

STATE AND LOCAL GOVERNMENTS' REACTION TO FEDERAL MASS TRANSIT BUDGET CUTS: A CASE STUDY OF ST. JOSEPH COUNTY, INDIANA

For more than twenty years, the federal government has teamed with state and local governments to pay for mass transit programs. During the past two decades, the federal government's role in the partnership with state and local governments has grown both in the number of dollars spent and in the variety of assistance available. By 1980, the federal government provided seventeen percent of all transit revenues.¹ In 1981, however, the Reagan Administration proposed to reverse this twenty year growth trend and to drastically alter the partnership with state and local governments by significantly reducing federal mass transit funding.² This paper will document how one state, Indiana, and one group of local governments in that state, St. Joseph County, and the Cities of South Bend, Mishawaka, and Notre Dame, responded to the implementation of the Reagan Administration's proposal and will suggest how they may react in the future.

THE HISTORY OF FEDERAL MASS TRANSIT FUNDING

Prior to 1961, the federal government had never used federal funds to support mass transit because it considered mass transit a purely state or local matter. But by 1960, mass transit faced a crisis as ridership and revenues fell due to automobile commuting.³ Therefore, in 1961 President Kennedy transformed mass transit funding into a federal concern by linking it to urban development and the alleviation of urban congestion. In the Housing Act of 1961, the federal government, for the first time, authorized federal funds to assist state and local governments in providing mass transit services.⁴

In 1962, President Kennedy urged Congress to pass a matching grant program to aid urban mass transit. Opponents of the Kennedy Administration proposal focused their attack on the bleak financial fu-

1. Sarasohn, *Authorizations Expired: Overhaul of Government Aid for Mass Transit Systems Awaits Congress' Attention*, 40 CONG. Q. WEEKLY REP. 2831, 2833 (1982).
2. Sarasohn, *Revised 1982 Budget: Administration Proposals for Transportation Signal Reduction of Federal Role*, 39 CONG. Q. WEEKLY REP. 483 (1981).
3. Sarasohn, *Reagan, Mass Transit Systems Split on Operating Subsidies*, 40 CONG. Q. WEEKLY REP. 1525, 1526 (1982).
4. Economic Policy: Mass Transit Aid Program, I CONG. Q., in *Congress and the Nation 1945-1964*, 558-561 (1965). The Housing Act of 1961, Pub. L. No. 87-70, 75 Stat. 149 (1961), U.S.C. authorized \$50 million of loans for mass transit capital improvements and \$25 million for a demonstration grant program.

ture of mass transit and the local character of mass transit.⁵ Proponents of the Kennedy Administration proposal responded that mass transit was essential to urban development which was a national concern. They argued that mass transit funding required a federal presence since mass transit systems often transcended local and even state jurisdictional boundaries creating difficulties for local funding.⁶ The debate continued for two years and it was not until 1964 that Congress passed, and President Johnson signed; the Urban Mass Transportation Act of 1964.⁷ The rationale behind this first federal mass transit act was very broad. The Act

[s]tated that the Federal Government should extend financial assistance to urban mass transportation systems because 'the predominant part' of the nation's population was located in rapidly expanding metropolitan and other urban areas which often crossed the boundaries of state and local jurisdictions, and because welfare of these areas, the satisfactory movement of people and goods, and 'the effectiveness of housing, urban renewal, highway and other federally aided programs' was being jeopardized by 'the deterioration or inadequate provision' of urban transportation services, 'the intensification of traffic congestion, and the lack of coordinated transportation and other development planning on a comprehensive and continuing basis.'⁸

The Act limited federal funds to capital expenses.⁹ The Department of Housing and Urban Development distributed the Act's funds until 1968 when President Johnson transferred the responsibility to the newly created Department of Transportation.¹⁰

Federal mass transit funding continued to be limited to capital expenses until 1974 when President Ford signed a bill authorizing federal funds for mass transit operating expenses.¹¹ The Nixon Administration had favored making "public transportation an attractive alternative to private car use"¹² but had disapproved of Federal operating subsidies to mass transit; The Nixon-Ford Administration, however, supported the 1974 legislation as a part of its response to the severe energy shortages which began in 1973.¹³ Federal mass transit funding now

5. *Mass Transit Aid Program*, in I CONGRESSIONAL QUARTERLY, CONGRESS AND THE NATION (1945-1964), 558-559 (1965).

6. *Id.* at 558.

7. *Id.* at 558-561.

8. *Id.* at 560.

9. This limitation is consistent with the urban development goals and the deteriorated state of mass transit physical facilities in 1964. Sarasohn, *Reagan, Mass Transit Systems Split on Operating Subsidies*, 40 CONG. Q. WEEKLY REP. 1525, 1526-27 (1982).

10. *Economic Policy: Urban Mass Transit*, in II CONGRESSIONAL QUARTERLY, CONGRESS AND THE NATION 1965-1968, 251 (1969).

11. National Mass Transportation Assistance Act of 1974, Pub. L. No. 93-503, 88 Stat. 1565 (1974).

12. *Economic Policy: Urban Mass Transit*, in III CONGRESSIONAL QUARTERLY, CONGRESS AND THE NATION 1969-1972, 152 (1973).

13. *Transportation and Communications: Chronology of Action on Transportation and Communications — 1973*, in IV CONGRESSIONAL QUARTERLY, CONGRESS AND THE NATION 1973-1976, 508 (1977) and *Transportation and Communication: Mass Transit Subsidies*, in IV CONGRESSIONAL QUARTERLY, CONGRESS AND THE NATION 1973-1976, 522-524 (1977).

had both an urban development goal and an energy conservation goal.

Federal mass transit funding grew very rapidly. Between 1970 and 1980, it grew at a faster rate than almost any other item in the federal budget.¹⁴ But, as early as 1977, this rapid growth came under attack. In 1977, Department of Transportation Secretary Brock Adams stated that the Carter Administration did not want to fund any new mass transit projects before fiscal 1980. Secretary Adams also stated that Congress had allocated sufficient funds through fiscal 1979 for existing mass transit projects.¹⁵

The Reagan Administration's Mass Transit Funding Policy and Proposal

Against this historical backdrop, the Reagan Administration took office committed to reducing the federal budget. Reagan has committed his Administration to increase state and local financial responsibility wherever possible. Thus, mass transit funding was an attractive target for federal budget cuts for several reasons. First, state and local governments as well as the federal government fund mass transit.¹⁶ Second, in the Administrations view, mass transit remains, in spite of its role in national urban development, an essentially local activity.¹⁷ Third, federal mass transit funding, especially operating subsidies, had generally been the result of long legislative battles.¹⁸ Finally, the policy behind federal mass transit funding had become confusingly vague.¹⁹ Former Transportation Secretary Drew Lewis stated the Reagan Administration's attitude toward federal funding:

