federal Funding 2005 to 2009

Fiscal Year	Authorization (Millions)	Appropriation (Millions)	Percent of Authorized Appropriated (Millions)	Flexed Funds (Millions)	Appropriation Plus Flexed Funds (Millions)
2005	7,646	7,646	100.0%	966	8,612
2006	8,623	8,505	98.6%	1,326	9,830
2007	8,975	8,975	100.0%	1,023	9,998
2008	9,731	9,492	97.5%	894	10,386
2009	10,338	10,231	99.0%	—	—

In addition to relatively stable revenue sources, public transportation has generated a high degree of interest among the general public as demonstrated by recent voter referenda across the country. Over the past five years, almost three in four propositions for transit funding put before voters has been approved.

Table 4 Widespread Political Support for Public Transportation – Local Public Transportation Referenda Approvals Nationwide

Year	Measures on Ballots	Measures Approved	Percentage Approved
2008	51	41	80%
2007	18	12	67%
2006	50	32	64%
2005	25	21	84%
2004	50	40	80%
5-Year Total	**194**	**146**	**75%**

Source: Center for Transportation Excellence

Capital Funding for Public Transportation Supports Wide Range of Business Sectors

Based on the most recent data available (2007), the largest portion of capital expenditures was spent on facility construction (61 percent), including fixed-guideways, stations, administration buildings and maintenance facilities. Purchases for passenger and service vehicles accounted for 27 percent of capital expenditures. Fare revenue collection equipment, communication and information systems, and other capital uses accounted for the remainder.

Table 5 Capital Expense by Mode and Type of Investment (Millions $ - All Levels of Government in 2007)

Type	Bus	Commuter Rail	Para-transit	Heavy Rail	Light Rail	Trolley-Bus	Other	Total	% of Annual Total
Guideway	152	1,046	0	1,391	2,212	18	2	4,820	33%
Passenger Vehicles	1,681	428	495	774	323	10	126	3,837	26%
Stations	308	419	7	1,105	175	<1	82	2,097	14%
Maintenance Facilities	472	329	144	655	119	<1	7	1,726	12%
Communication and Information Systems	236	77	49	434	86	<1	3	886	6%
Fare Revenue Collection Equipment	97	5	1	84	26	<1	<1	214	2%
Administration Buildings	143	19	20	12	6	<1	<1	200	1%
Service Vehicles	39	7	5	34	4	<1	<1	90	<1%
Other	163	117	27	203	91	<1	58	659	5%
Total	**3,291**	**2,446**	**748**	**4,691**	**3,042**	**32**	**279**	**14,529**	**100.0%**

Note: All capital as defined by National Transit Database accounting system but also including all transit agencies not in the NTD.

The replacement and expansion of the transit vehicle fleet is a significant focus of transit investment. The total roadway vehicle fleet for the transit industry exceeds 100,000. Two out of three vehicles are buses with vans representing the vast majority of the remainder. Among the bus fleet, two out of three buses are approximately 40-feet in length and represent the most significant part of the potential new vehicle market. Transit agencies generally replace vehicles according to guidance provided by the Federal Transit Administration, which for the typical 40-foot buses is every twelve years, but varies by vehicle type.

Table 6 Active Transit Roadway Vehicle Fleet in Urbanized Areas

Type of Vehicle (NTD Categories)	Mode of Service							
	Bus Service		Demand Response		Vanpool and Publico		Total	
	Number	Percent	Number	Percent	Number	Percent	Number	Percent
Buses	61,196	95%	8,805	28%	18	<1%	70,019	64%
Articulated buses	2,267	4%	0	0%	0	0%	2,267	2%
Double decked buses	65	<1%	0	0%	0	0%	65	<1%
Vans/Taxicab vans	613	1%	16,575	52%	12,908	99%	29,996	28%
Taxicab sedan/station wagon/automobiles	2	0%	6,106	19%	21	<1%	6,129	6%
Other	197	<1%	67	<1%	0	0%	264	<1%
Total	**64,340**	**100%**	**31,453**	**100%**	**12,947**	**100%**	**108,740**	**100.0%**

