Executive Summary of Findings and Recommendations

Overview

Rhode Island is facing a financial crisis with respect to funding transportation. State resources are currently insufficient to meet the infrastructure needs of the State's Surface Transportation System. Expecting the continuation of the current level of Federal support is problematic, and debt service and operating expenses are consuming gas tax revenues that could be used to match future Federal aid.

Inadequate resources to finance transportation needs are not the only problems that require immediate attention. Rhode Island does not have an integrated system for transportation decision-making. As a result, the State lacks the organizational infrastructure necessary to implement a transportation system that promotes intermodal transportation policy development, operational and program coordination, and effective performance evaluation. Transportation decision making is not well integrated either horizontally among modes of transportation or vertically among levels of government. As a consequence, the Ocean State appears to lack the organizational and institutional capacity to address transportation issues affecting system design, capital investment, and operations and maintenance in a coordinated and comprehensive fashion.

Inadequate resources to finance transportation needs are not the only problems that require immediate attention. Rhode Island does not have an integrated system for transportation decision-making.

Thinking and Acting as A System

The effective implementation of policies and programs, which affect the mission of more than one state agency or department, represents a challenge. This is especially true for transportation, where the various modes are interdependent, but administration, management and planning responsibilities are efforts which are only informally coordinated.

To more effectively address Rhode Island's transportation needs, the following recommendations are aimed at providing an integrated transportation agency that encompasses a strong intermodal planning capacity; a system of consolidated transportation financing; and an organizational structure with existing agencies representing the various transportation modes.

RIPEC recommends the creation of a transportation secretariat to meet these needs. Agencies included under the umbrella of the Transportation Secretariat would include the Department of Transportation, the Rhode Island Port and Harbor Corporation, the Rhode Island Airport Corporation, the Rhode Island Turnpike and Bridge Authority, RIPTA, and the Rhode Island Public Rail Corporation. The current Boards would continue to

provide direction and oversight for the existing quasi-independent corporations and authorities.

Under this model, transportation system operations would continue to be carried-out by the existing operating entities, and the Secretariat's function would be to provide oversight of the system, and perform functions related to coordinating system-wide financing and planning, and intermodal project development.

Specifically, the new transportation organization should include the following:

1. Creation of a Transportation Secretariat that would be responsible for:

   - Preparing and adopting, by rule, an intermodal transportation plan for the state that would include highways and roads, passenger and freight rail, marine transportation, mass transit, air, and pedestrian and bicycle transportation. The plan would identify projects necessary to accomplish its purposes and the funding mechanism to undertake those projects.
   - Submitting an annual unified transportation budget and capital program to the Governor. Specifically, the Secretariat should develop budgeting procedures in order to ensure financial and budgetary coordination so as to allow the Governor to develop and present for approval an annual consolidated budget and capital program for such entities to the General Assembly.

2. Establish a Rhode Island Transportation Project Corporation. This entity could be a public corporation having a distinct legal existence from the state and the authority to build and construct transportation projects when there is a public-private partnership, e.g., contracts between business and government to develop a project, land use financing option (impact fee, in-kind contribution by developer, special assessment and tax increment financing).

3. Establish a Transportation Trust Fund that would be subject to General Assembly oversight and administered by the Secretariat. Creation of a consolidated transportation trust fund would help assure transportation user fees are dedicated exclusively to transportation improvement and provide for financial flexibility.

…it is estimated that the gap between transportation infrastructure needs and estimated revenues could total $1.8 billion

Financing the System

Rhode Island's ground transportation system is at a critical juncture in terms of having sufficient resources needed to adequately meet existing needs. For the period FY 2003 through FY 2012, it is estimated that the gap between transportation infrastructure needs and estimated revenues could total $1.8 billion. This shortfall is reduced to $782 million if system restoration activities, such as the additional pavement management and bridge replacement programs, were not provided for during this period. This gap could be further reduced by $107 million if the net proceeds derived from the defeasance of Department of Transportation related debt are not redirected to the State's general fund.

Therefore, the cumulative shortfall over this period of time could range from $675 million to $1.8 billion.

The financial picture is not brighter for RIPTA. Operating deficits are projected to grow from $6.7 million in FY 2004 to $8.4 million in FY 2006, assuming that there are no wage increases during this period. Insufficient operating revenues are placing a strain on RIPTA's capital program by limiting the agency's ability to provide adequate matching funds from Federal capital assistance. For example, since 1998 RIPTA has increased its Federal capital funds programmed in the preventive maintenance category in order to address operating deficits. Reprogramming these funds to preventive maintenance has reduced resources for other capital program activities such as bus replacement.

Published reports and data provided by both the Department of Transportation and RIPTA identify major interrelated gaps in the funding of programs for Rhode Island's highways, roads, bridges and public transportation system. The first is between needs and resources, and the second is the State's inability to match Federal highway funds and still provide for debt service, and highway, road and bridge construction and maintenance needs.

The presence of these gaps suggests that the current system of transportation finance is unsustainable and may not be functional within a few years. Therefore, State policy-makers need to reinvent the way Rhode Island's transportation infrastructure will be financed in the future. The objectives of a reformed system of funding transportation should be driven by the following:

State policy-makers need to reinvent the way Rhode Island's transportation infrastructure will be financed in the future.

- Earmarking additional transportation user fees for transportation purposes;
- Diminishing reliance on general obligation bonds for future capital project financing;
- Creating a Transportation Trust Fund;
- Reducing reliance on Federal aid as the major source of transportation funding; and
- Freeing up gas tax revenues from obligations to use to match Federal aid.

The following recommendations are proposed to deal with the State's transportation funding problems. However, given the magnitude of the transportation-funding deficit, a multi-year plan that includes both revenue enhancement and operating economies is needed. Therefore, the following is recommended:

1. **Earmark User Fees**

    - Dedicate 100 Percent of the Gasoline Tax -- The State has made significant progress over the last decade in dedicating gasoline taxes to support transportation programs. Prior to FY 1992, all motor fuel tax proceeds were deposited as general revenue. Today, 20.5 cents of the gasoline tax is allocated to DOT to fund road and bridge repairs and maintenance programs and an additional 6.25 cents is earmarked for RIPTA. However, as of FY 2003,2.25 cents of the gasoline tax is redirected into the State's general fund.

Of the 2.25 cents in gas tax currently allocated to the general fund, three-quarters of one cent of the gasoline tax should be earmarked to support DOT programs in FY 2004, and an additional three-quarters of one cent be shifted in FY 2005. The result will enhance resources available for transportation by approximately $7.0 – $7.5 million.

It is also suggested that the remaining three-quarters of one cent of the gasoline tax be used to support RIPTA operations in FY 2004.

- Registration Fees and Permits – Nationally, state transportation budgets receive approximately 17 percent of their revenue from motor vehicle fees and permits. Rhode Island does not allocate any such fees to support transportation.

In FY 2003, the State is projected to collect $45.8 million from Motor Vehicle Registration and Drivers' License Fees. The net yield to the State, after allowing for administrative costs, is approximately $31.3 million.

Commencing in FY 2005 and ending in FY 2009, it is recommended that one-fifth of net motor vehicle registration and driver license fees be earmarked for transportation functions annually, with 90 percent of the proceeds going to DOT and 10 percent to RIPTA.

2. **Determine the Feasibility of Tolls**

There needs to be a thorough discussion regarding the pros and cons of selectively expanding the use of tolls in the Ocean State. National tolls account for 5.1 percent of the revenue used by states for highways compared to almost 4.4 percent in Rhode Island.

There is precedent for the use of tolls in Rhode Island. The Rhode Island Turnpike and Bridge Authority is responsible for tolling the Pell Bridge and maintaining the Pell and Mount Hope Bridges.

The potential of placing other bridges and roads under the jurisdiction of the Bridge and Turnpike Authority should also be reviewed to determine the economic, fiscal and community impact of having user fees support the cost of operating and maintaining those facilities.

3. **Financing System Enhancement**

Investments in system enhancement projects, which have long, useful lives, often require large sums of capital. These projects should be financed with long-term debt coupled with concurrent revenue streams.

System enhancement may create economic benefits for users, and adjacent property owners. Therefore, one approach to diversify transportation financing is to capture those benefits to help pay for systematic improvements to the surface

transportation system. For example, the revenue stream could be based on land-use related options, since the revenues become available due to investments made to change the land use of a specific area. Three basic land-use-financing options include: impact fees, special assessments, and tax increment financing. Land use financing tools are based on the "beneficiary pays" principle, rather than the more typical "user pays" concept associated with gasoline related taxes and other more traditional sources of revenue.

4. **RIPTA**

RIPTA will face annual service reductions unless a multi-year, fiscal get-well plan is adopted and implemented. Long-term policy choices cannot be made unless there is a realistic determination of RIPTA's mission and responsibilities. To accomplish this, it is recommended that the Governor convene a Blue Ribbon Commission on the Future of Public Transit, comprised of State and local policy makers, to identify policy options, evaluate their costs and benefits, and make recommendations to the Governor and General Assembly for consideration. It is critical that this commission has the influence and authority to effectively consider and recommend a strategic direction for the function and financing of the state's transit system.

RIPTA will face annual service reductions unless a multi-year, fiscal get-well plan is adopted and implemented.

Introduction

Transportation in Rhode Island is at a crossroads. The Ocean State is reaching a point where it will no longer be possible to support the current transportation system, with needed improvement, by the existing means of financing. The basic choices are either to develop a different or augmented funding capacity or to reduce expectations for maintenance and improvement of the State's transportation system. The choice affects roads, highways and bridges and public transportation.

A second issue is governance. When the Rhode Island Department of Transportation was created in 1971, it was designed to accomplish broad coordination among modes of transportation. This purpose was never fully achieved, and since then transportation functions have been disconnected. The consequence has been that the basic structure of transportation decision making has become fragmented. To a degree, this fragmentation has been bridged by the personal collegiality of agency directors.

The basic choices are either to augment funding capacity or to reduce expectations for maintenance and improvement of the State's transportation system.