[T]he federal government has been involved in too many areas and has tried to do too much . . . [W]e must draw the line — determining where direct federal financing is in the national interest [and where it should be supplied by the private sector].²⁰

Following the line drawing process, the Reagan Administration proposes dramatic reductions in federal mass transit funding for both capital expenditures and operating subsidies. Federal budget cuts for mass transit capital grants were to begin slowly in fiscal 1981 and increase until fiscal 1984 as follows: a reduction of \$54 million from the

14. Pucher, *Effects of Subsidies on Transit Costs*, 36 *TRANSP. Q.* 549 (October, 1982).

15. *Commerce and Transportation: Mass Transit*, in V *CONGRESSIONAL QUARTERLY, CONGRESS AND THE NATION 1977-1980*, 293 (1981). (Secretary Adams gave the speech on Feb. 25, 1977).

16. Pierce & Steinbach, *Cuts in Transit Aid May Hurt But May Have a Silver Lining*, 13 *NAT'L J.* 568, 569 (1981).

17. Sarasohn, *Administration Proposals For Transportation Signal Reduction of Federal Role*, 39 *CONG. Q. WEEKLY REP.* 483 (1981).

18. See, e.g., *Mass Transit Aid Program*, *supra* note 5, at 558-60; *Transportation and Communication: Mass Transit Subsidies*, *supra* note 13, at 511-512, 522-524.

19. Mass transit, which began as an urban renewal project over time became a vehicle for achieving the nation's broad social goals. *Eno Foundation, Report on Joint Conference: Eno Foundation Board of Directors and Board of Consultants*, 36 *TRANSP. Q.* 165, 166 (1982). As such, opponents of federal mass transit funding had a variety of bases from which to attack.

20. Sarasohn, *Revised 1982 Budget: Administration Proposals for Transportation Signal Reduction of Federal Role*, 39 *CONG. Q. WEEKLY REP.* 483 (1981).

Carter Administration's proposed levels for fiscal 1981, a reduction of \$420 million from the Carter Administration's levels for fiscal 1982, a reduction of \$805 million from the Carter Administration's proposed level for fiscal 1983, and a reduction of \$1.53 billion from the Carter Administration's proposed level for fiscal 1984.²¹ The Regan Administration further proposes to limit the use of Federal mass transit capital grant funds to maintenance and modernization of existing transit systems, preferably buses, and to prohibit use of the funds to construct new mass transit rail systems, or enlarge existing mass transit rail systems.²² In addition to reductions in federal capital expenditures for mass transit, the Reagan Administration proposes to phase out all federal mass transit operating subsidies by fiscal 1985 as follows: no significant reductions from the Carter Administration's proposed levels for fiscal 1981 and fiscal 1982, a reduction of \$208 million for fiscal 1983, a reduction of \$512 million for fiscal 1984, and a complete elimination of federal mass transit operating subsidies in fiscal 1984 and beyond.²³

The Reagan Administration's policy for mass transit capital and operating funds, if enacted, would reshape the present national, state and local mass transit policy by sharply reducing federal support. Many of the costs presently borne by the federal government, and the decisions presently made by it regarding mass transit, would be shifted to state and local governments, or mass transit users.²⁴

The Enactment of the Reagan Administration Mass Transit Policy

The Reagan Administration has begun to implement its mass transit policy. For the most part, Congress has not prevented the process but it has slowed the rate of cuts. For fiscal 1981, the Reagan Administration sought only a three percent reduction in the overall transportation budget,²⁵ small reductions in Federal mass transit operating subsidies,²⁶ and only about a twelve percent reduction in capital grants.²⁷ For fiscal 1982, the Reagan Administration sought more significant decreases in mass transit funding. Congress responded with a reduction in capital expenditure funds to \$1.68 billion and a reduction in operating subsidy funds to \$1.365 billion.²⁸ But Congress's reduc-

21. Clark, *The Reagan Budget, Round Two - The President Drops the Other Shoe*, 13 NAT'L J. 444, 450 (1981).

22. *Id.*

23. Sarasohn, *Administration Proposals for Transportation Signal Reduction of Federal Role*, 39 CONG. Q. WEEKLY REP. 483 (1981).

24. COREGG *Swift Action Planned: Reagan Proposes Dramatic Reduction in Federal Role*, 39 CONG. Q. WEEKLY REP. 443, 444 (1981).

25. Clark, *The Reagan Budget, Round Two - The President Drops the Other Shoe*, 13 NAT'L J. 444, 450 (1981).

26. South Bend Tribune, Oct. 20, 1982, at 12, col. 1.

27. Sarasohn, *\$10.1 Billion Approved After Additional Cuts in Some DOT Programs*, 39 CONG. Q. WEEKLY REPT. 2491 (1981).

28. Sarasohn, *Fiscal 1982 Appropriations: \$10.1 Billion Approved After Additional Cuts in Some DOT Programs*, 39 CONG. Q. WEEKLY REP. 2491 (1981).

tions were \$178 million above the Reagan Administration's request.²⁹ For fiscal year 1983, the House proposes to reduce the fiscal 1982 funding levels by \$82.2 million and the Senate proposes to cut \$274.2 million from the fiscal 1982 funding level. The House purpose exceeds the Reagan Administration's mass transit request by \$493 million, and the Senate proposal exceeds the request by \$493 million, and the Senate proposal *exceeds* the Administration's mass transit request by \$301 million.³⁰ Therefore, in both fiscal 1982 and fiscal 1983, Congress, though reducing the mass transit budget, is moderating the Administration's proposed cuts. The Reagan Administration, however, has offset some of the Congressional moderation by not requiring the Department of Transportation to distribute all the discretionary grant funds which Congress appropriated.³¹ The overall effect is a major reduction in federal funds available for mass transit.

THE IMPACT OF REAGAN POLICIES ON ST. JOSEPH COUNTY

Two mass transit systems, the South Shore and the South Bend Public Transportation Corporation (Transpo) serve the one-quarter million people of St. Joseph County, Indiana. The South Shore is a fixed-rail inter-urban system connecting Northern Indiana cities to Chicago. Though federal, state and local funds support the South Shore, it will not be discussed here due to its regional and interstate character. Transpo, on the other hand, operates a fleet of buses serving the South Bend-Mishawaka area, and is subsidized by federal, state, and local funds.