Source: National Transit Database, 2007

Table 7 Active Buses by Length and Mode of Services in Urbanized Areas

Length	Mode of Service, Buses Only by Length							
	Bus		Demand Response		Vanpool and Publico		Total	
	Number	Percent	Number	Percent	Number	Percent	Number	Percent
46 ft and Longer	3,563	6%	3	0%	0	0%	3,566	5%
42 ft to 45 ft	3,090	5%	3	0%	0	0%	3,093	4%
35 ft to 41 ft	47,150	75%	96	1%	0	0%	47,246	67%
25 ft to 34 ft	8,090	13%	3521	44%	7	39%	11,618	16%
24 ft and Shorter	1,054	2%	4,418	55%	11	61%	5,483	8%

Source: National Transit Database, 2007

Table 8 Transit Roadway Vehicle Fleet and Length in Rural Areas

Length of Vehicle	Type of Vehicle, Rural Areas Only						
	Bus, All Types	Cutaway	Van	Automobile, Minivan, and SUV	Other	Total	
	Number	Number	Number	Number	Number	Number	Percent
35 ft and Longer	956	5	1	0	12	974	5%
25 ft to 34 ft	2387	1394	84	42	38	3945	21%
24 ft and Shorter	1,728	3,641	5,226	2,823	137	13,555	73%
Total, Number	**5,071**	**5,040**	**5,311**	**2,865**	**187**	**18,474**	**100%**
Total, Percent	**27%**	**27%**	**29%**	**16%**	**1%**	**100%**	—

Source: National Transit Database, 2007

The market for rail vehicles is less consistent year to year with longer life cycles than typical bus vehicles. Rail vehicles by year manufactured data are available in the APTA *Public Transportation Vehicles Inventory* and provide an indication of the relative market size year to year.

Table 9 Rail Vehicles by Year of Manufacture from 2008

Vehicle Type	From 2008 APTA Public Transportation Vehicle Inventory				
	2006	2005	2004	2003	2002
Commuter Rail Car	365	416	487	405	174
Commuter Rail Locomotive	11	0	6	51	11
Heavy Rail Car	120	92	64	454	576
Light Rail Car	39	63	127	133	25
Total	**535**	**571**	**684**	**1,043**	**786**

The data are as of January 1, 2008, hence many vehicles manufactured in 2007 may not yet have been delivered and accepted by agencies and hence, are not included in 2007 numbers.

Source: APTA Public Transportation Vehicle Inventory

Myth

"This is really just a government or federal program business."

Response: Not so; most transit systems are self-governing stand-alone entities within some form of local or regional government structure. Most have their own Board of Directors and operate in a mode of quasi-private enterprise."

Widespread Interest in Expansion of Transit thorough Major Capital Projects

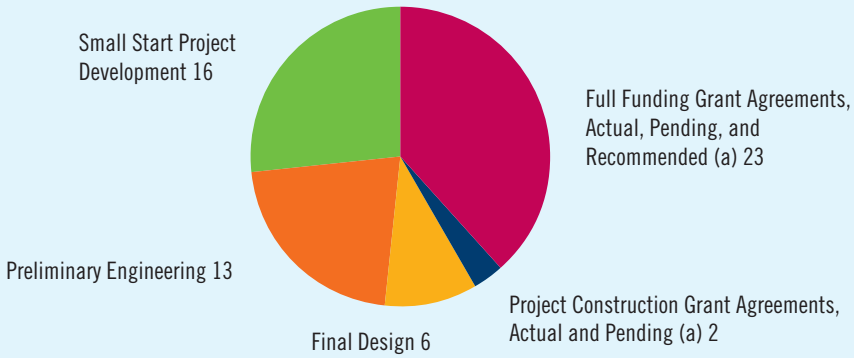
The New Starts Program, which funds new capacity transit projects, also represents a significant target of investment for the federal transit program with over $1 billion in funding from the federal government alone on an annual basis. Typically projects are matched with state and local funding for approximately half of the total cost, though the proportion of funding varies by project. Projects move through various stages of planning, design and construction with a high degree of oversight from the Federal government. As shown in Figure 5, a number of projects continue to move through the New Starts process.

Myth

"What happens if Washington just stops funding transit?"