This white paper addresses these two issues: finance and governance. It assesses current circumstances and describes possible options for action. The report does not consider air, water and rail transportation.

While leadership will be needed at the highest level, top-down decision making will probably not be appropriate or effective. Transportation systems are critical to the well-being of Rhode Islanders in general – basic decisions about them need to be reached through open, public deliberations. When the essential components of the current system were put in place in the late 1950s, a consensus formed that it was desirable (a) to build a modern highway system, and (b) to use bonded debt to match Federal dollars for its construction.

The plan was to use State bonded debt and Federal Highway Trust funds to build interstates and associated roads in Rhode Island. But once the practice of bonding began, it never stopped. The amount of State match needed to secure Federal dollars was consistently greater than current revenues that could readily be allocated to transportation. So Rhode Island borrowed and never moved to a pay-as-you-go financing structure. Now debt service allocated to the Department of Transportation exceeds the amount of debt being issued, and the gap may continue to widen under current expenditure plans. With existing gas tax revenues growing slowly and expenses increasing, this funding gap presents a major near term issue for the State.

The situation for the Rhode Island Public Transit Authority (RIPTA) is acute. Gas tax revenues, Federal funds, and fares have supported the service. No further increases in the allocation of the gas tax are planned, Federal funds in a number of categories are running out, and fares cannot be pushed too high without diminishing ridership. RIPTA is faced with making service cuts. Yet decreasing RIPTA service adversely affects social equity

and adds to potential highway congestion. Still, many scenarios for Rhode Island's future rely on expanding public transportation, not reducing it.

The Report *Transportation 2020* by the Rhode Island Statewide Planning Program (August 2002) pointed to these issues with commendable directness. The Governor's Blue Ribbon Commission of 1996 similarly evaluated the situation and proposed that the gas tax be allocated to transportation. Over the last five years this has been accomplished. Indeed, with increased Federal funding, the last half-decade has been a good era for transportation. Major projects, such as the I-195 relocation, have been funded and highway maintenance has been increased. Fewer State roads and bridges are in poor condition. Yet this era is drawing to a close, and the current Federal authorization for surface transportation, TEA-21, expires in 2003. And as *Transportation 2020* shows, even if Rhode Island were so fortunate as to have current levels of Federal funding continued, the State could not meet the matching requirements without new revenue sources. Furthermore, it may be quite optimistic to assume historically high levels of Federal support extending twenty years into the future.

The following report is presented in two parts. Part I, "Thinking and Acting as a System" concludes that Rhode Island lacks an integrated system for transportation decision making and recommends an organization to implement a transportation system that promotes intermodal transportation policy and coordinated program implementation. This section of the report suggests guiding principles to follow in structuring a State transportation agency, describes the existing transportation system and planning functions, and compares Rhode Island's transportation system to selected systems in Maryland; Delaware; Jacksonville, Florida; Indianapolis, Indiana; and Portland, Oregon.

….a significant gap exists between transportation needs and available resources.

Part II, "Financing Rhode Island's Transportation System" demonstrates that a significant gap exists between transportation needs and available resources. As a result, the current system of funding both the Department of Transportation and RIPTA appear to be unsustainable and may not be functional within a few years. Discussed in this section of the report is the impact of the breach between needs and resources has on the State's ability to match Federal funds, meet current obligations for system preservation, finance system expansion and provide public transportation. It also presents a comparative analysis of how states finance their transportation systems.

The preparation of this Public Policy Issues Brief has been a cooperative effort. The Rhode Island Public Expenditure Council wishes to acknowledge the substantial contributions of the staff of the Department of Administration, Statewide Planning Program, the Department of Transportation, the Rhode Island Public Transit Authority and the Senate Policy Office. The RIPEC convened Committee that oversaw the development of the white paper included:

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Part I – Thinking and Acting as a System

Guiding Principles

The guiding organization principles in structuring a state transportation agency should include the following:

1. The transportation infrastructure organization should be designed to implement a comprehensive and integrated transportation plan to provide an economical, efficient and unified system of air, water, rail, vehicular, pedestrian and public transit.
2. The transportation system must have a stable and predictable method of financing and planning for the acquisition, engineering, construction, reconstruction, repair and rehabilitation of the state's transportation infrastructure and operation of the highway and transit systems.
3. The state's water, vehicular, pedestrian, public and rail transportation should constitute a uniform system of transportation in order to
   - Contribute to the state's economic viability and quality of life;
   - Reduce pollution and conserve energy; and
   - Enhance public safety.
4. Transportation is a core function of government that the *Transportation 2020* report observed, "connects the State with the global and regional economy, home with the workplace, the individual with the community…." The location of business, public facilities and homes are all influenced by the quality of transportation systems. The adequacy of people moving or parking is at the center of almost every public policy decision regarding Rhode Island's future, as development of Providence Place, Quonset Point and the Airport demonstrate. As one business person who worked on the report said,

> Many companies, like ours, are still here because of our proximity to New York, Boston and Hartford. Many Boston-based businesses are discovering this in reverse, choosing our air facilities increasingly over their own. I believe there is no other factor in keeping this balance between convenience and environment other than good transportation.

Description of Existing Transportation System[1]

Early settlement and the spread of agriculture to more than 80 percent of the State required primitive roads to move products to markets. Water-driven textile mills and other manufacturing along rivers also depended upon efficient transportation of goods, by road, water, and railroad.

As the industrial age progressed and immigration increased, the State saw a swelling of population in central cities. Infrastructure investments were made in these areas. Radiating from Providence, a network of rural turnpikes was gradually converted to public roads.

Private companies developed trolley lines in the late 1800s, first horse-drawn, then electric. Ridership rose through the early 1900s and flourished again during World War II.

After World War II, trolleys were replaced by buses. As suburban development spread and auto ownership increased, ridership on the private transit system fell drastically. In 1964 the State created the Rhode Island Public Transit Authority (RIPTA). RIPTA doubled the route system by 1986, to 447 miles, making it a statewide system.

Postwar suburbanization and economic growth also stimulated highway development. Federal legislation in 1956 funded the Interstate system, and Rhode Island's three Interstate highways (I-95, I-195, and I-295) were open by 1975. State and local road mileage grew from 4,400 to 5,900 between 1962 and 1995, most of the total consisting of local roads and streets.

Results of this history are:

- An extensive road network, including arterial highways and local streets, with few areas lacking transportation access;
- Many older urban roads and bridges, which tend to be expensive to maintain and difficult to upgrade to meet current demands;
- A traditional, fixed-route bus system based on pre-1950s development patterns, with Providence as the hub, which has limited coverage in new growth areas and seriously reduced evening and weekend services; and
- Potential to capitalize on new trends toward intermodalism as an economic development generator.

Three state-level agencies have primary responsibility for construction, operation, and maintenance of Rhode Island's transportation system. The Rhode Island Department of Transportation (RIDOT) is responsible for the operation of state highway facilities, and additionally has responsibilities related to the operation of passenger rail service, water transit, and the implementation of intelligent transportation systems (ITS) through its Transportation Management Center. RIPTA, a quasi-public agency governed by a board of directors, provides statewide bus transit service, administers RIde (the state's paratransit service for the elderly and disabled), provides water transit service, and

[1] Source: *Transportation 2020*, Statewide Planning Program.

coordinates statewide rideshare programs. The Rhode Island Airport Corporation (RIAC), a subsidiary of the Rhode Island Economic Development Corporation (RIEDC) governed by a board of directors, is charged with operating responsibility for Rhode Island's six publicly-owned airports. Other transportation providers, and local public works departments, are responsible for additional facilities and services.

The state road network (in route miles, not lane miles – which would be higher) totals over 6,000 miles, and includes:

- Three Interstate highways totaling 70 miles,
- Arterial and collector roads totaling 1,099 miles, maintained by the state,
- Arterial and collector roads totaling 672 miles, maintained by 39 cities and towns, and
- Local streets totaling 4,177 miles, maintained by 39 cities and towns.

The mixed maintenance responsibilities for arterials and collectors reflect the historical evolution of the highway system. The fact that some arterials are locally maintained, while the state maintains lower-level collectors is as much an artifact of history as it is based upon highway functional classification. Legislation basing highway jurisdiction on functional classification and providing for jurisdictional transfers was passed in the early 1990s, but funding to implement the program was not provided.

RIDOT maintains 603 bridges, and another 146 are maintained by cities and towns (greater than 20 feet long). Two of the largest bridges in the state, the Mount Hope Bridge, and the Pell Bridge at each end of Aquidneck Island, are operated by the Rhode Island Turnpike and Bridge Authority.

The RIPTA bus fleet includes 233 buses – 199 full-size buses, 19 compressed-natural gas (CNG)-powered trolleys, five smaller buses used for fixed-route services, and 10 demand-response vehicles. All vehicles are equipped for people with disabilities; and all full size buses have bicycle racks.

The core of RIPTA operations is fixed route service. Fixed routes serve 36 of the 39 cities and towns, connecting Providence with Woonsocket, Newport, Westerly, and the University of Rhode Island. Twenty-six park-and-ride lots have bus service. RIPTA provides fixed route transit service to two of Rhode Island's three train stations, and demand-response service to the third. T. F. Green Airport is also served by RIPTA's fixed route system.

Paratransit service is provided by the RIde program, which is administered by RIPTA and operated by several carriers as a result of coordination among RIPTA, the Department of Human Services, the Department of Elderly Affairs, the Department of Mental Health, Retardation, and Hospitals.

Privately operated intercity buses link Providence with Boston, New York, Albany, and Cape Cod. Amtrak provides passenger rail service in the Northeast Corridor, with eight trains operating each day in each direction. Under the Pilgrim Partnership II Agreement that is in effect until 2009, RIDOT and the Massachusetts Bay Transportation Authority (MBTA) continue to work together to provide commuter rail services to Rhode Island. Ferry service operates year-round between Point Judith and Block Island and seasonally among Providence, Newport, and Block Island, and between Bristol and Prudence Island. The state built the 14.5-mile East Bay Bike Path from Providence to Bristol and is constructing several more, including the Blackstone River Path, the South County Bike Path, and the Washington Secondary Bike Path.