In 1967, the City of South Bend used Federal Urban Mass Transportation Act of 1964 funds to purchase a failing city bus service for \$222,000. The City then formed Transpo; today a public municipal corporation with a limited but independent taxing authority. In 1974, Transpo began to receive federal operating subsidies.³² By 1981, federal, state and local assistance provided 81.8% of Transpo's entire budget. Of this assistance, the federal government provided about forty-one percent; Indiana provided about twenty-seven percent; and local governments provided about thirty-two percent.³³

29. Sarasohn, *11.2 Billion for Fiscal 1983: Panel Expands Transportation Funding*, 40 CONG. Q. WEEKLY REP. 2137, 2138 (1982).

30. Sarasohn, *Omnibus Funding from Design to Default*, 40 CONG. Q. WEEKLY REP. 2381, 2382 (1982).

31. J. ZAVISCA, *A TRANSPORTATION AGENDA FOR 1980'S: THE REPORT OF THE TASK FORCE ON TRANSPORTATION-TRANSIT* (May, 1982) (Unpublished Report).

32. SOUTH BEND PUBLIC TRANSPORTATION CORPORATION, *FINANCIAL REPORT—1981* (March 17, 1982). Transpo's total expenditures were \$4,640,920. All government assistance totaled \$4,254,455 of which the federal government provided \$1,747,431 the State provided \$1,132,589, and local governments provided \$1,374,435. Operating revenues were \$845,266.

33. Transpo's fiscal year runs from January 1 to December 31 while the federal fiscal year runs from October to September. Therefore, no precise comparison is possible but federal fiscal 1980 is essentially Transpo fiscal 1981; federal fiscal 1981 is essentially Transpo fiscal 1982, and federal fiscal 1982 is essentially Transpo fiscal 1983.

The Effect on Transpo of the Reagan Administration's Mass Transit Budget Cuts

In 1982,³⁴ Transpo began feeling the Reagan Administration's budget cuts. Transpo receives no federal capital grants, but it had received a \$1,747,431 operating subsidy in 1981.³⁵ In 1982, Transpo's federal operating subsidy was cut about twenty-two percent to \$1,365,827.³⁶ Of this reduction, however, only approximately 12% (\$209,000), or twelve percent, was due to federal budget cuts. The remaining ten percent decrease was caused by a local, non-federal budget decision: the Cities of Elkhart and Goshen withdrew from Transpo's urban area to form their own urban area, thereby reducing Transpo's federal operating subsidy.³⁷ Transpo has been told that its 1983 Federal operating subsidy will be reduced about twenty-three percent from its 1982 level. This reduction of nearly \$314,000 stems entirely from Reagan Administration budget cuts.³⁸

These federal operating subsidy reductions have not yet forced any apparent changes in Transpo, which continues to provide exactly the same service routes for exactly the same price as it did before the federal cuts. However, even though Transpo has not yet undergone major visible alterations, it has made several major changes to compensate for the budget cuts. First, Transpo cancelled its plans to expand service routes in 1981, 1982, and 1983. Therefore, Transpo, though not reducing present service routes, did change its policy planning from growth to entrenchment.³⁹ Second, Transpo began using its carryover federal operating subsidies, to offset the deficits caused by federal budget cuts. Transpo had previously earmarked these carryover subsidies for expanding service routes. In 1982, Transpo expects to use approximately fourteen percent of its carryover operating subsidies to meet current expenses.⁴⁰ Third, on November 19, 1982, Transpo announced its intention to seek the first fare increase in its sixteen year history. Arturo A. Garcia, Transpo Controller, stated that "If we don't increase fares by January 1, Transpo will have an \$173,906 deficit by December 31,

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34. SOUTH BEND PUBLIC TRANSPORTATION CORPORATION, FINANCIAL REPORT—1981 (March 17, 1982).
 35. South Bend Tribune, Nov. 19, 1982, at 17, col. 4; and SOUTH BEND PUBLIC TRANSPORTATION CORPORATION, REVENUE AND EXPENSE PROJECTION (unpublished report).
 36. Interview with Arturo A. Garcia, Transpo Controller, in South Bend, Indiana (Aug. 2, 1982). The federal operating subsidy which Transpo receives is determined by a formula based in part upon the population of the urban area served. The withdrawal of Elkhart and Goshen reduced Transpo's federal operating subsidy by approximately \$700,000 in federal fiscal 1981. The withdrawal of Elkhart and Goshen also cost Transpo approximately \$100,000 in state matching funds.
 37. South Bend Tribune, Nov. 19, 1982, at 17, col. 4. The decrease is from \$1,365,827 to \$1,052,000.
 38. Interview with Arturo A. Garcia, Transpo Controller, in South Bend, Indiana (Aug. 2, 1982).
 39. SOUTH BEND PUBLIC TRANSPORTATION CORPORATION, REVENUE AND EXPENSE PROJECTION (unpublished report). In 1982, Transpo expects to use \$167,571 of its carryover operating subsidies.
 40. South Bend Tribune, Nov. 19, 1982, at 17, col. 4. Fares were in fact raised to 50¢, effective January 1, 1983.

1983." Transpo is, therefore, seeking a sixty-six percent fare increase from thirty cents to fifty cents.⁴¹

Transpo anticipated the Reagan budget cuts and carefully planned its response. As the only fully solvent Indiana mass transit system, Transpo was able to temporarily absorb the impact of the reduced subsidy, and simultaneously ease the pressure on the already beleaguered state and local governments.

STATE AND LOCAL GOVERNMENTS' REACTION TO THE FEDERAL MASS TRANSIT BUDGET CUTS

State Reaction

The federal mass transit budget cuts have placed Indiana in a dilemma. As Rochelle L. Stanfield wrote concerning the state's approach to block grants,

Where there's a will, there's not always a way. Most states have agreed to accept responsibility for implementing the new block grants, but they may not have the money to keep the programs going . . . [Indiana is] worrying about where the state is going to find the money to keep them going as Federal support declines.⁴²

The comment is also true of Indiana's approach to federal mass transit budget cuts: there is a desire to assist transit systems, but the state does not presently have the means, or the desire, to replace federal funding dollar for dollar.⁴³

Many factors evidence Indiana's commitment to continue its support of mass transit. First, in 1981, Indiana reorganized its transportation agencies into an integrated unit under the Transportation Coordinating Board. Governor Robert D. Orr explained the rationale behind the reorganization as follows:

America's transportation system is undergoing fundamental changes. Indiana now confronts pressing challenges and exciting opportunities as we work to maintain and modernize the system of transportation which is so vital to our economic health and quality of life. If we are to meet these new obligations, it is important that state government be in a position to make thoughtful decisions regarding transportation policy . . . [The reorganization expresses Indiana's] commitment to the development and maintenance of a transportation system that will meet the needs of Hoosiers for decades to come, while at the same time stimulating the vitality of the state's economic base. It represents a deter-

41. Stanfield, *Picking Up Block Grants — Where There's a Will, There's Not Always a Way*, 14 NAT'L J. 616 (1982).

42. Interviews with Roland J. Mross, Director of Indiana Department of Transportation; Elaine Roberts, Indiana Transportation Planning Office; and John Parsons, Division of Public Transportation of the Indiana Department of Transportation; in Indianapolis, Indiana (August 11, 1982).

