

Open for Business:

# THE BUSINESS CASE for INVESTMENT in Public Transportation



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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 \$57 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, 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.

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.

Between 2000 and 2012, more than 72 percent of the 457 transit ballot measures over that 12 year period were approved by voters, with such approval consistent across regions of the country and across party affiliations. In 2012, voters approved 49 of 62 (or 79 percent) of transit ballot measures across the country.

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 watermark in federal funding for public transportation. 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 transit industry are working closely with members of Congress and the Administration on the next bill.



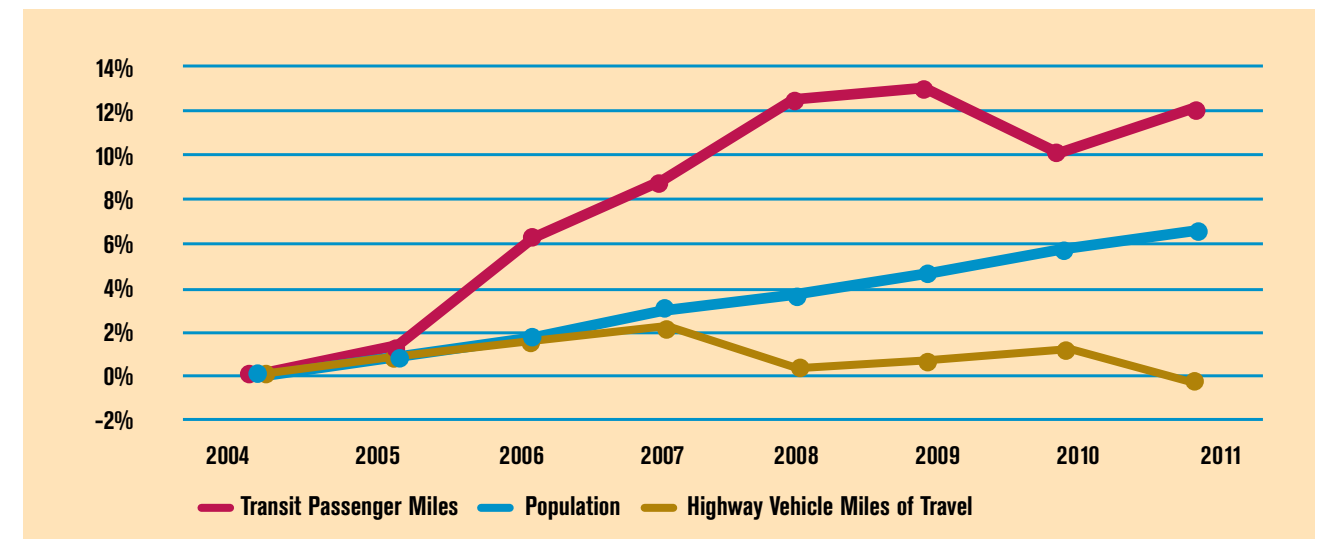
According to research conducted by Reconnecting America, a transit-oriented development think tank, a robust pipeline of new projects is ready to move forward in regions across the country. This map shows where more than 600 transit projects are planned in more than 100 regions in the U.S. As communities across America continue to ask for more public transit options, increased demand for investment will grow.



### 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 2012, Americans took more than 10 billion trips on public transit, the highest ridership levels since before the dawn of the interstate highway era. Nationwide ridership was up 2.6 percent over the first three quarters of the year.

Since 2004 Transit Use Has Grown More Than Population or Highway Travel **FIGURE 1**