The Providence and Worcester Railroad is a major regional freight carrier, connecting Rhode Island to Worcester, MA. The Seaview Railroad operates switching service at the Quonset-Davisville Port and Commerce Park in North Kingstown.

A "Third Track" project is being constructed parallel to the Amtrak Main Line to serve freight movements between Central Falls and Quonset Davisville. The goals of this Freight Rail Improvement Program (FRIP) are: 1) to preserve and expand the capabilities of the rail system to accommodate double-stack container and tri-level automobile carrier rail cars through increased vertical clearances, and 2) to add capacity through the construction of additional tracks to address the anticipated restrictions on freight operations expected as a result of an increase in frequency of Amtrak's passenger operations.

Marine transportation is the oldest form of transportation in the state; Newport was once one of the nation's major ports. The Port of Providence handled liquid, dry, and breakbulk cargoes totaling nearly 1.7 million tons in 1994. New cars arrive at Quonset-Davisville for shipment throughout the region.

The Rhode Island Airport Corporation operates one air carrier airport (T. F. Green in Warwick) and five general aviation airports serving all regions of the state and Block Island. Rhode Island Army and Air National Guard units are based at Quonset State Airport. At T. F. Green, a new terminal and related parking facilities opened in 1996, and additional airline service followed. Since then, passenger traffic has grown dramatically. RIDOT, RIAC and Amtrak are working jointly to develop a true intermodal transportation mode at T. F. Green Airport by linking the Amtrak passenger rail service with the airport terminal by way of an automated people mover.

Description of the Existing Transportation Planning Function

Transportation planning in Rhode Island is accomplished primarily through the long- and short-range planning functions of the state's metropolitan planning organization required by the federal funding agencies and the planning activities of each of the operating agencies.

Overview of the Federal Requirement for Metropolitan Planning

The Federal Highway Administration/Federal Transit Administration (FHWA/FTA) joint metropolitan transportation planning process was initiated under the Intermodal Surface Transportation Efficiency Act of 1991 (ISTEA) and continued under the Transportation Equity Act for the 21st Century (TEA-21) as a means to foster cooperative and comprehensive framework for decision-making related to the programming of transportation investments in metropolitan areas. Metropolitan Planning Organizations (MPOs) have broad responsibilities for long- and short-range planning.

Long-range planning is accomplished through the development of a 20-year transportation plan that lays out the overall vision for highway and transit system needs and investments as well as major transportation system goals and policies. Some states create long-range plans that explicitly list projects to be included in short-range funding program; others name only major projects and rely on the long-range plan as primarily a policy guide. In Rhode Island, the ground transportation plan is an element of the overall State Guide Plan and is updated every three years. While Rhode Island's long-range plan identifies major projects and initiatives and provides a detailed description of the financial status of the system, it serves primarily as a policy document rather than an operational action plan.

Short-range planning activities occur every two years through the programming of projects for funding through the formulation of the biennial Transportation Improvement Program (TIP). The TIP is a fiscally constrained document, and thus projects must be carefully selected in order that the resulting transportation program does not exceed available federal and local resources. The TIP programs all FHWA and FTA funds flowing to state agencies, cities and towns, and organizations for a wide variety of projects.

TEA-21 established the following focus areas for consideration during the planning process:

- Support the economic vitality of the metropolitan area, especially by enabling global competitiveness, productivity and efficiency;
- Increase the safety and security of the transportation system for motorized and nonmotorized users;
- Protect and enhance the environment, promote energy conservation, and improve quality of life;
- Enhance the integration and connectivity of the transportation system, across and between modes, for people and freight;
- Promote efficient system management and operation; and
- Emphasize the preservation of the existing transportation system.

MPOs are also responsible for public involvement and air quality conformity activities associated with long- and short-range planning.

Rhode Island's MPO Planning Process

Because of Rhode Island's small size and the percentage of the population residing within the Providence metropolitan area, the state is in the unique position of having its sole MPO charged with responsibility for state-wide transportation planning activities. The general practice outside of Rhode Island is for state governments to undertake statewide transportation planning functions, which are then coordinated with those of the state's various MPOs. In Rhode Island, the statewide and metropolitan functions are consolidated under the purview of the State Planning Council, the 17-member body responsible for overseeing statewide planning functions in such areas as land use and economic development in addition to transportation.

The MPO's day-to-day responsibilities (including preparation of the long-range plan and evaluation and selection of projects to be included in the TIP) are in large part delegated to Rhode Island's Statewide Planning Program, the central planning agency for state government and the Transportation Advisory Committee (TAC), a committee of and appointed by the State Planning Council. The Statewide Planning Program is housed in the Department of Administration and staffs the State Planning Council. The TAC is currently composed of 26 members representing 9 cities and towns, various transportation user groups, environmental organizations, and the construction industry. RIDOT, RIPTA, RIDEM, and RIEDC are represented on the TAC in an ex officio capacity. As the state's primary recipients of FHWA and FTA funding, RIDOT and RIPTA's transportation planning activities are coordinated with the work of the MPO.

While the MPO planning process is primarily driven by joint FHWA/FTA regulations, the other federal agencies providing funding for the transportation system, the Federal Aviation Administration (FAA) and the Federal Rail Administration (FRA), also have mode-specific planning requirements. In order to meet these requirements, the MPO also adopts Freight Rail and Airport System Plans, which are developed through separate processes.

Transportation Planning Activities of Operating Entities

Planning related to transportation operations is undertaken at each of the operating agencies. The scope of RIDOT's planning efforts includes the highway, freight rail, passenger rail, and water transportation components of the system. RIPTA's operations planning relates to bus transit, paratransit, rideshare and commuter benefits programs, and water transportation. RIAC and RIEDC are the primary entities responsible for planning associated with airport and port operations respectively.

Coordination of planning activities among Rhode Island's transportation agencies currently occurs primarily on a project-specific basis and in large part relies upon the initiative of the agency directors and staff.

How Rhode Island's Transportation System Compares

In order to inform the discussion of options for restructuring the transportation system in Rhode Island, information from several other states and major metropolitan areas was gathered. Research focused on the structure and finance of transportation systems in Maryland; Delaware; Jacksonville, Florida; Indianapolis, Indiana; and Portland, Oregon.

It is important to note that it is easier to draw parallels between the Maryland and Delaware transportation systems and that of Rhode Island. These two states, like Rhode Island, have transportation systems largely planned and operated by transportation agencies with statewide service areas. The other systems reviewed feature much stronger city, county, and regional roles in the planning, operation, and financing of transportation than are present in Rhode Island. However, the different approaches used by these communities to the management of operation of the transportation system may also serve as models for evaluating Rhode Island's practices.

Structural Organization

Rhode Island's transportation system is planned, operated, and regulated by several state agencies…many of which operate relatively independently of one another.

Rhode Island's transportation system is planned, operated, and regulated by several state agencies, quasi-public agencies, commissions and committees, many of which operate relatively independently of one another. Coordination among agencies in Rhode Island is primarily driven by the planning requirements and regulations of federal funding agencies or brought about by specific transportation projects. Review of other systems demonstrated that while the delivery of transportation-related services remains fragmented in some communities, many have made an effort to structurally integrate some, if not all, of their transportation entities. In cases where these entities have been integrated to a lesser degree, some states and communities have created oversight commissions charged with setting policy, developing long-range plans, and ensuring intermodal coordination.

Of the states and cities reviewed, Maryland appears to have achieved the highest degree of structural integration of transportation entities under its Department of Transportation (MDOT). Following a 1971 act of the state's legislature, thirteen separate state agencies were consolidated into a single DOT responsible for oversight of five operating agencies. In the MDOT structure, the Office of the Secretary of Transportation develops and sets overall transportation policy and performs functions related to system finance, capital programming, legislative and public affairs, human resources, and auditing. Transportation system operations, including highway operations, are carried out by the operating entities overseen by the MDOT Secretary: the State Highway Administration, Maryland Transit Administration, Maryland Aviation Administration, Maryland Port Administration, and Motor Vehicle Administration.

The Maryland Transportation Authority (MDTA) remains a separate public enterprise that develops, finances, operates, and maintains the State's toll facilities. It is governed by a seven-member board, comprised of the Secretary of Transportation and six citizens appointed by the Governor with Senate consent and is self-financing.

The State of Delaware has partially integrated transportation system planning and operations within the Delaware Department of Transportation (DelDOT), which is responsible for the highway, freight rail, passenger rail, and bus transit systems in addition to aviation planning (but not airport operations), toll administration, and administration of the state's bicycle and pedestrian program. Passenger rail and bus transit functions fall under the purview of the Delaware Transit Corporation/DART First State, a division of DelDOT created to consolidate the management and operations of all transit services (bus, rail, rideshare) previously provided by three separate entities.

Unlike MDOT, several state-level system functions fall outside of DelDOT. These include the airport, bridge, and ferry operations undertaken by the Delaware River and Bay Authority, and the programs operated by the Delaware Division of Motor Vehicles. The Port of Wilmington is owned and operated by a separate corporate entity of the State of Delaware.

Jacksonville and Indianapolis have integrated transportation functions to a lesser degree. Both communities share highway system responsibilities with districts or subdistricts of their respective state Department of Transportation (DOTs). In both instances the states' DOTs retain primarily responsibility for freight and passenger rail planning, while Jacksonville and Indianapolis both provide county-wide bus transit and paratransit service through their transportation agencies, the Jacksonville Transportation Authority (JTA) and the Indianapolis Public Transportation Corporation (IndyGo). JTA retains the road and bridge construction responsibilities of the former Jacksonville Expressway Authority. Jacksonville ports and airports are operated by separate independent authorities of Duval County. Indianapolis' airports are operated by a municipal corporation unaffiliated with the other transportation agencies.