43. INDIANA TRANSPORTATION PLANNING OFFICE, INDIANA'S CHANGING ROLE IN TRANSPORTATION (leaflet).

mination to make practical and responsible decisions to invest the public's transportation dollars in ways that produce the most far-reaching benefits and returns on our investments. It is a clear signal that Indiana state government places a high priority upon transportation and its role in the well-being of our economy and our citizens.⁴⁴

Second, the Indiana legislature in 1980 changed the source of mass transit funding from a general appropriation to a dedicated .95% of the State's general sales and use tax. This raised state mass transit funds from \$4.25 million in fiscal 1980 to \$9.3 million in fiscal 1981.⁴⁵ State officials expect the dedicated fund to generate \$10.6 million in fiscal 1982.⁴⁶ Third, the Director of the Division of Public Transportation of the State Department of Transportation stated that the State does not expect to reduce state assistance to mass transit.⁴⁷ Finally, the state Transportation Planning Office expects to prepare a multi-modal transportation proposal in which mass transit policy will be reviewed and mass transit will be increasingly integrated into the State's transportation policy.⁴⁸

However, the State has not attempted to offset the federal mass transit budget cuts. Indiana, while not reducing its assistance, will not be dramatically increasing mass transit assistance to replace lost federal funds.⁴⁹ Instead of increasing funding, the State is attempting to shift responsibility for replacing lost mass transit funds to local governments. Though the Division of Public Transportation's newsletter, the state chided local officials for not quickly compensating for reduced federal mass transit funding.

Public Transportation is in jeopardy in this state. What concerns me more than the demise of Federal operating assistance is the reluctance on the part of local elected officials to support transit service as a key component in a package of essential municipal services.

If the Reagan Administration's proposal is adopted . . . , I am afraid that most systems in Indiana will either price themselves out of existence, or shrink to token service. This could happen simply because we failed to generate a commitment on the part of the public and local elected officials to maintain service.⁵⁰

44. INDIANA DEP'T OF TRANSP., DIV. OF PUB. TRANSP., STATE ROLE 5 (unpublished report).

45. *Id.*

46. Interview with John Parsons, Division of Public Transportation, Indiana Department of Transportation, in Indianapolis, Indiana (Aug. 11, 1982).

47. Interview with Elaine Roberts, Indiana Transportation Planning Office, in Indianapolis, Indiana (Aug. 11, 1982).

48. Interview with John Parsons, Division of Public Transportation, Indiana Department of Transportation, in Indianapolis, Indiana (Aug. 11, 1982).

49. INDIANA DEPARTMENT OF TRANSPORTATION, DIVISION OF PUBLIC TRANSPORTATION, EDITORIAL BY JOHN W. WALLS, INDIANA TRANSIT (June, 1982) at 1.

50. As William Fraser of the Indiana Division of Public Transportation said, Transit is important to economic development, and private businessmen need to be aware of this. Buses bring people to work and to retail shopping centers. This is important for local merchants who depend on walk-in business to survive . . . Transit also reduces noise, air pollution, fuel consumption, traffic congestion and street wear-and-tear. South Bend Tribune, Oct. 20, 1982, at 12, col. 1.

In connection with its emphasis on increasing local mass transit funding, the State has attempted to make private business aware of mass transit's importance to the private sector.⁵¹

Indiana, therefore, expresses strong support for mass transit at the same time it refuses to increase its funding for mass transit. The reason for the divergence between Indiana's stated policy and its actual practice is that it has very limited financial resources. Indiana faces a bleak state revenue forecast which may force its legislature into special session to avoid a predicted \$452.1 million state deficit by July, 1983, and the prospect of increased state income and sales tax is very real.⁵² Therefore, the State feels unable to compensate for federal mass transit budget cuts.

The net result for Transpo was a small decrease in state assistance: in 1981, the State provided \$1,131,589 for Transpo,⁵³ in 1982, \$1,071,004.⁵⁴ The decrease was not, however, due to reduced state support, but to the withdrawal of Elkhart and Goshen from Transpo's urban area.⁵⁵ Continued federal cuts are not expected to affect current state funding levels since there is a strong move in the legislature to make state mass transit funding levels entirely independent from federal funding levels.⁵⁶ State funding for Transpo remained essentially unchanged even as federal funding for Transpo declined by nearly \$400,000.

Local Reaction

Local governments' response to federal mass transit budget cuts has not been any more constructive than the State's. Each local government reacted differently, with the overall result being a declaration of support for mass transit, but no effort to increase local governments' funding.

The City of South Bend, which bought the local bus system in 1967 and formed Transpo, provided \$219,653 for Transpo in 1981.⁵⁷ In 1982, the City increased its subsidy but the increase was not substantial.⁵⁸ The Mayor's office stated that South Bend is genuinely interested in the continued operation of Transpo because it plays an important role in the community, but South Bend is not in a position to increase its sup-

51. South Bend Tribune, Nov. 18, 1982, at 1, col. 2 and South Bend Tribune, Nov. 30, 1982, at 25, col. 1.

52. SOUTH BEND PUBLIC TRANSPORTATION CORPORATION, FINANCIAL REPORT-1981 (March 17, 1982).

53. SOUTH BEND PUBLIC TRANSPORTATION CORPORATION, REVENUE AND EXPENSE PROJECTION (unpublished report).

54. Interview with Arturo A. Garcia, Transpo Controller, in South Bend, Indiana (Aug. 2, 1982).

55. South Bend Tribune, Nov. 19, 1982, at 17, col. 4.

56. SOUTH BEND PUBLIC TRANSPORTATION CORPORATION, FINANCIAL REPORT-1981 (March 17, 1982).

57. SOUTH BEND PUBLIC TRANSPORTATION CORPORATION, REVENUE AND EXPENSE PROJECTION (unpublished report) and interview with Arturo A. Garcia, Transpo Controller, in South Bend, Indiana (Aug. 2, 1982).