APTA Public Transportation Fact Book 2012



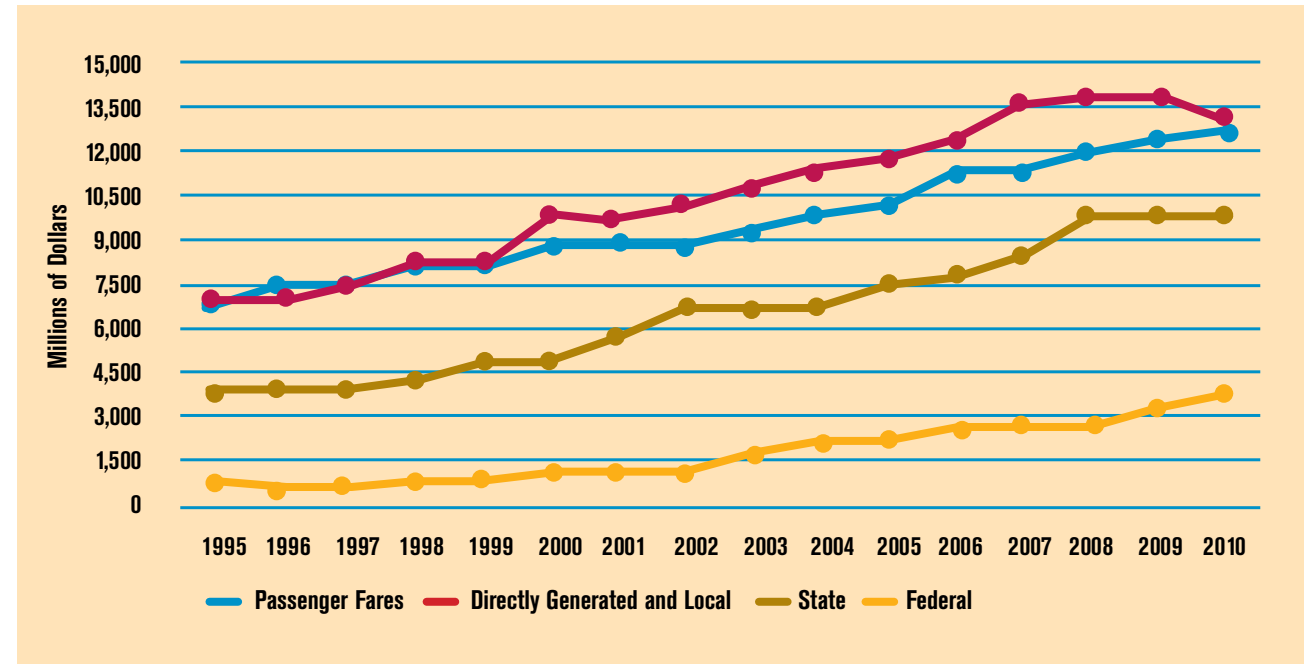
The number of public transit agencies operating rail systems has grown over the past three decades. In 1980, there were only 9 commuter rail systems. By 2012 there were 29. The number of light rail systems increased five-fold, from 7 in 1980 to 35 in 2012. Rail transit systems, including automated guideway transit and inclined planes, 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.

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 number of regions that have implemented various forms of Bus Rapid Transit (BRT) service has also grown dramatically. These high-quality bus services often operate in dedicated lanes and are designed to provide the speed, amenities, and branding associated with rail fixed-guideway services while maintaining the flexibility of bus service.

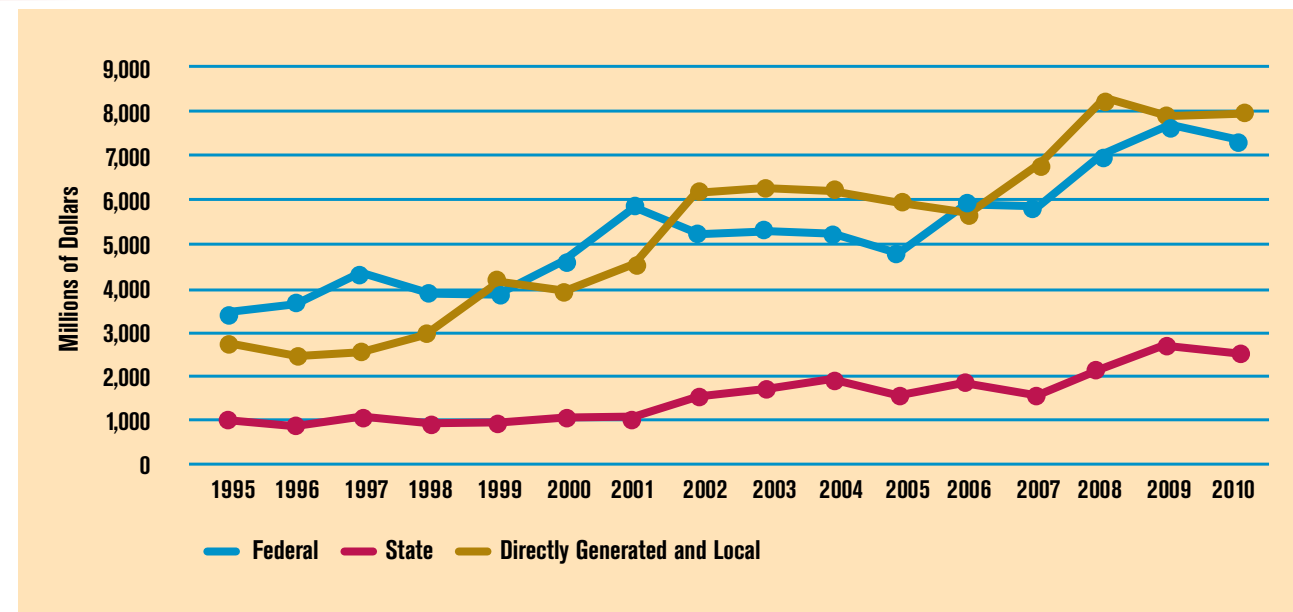
Collectively, these investments have begun to lay a foundation from which America can build.