While the transportation system in Portland, Oregon remains the responsibility of several state and local entities, the strong regional government in the Portland region, Metro, has resulted in a high level of planning coordination among these entities. Metro's transportation department is made up of four sections that are responsible for long-range planning, corridor planning, travel forecasting, and transit-oriented development. The Metro Council is advised on transportation policy issues by a committee composed of elected officials and representatives of the region's transportation agencies. This committee in turn is advised by a smaller technical committee, which focuses on planning priorities and financing alternatives. Bus and rail transit, paratransit, and rideshare services are provided by Tri-Met, a municipal corporation of the State of Oregon governed by a board of directors. The region's ports and airports are operated by the Port of Portland, a regional government entity directed by a governor-appointed commission.

Regional Context

In considering an organizational infrastructure for transportation, the ability of the State to address interstate/regional concerns must also be considered. As noted in the *Transportation 2020* report, Rhode Island's location in the heavily populated region between Washington, DC, and Boston has contributed to development of its marine, road, and rail transportation. Today, Rhode Island's transportation system exists as part of a larger system serving New England and the Northeastern United States region. Rhode Island is part of the Amtrak Northeast Corridor and the I-95 highway corridor. The regional analysis conducted by the Rhode Island Economic Policy Council documented the crucial importance of regional transportation linkages to Rhode Island's future economic strength. Projects such as extension of commuter rail service and development of the intermodal train station at T. F. Green Airport are designed to capitalize on these strategic strengths.

Findings and Recommendations

The Committee's principal finding is that Rhode Island does not have an integrated system for transportation decision making. As a result, the State lacks the organizational infrastructure necessary to implement a transportation system that promotes intermodal transportation policy development, operational and program coordination, and effective performance evaluation. Transportation decision making is not well integrated either horizontally among modes of transportation or vertically among levels of government. As a consequence, the Ocean State appears to lack the organizational and institutional capacity to address transportation issues affecting system design, capital investment, and operations and maintenance in a coordinated and comprehensive fashion.

Transportation decision making is not well integrated….[and] the State transportation financial base is inadequate.

These organizational limitations are especially critical because, as discussed in Part II, the State transportation financial base is inadequate to support planned system restoration and the operation of mass transportation services. Furthermore, economic and environmental changes beyond the control of State government may further erode Rhode Island's ability to finance transportation needs unless the transportation function is reorganized to think and act as a system. For example, long-term gasoline tax revenue, which finance one third of Rhode Island's highways, are vulnerable to economic cycles, and both increased oil costs and engineering efficiencies that may reduce gasoline consumption. Federal aid generates over one-half of Rhode Island's revenue used for highways, and current levels of Federal transportation aid may be in jeopardy.

In the future intelligent transportation systems (ITS) may become more widespread (E-Z Pass Systems, real time traffic and route information, and hybrid vehicles), and other modes of transportation may expand to provide system flexibility and increased efficiency. In a changing environment, Rhode Island's transportation agencies should be organized to anticipate problems before they occur rather than reacting to them.

Moreover, effective ITS implementation will require high levels of coordination and planning among transportation agencies.

The Committee considered three organizational options to better coordinate and integrate transportation decision making and enhance the delivery of transportation services. These include the following:

- Creation of an Intermodal Transportation Authority. This option was rejected because the Committee believed that a quasi-independent would not be as accountable as a Department of State Government reporting to the State's Chief Executive.
- Establishment of a Transportation Cabinet Council. This alternative was not considered the best option because a Cabinet Council, while potentially improving policy development and program coordination might not have the ability to consolidate transportation financing and budgeting, evaluate performance and hold managers accountable for results, and oversee the day-to-day management of multi-year intermodal projects.

The option being recommended is the development of a Comprehensive/Integrated Transportation Agency modeled after the Maryland Department of Transportation. The salient features of this plan to reinvent the organization, management and financing of Rhode Island's transportation program include the following:

- Departmental Organization: transportation will remain a governmental function receiving Federal and State funding and providing public goods.
- Operating entities by modes (e.g., roads, highways, and bridges, airports, public transportation, and marine facilities).
- Intermodal Transportation Planning that will be high caliber, and integrated with community and economic development functions.
- Financing that will be provided as integrated multi-revenue stream transportation budget to fund:
    - Annual expenditures for system maintenance and improvement;
    - Multi-year expenditures for large public projects;
    - Public-private partnerships for special modes and intermodal projects; and
    - Operations to insure that the transportation system equitably serves all Rhode Islanders.
- Corporate powers separate from those of the State as sovereign for public-private partnerships.

The effective implementation of policies and programs which affect the mission of more than one state agency or department, represent a challenge. This is especially true for transportation, where the various modes are interdependent but administration, management and planning responsibilities are efforts which are only informally coordinated.

The new transportation organization that is being recommended would incorporate characteristics of the Federal transportation system, and recapture the organizational goal

of broad coordination among modes of transportation that was envisioned when the Rhode Island Department of Transportation was created in 1971. Under this model, transportation system operations would continue to be carried out by the existing operating entities, and the Secretariat's function would be to provide oversight of the system, and perform functions related to coordinating system-wide financing, planning, and intermodal project coordination.

To more effectively address Rhode Island's transportation needs, the following recommendations are aimed at providing an integrated transportation agency that encompasses a strong intermodal planning capacity; a system of consolidated transportation financing, which would include a trust fund; and an organizational structure with existing agencies representing the various transportation modes. Implementation of the organizational recommendations should be implemented in a revenue neutral fashion. To achieve this, the new transportation organization should include the following salient features:

…recommendations are aimed at providing an integrated transportation agency…. that was envisioned when the Rhode Island Department of Transportation was created.

1. Creation of a Transportation Secretariat that would be responsible for:

    a. Preparing and adopting, by rule, an intermodal transportation plan for the state that would include highways and roads, passenger and freight rail, marine transportation, mass transit, air, and pedestrian and bicycle transportation. The plan would identify projects necessary to accomplish its purposes and the funding mechanism to undertake those projects. The development of an intermodal transportation plan should not change the State Planning Council designation as the Metropolitan Planning Organization (MPO). The Intermodal Transportation Plan should be in addition to and prepared in coordination with state guide plans.

    This plan would be built upon the policy framework established in the transportation components of the State Guide Plan and should:

    - Detail the specific discrete projects that will be undertaken to accomplish the goals and objectives of the long-range plan;
    - Establish the anticipated time-frame for completion of projects;
    - Identify projects which require collaboration among transportation entities or that would benefit from the integration of multiple transportation modes into project planning;
    - Identify opportunities for regional collaboration and coordination in addressing transportation issues;
    - Identify obstacles to project implementation, whether financial, regulatory, political, etc. and recommend measures to address them, if any; and
    - Present a "preferred" scenario or plan for the overall transportation system in conjunction with a more pragmatic or financially constrained approach (i.e., identify projects or initiatives that the state desires even if they are not feasible at present).

b. Submitting an annual unified transportation budget and capital program to the Governor. To insure financial and budgetary coordination, the Secretariat should develop budgeting procedures with respect to the agencies listed below in order to enable the Governor to develop and present to the General Assembly a consolidated/intermodal transportation budget and capital program. However, the Transportation Secretariat would not operate these agencies, except as necessary to effectuate the budgetary, coordinated financial and fiscal policy responsibilities.

   Agencies included under the umbrella of the Transportation Secretariat would include the Department of Transportation, the Rhode Island Port and Harbor Corporation, the Rhode Island Airport Corporation, the Rhode Island Turnpike and Bridge Authority, RIPTA, and the Rhode Island Public Rail Corporation. Furthermore, the Secretary of Transportation should serve as an ex-officio member of the Boards responsible for transportation activities. However, the Boards would continue to provide direction and oversight for the existing quasi-independent corporations and authorities.

2. Establish a Rhode Island Transportation Project Corporation. This entity could be a public corporation having a distinct legal existence from the state and the authority to build and construct transportation projects when there is a public-private partnership, e.g., contracts between business and government to develop a project, land use financing option (impact fee, in-kind contribution by developer, special assessment and tax increment financing).

3. Utilize a Transportation Trust Fund. The Fund would be subject to General Assembly oversight and administered by the Secretariat. According to a September, 1996 report of the *Governor's Blue Ribbon Panel to Address Transportation Infrastructure and Capital Funding* Rhode Island is one of the few states which does not have a separate transportation trust fund in which certain transportation user fees are dedicated solely to fund transportation improvements. Funding for DOT's activities is essentially derived from the Highway Fund, the Transportation Fund and miscellaneous Federal accounts. The Highway Fund supports infrastructure improvements and activities administered by FHWA. The Transportation Fund receives monies collected from the State's gas tax.

   In testimony to the Governor Almond's Blue Ribbon Commission, Bear Stearns reported that Consolidated Transportation Funds can provide operating efficiencies and financial flexibility.

   In summary, consolidating the transportation fund under a Secretariat should facilitate better transportation budgeting and planning. Furthermore, funding decisions could be made based on integrated system-wide intermodal priorities.

Part II – Financing the System

How Rhode Island Compares

In order to assess Rhode Island's method of financing ground transportation the following comparative analysis was prepared. As shown on Exhibit 1, nationally about 25 percent of all funding for highway purposes come from Federal sources compared to 52 percent in Rhode Island. For the nation as a whole, almost 17 percent of the funds used for highways come from Motor Vehicle Fees and Taxes. In Rhode Island, none of those fees and taxes are used for highway purposes. However, gasoline taxes make up a slightly greater share of funding for highways in Rhode Island than is the case nationally. In 2000, gasoline taxes contributed 32.2 percent of highway revenues in Rhode Island compared to 31.1 percent for the 50-state average. Finally, Rhode Island (11.7%) is more dependent on bond proceeds to fund highways than the United States (9.9%).

…nationally about 25 percent of all funding for highway purposes come from Federal sources compared to 52 percent in Rhode Island.

Exhibit 1

Revenues Used by States for Highways

	National* (percent)	Rhode Island** (percent)
Gas Tax***	31.13	32.20
Motor Vehicle Fees & Taxes	16.81	0.00
Tolls	5.10	4.43
General Fund	4.45	0.00
Other Imposts	2.60	0.00
Miscellaneous	2.93	0.00
Bonds	9.87	11.68
Federal	24.95	51.69
Other	0.54	0.00
From Local Governments	1.63	0.00
	100.00	100.00

*Data from FHWA Highway Statistics 2000 Report.
**Data from RIDOT financial records for 2000.
***RI Expenditures from gas tax include $41.9 million for debt service.