58. *Id.*

port.⁵⁹ The City's shrinking tax base and its "frozen" property tax rate⁶⁰ account for South Bend's viability to increase mass transit funding. As a city councilman said, he simply did not know where South Bend had any resources to supplement the present funding for Transpo.⁶¹ South Bend recommended that Transpo look to the state.⁶²

South Bend, in 1980-1981, made Transpo into an independent municipal public transportation corporation.⁶³ The rationale behind the action was to increase revenues for Transpo by circumventing State controls on local property tax increases. As a new public transportation corporation, Transpo was able to establish a new local property tax rate for its own use. Once established, the rate became subject to State controls on local property tax increases.⁶⁴ Transpo's taxing authority, which is limited to South Bend, produced \$618,000 in both 1981 and 1982.⁶⁵

In 1981, Transpo and the City of Mishawaka attempted to obtain state legislative permission to extend Transpo's taxing authority to Mishawaka. The attempt failed, and Mishawaka was not able to pay for its Transpo services by a new local property tax.⁶⁶ Instead, Mishawaka agreed to pay a share of Transpo's net operating loss each year. In 1981, that share amounted to \$434,821.⁶⁷ Mishawaka, because of limited finances and commitments to other projects, chose not to pay the entire 1981 amount and has not paid any of its 1982 installment. Mishawaka's nonpayment reduced Transpo's local support by nearly \$400,000, and Transpo has responded by suing Mishawaka for over \$360,000. The suit is expected to be resolved early in 1983.⁶⁸ Mishawaka, like South Bend, looks to the State to offset the Federal mass transit budget cuts.

St. Joseph County has not funded local mass transit because Transpo operates only within the city limits. Therefore, in the opinion of county officials Transpo should be funded by the cities. The County's position is unchanged by the federal mass transit budget

59. The increase was from \$837,653 in 1981 to approximately \$899,430 in 1982.

60. Interview with John Voorde, South Bend City Councilman, in South Bend, Indiana (Aug. 3, 1982).

61. Interview with John Hunt, South Bend Community Development Director, in South Bend, Indiana (Aug. 2, 1982).

62. SOUTH BEND PUBLIC TRANSPORTATION CORPORATION, FINANCIAL REPORT—1981 (March 17, 1982) and interview with Arturo A. Garcia, Transpo Controller, in South Bend, Indiana (Aug. 2, 1982).

63. Interview with Arturo A. Garcia, Transpo Controller, in South Bend, Indiana (Aug. 2, 1982).

64. SOUTH BEND PUBLIC TRANSPORTATION CORPORATION, FINANCIAL REPORT-1981 (March 17, 1982) and SOUTH BEND PUBLIC TRANSPORTATION CORPORATION, REVENUE AND EXPENSE PROJECTION (unpublished report).

65. SOUTH BEND PUBLIC TRANSPORTATION CORPORATION, 1980 ANNUAL REPORT 2 (March 17, 1981).

66. SOUTH BEND PUBLIC TRANSPORTATION CORPORATION, FINANCIAL REPORT-1981 (March 17, 1982).

67. Telephone interview with Arturo A. Garcia, Transpo Controller, (Nov. 30, 1982).

68. Interviews with Henry Ferrettie, County Commissioner; Richard Jasinski, County Commissioner; and Richard L. Larrison, County Commissioner; in South Bend, Indiana (Aug. 4, 1982).

cuts.⁶⁹ Yet the County, though not sharing in the funding of Transpo, wishes to share in the mass transit funds made available by the federal gas tax increase and threatens to establish its own mass transit system to compete with Transpo if Transpo will not share the federal funds.⁷⁰ Such actions obviously do not help Transpo to deal with reduced federal funding.

The University of Notre Dame, a municipal corporation, is served by Transpo. Notre Dame's relationship to Transpo is contractual. In 1981, Notre Dame paid \$101,961 for Transpo services, and in 1982, approximately \$113,000.⁷¹ This increased support is not, however, a response to federal funding reductions. It is merely indicative of the increased cost of the Transpo services for which Notre Dame contracts.

Local governments have not only responded to the federal mass transit budget cuts, their support for Transpo has decreased. Sufficient reasons exist for the local governments' decisions. But, with both state and local governments articulating reasons that the other governmental units should compensate for the federal mass transit aid reductions, they jointly endanger the existence and future of Transpo.⁷² These state and local governmental actions justify the federal government's conclusion in the early 1960's that mass transit funding requires a federal presence which transcends the boundaries of state and local governments.

PROBABLE REACTION OF STATE AND LOCAL GOVERNMENTS TO CONTINUED FEDERAL MASS TRANSIT BUDGET CUTS

The Reagan Administration proposes to continue reducing federal mass transit operating subsidies until they are completely eliminated. If carried to completion, the Administration's proposal would eliminate all federal assistance to Transpo since it receives no federal capital funding.⁷³ The Administration's policy would have a profound impact on Transpo and would threaten its very existence unless state government and local governments were willing and able to counteract the Federal cuts by increasing state and local mass transit funding.

The Reagan Administration's recent decision to support a five cent per gallon increase in the federal gasoline tax and the passage of such a tax does not reduce the crisis facing Transpo. The new tax law provides that one cent of new federal gas tax (\$1.1 billion per year) would

69. South Bend Tribune, March 15, 1983, at 20, col. 1.

70. SOUTH BEND PUBLIC TRANSPORTATION CORPORATION, FINANCIAL REPORT—1981 (MARCH 17, 1982) AND South Bend Public Transportation Corporation, Revenue and Expense Projection (unpublished report).

71. See *supra* note 40.

72. SOUTH BEND PUBLIC TRANSPORTATION CORPORATION, FINANCIAL REPORT—1981 (March 17, 1982).

73. South Bend Tribune, Nov. 28, 1982, at 1, col. 4.

be earmarked for mass transit.⁷⁴ The new federal gas tax would also increase federal monies allocated for mass transit by nearly one-third. The new federal gasoline tax act allows localities to spend the monies on operating or capital expenses,⁷⁵ nevertheless, Transpo's operating funding problems continue since the Reagan administration continues to move effectively toward ending all federal mass transit operating subsidies by 1985. Many things evidence the unchanged Reagan Administration's policy. First, Transportation Secretary Drew Lewis said, prior to the passage of the new federal gas tax, that he believed that President Reagan would veto any legislation that did not allow for the phase out of federal operating subsidies to mass transit.⁷⁶ Therefore, the Reagan Administration's support of the legislation indicates that it believes that the new law allows the phase out of operating subsidies to continue. Second, the new tax law itself limits federal operating subsidies to the amount that a transit authority received in 1982 *minus* twenty percent for large systems, ten percent for medium systems, and five percent for small systems.⁷⁷ Finally, the Reagan Administration's policy remains unchanged in its proposed 1984 budget which calls for a reduction in federal mass transit aid from \$3.9 billion in 1983 to \$3.8 billion in 1984 despite the increased revenues from the increased federal gas tax and which calls for "state and local government [to] assume complete responsibility for operating local mass transit systems by 1985."⁷⁸ Therefore, even though the federal gas tax increase appears on its face to aid mass transit greatly, the tax in reality may do little to alleviate the funding crisis facing mass transit. Transpo, as federal mass transit operating subsidies decrease, must look to state and local governments for assistance.