**Growth in Operating Funding by Source, 1995-2010** **FIGURE 3**



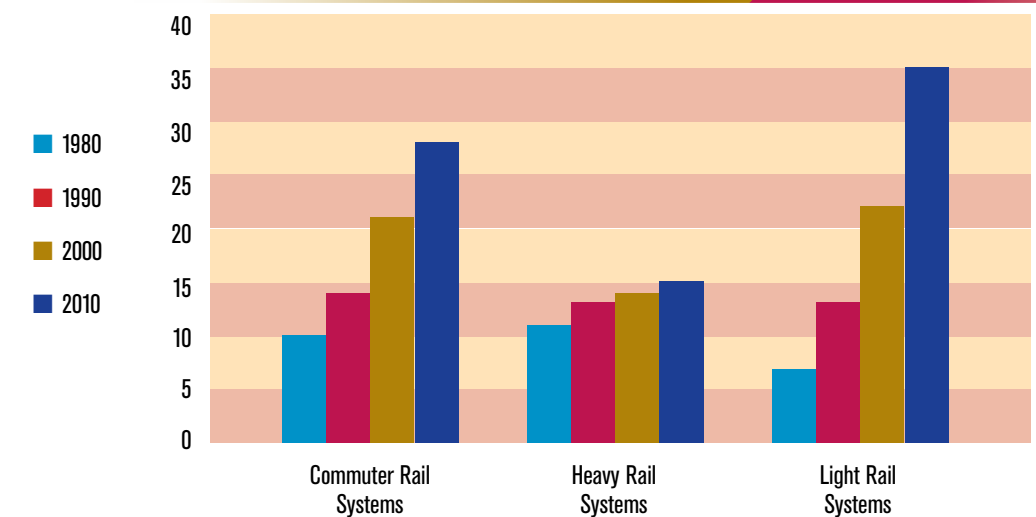
APTA Public Transportation Fact Book 2012

**FIGURE 2** **Growth in Capital Funding by Source, 1995-2010**



APTA Public Transportation Fact Book 2012

**The Number of Rail Systems Has Increased More Than Two and One-Half Times Since 1980** **FIGURE 4**



Source: APTA Public Transportation Fact Book 2012 Appendix A



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

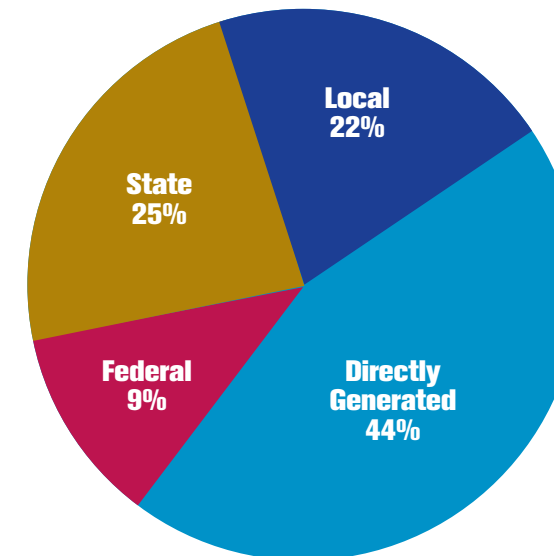
Public transit funding is provided from a mix of federal, state, local, private, and transit agency sources. Of the \$57 billion in transit industry revenues, \$39 billion was used for agency operations and \$18 billion for agency capital programs. This report focuses primarily on the capital programs. Transit 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.

