Open for Business: THE BUSINESS CASE for INVESTMENT in Public Transportation
This report focuses on the issues critical to private investors as they consider the public transportation industry as an investment destination. Public transportation is a $58 billion industry in the United States. Public transportation itself includes a broad, interconnected set of modes including local and commuter bus service, subways, paratransit, light rail, streetcars, commuter rail, bus rapid transit, waterborne transit, and high-performance intercity passenger rail. It provides essential public benefits, and accordingly receives support from government. At the same time, public transportation is an attractive market for business partnerships, and such relationships have always been present on both capital and operating functions, with involvement by the private sector projected to increase.

This report provides facts and data detailing why public transportation is an attractive market for both public and private investment. It is a market supported by growing demand, and one certain to be bolstered by forward-looking societal trends. Although growth over the past three decades has been steady, long-term economic and social trends (population, energy, public choice, and a generational shift in travel behavior) point to still more rapid growth in the future.

The number of and the expanse of rail and bus fixed-guideway systems has grown exponentially since 1980, and a pipeline of projects is positioned to become the next generation of investment. These investments provide the public with more and improved public transportation choices, and appeal to all segments of the population. Investment from all levels of government is on a long-term upward trend, and public support for public transportation can be measured through increases in ridership and through public approval of transit ballot measures.

Since 2000, voters have approved transit ballot measures at a rate of over 72 percent, occurring across regions and political party affiliations. In 2012, voters approved 49 of 62 (or 79 percent) of transit ballot measures across the country. In 2013, an off-year election, voters approved 11 of 15 (73%).

High-performance intercity passenger rail continues to be popular in the United States. Recent polling conducted by APTA found that two-thirds of Americans support it. This support rises to three-fourths among those polled in the 18-24 age bracket indicating that support for high performance passenger rail will actually increase as the Millennial generation grows in relative size and begins to assert its policy priorities.

The market certainty provided by a federal surface transportation authorization bill is critical to attracting local, state, and private-sector investment. In June 2012, the U.S. Congress approved legislation to reauthorize federal programs supporting public transportation and highways through September 2014. While funding is only slightly higher (FY 2013: $10.6 billion; FY 2014: $10.7 billion), this represents a high-water mark in federal funding for public transportation, with the legislation receiving strong bi-partisan approval at a time when Congress has found bipartisan cooperation more difficult.

Additionally, this legislation passed with strong bipartisan, bicameral majorities in the context of a Congress that was not agreeing on much else. The legislation (Moving Ahead for Progress in the 21st Century, or MAP-21) extends the 18.4 cents per gallon federal gas tax through 2016, and provides additional funding to stabilize the federal Highway Trust Fund and its Mass Transit Account. The legislation was signed into law on July 6, 2012. APTA and the public transportation industry are working closely with members of Congress and the Administration on the next bill.

The federal program is largely focused on capital development, with the private sector receiving 72% of federal funding for project implementation.
According to “America in 2013: A ULI Survey Of Views On Housing, Transportation, and Community,” when asked about the importance of specific community features, Millennials ranked the following characteristics highly: a short distance to work and school (ranked highly by 82 percent), walkability (76 percent), proximity to shopping and entertainment (71 percent), and convenience of public transportation (57 percent). This generation, the largest in US history, identifies with public transportation and transit-oriented development.

**Growth in Ridership, Service, and Funding**

Since 1995, the rate of public transportation growth has significantly outpaced the growth of highway travel and the growth of the population as a whole. Recent trends also indicate ridership on public transit is growing faster than funding levels and service provided. In 2013, Americans took more than 10.7 billion trips on public transit, the highest ridership levels since before the dawn of the interstate highway era.

The number of public transit agencies operating rail systems has grown over the past three decades. In 1980, according to the 2013 APTA Fact Book, there were only 27 systems, with that number increasing to 54 by 2011. Rail transit systems now provide service in 32 states, the District of Columbia, and Puerto Rico. This growing rail passenger based market, when coupled with emerging markets for streetcars and high-performance passenger rail, plus Amtrak’s fleet...
replacement needs, point to a strong outlook for the future. In fact, 2013 saw new lines open in Miami, Denver, Houston, and Salt Lake City. In 2014, we anticipate new lines in suburban Washington, DC, Minneapolis-St. Paul, and new streetcar lines in Washington, DC, Seattle, and Tuscon. The number of regions that have implemented significant improvements to bus service has also grown dramatically. High-quality bus services often operate in dedicated lanes and are designed to provide the speed, amenities, and branding often associated with premium rail services while maintaining the flexibility of bus service. In 2014, improved bus services are expected to open in Grand Rapids and Seattle.