Probable State Reaction

The State's reaction to continued federal mass transit funding cuts will most likely parallel its present reaction. The State will be willing to continue its present level of mass transit funding but will not be willing or able to substantially increase it. This projection is supported by several facts.

First, state legislators feel that Indiana will not substantially increase mass transit funding in the near future. The Legislature's reluctance is a combination of financial restraints on the State's ability to fill the void caused by federal mass transit budget cuts, and an unwilling-

74. Federal Public Transportation Act of 1982, Pub. L. No. 97-424, tit. III, 96 Stat. 2140 (1982) (codified in scattered sections of 49 U.S.C. ch. 21).

75. Sarasohn, *Panels Approve Varied Transportation Plans*, 40 CONG. Q. WEEKLY REP. 1151 (1982).

76. Stanfield, *The Users May Have to Foot the Bill to Patch Crumbling Public Facilities*, 15 NAT'L J. 2016 (1982).

77. 49 U.S.C.A. § 1607a(k)(2) (West Supp. 1983).

78. Interview with Robert DuComb Jr., State Representative, in South Bend, Indiana (Aug. 6, 1982) and interview with Dan Manion, State Senator, in South Bend, Indiana (Aug. 6, 1982).

ness to fund mass transit at the expense of other programs, especially highways.⁷⁹ Second, Indiana Division of Public Transportation officials stated that, "If a [federal] phase-out occurs, they [Transpo] would have to seek ways of replacing those funds by increasing fares and/or property taxes. It's not likely that the state would increase their commitment to public transit."⁸⁰ Third, the Indiana Division of Public Transportation foresees changes in mass transit with fare increases, service reductions, private sector involvement and more local funding.⁸¹ Finally, Transpo expects only small increases in state funding over the next five years.⁸²

However, the State is not powerless to assist mass transit in a major way. It may raise taxes for mass transit. Governor Orr, who has opposed tax increases, conceded that they would be needed if federal aid continues to decline. "Lots of things may cause us to raise taxes. If it's necessary to do so to deliver a certain level of state services, we'll probably do so."⁸³ The State may also raise its sales tax in an effort to meet the State's estimated \$452.1 million deficit forecast for 1982.⁸⁴ In so doing, Indiana may not even consider mass transit funding. Since mass transit now receives .95% of all general sales tax revenues, a one cent increase in state sales tax would yield an additional \$2.5 million for transit systems throughout Indiana.⁸⁵ Finally, the State could enable local governments to raise their mass transit funding levels by introducing more flexibility into local tax structures. This could be done by reevaluating the "freeze" on local property tax rates or by creating local option taxes which local governments could opt into or out of depending on their local needs. However, Governor Orr has said that such actions will have to wait until the State has dealt with its own fiscal problems.⁸⁶

The State's future mass transit funding policy appears to follow the present policy. State mass transit funding will increase slowly but steadily over the next several years. It will not, however, dramatically increase to compensate for federal mass transit budget cuts.

79. South Bend Tribune, Oct. 20, 1982, at 12, col. 1. (Comments of William Fraser, principal planner of the Indiana Division of Public Transportation, in Indianapolis, Indiana (Aug. 11, 1982). Identify Speaker in Main text.

80. South Bend Tribune, Oct. 20, 1982, a 12, col. 1 and interview with John Parsons, Division of Public Transportation, Indiana Department of Transportation, in Indianapolis, Indiana (Aug. 11, 1982).

81. SOUTH BEND PUBLIC TRANSPORTATION CORPORATION, REVENUE AND EXPENSE PROJECTION (unpublished report).

82. Stanfield, *Picking Up Block Grants — Where There's A Will, There's Not Always a Way*, 14 NAT'L J. 616, 620 (1982).

83. South Bend Tribune, Nov. 30, 1982, at 25, col. 1.

84. A 25% increase in the amount of general sales tax collected (assuming that the amount of sales remains essentially constant) would result in a rise in the mass transit dedicated fund from \$10.6 million to \$13.25 million.

85. South Bend Tribune, Nov. 30, 1982, at 25, col. 1.

86. The State law does not completely "freeze" local property tax rates but it does restrict increases to about 4-½% per year. In its ten year history, costs have risen considerably faster than 4-½% per year.

Probable Local Reaction

Local governments protest that they are presently unable to offset the federal mass transit budget cuts. Local governments will not be able to offset future federal cutbacks because Indiana has frozen the largest source of local tax revenues, local property taxes.⁸⁷ The local governments of St. Joseph County are not, therefore, able to compensate for lost federal funds by raising property taxes although a Congressional survey found many other local governments doing so.⁸⁸ A shrinking local tax base and a weak economy compounds the problem of a "frozen" local property tax rate.⁸⁹ Understandably, local governments feel unable to dramatically increase their funding of mass transit.

But, as with the State, local governments have efficient power to positively affect the future of mass transit. First, local governments may lobby the State for flexible local tax structures. The State may enable localities to increase taxes through property taxes or local option taxes. Then, local governments must have the fortitude to raise local taxes as necessary to continue essential local services. In determining essential local services, local governments may consider mass transit's many benefits to the community: travel subsidy for the transit dependent, energy conservation, assistance to local business, and decreased wear-and-tear on the roads.⁹⁰ St. Joseph County has had a local option income tax available to it for many years the County has not exercised its option and has not funded mass transit. Clearly therefor, local option taxes are possible but not a sure source of additional funding for mass transit. Since mass transit would, continue to compete for funding with other government services.

The local governments' future mass transit funding policy, mirrors the state's policy. Local governments will attempt to maintain the present funding system but not attempt to assume responsibility for replacing lost federal mass transit funds.

