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# SURFACE TRANSPORTATION

# Federal and State Efforts to Support Declining Intercity Bus Service

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Mr. Chairman and Members of the Subcommittee:

We appreciate the opportunity to testify on the availability of intercity bus service. In June 1992 we reported to you on the continuing decline in intercity bus service, the social and economic implications of this decline, and state and federal efforts to support intercity bus service.[1] Our testimony today summarizes our findings and updates some of the information presented in our report.

Our basic points are as follows:

-- Since the Bus Regulatory Reform Act of 1982, nearly 7,000 locations have lost intercity bus service. This act gave bus firms greater freedom to set fares, enter markets, and discontinue unprofitable service. However, the conditions have continued that led to reduced bus ridership--increased competition from air and rail transportation and increased car ownership.

-- Most bus routes that had been eliminated connected small, geographically isolated rural communities that were generally without passenger rail or air service. Although evidence is limited, it suggests that the reduction in service has been felt most by people who are least able to afford and least likely to have access to alternative transportation. While local public transit services meet some needs, these services are available in only 60 percent of rural and small urban counties. Furthermore, the extent to which these services replace lost intercity bus service is unknown.

-- In our 1992 report, we identified 20 states that had established programs to support intercity bus service. The states' efforts to expand intercity bus transportation may have been facilitated by the Intermodal Surface Transportation Efficiency Act of 1991 (ISTEA), which set aside federal grant funds for intercity bus transportation needs.[2] In fiscal year 1992, 22 states had programmed the funds. Thirteen of these states had no intercity bus program when we reported to you last year. The remaining states, however, have not decided how to use their funds or have determined that their needs are being met and they do not plan to use the funds for intercity bus service.

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[1] Surface Transportation: Availability of Intercity Bus Service Continues to Decline (GAO/RCED-92-126, June 22, 1992).

[2] P.L. 102-240, sect. 3023.

-- We identified several factors that could limit the use of the set-aside funds and made several recommendations to the Federal Transit Administration (FTA). Feeder service, provided by local transit agencies transporting people to intercity bus stops, has enhanced access to bus service in some remote rural areas. At the time of our review, it was not clear what aspects of this service were eligible for the set-aside funds. Therefore, we recommended that FTA clarify specific aspects of feeder service that would be eligible. To ensure that the set-aside funds go to areas that are most in need of intercity bus service, we also recommended that FTA allow states to use the funds for needs assessments. Finally, we found that the labor protection provision of the act--section 13(c) of the Federal Transit Act--could delay the release of transit funds to states and could result in costs to states or bus firms that would constrain them from using the set-aside funds. Therefore, we recommended that FTA monitor the situation and resolve any problems that arose. FTA has been responsive to all of our recommendations.

## INTERCITY BUS SERVICE HAS DECLINED SIGNIFICANTLY SINCE THE INDUSTRY WAS DEREGULATED

Traditionally, the intercity bus industry has played a significant role in connecting the nation's small towns and rural communities to larger urban areas and to each other. For more than 40 years, however, the industry has been in decline as ridership losses and increasing operating costs led to declining profits. Rising automobile use and increased competition from rail and air transportation made it difficult for the bus industry to retain ridership, especially in the 1970s and 1980s following the formation of Amtrak in 1971 and deregulation of the airline industry in 1978.

To adapt to the changing competitive environment, the bus industry needed to reduce costs and become more efficient. Prior to 1982, however, federal and state regulation made this difficult. The Motor Carrier Act of 1935 gave the Interstate Commerce Commission (ICC) the authority to regulate fares and grant operating authority for bus services on interstate routes. In addition, many states regulated intercity bus fares and service on intrastate routes. To maintain the right to operate over the more profitable routes, intercity bus firms often had to serve unprofitable routes. Revenues from the profitable services were used to cross-subsidize money-losing routes. As industry profits fell, existing federal and state regulations made it difficult for bus firms to abandon unprofitable routes or adjust fares.

In response to the decline of the intercity bus industry, the Congress enacted the Bus Regulatory Reform Act of 1982. This act reduced the roles of the ICC and state agencies in regulating the industry and gave bus firms greater freedom to set fares, enter markets, and discontinue unprofitable service.

Although the 1982 act provided regulatory relief, intercity bus companies operating regular routes have continued to experience declining profits, a loss of passengers, and a shrinking share of the intercity travel market. Ridership on scheduled intercity buses has declined, profits have been low or non-existent, and bus firms have failed. Today, the industry is dominated by Greyhound--the only remaining nationwide provider of scheduled, regular-route intercity bus service.[3] The rest of the industry consists of much smaller, regional firms.[4]

Despite its dominant industry position, Greyhound faces problems that include a continuing strike by its drivers that began in 1990 as well as financial problems that led the firm to be placed under chapter 11 bankruptcy protection from June 1990 through October 1991. In addition, a group of smaller, regional bus firms have filed complaints with the ICC charging Greyhound with anticompetitive practices that could further erode the availability of intercity bus service.

