

# spotlight

No. 315 – March 15, 2007

## CHARLOTTE'S TRANSIT TAX

A costly distraction from the city's true transit needs

**KEY FACTS:** • Charlotte's half-cent sales tax for transit, passed in 1998, has allowed the Charlotte Area Transit System (CATS) to become one of the least efficient bus systems in the state.

• Ridership increased 52 percent, but operating costs increased 234 percent from 1997 to 2005.

• Charlotte's bus system can, and should, live without the half-cent tax. Repeal will force the bus system to return to its more efficient pre-1998 operating practices.

• Charlotte's bus system can carry all of its 2005 riders (17.8 M) for \$57.1 million by reducing its high \$4.29 per trip cost to \$3.20 per trip, the average of seven other city bus systems in North Carolina.

• Increasing rider fares to 25 percent of the total budget from 14 percent will provide \$3.5 million above the current \$10.8 million from fares.

• Shifting just 2.5 percent of Charlotte General Fund spending to CATS will provide \$21.9 million in addition to the current \$21.2 million of state and local funds.

.....

It is no secret that Charlotte's light rail has been and continues to be controversial. Now a coalition of light-rail critics is working to place the half-cent sales tax that funds the city's transit system before the voters. If critics can gather enough signatures, the November ballot will allow voters to repeal the tax.

Critics argue that the light-rail project has been an expensive distraction from the primary transportation problems facing the Charlotte metro area. The South Corridor line has been plagued with low estimates of costs and overestimates of ridership (see Table 1). In fact, Charlotte's underestimation of costs fits national and international patterns. Three Danish professors reviewed 258 transportation projects worth \$90 billion and concluded: "Underestimation cannot be explained by error and is best explained by strategic misrepresentation, that is, lying."<sup>1</sup>

200 W. Morgan, #200  
Raleigh, NC 27601  
phone: 919-828-3876  
fax: 919-821-5117  
[www.johnlocke.org](http://www.johnlocke.org)

*The John Locke Foundation is a 501(c)(3) nonprofit, nonpartisan research institute dedicated to improving public policy debate in North Carolina. Viewpoints expressed by authors do not necessarily reflect those of the staff or board of the Locke Foundation.*

Critics recommend that it would be better to end the light-rail project with the completion of the South Corridor and shift transportation planning to solve congestion problems. Less expensive and more effective ways to solve congestion problems are being

ignored, such as adding badly needed lanes, improving the traffic-light synchronization, and increasing the number of left-turn and right-turn lanes. The entire transit overhaul, rail and bus, was originally estimated to cost \$2 billion, but it has risen to \$9 billion — i.e., an increase of 350 percent. Even if the entire system were implemented, it would do little or nothing to solve Charlotte’s real congestion problems because it would handle only a small percent of the area’s travel needs.<sup>3</sup>

Supporters of the transit tax argue that repealing it is like throwing out the baby with the bathwater. The transit tax is simply not good public policy. The transit tax is used not only to support light-rail but also to support the area’s diversified bus and van-pool system. Supporters argue that ending the tax would mean major cuts in these services or tax increases to the support the existing level of service. This *Spotlight* report examines this issue.

### Good Intentions

When the half-cent sales tax was passed in 1998 to improve transit in Charlotte, supporters hailed it as a way to solve the transportation problems created by Charlotte’s rapidly growing population.

Those funds would allow expansion of the bus system and would match federal funds for the city’s light-rail system. Supporters argued that both systems would be integrated in a way that would serve the total transportation needs of Charlotte and surrounding communities.

### Good Intentions Gone Awry

As promised by the sales-tax supporters, the system’s ridership has increased from 11.7 million trips in 1997 to 17.8 million in 2005.<sup>4</sup> This is an increase of 52 percent. In fact, CATS’ ridership increase was greater than those of six of the seven other, comparable transit systems considered in this report.<sup>5</sup>

This increase would be a success story if the system had controlled its costs, but the infusion of guaranteed sales-tax funds caused costs to spiral out of control. CATS added routes that had very few riders. Between 1997 and 2005, the number of vehicles operating per day rose from 192 to 395 or 106 percent, the number of vehicle revenue miles rose 144 percent, and the total operating costs rose 234 percent. Those increases were much larger than the 52 percent increase in riders during the same period (see Table 2).