The Probable Future of Transpo if Federal Mass Transit Budget Cuts Continue

Transpo's future is very bleak and it may be required to go out of existence by the end of the decade. If the company does not reduce service and increase fares, it will be running a \$173,906 deficit by the

87. New York Times, Oct. 17, 1982. The study surveyed a national cross-section of state and local governments.

88. Interview with John Hunt, South Bend Community Development Director, in South Bend, Indiana (Aug. 2, 1982).

89. South Bend Tribune, Oct. 20, 1982, at 12, col. 1.

90. South Bend Tribune, Nov. 19, 1982, at 17, col. 4 and SOUTH BEND PUBLIC TRANSPORTATION CORPORATION, REVENUE AND EXPENSE PROJECTION (unpublished report). The report assumes that the Reagan Administration phase-out of federal mass transit operating subsidies will continue and that state and local governments will not dramatically increase their financial support to Transpo.

end of 1983, and will have a cumulative deficit of nearly \$4 million by 1986.⁹¹ Transpo, in this process is essentially powerless to influence governments' actions. State controls regulate Transpo's taxing authority.⁹² The federal government is dramatically decreasing Transpo's federal operating subsidy and offering it unneeded capital grants. The State is committed only to maintaining its present level of support and is not proposing even to attempt to compensate for the federal mass transit budget cuts. No local government proposes to increase its support for Transpo to offset the federal mass transit budget cuts and decreases in total local support may even occur.

Transpo can, however, delay the financial crisis and allow government at all levels to reevaluate their policies, by increasing its fares. It has already raised fares from thirty cents to fifty cents,⁹³ and, if necessary, proposes to raise fares to seventy-five cents by 1986.⁹⁴ Transpo can also postpone the crisis by eliminating evening and school services and reducing and Saturday services. But such cutbacks in service yield only a thirty-five percent decrease in route miles and any reductions beyond this point would make the system useful to practically no one. Significant decreases in ridership may offset the benefits of both these actions.⁹⁵ Fare increases and service reductions are only stop-gap measures and do not provide a sound base for the future. The Reagan Administration views mass transit and therefor Transpo, as expendible. It is willing to accept large long-term losses at the local level in return for small short-term gains at the national level.⁹⁶

The federal, state, and local policies toward mass transit funding are not chiseled in stone. They may change and Transpo may not increasingly "be forced to compete for scarce state and local funds with agencies which are more 'visible' to the public such as schools, police and fire services."⁹⁷ However, at this point, all levels of government pointing to each other as the level primarily responsible for mass transit funding. Unfortunately, no level of government has been willing to commit itself to assure the continued existence of mass transit.

WINNERS AND LOSERS AS A RESULT OF PRESENT FEDERAL MASS TRANSIT BUDGET CUTS

To date, there has been only one winner as a result of the federal mass transit budget cuts: the federal government. It has curtailed its

91. IND. CODE ANN. §6-1.1-18-1 *et. seq.* (Burns 1978).

92. South Bend Tribune, Nov. 19, 1982, at 12, col. 1.

93. Fare increases went into effect January 1, 1983.

94. J. ZAVISCA, *supra* note 31.

95. Interview with Arturo A. Garcia, Transpo Controller, in South Bend, Indiana (Aug. 2, 1982).

96. J. ZAVISCA, *supra* note 31.

97. Sarasohn, *Legislation Awaits Budget, Tax Decisions*: 40 CONG. Q. WEEKLY REP. 1525, 1528 (1982) (quoting Richard S. Page, General Manager of the Washington Metropolitan Area Transit Authority and Chairman of the American Public Transit Association's legislative committee).

financial commitment to mass transit and thereby reduced its budget. To date, there is only one loser: the persons who would have been served by new Transpo service routes if the federal government had not reduced its mass transit funding. Presently, no other winners or losers are identifiable because Transpo has so far compensated for federal mass transit budget cuts without any changes in services or fares and without major changes in its funding sources.

The present and future policies of federal, state, and local governments toward mass transit funding will create some clear winners, some clear losers and some who may be both winners and losers. Assessment of future policy impact requires an examination of the federal, state, and local levels of government; an examination of the present mass transit system and its probable successor; an examination of the groups of people who will be impacted by the transition from one mass transit system to another; and an examination of the impact of the probable future mass transit policies of federal, state, and local governments upon society as a whole.

Levels of Government

The federal government will be a short-term winner because a reduction of its "local" mass transit commitment thereby reduces its budget. However, the federal government may become a long-term loser if the state and local governments do not fill the funding void. The federal government loses if mass transit declines precipitously because "effective public transit services are a major element supporting the nation's efforts to rebuild and revitalize local, regional and national economies."⁹⁸ The bankruptcy of the mass transit system throughout the country would be a wound to the economy, and could inflict other injuries to economic recovery.

Indiana's congressional representatives believe the State may gain from the present federal mass transit funding policy. It is believed that Indiana stands to profit since there will be a more equitable allocation of federal mass transit funds. Under prior policy, nine states received eighty-five percent of the federal mass transit funds. Indiana, sharing the remaining fifteen percent with forty other states, receives approximately \$20 million of the \$4 billion federal mass transit budget.⁹⁹ Indiana Congressman John Hiler also believed that Indiana may be benefited by the present federal mass transit funding policy but for other reasons. He said that the State will receive increased flexibility to pursue local mass transit funding. As federal taxes decreased, state

98. Interview with David Gogel, legislative aide to Indiana Senator Richard Lugar, in Washington, D.C. (Aug. 20, 1982). Indiana therefore receives about 0.5% of the federal mass transit budget.

99. Interview with John Hiler, Indiana Congressman, in Washington, D.C. (Aug. 15, 1982). See Stanfield, *Ready for 'New Federalism' Phase II? Turning Tax Sources Back to the States*, 13 NAT'L J. 1492, 1494 (1981) and Stanfield, *'Turning Back' 61 Programs: A Radical Shift of Power*, 14 NAT'L J. 369, 371 (1982).

taxes could be increased without a net increase in Indiana resident taxation. In addition, the federal mass transit policy provides for "turning back" some federal tax revenues.¹⁰⁰ This increased flexibility combined with a more equitable share of federal mass transit funds, could make the state government a winner. However, if total funding declines, endangering mass transit, the State will lose along with the federal government as the economy is injured.

The local governments, especially the City of South Bend, have the potential to be winners as a result of the Federal mass transit budget cuts. First, local governments may greatly benefit if federal mass transit budget cuts prompt the State to reevaluate and ease the limitations on local fiscal and taxing powers. The benefit derived by greater local taxing freedom extends beyond mass transit funding to the provision of all municipal services. Although the State's own financial problems are Governor Orr's primary concern, the local governments' financial problems caused by federal budget reductions will be dealt with by the State.¹⁰¹ Second, the federal cuts may allow local governments to exert more control over public transportation corporations, which in turn would lead to increased accountability by public transportation corporations to local government and the local government's citizens. That in turn can lead to better mass transit services.¹⁰² However, if the local governments fail to acquire the financial ability to maintain local mass transit, it will lose an important service, and will lose along with the federal state governments as the economy is injured.