However, the manner in which Rhode Island allocates its motor fuel tax receipts is in marked contrast to the rest of the country. As presented on Exhibit 2, 8.4 percent of gasoline tax receipts pay for debt service nationally compared to almost 30 percent in Rhode Island. Nationally, states use 28 percent of their gasoline tax revenues to support local roads. In Rhode Island, no gasoline tax monies are appropriated for local roads.

Exhibit 2

Distribution of Motor Fuels Tax Receipts

	National* (percent)	Rhode Island** (percent)
Capital Outlay, Maintenance, Admin, Operations	46.17	32.31
Law Enforcement, Safety	5.89	0.00
Debt Service	8.37	29.81
Local Roads	28.20	0.00
Mass Transit	4.03	22.46
Local Non-Highway	0.22	0.00
State Non-Highway	4.03	0.00
General Fund	3.10	15.42
	100.00	100.00

*Data from FHWA Highway Statistics 2000 Report.
**Data from RIDOT financial records for 2000.

In order to have an informed discussion on the options for restructuring the transportation system in Rhode Island, information from several other states and major metropolitan areas were gathered. Analysis focused on the organizational structure and financing of transportation systems in Maryland; Delaware; Jacksonville, Florida; Indianapolis, Indiana; and Portland, Oregon.

Overall, the transportation systems reviewed by the Committee rely on a wider variety of revenue sources to finance transportation than Rhode Island, and have implemented specific locally appropriate measures for raising dedicated revenues for transportation. Four of the five systems reviewed make use of some form of transportation trust fund to finance different aspects of the transportation system. The primary revenue sources for each system are discussed briefly below:

- Maryland Department of Transportation (MDOT) self-finances through an integrated transportation trust fund and does not receive general fund appropriations. Sources of funds include motor fuel and motor vehicle excise taxes, motor vehicle fees, federal aid, corporate income taxes, transit, port and airport operating revenues, and bond proceeds. Though revenues are not earmarked for specific projects, statutory requirements dictate the distribution of funds among state agencies, counties and municipalities.

- Delaware Department of Transportation (DelDOT) is funded by a transportation trust fund and periodic general fund transfers. Revenues are derived primarily from

motor fuel taxes, tolls, motor vehicle fees, motor carrier fees, bond proceeds, and federal aid. Delaware Administration Regional Transportation (DART) First State transit operations are supported by fare revenue and dedicated state funds.

- Duval County and the Jacksonville Transportation Authority (JTA) benefit from an allocation from Florida's transportation trust fund and from special county transportation taxes (fuel and sales) authorized by the state legislature. JTA also receives city and state appropriations. The Jacksonville Seaport and Airport authorities are funded by user fees and leases.

- IndyGo's non-federal operating revenues are derived equally from state assistance, local assistance, and fare revenue. State assistance is provided from Indiana's Public Mass Transit Fund (PMTF) which is made up of dedicated revenues from the state's sales and use tax and distributed according to a performance-based formula. Local assistance matching PMTF revenues is derived from property taxes.

- The Portland Metro region receives nearly half of the Oregon State Highway Trust Fund revenues raised from the state-wide gas tax, vehicle registration fees, truck weight/mile tax, and lottery proceeds. Two counties in the Metro levy additional gas taxes for road maintenance and construction. Tri-Met supports transit system maintenance and operations with fare revenues and by levying a payroll tax to all employers within its district. Other funds have been derived from traffic impact fees on commercial developments, voter-approved property taxes, local improvement districts, parking fees from public garages, and Port of Portland passenger facility charges, leases, and parking revenues.

Closing the Gap

Rhode Island's ground transportation system is at a critical juncture in terms of having sufficient resources needed to provide for an adequate transportation system. *An analysis of published reports and data provided by both the Department of Transportation and RIPTA identifies major interrelated gaps in the funding of programs for Rhode Island's highways, roads, bridges and public transportation system.

This report discusses two gaps, the first is between needs and resources. The second is the potential fiscal inability of the State to match Federal highway funds.

This report discusses two gaps, the first is between needs and resources. The second is the potential fiscal inability of the State to match Federal highway funds and still provide for debt services, and highway, road and bridge construction and maintenance needs.

The presence of these gaps suggests that the current system of transportation finance is unsustainable and may not be functional within a few years.

* This report did not consider financial issues associated with air, water and rail transportation.

The Gap Between Needs and Resources – Exhibit 3 presents estimated Transportation Infrastructure needs and estimated revenues for the period FY 2003 through FY 2012. In FY 2004, a $30.6 million shortfall is projected if only activities supported by the gasoline tax and the Highway Program are considered. However, the shortfall would be $121.4 million if additional system restoration activities such as the pavement management and bridge replacement programs were provided for. Included in this analysis are three projects, which are not funded in the current highway program. These are the Sakonnet Bridge Replacement, Route 6/10 Bridges, and the Freight Rail Improvement Program (FRIP). In aggregate, the projects costs of these programs is $432.9 million for the period FY 2003 - FY 2012. In both FY 2003 and FY 2004 approximately $20.0 million is estimated for the FRIP.

Over the ten-year period as shown on Exhibit 3, the shortfalls are as follows:

Gas Tax Program & Highway Program	($782.6 million)
Gas Tax Program, Highway Program & System Restoration	($1,775.2 million)

Defeasance of Bonds – The State plans to use a portion of its net proceeds from securitization of tobacco bond proceeds to defease approximately $295.3 million in existing non-callable general obligation debt. According to the State Budget Office $93.8 million or 32 percent represents bonds issued to support transportation projects.

As a result of defeasing these bonds, the State anticipates debt service savings totaling $343.0 million through FY 2012. Debt service savings resulting from the defeasing of Department of Transportation and RIPTA related debt service is projected to be approximately $110.0 million between FY 2003 and FY 2012. In FY 2003 State debt service costs will be reduced by $51.6 million as a result of defeasance of general obligation debt. The Department of Transportation and RIPTA's share total $14.1 million. RIPTA's debt service costs would be reduced by $411,000, and DOT's by $13.7 million.

No decision has been made as to how to handle the savings in debt service from defeasance of transportation related bonds. Reallocating the debt service savings from the defeasance of transportation bonds would reduce the projected gap in DOT's budget by approximately $107 million through FY 2012, and provide a benefit to RIPTA of $2.8 million during this period.

It appears that in the absence of legislative action both DOT and RIPTA would benefit from the debt service savings attributable to defeasance. Conversely, the State's General Fund Budget was balanced based on achieving debt service savings.

Ability to Match Federal Funds – State planners estimate that Rhode Island will receive $170.0 million per year in Federal highway funds. The State match for Federal highway funded projects varies but generally equals 20 percent of total project costs.

However, given fiscal constraints at the Federal level, the anticipated $170.0 million a year in Federal highway aid is by no means certain and could prove to be optimistic. For planning purposes, a more realistic estimate of future Federal highway aid might be in the

Exhibit 3
Rhode Island Department of Transportation
Infrastructure Funding Needs
(Millions)

Gas Tax Program	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	Total
Direct Personnel	22.8	23.4	24.0	24.6	25.2	25.8	26.4	27.1	27.8	28.5	255.4
Consultants	0.2	0.2	0.2	0.2	0.2	0.2	0.3	0.3	0.3	0.3	2.5
Operating Costs	18.4	18.9	19.3	19.8	20.3	20.8	21.3	21.9	22.4	23.0	206.1
Grants	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	1.1
Capital	13.5	13.8	14.2	14.5	14.9	15.3	15.7	16.0	16.4	16.9	151.2
Transfer to Highway Program	-7.0	-7.2	(7.4)	(7.5)	(7.7)	(7.9)	(8.1)	(8.3)	(8.5)	(8.7)	(78.4)
Debt Service (from schedule)	41.3	45.5	47.2	48.7	49.1	52.4	51.7	52.0	51.3	50.9	490.1
Total Gas Tax	**89.3**	**94.7**	**97.7**	**100.4**	**102.1**	**106.7**	**107.4**	**109.1**	**109.8**	**110.9**	**1,028.1**
Highway Program											
Planning	6.0	6.2	6.3	6.5	6.6	6.8	7.0	7.1	7.3	7.5	67.2
Dedicated Program (EEO, etc.)	1.0	1.0	1.1	1.1	1.1	1.1	1.2	1.2	1.2	1.2	11.2
Study and Development	6.0	6.2	6.3	6.5	6.6	6.8	7.0	7.1	7.3	7.5	67.2
Modifications	12.0	12.3	12.6	12.9	13.2	13.6	13.9	14.3	14.6	15.0	134.4
Interstate	15.0	15.4	15.8	16.2	16.6	17.0	17.4	17.8	18.3	18.7	168.1
Bridge	25.0	25.6	26.3	26.9	27.6	28.3	29.0	29.7	30.5	31.2	280.1
Traffic/Safety	20.0	20.5	21.0	21.5	22.1	22.6	23.2	23.8	24.4	25.0	224.1
Congestion Mitigation/Air Quality	11.0	11.3	11.6	11.8	12.1	12.4	12.8	13.1	13.4	13.7	123.2
Enhancements	6.5	6.7	6.8	7.0	7.2	7.4	7.5	7.7	7.9	8.1	72.8
Bicycle/Pedestrian Program	6.5	6.7	6.8	7.0	7.2	7.4	7.5	7.7	7.9	8.1	72.8
Pavement Management	20.0	20.5	21.0	21.5	22.1	22.6	23.2	23.8	24.4	25.0	224.1
Highway Projects	37.0	37.9	38.9	39.8	40.8	41.9	42.9	44.0	45.1	46.2	414.5
I-195 Relocation Project	32.0	33.0	34.0	34.0	34.0	34.0	35.0	35.0	35.0	35.0	341.0
Washington Bridge Replacement*	5.0	20.0	25.0	25.0	25.0	20.0	0.0	0.0	0.0	0.0	120.0
Sakonnet River Bridge**	0.0	0.0	0.0	0.0	41.3	41.3	41.3	41.3	0.0	0.0	165.2
Quonset Access Road	12.0	0.0	15.0	15.4	15.8	16.2	16.6	0.0	0.0	0.0	90.8
FRIP**	22.0	20.0	20.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	62.0
6/10 Bridges**	0.0	0.0	0.0	0.0	32.2	33.0	33.8	34.7	35.5	36.4	205.7
Total Highway Program	**237.0**	**243.2**	**268.4**	**253.1**	**331.5**	**332.3**	**319.2**	**308.3**	**272.8**	**278.7**	**2844.5**
System Restoration											
Pavement Management	10.0	10.3	10.5	10.8	11.0	11.3	11.6	11.9	12.2	12.5	112.0
Bridge - Structurally Deficient	16.8	17.2	17.7	18.1	18.5	19.0	19.5	20.0	20.5	21.0	188.2
Bridge - Structurally Deficient and Obsolete	61.8	63.3	64.9	66.6	68.2	69.9	71.7	73.5	75.3	77.2	692.4
Total System Restoration	**88.6**	**90.8**	**93.1**	**95.4**	**97.8**	**100.2**	**102.7**	**105.3**	**108.0**	**110.6**	**992.6**
Grand Total Expenditures	**414.9**	**428.7**	**459.1**	**449.0**	**531.4**	**539.2**	**529.3**	**522.7**	**490.6**	**500.3**	**4,865.2**
Estimated Revenue											
Projected Gas Tax Revenue	96.4	99.3	101.0	102.9	104.7	106.6	108.5	110.4	112.4	114.4	1,056.5
Federal Funds	170.0	170.0	170.0	170.0	170.0	170.0	170.0	170.0	170.0	170.0	1,700.0
Bond Fund	30.0	30.0	30.0	30.0	30.0	30.0	30.0	30.0	30.0	30.0	300.0
Land Sales Revenue	8.0	8.0	2.0	2.1	2.1	2.2	2.2	2.3	2.3	2.4	33.5
Total Revenue	304.4	307.3	303.0	304.9	306.8	308.7	310.7	312.7	314.7	316.8	3,090.0
Shortfall - Revenue vs. Gas Tax + Highway	(22.0)	(30.6)	(63.0)	(48.6)	(126.8)	(130.3)	(115.9)	(104.7)	(67.9)	(72.8)	(782.6)
Shortfall with System Restoration	(110.6)	(121.4)	(156.1)	(144.1)	(224.6)	(230.5)	(218.6)	(210.0)	(175.8)	(183.5)	(1,775.2)

