



Introduction

Good morning Chairman Hutchison and Members of the Surface Transportation Subcommittee. I am pleased to be here today on behalf of the American Public Transportation Association (APTA) to testify specifically on certain capital cost accounting practices used in the public transportation industry. Consistent with your letter of invitation, I will also highlight other issues, including the importance of ongoing investments in rail infrastructure to a balanced, intermodal transportation system that offers choices to travelers and offers the potential to build a healthy future for America.

About APTA

APTA is a nonprofit international association of over 1,270 member organizations including transit systems; planning, design, construction and finance firms; product and service providers; academic institutions, and state associations and departments of transportation. APTA members serve the public interest by providing safe, efficient and economical transit services and products. Over ninety percent of persons using public transportation in the United States and Canada are served by APTA members.

Public Transportation Use is Growing

Across America, public transportation in general, and commuter rail and rail transit in particular, is in the midst of a rebirth. Because of increasing investment levels made possible through the Transportation Equity Act for the 21st Century (TEA 21) and annual appropriations acts, public transportation ridership is on the rise, a trend likely to continue as many of the 200 new passenger rail projects authorized by TEA 21 take shape.

The latest ridership figures verify a trend of more and more people choosing to use public transportation services. Thanks to Congress's investment in the federal public transportation program, improvements in the transit commuter benefit tax law, a healthy economy, and other factors, an estimated 9 billion transit trips were taken in 1999, the highest ridership in almost forty years. Over the last four years, transit ridership in the United States has grown by 16 percent.

Transportation Options are Needed to Address Traffic Congestion

There is no disputing the fact that traffic congestion in the U.S. has reached epidemic proportions. Problems surround us on weekdays and weekends alike, no matter what time of day. A study released by the Texas Transportation Institute (TTI) confirms our observations: traffic is bad, and is getting worse each year. The study notes that in 1997, congestion cost travelers in 68 urban areas 4.3 billion hours of delay. The financial cost of congestion now exceeds \$72 billion annually, an increase of more than \$6 billion over the previous year. That is the equivalent of \$755 per eligible driver, or \$3 in congestion cost per driver every working day.

While the TTI study advances a number of possible solutions to America's traffic congestion crisis, one of the core proposals to increase mobility is very clear: offer citizens mobility choices. We believe public transportation can and will play an enormous role in doing just that. And such choices should extend to travel *between* cities as well as travel *within* cities.

Capital Cost Accounting: What are the Standard Practices?

I have been asked to comment on how public transportation systems account for certain types of expenses, namely heavy vehicle overhaul and depreciation expenses. More precisely, does the transit industry regard such costs as operating budget expenses or as capital budget expenses?

As President of APTA, I speak broadly on this topic, being reasonably familiar with the practices used by many transit systems across the United States. However, individual public transportation systems may describe or account for expenses differently in accordance with local requirements or law while still adhering to Generally Accepted Accounting Principles (GAAP). I also speak from experience gained while serving thirteen years as Executive Director of Port Authority of Allegheny County, the public transportation system serving Pittsburgh, Pennsylvania, where consideration was continually given to the best way to fund and reflect capital and operating expenses.

How Public Transportation Systems Treat Depreciation

Private sector enterprises account for depreciation primarily to reduce taxable income and to distribute the cost of an asset over its useful life in a systematic manner. Public agencies normally do not pay taxes and thus would not benefit from the first reason. While transit agencies typically include depreciation as an expense in the preparation financial statements audited under GAAP, depreciation expenses are specifically identified as a non-cash item that is excluded from the calculation of operating expenses. In addition, transit agencies generally do not budget for depreciation expenses when the purchase of assets is funded through federal and/or other governmental capital grants (the manner in which the vast majority of transit capital projects are funded).

To offer an illustration, as citizens of Dallas continue to enjoy their new light rail system, the Dallas Area Rapid Transit Authority (DART) does not allocate today's operating dollars to fund future renovations of their system. Any future renovations of the DART system will instead be funded through sources of capital funding that may be available, such as dedicated taxes, capital grants, private financing or creative financing techniques.

Another example will be for the ongoing bus and trolley bus replacement needs in cities such as Fort Worth, Houston, San Antonio and Austin. Rather than accounting for depreciation in each annual operating budget as vehicles age (an accounting practice used in the private sector largely for tax write-offs), the practice in the transit industry is to fund such capital investments through separate funding sources available for capital projects. This allows the operating budget to reflect the costs of operating the system, rather than longer-term capital costs.

How Public Transportation Systems Treat Vehicle Overhauls

The Federal Transit Administration's definitions of capital funding clearly allow for heavy overhauls, i.e., the replacement of major components of rolling stock. Since 1987, the federal public transportation program has regarded vehicle overhauls as an eligible and desirable capital activity. This program recognizes that the various sub-components of a rail vehicle generally have a useful life of much less than the twenty-five or more

year useful life of the vehicle.

Further, during my years in Pennsylvania, I worked extensively with the Pennsylvania Department of Transportation and the Pennsylvania State Legislature to come up with a reasonable way to pay for vehicle overhauls. That dialogue was based on two fundamental principles: (1) that strategic vehicle overhauls serve to extend the life of vehicles, and thus help to maximize the benefit of the public investment in that vehicle, and (2) that periodic “heavy maintenance” activities serve to significantly improve vehicle reliability, reduce equipment breakdowns and the associated customer inconvenience, and satisfy important “preventive maintenance” objectives. Pennsylvania chose to fund a public transportation vehicle overhaul program as a part of the state’s capital budget.

Evolving Public Policies

Public transportation is not the only surface transportation mode which handles major overhauls in this manner. I call to your attention that the federal highway program has taken significant steps in recent years to include certain maintenance costs as eligible activities for capital funding. The Intermodal Surface Transportation Efficiency Act of 1991 (ISTEA) began to allow flexibility in the use of funds for certain preventive maintenance activities, such as bridge painting, and established “Interstate Maintenance” as an eligible capital program.

Using another Pennsylvania example, only about 10-20 percent of the Pennsylvania Department of Transportation’s recent highway capital budgets have gone toward the construction of new roads, with the large majority of the budget going to restoration and rehabilitation programs intended to make the existing system work better. Pennsylvania, and the federal highway program as well, are redefining the distinctions between capital and operating costs to reflect these “maintenance first” policies.

Conclusion

Chairman Hutchison, I hope this information is helpful to the Subcommittee in its deliberations on this matter. Although public transportation agencies may use different methods of accounting for depreciation and vehicle overhaul expenses under GAAP, two conclusions are clear: (1) while public transportation agencies may report depreciation as a non-cash expense item in their operating statement, they generally do not budget depreciation for assets that are government funded, and for which replacement is expected to be government funded, and (2) many transit agencies fund heavy overhauls with capital funds received from a variety of governmental sources.

I thank you for the invitation to testify before the Surface Transportation Subcommittee. I would be happy to answer any questions that the Subcommittee may have today, or at any time subsequently.