With the current growth of public transportation, and given the prospects of its continued growth, the U.S. Department of Labor and others look at public transportation as a field for future jobs. Accordingly, transit businesses are adding private-sector jobs, and this trend is expected to continue.

The 2011 National Community Preference Survey by the National Association of Realtors reveals that Millennials – the largest generation in history – prefer to live in the city more than any other generation.
Public Transportation Has Diverse and Stable Sources of Funding

Public transit funding is provided from a mix of federal, state, local, private, and transit agency sources. Of the $57.9 billion in industry revenues, $41.3 billion was used for agency operations and $16.6 billion for agency capital programs. This report focuses primarily on the capital programs. Transit capital revenue is generated from the following primary sources:

- **Directly generated revenues** are acquired by the public transit agency by its own activities, including fares, taxes levied by the system, and other revenue, such as advertising, concessions, or parking revenues.
- **Local revenues** are taxes or fees generated by a local or regional government. Examples include a local sales tax or income tax, a property tax, or other local taxes.
- **State revenues** are taxes or fees imposed by a state government.
- **Private equity** is represented by the up-front capital, risk-sharing, and management expertise and resources brought to the table by private companies or investors. Private companies can be involved in either the capital and/or the operating side of public transportation.
- **Federal revenues** originate from federal government funds.
- **Enhanced federal loan programs**, such as the Transportation Infrastructure Finance Innovation Act, provides the ability to expand and leverage available revenue streams.

Most operating revenue is generated by the public transit agency or local tax revenue sources, with only 34 percent of funds derived from state or federal sources. Capital funds are generated from a more diverse range of sources with the federal government providing more than 40 percent of these funds.

A relatively large proportion of funds is generated from dedicated revenues with the majority derived from sales taxes. Dedicated revenues are taxes levied with the express purpose of funding public transportation and are, therefore, suitable for multi-year planning and multi-year project implementation. Dedicated funding provides for the ongoing revenue streams that public transit systems use to leverage other funds and attract support from federal, state, and private partners.
Examples of Direct Private Involvement:

**DENVER EAGLE P3:** A half-cent sales tax approved by regional voters in 2004 is helping fund a major public transit expansion initiative known as FasTracks. A consortium from the private sector has been awarded a contract to build a rail connection to the Denver International Airport, a project known as Eagle P3. This is a design-build-finance-operate-maintain project, and is scheduled to open in 2015. Denver RTD awarded two additional P3 contracts in 2013: Denver North Metro and Denver I-225 Corridor.

**ALL ABOARD FLORIDA:** Florida East Coast Industries is developing a privately owned, operated, and maintained intercity passenger rail service that will give business and leisure passengers a new, convenient, environmentally friendly, and cost-effective way to travel between South Florida and Central Florida.

**LOS ANGELES COUNTY TOLLING /TRANSIT INTEGRATED CORRIDORS:** Express transit lanes are being integrated into toll road projects throughout the Los Angeles region. Projects are being completed through public-private partnerships.

**BARCLAY CENTER:** Developers have paid $5 billion to acquire the New Jersey Nets NBA basketball team and relocate it to Brooklyn, NY. The attraction is that the new arena is located atop New York Metropolitan Transportation Authority rail lines that connect the New York region. This is yet another example of the power of linking public transit and development.

**CONTRACTED SERVICES:** Since 1988, the Colorado legislature has required Denver RTD to contract with the private sector for portions of its operations. Many other regions have chosen to contract out. Suburban San Diego, New York City, and Austin, are recent examples.

**MARYLAND PURPLE LINE:** Planned as a Design-Build-Finance-Operate-Maintain (DBFOM) project, private sector partners will be accountable for project delivery.

Funding has continued to grow significantly for more than a decade and political support for investment in public transportation continues to increase. Local and regional sales taxes dedicated to investment in public transportation have grown by 275 percent over the past 15 years.
Federal appropriations for public transportation have increased from $3.9 billion in FY 1995 to $10.7 billion in FY 2014. Nearly 80 percent of this amount is provided through the Mass Transit Account of the Highway Trust Fund. When dedicated trust fund revenues are sufficient to fund authorized programs, this funding is more reliable than programs funded with general revenues. In addition to funds appropriated to Federal Transit Administration programs, some funds appropriated to Federal Highway Administration programs may be transferred to transit uses at the request of states. Public transit projects also competed favorably under the Transportation Investment Generating Economic Recovery (TIGER) discretionary grant program, for which all transportation modes are eligible.