*Must be complete by 2007.
**Not funded in the current program.

Expenses escalated at 2.5% annual inflation rate and Gas Tax estimated to grow at 1.79% per year.
Source: RIDOT.

range of $150.0 million per year. Less Federal funding could be expected to exacerbate the gap between highway needs and available resources even though it would diminish the shortfall in providing State matching dollars. The potential downsizing of the Federal highway program should be of particular concern to decision-makers in Rhode Island. Rhode Island is heavily dependent on Federal aid, receiving a relatively disproportionate large share of Federal funds compared to its contribution of Federal gas tax revenues. As shown on Exhibit 1, Rhode Island gets 52.2 percent of its highway revenues from Federal sources compared to the national average of 25 percent.

The gasoline tax allocated to the Department of Transportation (DOT) funds the debt service on bonds issued for highway improvements as well as other operating costs. The State has been using General Obligation Bonds to provide most of the requisite 20 percent State match for Federal highway funds. Annually, the State has been issuing $30 million in bonds to match Federal funds. According to the *Transportation 2020* report prepared by the Statewide Planning Program, the State needs $45.0 million per year to match anticipated Federal funds.

Exhibit 4

Gasoline Proceeds Available to DOT and Estimated Operational, Debt Service and Match Funding

Fiscal Year	A DOT Earmarked Gas Tax	B Debt Service	C DOT Operations	D Available for Federal Match[a]	E Federal Match Deficit[b]
03	$96.4	$41.3	$48.0	$7.1	$(37.9)
04	99.3	45.5	49.2	4.6	(40.4)
05	101.0	47.2	50.4	3.4	(41.6)
06	102.9	48.7	51.7	2.5	(42.5)
07	104.7	49.1	53.0	2.6	(42.4)
08	106.6	52.4	54.3	(0.1)	(44.9)
09	108.5	51.7	55.7	1.1	(43.9)
10	110.4	52.0	57.1	1.3	(43.7)
11	112.4	51.3	58.5	2.6	(42.4)
12	114.4	50.9	60.1	3.4	(41.6)

a. A - (B + C) = D
a. Assumes $45.0 million needed annually for Federal match.
Source: Department of Transportation, see Exhibit 3.

As Exhibit 4 shows, in no year is the gasoline tax estimated to produce the resources necessary to meet the Federal highway program matching requirements. Failure to identify alternative financing options could mean that necessary transportation infrastructure may not be built.

Rhode Island is facing a financial crisis with respect to funding transportation. State resources are currently insufficient to meet the infrastructure needs of the State's Surface Transportation System.

Bottomline, Rhode Island is facing a financial crisis with respect to funding transportation. State resources are currently insufficient to meet the infrastructure needs of the State's Surface Transportation System. Reliance on continuation of the current level of Federal support is problematic, and debt service and operating expenses are consuming gas tax revenues that would otherwise be used to match future Federal aid.

Meeting DOT's Current Needs

Rhode Island's transportation funding system is not generating resources sufficient to fund current programs nor is it clear how major projects such as the Sakonnet River Bridge, Quonset Access Road, Phase II and Route 6/10 Bridges will be financed.

Taking no action is not a viable option. Transportation serves a myriad of "quality of life" and economic needs for people and communities across the State. Therefore, addressing Rhode Island's transportation funding problems must be given a high priority on the State's public policy agenda.

State policy-makers need to reinvent the way necessary transportation infrastructure will be financed in the future. The objectives of a reformed system of funding transportation should be driven by the following objectives:

Earmarking additional transportation user fees for transportation purposes;
Diminishing reliance on general obligation bonds for future capital project financing;
Creating a Transportation Trust Fund; and
Reducing reliance on Federal aid as the major source of transportation funding.

…a multi-year plan that includes both revenue enhancement and operating economies is needed to address Rhode Island's transportation funding crisis.

Given the magnitude of Rhode Island's transportation-funding deficit, it is not fiscally practical to solve the problem in just one or two years. For example, if each penny of the gasoline tax yields $4.7 million, in FY 2004 a 6.5 cent increase in the gasoline tax would be required to eliminate the estimated $30.6 million shortfall between current program spending and projected revenue. If funding was provided for system restoration projects required to return the State's pavement and bridges to good condition the budget gap would total $121.4 million, an amount that would require the State to nearly double its gasoline tax. Today, Rhode Island's state gasoline tax totals 30 cents and is the highest in the nation. **Therefore, a multi-year plan that includes both revenue enhancement and operating economies is needed to address Rhode Island's transportation funding crisis.**

Earmarking User Fees -- Revenues derived from the gasoline tax and user fees should be used to finance system maintenance and prevention investments since these types of projects and programs have a limited useful life and should be financed on a pay-as-you-go basis. Specifically, the Task Force suggests the following be considered:

Dedicate 100 Percent of the Gasoline Tax -- The State has made significant progress over the last decade in dedicating gasoline taxes to support transportation programs. Prior to FY 1992 motor fuel tax proceeds were deposited as general revenue. Today, 20.5 cents of the gasoline tax is allocated to DOT to fund road and bridge repairs and maintenance programs and an additional 6.25 cents is earmarked for RIPTA. However, 2.25 cents of the gasoline tax is still redirected into the State's general fund.

It is suggested that beginning in FY 2004, an additional three-quarter of one cent of the gasoline tax be earmarked to support DOT programs, and an additional three-quarters of one cent be shifted to fund DOT in FY 2005. The result will enhance resources available for transportation by approximately $7.0 – $7.5 million.

Registration Fees and Permits – In comparison to other states, Rhode Island earmarks none of its non-gasoline tax highway user fees for transportation purposes. Governor Almond's Blue Ribbon Commission on Transportation Infrastructure Capital found that 17.0 percent of funds used for highway improvements and maintenance in the 50 states were derived from Permits and Registrations. As the Governor's Panel said,

> In addition, Rhode Island collects some $65 million license, registration and other miscellaneous vehicle related revenues each year. After the costs of collection are subtracted, $51 million is available as State revenue. None of this $51 million is used for transportation activities as all the revenues from these user fees are diverted to the General Fund.

For the nation as a whole, almost 17 percent of the funds used for highways come from Motor Vehicle Fees and Taxes. In Rhode Island, none of those fees and taxes are used for highway purposes.

According to information provided by DOT, in FY 2003 the State is projected to collect $45.8 million from Motor Vehicle Registration and Drivers' License Fees. The net yield to the State after allowing for administrative costs is estimated to be $31.3 million (since it cost $14.5 million to operate the Registry of Motor Vehicles). Not included is an additional $19.3 million in highway related user fees such as the Motor Vehicle Title Fees ($4.6 million), Devisable Load Permit Fees ($1.0 million), Emissions Control Inspection Stickers ($5.0 million), Driving Record Abstracts ($5.6 million) and Other ($3.1 million). A determination should be made as to the affordability and appropriateness of earmarking some or all of these fees for transportation functions.

It is recommended that commencing in FY 2005 and ending in FY 2009, that annually one-fifth of net motor vehicle registration and driver license fees be earmarked for transportation functions with 90 percent of the proceeds going to DOT and 10 percent to RIPTA (see discussion below regarding RIPTA).

The annual cost to the State General Fund resulting from earmarking one-fifth of the 90 percent motor vehicle registration and driver license fees to support ground transportation programs would be approximately $5.6 million. The Committee recognizes that this will put additional pressure on the State's General Fund. However, a high priority must be assigned to providing an adequate transportation infrastructure. Transferring 100 percent of the gasoline tax proceeds and motor vehicle registration and driver's license fees from the general fund to an earmarked transportation fund will mean that few resources will be available to support other State government functions.