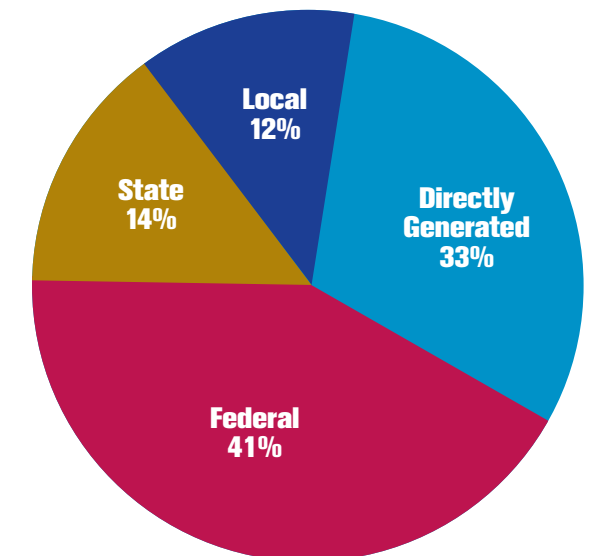
Most operating revenue is generated by the public transit agency or local tax revenue sources, with only 34 percent of funds derived from state or federal sources. Capital funds are generated from a more diverse range of sources with the federal government providing more than 40 percent of these funds.

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.

Sources of Operating Funds, 2010



Sources of Capital Funds, 2010



Source: APTA Public Transportation Fact Book 2012

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.

FACT



**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 commuter rail line to the Denver International Airport, a project known as Eagle P3. This is a design-build-finance-operate-maintain project. In late 2012, Denver Regional Transit District (RTD) announced a second P3 initiative along the I-225 corridor. Unsolicited proposals are anticipated on other lines.

**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.

**XPRESSWEST:** Formerly known as DesertXpress, this project is a proposal to build a privately funded high-speed rail passenger line to connect the Los Angeles, CA, region to Las Vegas, NV. Private investors are seeking an up-front loan via U.S. DOT's Railroad Rehabilitation and Improvement Financing Program.

**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. North County San Diego, Long Island Bus, and Austin, TX, are recent examples.

**Infrastructure Investment Remains a Bipartisan Issue**

Despite the recent partisan logjam in Washington, DC, that has prevented action on major issues impacting the U.S. economy, the reauthorization of the federal transportation bill was a bipartisan effort, earning 74 Senate votes out of 100, and 373 of 435 House votes. Both parties support investment in the nation's transportation infrastructure, ensuring that investment in public transit will be backed by a stable federal policy.