In addition to an engaged and committed federal partner, 2013 saw a number of state legislatures step in to enhance their support for public transportation. Virginia, Maryland, Massachusetts, and Pennsylvania were among the states approving additional resources for public transportation. 2014 is likely to see additional players step in as well.

A growing trend in recent years includes plans to capture the value of public transportation, to help fund capital and operating costs. Public transportation investment can bring significant profits to landowners and businesses near public transit stations. Increasingly, these beneficiaries have been stepping up contributions to further expand systems they benefit from.

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Source: Center for Transportation Excellence
Path Towards High Performance Rail Continues

2013 and early 2014 continued the noticeable movement towards improved intercity passenger rail in the United States.

High-speed rail is critical to America’s economic future. Congestion on our nation’s highways and runways already costs $130 billion a year. America’s population is expected to grow by another 100 million in the next 40 years, so investment in rail is critical to accommodate the demand.

In California, Governor Edmond J. Brown Jr., proposed the use of cap-and-trade revenues to continue movement towards the start of construction in 2014. In the Northeast Corridor, work teams are moving stretches of track towards faster speeds for the popular route serving Boston, New York and Washington, DC.

Passenger rail improvements are underway in a number of mega-regions, which represent 65 percent of the U.S. population and stand to absorb the bulk of future population growth. These densely populated regions will demand new streamlined transportation choices as highway congestion increases and the cost of air travel increases. At the same time, rural and small urban communities will benefit from the increased transfer points and feeder services connecting with new high-speed rail corridors.

With high-performance rail in place, travel choices will expand exponentially for most Americans. Nearly 66 percent of the public report interest in traveling by high-speed rail, and the figure rises to 74 percent among those in the 18-24 age bracket. Their reasons: faster trip times, lower cost, greater convenience, and a more environmentally friendly alternative to other transportation modes.

In spite of chronic under-investment, Amtrak’s long distance trains posted the best ridership in 20 years last year, and state supported services grew to record ridership as well.

Source: Federal Railroad Administration
A Growing and Diverse Base Market

Based on the most recent data available (2011), the largest portion of capital expenditures was spent on facility construction (58.5 percent), including fixed guideways, stations, administration buildings, and maintenance facilities. Purchases for passenger and service vehicles accounted for 32.6 percent of capital expenditures. Fare revenue collection equipment, communication and information systems, and other capital expenditures for the remainder.

The overall transit market in the U.S. is growing at an impressive rate, backed by a multi-decade trend. The scale of this expanding market is reaching a critical mass that will take annual vehicle procurements and state-of-good-repair investments to the point where business orders are strong and consistent year-in and year-out.

The July 2012 8th World Congress on High-Speed Rail attracted rail leaders from around the world to the United States. Hosted by APTA and the International Union of Railways, the event included more than 2,500 participants, including those who have built and are operating each of the international systems.
Public Transportation Vehicle Fleet Has Expanded

The replacement and expansion of the transit vehicle fleet is a significant focus of public transit investment. The roadway vehicle fleet for industry exceeds 150,000 with rail cars bringing the total fleet to more than 172,000 passenger vehicles. Two out of three roadway vehicles operating in urbanized areas are buses, with vans representing the majority of the remainder. Among the bus fleet, two out of three buses are approximately 40 feet in length and represent the most significant part of the potential new vehicle market. Public transit agencies generally replace vehicles according to guidance provided by the Federal Transit Administration, which for typical 40-foot buses is every 12 years, but varies by vehicle type.

New, cutting-edge supply-chain research by Duke University shows how bus and rail manufacturing is disbursed across the United States. The primary public transit bus manufacturing supply chain occurs in 124 prime locations in 33 states. This directly employs 25,000 – 33,000 workers, with many more coming from second- and third- level suppliers.

The transit rail / passenger rail manufacturing and supply chain employs 10,000 – 14,000 workers in 254 manufacturing locations in 35 states.

Source: APTA Public Transportation Fact Book Historical Appendix
THE CASE FOR BUSINESS INVESTMENT IN PUBLIC TRANSPORTATION

Note: Selected locations only, not exhaustive

Source: CGGC, company websites and industry interviews

Source: Maps courtesy of the Duke University Center on Globalization, Governance, and Competitiveness
Major Capital Expansion Is Underway

Major federal commitments for new projects have come in at an unprecedented rate over the past two years. Typically projects are matched with state and local funding for approximately one half of the total cost, although the proportion of matching funds varies by project. Projects move through various stages of planning, design, and construction with a high degree of oversight from the federal government.