Response: Funding for public transportation has grown at a faster pace than inflation for more than a decade. The recent economic recovery act targets public transit investment and all political signs suggest an even stronger role for transit. Increasingly, the demographics of modern transit operations are similar to the population served. Environmental concerns, fuel costs, health concerns, traffic congestion, quality of life, all of these drivers of the transit market, are working to push more and more people to transit.

Figure 5 Number of New Start Projects Proposed for Fiscal Year 2010



Source: National Transit Database

The American Recovery and Reinvestment Act and Emergence of High-Speed Rail

The American Recovery and Reinvestment Act of 2009 (ARRA) provides additional funding for public transit. The ARRA appropriated $48 billion for transportation of which $8.4 billion was specifically for transit capital investment and $8 billion for high speed rail. The ARRA is equivalent to 82 percent of FY 2009 FTA appropriations.

Table 10 American Recovery and Reinvestment Act of 2009 (ARRA)

Program	ARRA Appropriation (Millions)	FY 2009 FTA Appropriation (Millions)	ARRA Comparison to FY 2009 Appropriation (Percent)
Urbanized Area Formula	5,440	4,160	131%
Nonurbanized Area "Rural" Formula	663	441	150%
Growing States and High Density States	680	465	146%
Fixed-Guideway Modernization	750	1,667	45%
New Starts and Extensions	750	1,809	42%
Public Transportation on Indian Reservations	17	15	113%
Energy Consumption and Greenhouse Emissions Reduction	100	—	—
Other Program	—	1,674	—
Total Public Transportation Funding	**8,400**	**10,231**	**82%**
High Speed Rail Funding	**8,000**	—	—

ARRA has solidified the rapidly growing national support for high-speed rail. In 2008, the Passenger Rail Investment and Improvement Act provided the foundation for a high-speed rail program. ARRA built upon this foundation with $8 billion for high-speed rail projects. In April 2009 President Obama announced his support for long-term funding through its Vision for High-Speed Rail. While specific funding levels are being developed, the "Vision for the Future: U.S. Passenger Rail Network Through 2050" prepared for the National Surface Transportation Policy and Revenue Study Commission suggests the magnitude of funding needs at more than $350 billion. The Federal Railroad Administration is working on a National Rail Plan which will further define the future of the program.

References and Other Resources:

Public Transportation Fact Book: The APTA Fact Book is a summary of national total data for the entire transit industry for a single year. Appendix A: *Historical Data*, provides data for every year as far back as 1902. *Appendix B, Transit Agency and Urbanized Area Operating Statistics*, ranks transit agencies and urbanized areas by size for six operating statistics.

Public Transportation Vehicle Database: The APTA Vehicle Database lists vehicles reported by participating transit agencies for the active fleet, under contract for purchase, and planned purchases.

Public Transportation Infrastructure Database: This database produced by APTA lists major transit infrastructure in the U.S. and Canada and includes rail line data and station, stop and parking data for all modes.

APTA Primer on Transit Funding: *The Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users, and Other Related Laws, FY 2004 Through FY 2009:* The Primer describes the amount of funds from federal transit programs, how they can be used, and how they are distributed among transit agencies and states.

Survey of State Funding for Public Transportation: An annual report which provides detail on funding provided from state governments for all 50 states.

Annual Report on Funding Recommendations ("New Starts Report"): FTA publishes an annual report outlining the status of various projects being considered for funding under the New Starts program.

Statistical Summary: Annual FTA publication which reports how federal funding was used, including the types of equipment purchased.

National Transit Database: A comprehensive source of data collected from transit agencies in urbanized areas which operate 10 or more vehicles produced by FTA. Data is typically released 12-18 months after the end of the reporting period.

Vision for the Future: US Intercity Passenger Rail Network Through 2050: Report issued in December, 2007 by the Passenger Rail Working Group for the National Surface Transportation and Revenue Study Commission which outlines a recommended rail network in the United States with estimates of funding needs.

Vision for High-Speed Rail in America: Report issued in April of 2009 which outlined the Obama administration's vision for a national high-speed rail system.

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This report was developed by the private-sector business members of the
American Public Transportation Association.