Furthermore, the operating cost per trip grew 119 percent, from \$1.96 per trip in 1997 to \$4.29 per trip in 2005

**Table 1. Changing Estimates of Charlotte’s Light Rail System<sup>2</sup>**

<i>South Corridor Light Rail Only</i>	<i>July 1998</i>	<i>2006</i>	<i>Change</i>
Miles of Track	11	9.6	13% less
First-Year Riders	14,000	9,100	35% less
Cost	\$227 million	\$463 million	103% higher
<b><i>Entire Transit System</i></b>	<b><i>\$2 Billion</i></b>	<b><i>\$9 Billion</i></b>	<b><i>350% higher</i></b>

**Table 2. CATS 8-Year Growth Record<sup>6</sup>**

*(Costs outpace riders)*

	<i>1997</i>	<i>2005</i>	<i>Percent Change</i>
Ridership	11.7 million	17.8 million	+52%
Vehicles	192	395	+106%
Vehicle Revenue Miles	6.14 million	14.97 million	+144%
Operating Cost Per Trip	\$1.96	\$4.29	+119%
Total Operating Funds Expended	\$22.89 million	\$76.45 million	+234%

— the highest cost per trip of the eight transit systems considered in this report. CATS' per-trip operating cost of \$4.29 is over a dollar more (34 percent higher) than the average per-trip operating cost (\$3.20) of the other seven systems. In 2005, CATS' operating cost of \$79.46 per vehicle hour was the highest of the eight systems; the average of the seven other systems was \$61.14 per vehicle hour. CATS' operating cost of \$5.11 per vehicle mile was also the highest of the eight systems; the average of the seven other systems was \$4.37 per vehicle mile (see Table 3).

When the half-cent sales tax passed in 1998, CATS was infused with a guaranteed flow of cash. Transit bureaucrats, like most bureaucrats, will always find ways to spend most, if not all, of the money available, even if they spend it inefficiently. They were able to avoid making difficult route decisions, but instead expanded routes with little thought of how the routes' operating costs compared with their expected ridership and revenues.

So, flush with cash from the half-cent sales tax, CATS went on a spending binge that resulted in an inefficient system and some of the highest costs in the state.

### More Bad News for CATS

In 1997, before the system had guaranteed income from the sales tax, the mix of funding sources was very different. Before the tax, CATS relied on rider fares to pay 26.7 percent of its total operating budget. After the tax guaranteed the system a flow of cash, the system reduced rider fares to 14 percent of the total operating budget. This compares to an average of 16 percent for the seven other systems.<sup>8</sup>

Even more striking, the tax allowed the local share of the CATS budget to increase dramatically. In 2005 local funding accounted for 69 percent of the operating costs. This is the highest among the eight transit systems; for the others, local funding accounts for an average of 34.9 percent of the operation costs.<sup>9</sup>

### Recommendations

Ending the half-cent sales tax will force the transit bureaucrats to control costs and reverse these trends. For example, if the system reduced its cost per trip to the \$3.20 average cost per trip of the other seven systems, CATS could carry all of its 2005 ridership (17.8 million) for a total cost of \$57.1 million. This saves almost \$19.4 million of its \$76.5 million 2005 operating costs, a reduction of 25 percent (see Table 4).

Funding this new CATS bus budget without the half-cent sales tax revenue could be accomplished with the following reasonable changes. First, CATS would still have local funds of \$12.9 million without the half-cent sales tax. Second, it is not unreasonable to ask riders to pay more. In 1997, before the tax, riders were paying 26 percent of the total costs. Increasing the riders' share from the current 14 percent of total costs to 25 percent would generate \$14.3 million in revenue for CATS. Third, the state contribution, adjusted proportionally, would be \$8.3 million.