**Dedicated Revenue by Type of Tax Source for Transit in Urbanized Areas, 2010** **FIGURE 7**

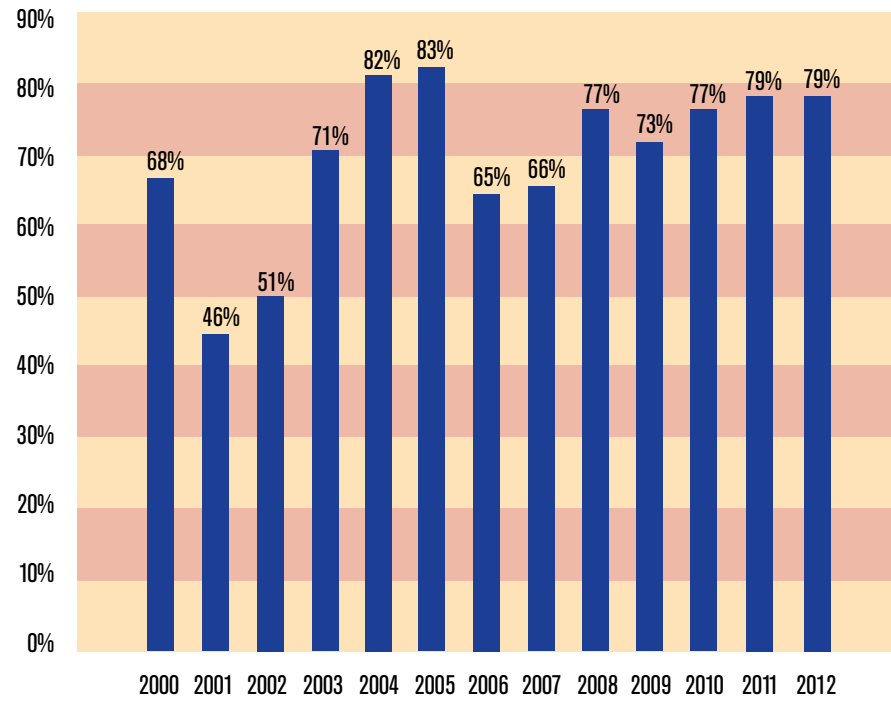
| Type of Tax  | Dedicated Operating Revenue (in Millions) |              |              |               |                     |
|--------------|-------------------------------------------|--------------|--------------|---------------|---------------------|
|              | Directly Generated                        | State        | Local        | Total         | Percentage of Total |
| Sales Tax    | 1,653                                     | 3,244        | 3,641        | 8,539         | 67%                 |
| Income Tax   | 0                                         | 857          | 81           | 938           | 7%                  |
| Gasoline Tax | 0                                         | 600          | 159          | 759           | 6%                  |
| Property Tax | 325                                       | 4            | 392          | 721           | 6%                  |
| Other Tax    | 231                                       | 1,333        | 233          | 1,797         | 14%                 |
| <b>Total</b> | <b>2,209</b>                              | <b>6,038</b> | <b>4,506</b> | <b>12,754</b> | <b>100%</b>         |

APTA Public Transportation Fact Book 2012

Federal appropriations for public transportation have increased from \$3.9 billion in FY 1995 to \$10.5 billion in FY 2012. 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 have successfully competed for those flexible funds and have received more than \$19 billion from the program's inception in 1992. In FY 2012, the highest amount ever was flexed to public transit, at \$1.8 billion. Public transit projects also competed favorably under the Transportation Investment Generating Economic Recovery discretionary grant program, for which all transportation modes are eligible.



**FIGURE 8** Percentage of Transit Ballot Measures Approved



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### Dawn of a New Era! High-Performance Intercity Passenger Rail

The year 2012 was a banner year for high-speed and intercity passenger rail, marked by the recommitment of the State of California to move forward with its grand vision for high-performance rail, and by progress across the U.S. in key corridor projects. It continues to be a signature issue for the current administration, and has bipartisan support.

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.

Rail corridor projects are moving forward in 32 states, laying the foundation for future economic growth by creating construction and manufacturing jobs for American workers and attracting small businesses and new development. More than 40 projects totaling \$2.9 billion are under construction. The initial rolling-stock procurement has been awarded, a \$352 million order for 130 new rail cars to be used for passenger rail operations in Illinois, California, Missouri, and Michigan.

Complementing the national rail system, initial investments in high-performance rail are underway in five key mega-regions: the Midwest, the Northeast Corridor, the Pacific Northwest, the Southeast Corridor, and California. Passenger rail improvements are underway in 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.