However, given the fundamental importance of transportation to the State's economy and quality of life the Committee believes it is appropriate fiscal policy to reduce State government overhead costs and/or the rate of growth in other areas of the State budget in order to address Rhode

Island's transportation funding crisis. Furthermore, there is precedent for incrementally transferring highway user revenue from the State General Fund to the Intermodal Surface Transportation Fund without identifying offset revenue as evidenced by the transfer of the gasoline tax proceeds in the 1990's.

Consider Tolls – There needs to be a thorough discussion regarding the pros and cons of selectively expanding the use of tolls in the Ocean State. For the country as a whole tolls account for 5.1 percent of the revenue used by states for highways compared to almost 4.0 percent in Rhode Island.

There is precedent for the use of tolls in Rhode Island. The Rhode Island Turnpike and Bridge Authority is responsible for tolling the Pell Bridge and maintaining the Pell and Mount Hope Bridges.

The potential of placing other bridges and roads under the jurisdiction of the Bridge and Turnpike Authority should be reviewed to determine the economic, fiscal and community impact of having user fees provide for the cost of operating and maintaining those facilities. Technology now exists to help assure tolling does not cause unnecessary delays.

Bottomline, the revenue options set-forth above – earmarking gasoline tax proceeds and user fees -- would have the potential of generating approximately $36.0 million annually when fully phased-in. Ideally, these revenues should be used to reduce the use of general obligation bonds as a source of matching Federal highway funds and put more of the transportation programs on a pay-as-you-go basis. However, it appears that DOT is currently unable to meet existing Federal match requirements. Therefore, it could be difficult to immediately use all of the additional resources to reduce reliance on general obligation bonds.

When fully implemented in FY 2009, earmarking additional higher user fees and taxes as set forth above would eliminate less than one-half of the shortfall between anticipated revenue and highway and gasoline tax suggested programs. The balance of the solution must come from initiatives to reduce costs and creative financing of transportation system expansion.

Financing System Enhancement

Investment in system enhancement projects, which have long, useful lives, often will require large sums of capital. These projects should be financed by the use of debt in combination with a concurrent revenue stream.

System enhancement transportation projects may create economic benefits for users, and adjacent property owners. Therefore, one approach to diversify transportation financing is to capture those benefits to help pay for improvements to the surface transportation system. For example, the revenue stream could be based on land-use related options, since the revenues become available due to investments made to change the land use of a specific area.

Three basic land-use-financing options include:

- **Impact fee:** One time fee charged on new structures, typically based on square footage of a structure;
- **Special Assessments:** One-time or annual charges on existing and new structures based on an identified beneficiary group, usually levied within a specific district; and
- **Tax Increment Financing:** The captured increment in property tax revenues due to an increase in property values which is attributable to the project being financed; or the captured increment in various tax revenues due to an increase in employment or economic activity that is attributable to the project being financed.

Land use financing tools are based on the "beneficiary pays" principle, rather than the more typical "user pays" concept associated with gasoline related taxes and other more traditional sources of revenue. Under this principle, for example, local or surrounding businesses may enjoy greater demand because of the land development made possible by the transportation investment. Tax income is raised due to the development that necessitated the transportation investments. These value-capturing techniques could be employed adjacent to a new highway interchange, or a portion of an industrial park or commercial property served by a new highway.

A Transportation Trust Fund

Rhode Island is in the minority of states which does not have a segregated transportation trust fund in which transportation user fees are dedicated solely to fund transportation initiatives (see Governor's Blue Ribbon Commission Report). According to DOT, as a result, Rhode Island is precluded from using alternative transportation funding options such as (1) bonds backed by Federal appropriations, (2) revenue bonds backed by gasoline taxes, user fees, and value-based financing, and (3) Federal innovative finance tools provided in the TEA-21, ISTEA and NHS legislation. Creation of a consolidated transportation trust fund would give the State greater flexibility to finance transportation projects, and assure the public that all transportation taxes, fees and charges are expended solely to maintain and improve the transportation budgeting and planning.

Reinventing RIPTA

Transportation financing reform cannot be addressed without fully considering the current operation and potential expansion of mass transit within Rhode Island.

The Rhode Island Public Transit Authority was established in 1964 as part of a national public policy response to the deterioration of privately operated urban mass transit systems. RIPTA was empowered to acquire and operate intrastate transit systems in order to retain service deemed to be in the public's interest in cases where private carriers threatened abandonments. RIPTA first acquired the assets of the United Transit Company (UTC), which served the state's urban core, and began operation in 1966. Due to a precipitous drop in ridership following suburbanization and the advent of the automobile, UTC had faced annual deficits and service

reductions for several years when it was acquired by RIPTA. RIPTA subsequently acquired other instate bus services as they were no longer viable.

Rhode Island's public transportation system is at a crossroad. Assessment of the appropriate level of funding for RIPTA operations must be anchored by a political consensus as to the role and desired levels of transit service. Is RIPTA's focus to be one of providing services to the needy population or to build a system that provides efficient mass transportation options in Rhode Island generally?

Rhode Island has a long history of providing significant public transportation entitlements (both statewide transit and paratransit services) particularly for low-income residents (RIte Care) and special needs populations – senior citizens and the disabled – all of which constitute a predominant share of the core transit market in most large and mid-size transit systems in the United States. Not surprisingly, these transit system users currently comprise the highest percentage of system users in Rhode Island. The entitlement for subsidized fares in Rhode Island is in excess of that required by Federal law or provided by most states. According to RIPTA, Rhode Island's regular base transit fare of $1.25 (and $.10 transfer fee as of July 1, 2002) is on the high end when compared to other bus transit systems. Finally, the varying levels of subsidy associated with these public transit services for special populations do not reflect the actual cost of providing the service.

Key to answering the mass transportation funding question is the need to clearly define transit service levels and expectations.

Key to answering the mass transportation funding question is the need to clearly define transit service levels and expectations. Providing quality statewide public transit service today poses considerably different challenges than it did 35 years ago. Effectively addressing today's more complex and dispersed mobility patterns and needs (including shifting population demographics affecting the transportation needs of the elderly, commuters, special needs populations, workers seeking access to growing suburban employment opportunities, and single working parents) requires different, and more innovative, transit service models, standards, and equipment. Recognition of the role transit has to play in supporting smart growth and in achieving environmental and air quality goals has also changed expectations for the level and type of service to be provided by transit systems. The choices Rhode Island makes regarding what constitutes an effective and appropriate statewide transit system must drive decision-making related to the financing of transit.

The Revenue Base – Current State transit funding is inelastic and insufficient to sustain the existing statewide transit system even in a "no growth" mode. The problem is exacerbated by longstanding systemic distortions in the way that a majority of Rhode Island consumers "pay" for transit service – specifically, the high levels of reduced fares/subsidized services (that are not tied to cost/value). Over time, series of public policy decisions have resulted in an expectation for transit service levels and subsidy on the part of the riding public that are not affordable given the existing and projected transit revenue streams.

For FY 2003, RIPTA's projected operating budget projects reliance on State and Federal funding and passenger revenues as follows:

Gasoline Tax Subsidy	$30,588,000	51.9%
Passenger Revenue*	$14,121,622	24.0%
Federal Reimbursement	$11,740,462	19.9%
Other & Special Revenue	$ 2,458,750	4.2%
	$58,908,834	100.0%

*Includes RIte Care Revenue and DEA gas tax.

Federal and State revenues provide 72 percent and fare revenues account for approximately one-quarter of anticipated resources in FY 2003.

Exhibit 5

RIPTA Operating Budget
4-Year Projection

	FY 2003*	FY 2004	FY 2005	FY 2006
Revenues				
Gasoline Tax Subsidy	$ 30,588,000	$ 30,588,000	$ 30,588,000	$ 30,588,000
Passenger Revenue**	14,121,622	14,753,472	14,985,433	15,221,352
Federal Reimbursement	11,740,462	6,360,000	6,360,000	6,360,000
Other Revenue	2,158,000	2,158,000	2,158,000	2,158,000
Special Revenue	300,750	300,750	300,750	300,750
Subtotal	**$ 58,908,834**	**$ 54,160,222**	**$ 54,392,183**	**$ 54,628,102**
Expenses				
Wages***	$ 29,069,469	$ 29,507,618	$ 29,697,509	$ 29,881,714
Benefits	12,416,632	13,052,345	13,711,038	14,414,246
Parts & Equipment	1,572,500	1,619,675	1,668,265	1,718,313
Fuel	2,838,000	2,923,140	3,010,834	3,101,159
Insurance	2,296,326	2,365,216	2,436,172	2,509,257
Paratransit Services	2,175,000	2,240,648	2,307,867	2,377,103
Special Services	1,495,303	1,540,162	1,586,367	1,633,958
Miscellaneous Expenses	7,045,604	7,641,460	7,186,103	7,401,687
Subtotal	**$ 58,908,834**	**$ 60,890,264**	**$ 61,604,155**	**$ 63,037,437**
Surplus/(Deficit)	**$ -**	**$ (6,730,042)**	**$ (7,211,972)**	**$ (8,409,335)**

* FY 2003 Budget is the Final Budget approved by the RIPTA Board of Directors on June 17, 2002.
**This line include RIte Care revenue which is still subject to negotiation for future years.
***Assumes no wage increases for FY 2004 through FY 2006.**

Source: RIPTA, July 2002.

Status of RIPTA's Operating Budget

As shown on Exhibit 5, the key point regarding RIPTA's operating funding sources is the overall inelasticity of State funding sources. Passenger revenues, which are projected to grow by only 4.0 percent over the next three years, will not compensate for the static quality of other revenues available to RIPTA.