Present and Future Mass Transit Systems

The present mass transit system stands to be the biggest loser as a result of the federal budget cuts. Since the state and local governments have not moved to offset the federal mass transit budget cuts, they threaten to make local mass transit impracticable. The present mass transit system requires substantial operating subsidies, without which it cannot continue to function. Each attempted response to lower subsidy levels by mass transit further endangers the present system: increases in fares, or reductions in services affect ridership, which in turn results in greater reliance on governmental operating subsidies.¹⁰³ Mass transit may initially be benefited by the cuts if it finds savings through greater efficiency, but such benefits will not occur if Federal mass transit budget cuts cause structural damage to mass transit.¹⁰⁴

100. South Bend Tribune, Nov. 30, 1982, at 25, col. 1.

101. Interview with David Gogel, legislative aide to Indiana Senator Richard Lugar, in Washington, D.C. (Aug. 20, 1982) and Peirce and Steinbach, *Cuts in Transit Aid May Hurt But Have a Silver Lining*, 13 NAT'L J. 568 (1981).

102. J. ZAVISCA, *supra* note 31.

103. Peirce & Steinbach, *Cuts in Transit Aid May Hurt But May Have a Silver Lining*, 13 NAT'L J. 568 (1981).

104. Interview with Francis P. Mulvey, American Bus Association, in Washington, D.C. (Aug. 19,

The decline of the present mass transit system and the federal subsidies that support it may usher in a new era in mass transit. First, there could be a partnership between public mass transit and private carriers in which public mass transit sells off its "profitable" routes to private carriers, and retains only the routes which require government subsidy. More routes will become viable for private carriers as operating subsidies decline and fare prices increase. If this happens, public mass transit will require less total government subsidy but more subsidy per mile on the retained unprofitable routes.¹⁰⁵ Second, the present mass transit system may pass completely out of existence and be replaced by a new, innovative mass transit system which would be aided by the federal mass transit operating budget cuts and by the proposed federal gas tax increase. Reduced federal operating subsidies for mass transit will lead to fare increases making new mass transit systems economically viable. The federal mass transit policy limiting funding to capital grants will provide construction funding for the new mass transit system. An example of a very good new mass transit system would be a Personal Rapid Transit system which overcomes most of the present mass transit system's shortcomings: it is automated and does not therefore incur large labor costs; it is more energy efficient; it can run above ground or below ground; it consists of three person cabins rather than forty-five person buses; and it does not require transfers since each cabin runs independent of all other cabins.¹⁰⁶ The crucial question in moving toward a new mass transit system is how quickly can the transition be accomplished and how much disruption will there be before the new mass transit system is fully operational.

Groups of Persons Losing as a Result of the Federal Mass Transit Budget Cuts

Four groups of persons will lose as a result of the federal mass transit budget cuts. First, the transit dependent will obviously be affected negatively by the reduction in federal support for mass transit. The transit dependents are many different kinds of people and each group may be injured in a different way. The poor transit dependents, those who use mass transit because they are economically unable to afford alternative transportation, will be most directly injured by the federal reduction, which will quickly drive up fares. The elderly and young transit dependents, who use mass transit because they can no

1982) and F. MULVEY, PUBLIC AGENCIES AND PRIVATE CARRIERS: COMPETITION OR COOPERATION? (unpublished report presented to the Transportation Research Board, Charlottesville, Virginia (Aug. 11, 1982)).

105. The federal gas tax increase would create an additional 1.1 billion a year for mass transit funding. H.R. REP. NO. 555, 97th Cong., 2d Sess. 49 (1982).

106. Interview with Richard D. Doyle, former Indiana State Representative and Chairman of the Capital City Integrated Transit Commission of Indianapolis, in South Bend, Indiana (Aug. 8, 1982) and Anderson, Doyle & MacDonald, *Personal Rapid Transit — The Way to Go?*, ENVIRONMENT 25 (October, 1980).

longer, or cannot yet, drive cars will be injured by a loss of mobility. The handicapped will also be injured by a similar loss of mobility.

Second, to a lesser degree, those who rely on mass transit for reasons other than money, age or handicaps will also suffer a loss. Six million urban families who simply have no cars would also be injured.¹⁰⁷

Third, the Amalgamated Transit Union, the Transport Workers Union and their 215,000 members will lose. Since 1964, section 13(c) of the Urban Mass Transit Act has conditioned Federal aid upon state and local governments making "fair and equitable" arrangements to protect the interests of mass transit workers affected by federal assistance.¹⁰⁸ Under section 13(c), transit unions were given the power to block federal mass transit aid by not "signing off" on the proposed grant. The Reagan Administration proposes to eliminate the section 13c requirements for its future mass transit funding. This proposal obviously weakens the labor position¹⁰⁹ at a time when labor interests are placed under increasing pressure to reduce labor costs as the federal operating subsidies to mass transit decline.¹¹⁰ Ultimately, these pressures and the Reagan Administration's proposal regarding section 13(c) may translate into transit employee layoffs. Therefore, the mass transit unions and members will lose.

Finally, business will be an indirect loser, at two levels as mass transit fares increase and mass transit service decreases. Their employees, who rely on mass transit, will be required either to find alternative transportation, pay higher fares or find employment closer to their homes. These changes may well increase pressure on business to assist their employees in coping with these changes. Mass transit fare increases and mass transit service decreases will reduce customer mobility and thereby affect business.

CONCLUSION

Society can win as a result of federal mass transit budget cuts only if the federal budget cuts force a serious review of national, state, and local mass transit policy and lead to a sounder, long-term policy. So far, the federal cuts have not had that desired effect; serious thought has not been given to a national, state, or local long-term mass transportation policy. Instead, the federal cuts have produced a scramble at

107. Peirce & Steinbach, *Cuts in Transit Aid May Hurt But Could Have a Silver Lining*, 13 NAT'L J. 568 (1981).

108. Urban Mass Transportation Act of 1964, Pub. L. No. 88-365, 78 Stat. 302 (1964), 49 U.S.C. §1609(c).

109. Sarasohn, *Legislation Awaits Budget, Tax Decisions*: 40 CONG. Q. WEEKLY REP. 1525, 1528 (1982).

110. SOUTH BEND PUBLIC TRANSPORTATION CORPORATION, FINANCIAL REPORT-1981 (March 17, 1982) and SOUTH BEND PUBLIC TRANSPORTATION CORPORATION, REVENUE AND EXPENSE PROJECTION (unpublished report). Transpo between 1978 and 1982 spent about 45% of its money on labor expenses. The projections from 1982 to 1986 estimate that the labor cost will continue to be about 45% of Transpo's operating expenses.

the state and local level to continue the present system with stop-gap solutions. Since no government level has yet accepted responsibility, mass transit is endangered.

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