Continued funding for rail transit construction has resulted in the steady expansion of transit rail infrastructure. Rail transit systems have added over 2,000 miles of trackage in the past ten years. Such increased trackage is the result of the opening of entirely new public transit systems as well as the expansion of existing systems to meet growing travel demand. It also means new opportunities for real estate developers to profit from transit-oriented development projects.

The shift towards public transportation will help make America’s transportation system safer and more energy efficient and is an integral part of any national strategy for energy independence. In 2013, President Barack Obama’s State of the Union address called for doubling energy efficiency by 2030. Metrics show that the transportation sector of the economy offers the most room for energy efficiency improvements.
Conclusion: Public Transportation Is Open for Business

The pent-up demand for public transportation will inevitably lead to larger markets. While the magnitude of investment needs are such that all partners – federal, state, local governments included – will need to show leadership, it will be incumbent on the private sector to take a prominent role looking ahead.

The economic opportunity to use public transit investments to strategically unleash the development potential of real estate has enormous and still untapped potential. In places such as Jersey City, NJ, and Washington, DC, entire communities have been transformed. Developers and real estate investment firms have an interest in investing in public transit, development, and joint-funded activities. Based on numerous studies of the impact of public transit investment on local economics, we know that every $1 spent on public transportation generates $4 in economic returns. Public transit drives the local economy and directly generates business sales, revenues, and new private investment.

Recent economic clusters research conducted for APTA, shows that private sector job growth in some of America’s most productive regions, will need public transportation to continue at its current pace. In fact, half a million private sector jobs are at stake, as is America’s competitive advantage in our most important and successful industries. As reported in APTA and U.S. Travel Association research, the relative success of the US hotel sector is impacted by the level of public transportation investment in regions around the country. Increasingly, the level of public transportation investment will be a factor in continued business growth for the economy as a whole.

The public procurement processes that public transit agencies employ are transparent and offer an open and competitive environment. The market and clients are stable, they honor their contracts, and have a history of advancing contracts to completion. Bonds can help provide up-front capital and can be retired over time with the project revenues that are generated. Private activity bonds can have a growing role in this regard. As America rebuilds its transportation infrastructure, APTA encourages the private sector to take a strong and active role in the future of our nation.
References and Other Sources

An Inventory of HSR Criticisms with Suggested Responses: An inventory of responses to frequently used criticisms against developing U.S. high performance passenger rail.

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

APTA Primer on Transit Funding: The Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users, and Other Related Laws, FY 2004 through FY 2011. The primer describes the amount of funds from federal transit programs, how they can be used, and how they are distributed among transit agencies and states.

The Case for Business Investment in High-Speed Rail: Offers a compendium of compelling reasons why investment in high-speed rail can offer a good return on investment.

Center for Transportation Excellence: The CFTE maintains a complete, up-to-date listing and analysis of all transportation ballot measures that include a transit component.

National Transit Database: A comprehensive source of data collected from transit agencies in urbanized areas that operate 10 or more vehicles, produced by FTA. Data are typically released 12-18 months after the end of the reporting period. A less detailed report is also produced for rural area transit systems.

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

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

Public Transportation Investment Background Data: This APTA report is the source of the data included in this publication. The report includes an extensive analysis of transit revenue sources and what transit funds are spent on with descriptions of the availability, quality, and meaning of data from primary sources. Data in this report are updated whenever they area updated in primary sources.

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

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

The Role of Transit in Support of High Growth Business Clusters in the U.S.: December 2013. This study addresses issues of business productivity, market access and transit service for high growth business clusters in the United States. The study draws on eight high-growth knowledge-oriented business clusters and their transportation conditions in six U.S. cities to provide an estimate of the total national income and employment consequences of congestion and how investment in public transportation can alleviate those consequences.

A New Partnership: Rail Transit and Convention Growth: November 2013. This joint report produced with the U.S. Travel Association examines how cities with rail stations connected directly to airport terminals can realize increases in hotel performance. The report compares six cities with direct rail access from their airport terminal to five cities without. The analysis found that from 2006-2013, hotels in the cities with direct rail access brought in 10.9 percent more revenue per room than hotels in those cities without.

Public transit vehicles are manufactured using parts made throughout the U.S. Value chain analysis by the Duke University Center on Globalization, Governance, and Competitiveness, has identified railcar or locomotive original manufacturer facilities in 15 states and subsystems and parts suppliers in 35 states. Bus original equipment manufacturer facilities were identified in 14 states and subsystems and parts were supplied from locations in 29 states, with a total of 32 states involved in bus manufacturing.

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