Federal formula operating assistance to large and mid-size public transit providers has been all but eliminated, essentially transferring responsibility for operating subsidies to state and local governmental entities. As a result of changes in the allocation of federal resources brought about by Census 2000, RIPTA anticipates that in FFY 2003 it will lose 76%, or about $1 million, of the assistance previously received for its rural and small urban operations. In addition, FTA's Jobs Access/Reverse Commute Program, a source of significant funding for RIPTA's supplemental

transit services since 1999, is being considered for formularization or elimination; in either case the result could be a significant decrease in the remaining federal operating assistance available to RIPTA. RIPTA received $1 million in federal funds for Jobs Access services in FFY 2001, and $2 million in FFY 2002.

All of the current major sources of State subsidy – gas tax receipts, RIte Care pass reimbursement, and gas tax for reduced or free rides for seniors ("DEA penny") – have an inherent static quality. These funds do not keep pace with RIPTA's funding requirements.

In order to compensate for this fact, RIPTA has, in recent years, converted federal capital dollars into an operating subsidy supporting its preventive maintenance program, as allowed under TEA-21. This practice potentially erodes RIPTA's capital program and compromises the transit authority's ability to provide a safe and reliable transit system.

RIPTA's operating deficits are projected to grow from $6.7 million in FY 2004 to $8.4 million in FY 2006.

As shown on Exhibit 5, RIPTA's operating deficits are projected to grow from $6.7 million in FY 2004 to $8.4 million in FY 2006. In FY 2006 the projected deficit will equal approximately 15 percent of estimated revenue and 13 percent of expenditures. A major factor in the projected $6.7 million operating deficit for FY 2004 is a reduction in Federal reimbursement. Between FY 2003 and FY 2004, RIPTA is projecting a $5.4 million decrease in Federal support. It is important to note that this scenario assumes a company-wide wage freeze from FY 2003-2006 and is contingent upon the outcome of labor negotiations commencing in Fall of 2002. In this scenario, RIPTA's expenditures are projected to increase by $4.1 million or 7 percent between FY 2003 and FY 2006. As the Statewide Planning Program has reported (see *Transportation 2020*), these deficits impact RIPTA's ability to provide resources to meet its annual match requirement for federal capital funds in addition to affecting transit operations.

This growing deficit will have a visible impact on transit system operations in FY 2004. RIPTA has taken several steps to eliminate its deficit in FY 2003, including raising the cost of several fare products (most notably instituting a $5.00 increase in the cost of monthly bus passes and doubling the Providence LINK trolley fare) as well as maximizing the conversion of capital dollars to support preventive maintenance activities. RIPTA has budgeted an additional increase in the cost of bus passes for FY 2004. However, absent additional resources, RIPTA faces difficult FY 2004 budget decisions, which may include a combination of service delivery cuts and layoffs.

Status of RIPTA's Capital Program

RIPTA's capital program is comprised of projects totaling approximately $19 million each year and includes vehicle purchases and replacements, purchase of capital maintenance and equipment items, preventive maintenance activities, and projects associated with RIPTA facilities and the statewide paratransit system. Though substantially more federal funding is available to RIPTA for capital projects than for operations, considerable future strain and uncertainty exist relative to RIPTA's capital program.

As noted above, insufficient operating revenues impact the capital program by constraining RIPTA's ability to provide adequate matching funds for federal capital assistance. RIPTA's match obligations increased in FFY 2001 as RIPTA assumed responsibility for providing the 20 percent local match for its projects funded under FHWA's Congestion Mitigation/Air Quality (CMAQ) program. In the past, CMAQ match has been paid from RIDOT general obligation bonds.

RIPTA's ongoing lack of capital match for federally funded projects could be partially ameliorated through an enhancement of RIPTA's capital loan revolving fund. This fund has been used for several years to provide match for major projects. If additional funds were made available for inclusion in this fund, RIPTA could relieve some of the pressure on its operating budget by using the fund to match additional activities, such as transit hub and park and ride lot improvements, which are currently matched out of operating revenues.

Availability of capital funds also remains an issue for RIPTA. Since 1998, RIPTA has increased its FTA capital funds programmed in the preventive maintenance category in order to address operating deficits, as discussed above. Reprogramming these funds to preventive maintenance has reduced the funds available for other capital program activities such as bus replacement. In addition, increasing constraints on RIDOT's capital budget will practically limit Rhode Island's ability to employ the flexible funding provisions of TEA-21 used by many other states to provide FHWA funds supporting transit capital projects.

Since 1999, RIPTA has received substantial discretionary capital funding that has allowed the capital program to stay on course. RIPTA programmed $4.95 million in discretionary funding in FFY 2001, and $7.23 million in FFY 2002. Though discretionary funds have become increasingly important to RIPTA in funding "bread and butter" capital projects such as bus replacement, there is no guarantee that equivalent levels of discretionary funding will be available in future years.

In addition, FFY 2003 is the final year of the federal transportation act which sets guaranteed funding levels for transit programs. Federal capital funding available to RIPTA has increased under TEA-21, but these funding levels are not guaranteed beyond the coming federal fiscal year.

These various sources of strain on RIPTA's capital program threaten to compromise, on an ongoing basis, RIPTA's ability to maintain a transit system in a state of good repair and respond to the need for new transit services. For example, requests to implement a state-wide build-out of the demand-response Flex Service model, which has been implemented in five communities, will require $1.2 million in matching funds for vehicle purchase over a six-year period. RIPTA does not currently have the ability to provide the match necessary for this project, and for other projects, such as enhanced paratransit and commuter services, that have the potential to substantially enhance RIPTA's ability to meet critical mobility needs.

RIPTA Options

Resolution of the funding crisis for transit will require a two-phase approach—one that combines immediate action to avert service elimination in FY 2004 with a strategy to define the role of the State's transit system. This should include the means through which the desired system can be appropriately funded over the long term.

Immediate Steps to Balance Budget – Immediate steps in FY 2003 are needed to be taken to address RIPTA's immediate funding needs and avert a crisis in FY 2004. Therefore, as discussed above, one option would be to earmark an additional three-quarter of one cent of the gasoline tax proceeds to support RIPTA operations. In FY 2004 this should yield approximately $3.5 million or an amount equal to approximately one-half of the transit system's projected operating deficit. RIPTA has already budgeted an additional $5.00 increase in the cost of its monthly bus pass in FY 2004 in order to address a portion of the deficit, and in Exhibit 3 shows a possible wage freeze in 2004 and subsequent years. Some portion of the $3.3 million deficit remaining following the implementation of these measures and the proposed increase in gas tax revenues would require service elimination and associated employee lay-offs. Other options include considering several revenue-enhancement strategies discussed in *Transportation 2020* (discussed below).

To further diversify RIPTA's revenue base, it is also suggested that a portion of the revenue collected from motor vehicle registration and driver license fees be earmarked for mass transit beginning in FY 2005. If 10.0 percent of these funds were available to RIPTA, an additional $3.1 million would be available to support bus services when this initiative was fully phased in by FY 2009. In FY 2005, approximately $625,000 in user fee proceeds would be provided to RIPTA. When combined with the gas tax dedication proposed above, this measure would reduce RIPTA's operating deficit in FY 2005 from $7.2 million to $3.5 million.

Define Expectations – Given a steady slate of staffing and service provisions, RIPTA will face annual service reductions unless a multi-year fiscal get well plan is adopted and implemented that reflects careful consideration of the appropriate sources of sustainable long-term financing for transit and the balance that should be maintained among federal subsidy, state subsidy, and the system's cost recovery. However, these long-term policy choices cannot be made unless there is a realistic determination of RIPTA's mission and responsibilities. To accomplish this, it is recommended that the Governor convene a Blue Ribbon Commission on the Future of Public Transit, comprised of State and local policy makers, to identify policy options, evaluate their costs and benefits, and make recommendations to the Governor and General Assembly for consideration. It is critical that this commission has the influence and authority to effectively consider and recommend a strategic direction for the function and financing of the state's transit system. Given the immediacy of the transit system's funding crisis, the commission should pursue an aggressive timeline for formulating recommendations and forwarding a plan for implementation. Because the Governor's leadership will be central to this effort, he or she should consider personally chairing the commission.
This Blue Ribbon Commission should address the following: What is the transit service area and level of service expected to be provided by RIPTA? What is the reasonable cost for the "transit system" desired and the associated performance/benefit expectation – both direct and indirect? What are the public transit funding sources reasonably available to fund the system? What are the financial parameters and guidelines for the appropriate sharing of transit system costs among its funding agencies and users? What is the appropriate level of cost recovery for Rhode Island's transit system?

In considering the above questions, the commission should address bus and rail transit as components of an integrated transit system in order to better define how each mode fits into the structure and financing of the system. Current financial constraints place bus and rail systems in

competition for funding. Any expansion of rail operations will have an impact on the availability of funding for existing bus transit operations. The commission should consider how, with strategic planning and appropriate financing, these modes can play mutually-supportive roles in an overall intermodal transportation system.

Respond to State Transportation Plan -- Related to the questions above are several recommendations in the State's Ground Transportation Plan. These recommendations respond to a variety of inter-related policy decisions and issues that have traditionally impacted RIPTA's rate of cost recovery. *Transportation 2020* includes the following recommendations to enhance RIPTA revenue. They are as follows:

- Continue to increase RIPTA's fixed-route farebox recovery ratio until it reaches 35 percent. The farebox recovery ratio should not decline under 35 percent thereafter.
- Develop a fare structure for paratransit service, and charge a fare for all paratransit services. (At present, fares are charged only to Americans with Disabilities/ADA clients.) Give incentives to riders to use the less costly fixed-route bus system over paratransit services to meet their basic transportation needs. Charge an administrative fee for paratransit services to cover Ride and RIPTA administrative costs. Continue to apply Federal funding toward the overall administrative cost, but require users and their representatives to pay in accordance with the amount of services consumed.
- Work on development of a fare structure for social and educational services that purchase and/or provide transportation services in conjunction with their primary responsibilities.

It is problematic for RIPTA to unilaterally address all the proposals included in the Transportation 2020 report. Therefore, the Blue Ribbon Commission focusing on long-term issues discussed above should develop a plan of action to respond to the recommendations included in the updated Ground Transportation Plan.