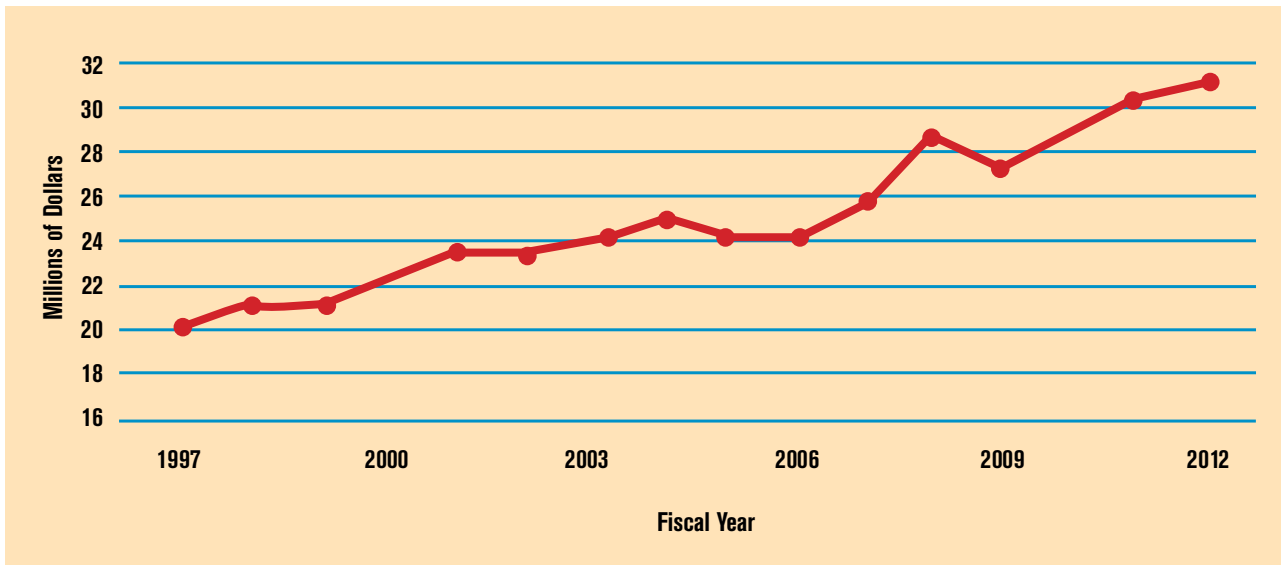


With high-performance rail in place, travel choices will expand exponentially for most Americans. Nearly two-thirds of the public report interest in traveling by high-speed rail, and the figure rises to 74 percent among those in the 18-24 age bracket. Their reasons: faster trip times, lower cost, greater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

In spite of chronic underinvestment, annual passenger trips on Amtrak have increased from 21 million in 2000 to 31 million in 2012, or 48 percent. Ridership in FY 2012 grew by 3.5 percent to a new record of 31.2 million, with ticket revenue up 6.8 percent, or \$2 billion.



**FIGURE 9 Amtrak Annual Ridership Trend**



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In July, 2012 Amtrak updated its ambitious plans for the development of Next Generation High-Speed Rail service for the Northeast Corridor. Studies indicate that a dedicated high-speed rail alignment would require approximately \$151 billion in construction and service investments. Development plans are associated with major stations, notably New York, Boston and Washington, DC.

Another priority is renewal of the fleet of rolling stock owned by Amtrak, which has an average age of 25 years. Amtrak has announced a new fleet improvement strategy designed to meet future travel demands and renew the vehicle fleet in an organized manner over time while creating a constant demand to support a competitive supplier base. Amtrak projects that the desirable procurement program would acquire 65 single level passenger cars and 35 bi-level cars each year, a total of 70 electric locomotives, 25 high-speed diesel locomotives each year, and expansion and replacement of the existing high-speed Acela fleet.

**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 attracted more than 2,500 participants, including those who have built and are operating each of the international systems.**

**FACT**

**A large proportion of public transit system budgets are covered through dedicated sources that are, in comparison to many industries, stable.**

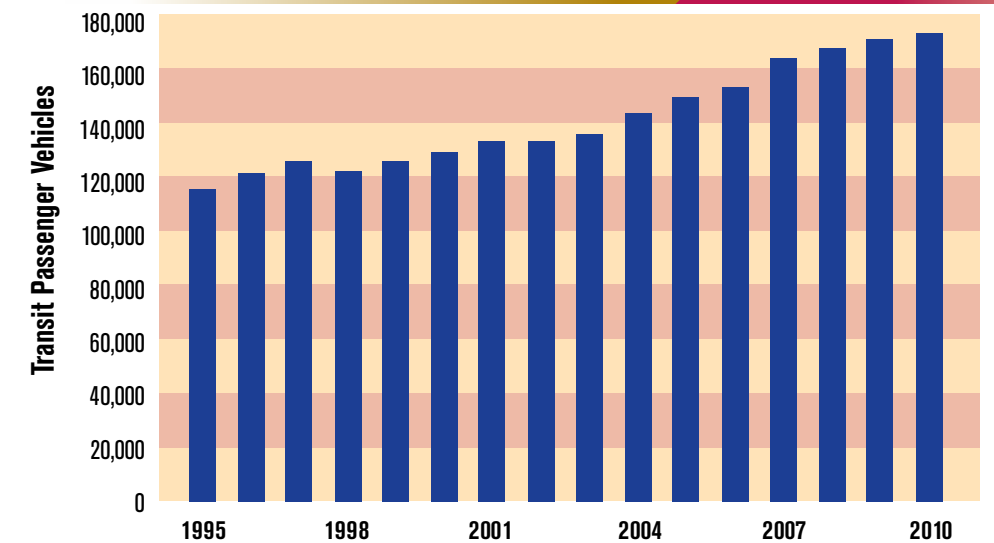
**A Growing and Diverse Base Market**

Capital Funding from Public Transportation Supports Wide Range of Business Sectors