**Table 3. Charlotte bus transit costs compared to bus transit costs in seven other N.C. cities (2005)<sup>7</sup>**

<i>City</i>	<i>Cost*</i> <i>Per Trip</i>	<i>Cost*</i> <i>Per Mile</i>	<i>Cost*</i> <i>Per Hour</i>
<b>Charlotte</b>	<b>\$4.29</b>	<b>\$5.11</b>	<b>\$79.46</b>
Durham	\$3.21	\$5.05	\$72.78
Raleigh	\$2.96	\$5.02	\$66.67
Winston-Salem	\$3.21	\$4.11	\$57.08
Greensboro	\$3.70	\$4.51	\$64.70
Fayetteville	\$2.81	\$3.42	\$52.44
Asheville	\$3.20	\$3.40	\$51.09
Wilmington	\$3.15	\$3.38	\$41.39
Seven-city average (excluding Charlotte)	\$3.20	\$4.37	\$61.14

\* Explanation of costs:  
 Per trip = Operating cost per unlinked (passenger) trip  
 Per mile = Operating cost per vehicle (bus) mile  
 Per hour = Operating cost per vehicle (bus) hour

Finally, the remainder should come from the city budget. Most North Carolina cities fund their own bus systems without designated taxes. They ask their bus systems to justify their worth in the budget process along with all other city departments. Doing so keeps pressure on bus administrators and helps those systems operate efficiently. Thus, CATS should receive \$21.9 million from the city budget. That amount represents only 2.5 percent of the total Charlotte budget.

### Conclusion

The half-cent sales tax money has been an unfortunate distraction. It has distracted the attention of Charlotte's citizens to a light-rail system that has expended vast amounts of money with

little promise of reducing congestion. It has also diverted the Charlotte's bus system onto a path of inefficient operations. It is time for Charlotte to rethink its total transportation needs without the half-cent sales tax.

*Dr. Michael Sanera is Research Director and Local Government Analyst for the John Locke Foundation.*

*Joseph Coletti is Fiscal Policy Analyst for the John Locke Foundation.*

### Notes

1. Bent Flyvbjerg, Mette Skamris, and Soren Bhul, "Understanding Costs of Public Works Projects: Error or Lie?" *Journal of the American Planning Association*, Vol. 68, Number 3, Summer 2002, p. 279. The article also concludes: "The policy implications are clear: legislators, administrators, investors, media representatives, and members of the public who value honest numbers should not trust cost estimates and cost-benefit analyses produced by project promoters and their analysts."
2. Erik Spanberg, "City Is Preparing for a Battle Over Transit Tax," *Charlotte Business Journal*, Feb. 28, 2007; Richard Rubin, "Charlotte Mass Transit Foes Claiming Progress," *Charlotte Observer*, March 8, 2007.
3. *Ibid.*
4. National Transit Database, [www.ntdprogram.gov/ntdprogram/pubs.htm](http://www.ntdprogram.gov/ntdprogram/pubs.htm). For consistency reasons, this report uses this federal government database for the years 1997 and 2005 throughout. NTD's most recent report is for 2005.
5. Greensboro's transit system increased ridership by 65.5 percent between 1997 and 2005. The seven transit systems selected for comparison are: Durham (4087), Raleigh (4007), Winston-Salem (4012), Greensboro (4093), Fayetteville (4009), Asheville (4005), and Wilmington (4006). Numbers are NTD city codes. This report does not include the Triangle Transit Authority, because the TTA receives funding from a dedicated tax. Nor does it include the Chapel Hill transit system, because Chapel Hill's provides free bus service supported by mandatory fees paid by students of the University of North Carolina at Chapel Hill.
6. NTD.
7. NTD.
8. "Making Tracks," Charlotte Area Transit System, Annual Report 2006.
9. NTD.
10. NTD and Charlotte Budget, FY 2006 and FY 2007.

**Table 4. Charlotte Bus System Without Half-Cent Sales Tax Revenues<sup>10</sup>**

2005: 17.8 miles/trip x \$3.20/trip*	<b>\$57.1 million</b>
* \$3.20/trip = 2005 average of 7 N.C. city transit systems	
2005 Fare Revenue (raised to 25% of costs)	\$14.3 million
2005 State Funds**	\$8.3 million
2005 Local funds (minus half-cent sales tax)	\$12.9 million
Other	\$0.2 million
<b>Total</b>	<b>\$35.5 million</b>
2.5% savings from City Budget	\$21.9 million
<b>Total</b>	<b>\$57.4 million</b>
** State funds were revised based on their contribution to non-fare availability.	