Based on the most recent data available (2010), the largest portion of capital expenditures was spent on facility construction (57 percent), including fixed-guideways, stations, administration buildings, and maintenance facilities. Purchases for passenger and service vehicles accounted for 33 percent of capital expenditures. Fare revenue collection equipment, communication and information systems, and other capital accounted for the remainder.

The overall transit market in the U.S. is growing at an impressive rate, sustained 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.

**Public Transportation Vehicle Fleet Has Expanded** **FIGURE 10**



Source: APTA Public Transportation Fact Book Historical Appendix



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.

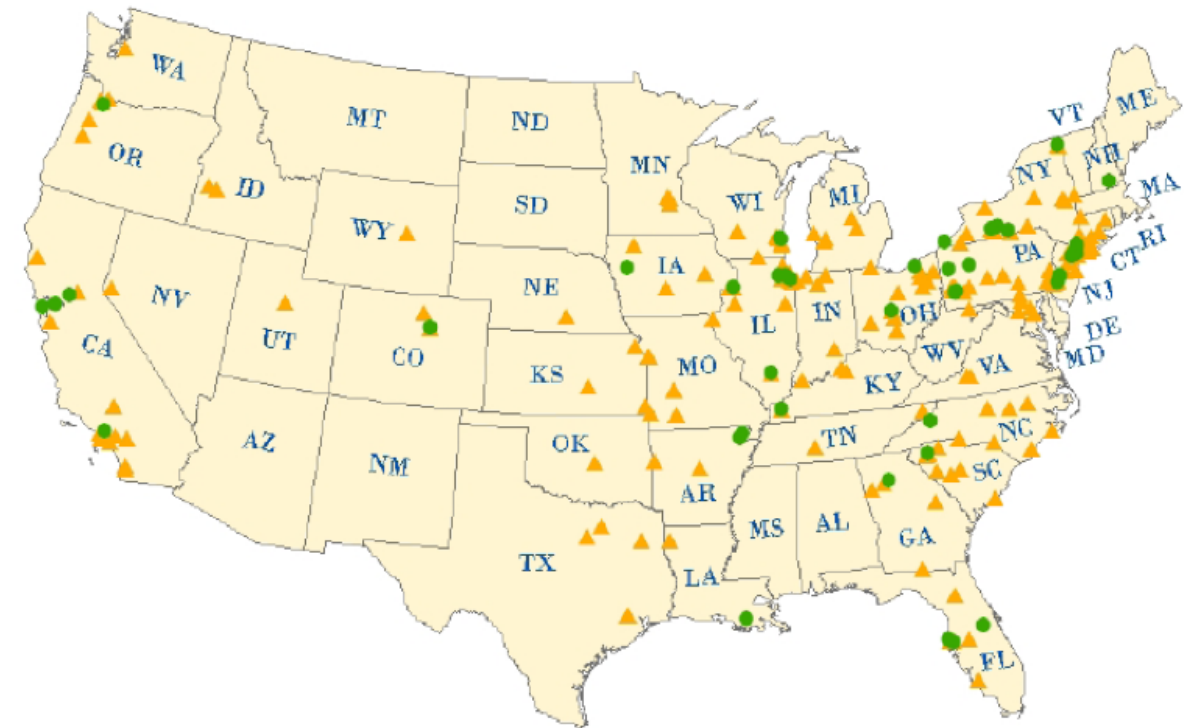
New, cutting-edge supply-chain research by Duke University shows how bus and rail manufacturing is disbursed across the United States. The primary public transit bus manufacturing supply chain occurs in 124 prime locations in 33 states. This directly employs 25,000 – 33,000 workers, with many more coming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



- Chassis, Body Interior, Electric/Electronic Systems
  - Aftermarket Remanufacturing & Cleaning Systems
  - CEMs
- Note: Selected locations only, not exhaustive

Source: CGGC, based on Tables 6-11 above, company websites and industry interviews

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



- Railcar or locomotive OEM manufacturing/assembly location (45 locations)
- ▲ Tier 2 manufacturing location (209 locations)

Source: CGGC, based on industry interviews and company websites

**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.**

**FACT**



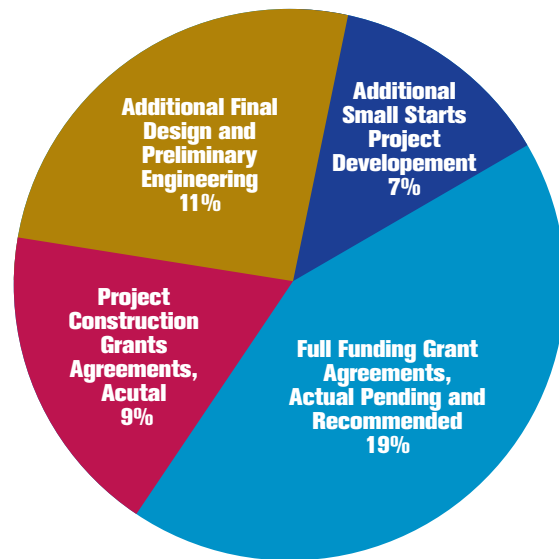


### Major Capital Expansion Is Underway

In 2013, more than \$64 billion worth of public transportation expansion projects will begin construction, continue construction, or enter into service in the U.S. This is a tremendous investment that attests to the success of federal-state-local-private partnerships.

The New Starts Program, which is the federal government's grant program for new capacity transit projects, also represents a significant target of investment for the federal transit program. 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. As shown in Figure 11, many projects continue to move through the New Starts process.

**FIGURE 11** Number of New Start Projects Proposed for Fiscal Year 2012



Source: Federal Transit Administration Annual Report on New Starts 2012

Continued funding for rail transit construction has resulted in the steady expansion of transit rail infrastructure. Rail transit systems have added 1,500 miles of trackage in the past five 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.

**Miles of Transit Rail System Trackage** **FIGURE 12**

| Report Year | Miles of Track by Mode |            |            |            | Total    |
|-------------|------------------------|------------|------------|------------|----------|
|             | Commuter Rail          | Heavy Rail | Light Rail | Other Rail |          |
| 2002        | 7,267.1                | 2,179.2    | 1,113.6    | 29.7       | 10,589.5 |
| 2003        | 7,433.9                | 2,209.5    | 1,147.2    | 30.0       | 10,820.6 |
| 2004        | 7,284.1                | 2,209.5    | 1,321.2    | 30.3       | 10,845.1 |
| 2005        | 7,947.5                | 2,277.3    | 1,385.1    | 30.3       | 11,640.2 |
| 2006        | 8,016.7                | 2,277.3    | 1,463.8    | 38.3       | 11,796.1 |
| 2007        | 8,058.9                | 2,277.3    | 1,493.0    | 38.3       | 11,867.5 |
| 2008        | 8,017.9                | 2,277.3    | 1,538.5    | 30.3       | 11,864.0 |
| 2009        | 8,424.3                | 2,272.2    | 1,636.4    | 30.1       | 12,363.0 |
| 2010        | 8,471.5                | 2,272.2    | 1,664.3    | 30.1       | 12,438.1 |

Source: National Transit Database

## FACT

Transit capital investment is a partnership of continued support from all levels of government. In 2010 the federal government provided 41 percent of transit capital funding, state governments 14 percent, and local government and transit sources 45 percent. This shared support shows that transit investment is a priority at all levels of government.



### 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 of 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 on the impact of public transit investment on local economics, we know that every dollar 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. Research by noted economist David Lewis, of HDR/HLB Decision Economics, affirms that the economic development potential of public transportation is largely untapped, relative to other transportation modes. The best economic days for public transportation are still to come.

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 Investment Background Data report includes an extensive analysis of transit revenue sources and what transit funds are spent for with descriptions of the availability, quality, and meaning of data from primary sources. Data in this report are updated whenever they are updated in primary sources.

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

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

**Optimal Supply and Demand for Urban Transit in the United States,** HDR/HLB Decision Economics, February 2008



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

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