This instability in the industry has contributed to the problems of declining intercity bus service. Intercity bus companies have eliminated scheduled service on many unprofitable routes and downgraded service on others in response to falling demand and worsening finances. In our 1992 report, we noted that as of November 1991 intercity buses served 5,690 locations compared with almost 12,000 in 1982, a 52-percent decline. By January 1993, the number of locations served had fallen further to 5,160. Most of the lost service has been in rural areas. A relatively large portion of the drop in service since our 1992 report occurred in Wisconsin, which had bus service at 211 locations in November 1991 and at only 133 locations in January 1993.

In some cases, entire routes have been abandoned, leaving large areas without service, especially in sparsely populated midwestern and western states. For example, large sections of North Dakota no longer have intercity bus service. In 1979, 668 locations in North Dakota had intercity bus service; by 1991, only 129 locations had service. While some communities lost all bus

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[3]Greyhound purchased Trailways in 1987. Greyhound now dominates the industry with 75 percent of revenues and 43 percent of the passengers.

[4]Twenty other class I bus firms provide mainly regular-route bus service in specific regions. The ICC defines class I motor carriers of passengers as having average annual gross revenues of $5 million or more from passenger motor carrier operations.

service, others were served by fewer routes to fewer destinations. As routes were abandoned, some riders had less direct service to some destinations. For example, in 1982 Greyhound offered direct service from Columbus to Grand Island, Nebraska, a city located almost directly to the southwest. Since this bus route was abandoned in 1987, bus riders have had to go east to Omaha and then back southwest to get to Grand Island. A trip that used to take 1-1/2 hours now takes 6-1/2 hours, and the round trip can no longer be made in 1 day.

## REDUCED BUS SERVICE AFFECTS THOSE WITH LEAST ACCESS TO TRANSPORTATION ALTERNATIVES

Although the decline in intercity bus service is undisputed, the social significance and economic impacts of the decline are difficult to assess. Data on the number of people affected by service abandonments and the nature of this effect are scant. Nevertheless, the limited evidence available suggests that the riders who have lost service are those least able to afford and least likely to have access to alternative transportation. For example, a 1991 passenger survey by Greyhound found that 46 percent of its passengers had household incomes of $15,000 or less per year.[5] By comparison, only 24 percent of all households nationwide had incomes under $15,000.

While transit services in rural and small urban areas meet some needs, it is not clear that these services fulfill the same needs that intercity bus service once did. The Community Transportation Association of America[6] estimated in 1990 that 40 percent of the nonmetropolitan counties across the nation do not have any public transportation. Even where public transportation exists, the extent and type of service available varies. In some counties only major towns are served. For example, our prior work found that 22 counties in rural Minnesota had no public transit service, and 22 others had public transit services in only a few major towns. With no bus or public transit service, a car may be the only transportation alternative, except for clients of a social service agency that provides transportation.

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[5]Greyhound On Board Passenger Survey, Apr. 1991.

[6]The Community Transportation Association of America is a national organization that provides advocacy for and technical assistance to rural transportation operators.

## STATES' EFFORTS TO IMPROVE INTERCITY BUS SERVICE SHOULD BE ENHANCED BY THE 1991 ACT

Recognizing these unmet intercity transportation needs, a number of states have ongoing efforts to maintain or support intercity bus service and these efforts seem to be enhanced by funds set aside by the Intermodal Surface Transportation Efficiency Act to support intercity bus service. To identify state activities, we surveyed transportation officials in all 50 states. Our survey found 20 states that are funding activities to support intercity bus transportation.[7] These programs include subsidies to (1) support continued operations over specific routes, (2) provide carriers with new vehicles at reduced cost, and (3) finance terminal construction or rehabilitation. The purpose of many of these programs has been to support service on routes that might otherwise be abandoned or to make existing bus service more accessible, such as by building intermodal terminals. Both states and localities have also aided the bus industry and its ridership in other ways, such as through marketing and technical assistance programs.

State and private entities have also tried to enhance access to intercity bus service in rural areas by encouraging local transit agencies to provide connecting or feeder services to intercity bus stops. The transit services, available in approximately 60 percent of the rural and small urban counties nationwide, meet many transit needs. Such services, which sometimes cover several counties, can also provide transportation to intercity bus terminals. These connecting services may effectively substitute for direct intercity bus service for communities not on main routes. They may also be more cost-effective than intercity bus service on sparsely traveled routes because the rural and small urban transit agencies operate smaller buses and vans.

Recognizing the potential advantages of such coordination, Greyhound and the Community Transportation Association of America initiated the Rural Connection Program in 1987. Transit providers participating in this program transport people between unserved areas and designated bus terminals. Although the program has since been discontinued, as of December 1991, this program included 73 transit providers serving over 850 communities in 20 states.

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[7]These states are Arizona, California, Delaware, Iowa, Maine, Maryland, Massachusetts, Michigan, Nebraska, Nevada, New Jersey, New York, North Carolina, North Dakota, Oregon, Pennsylvania, Rhode Island, Texas, Vermont, and Wisconsin. Activities to support intercity bus service in these states are funded by a variety of federal, state, and local sources.

The Intermodal Surface Transportation Efficiency Act appears to be facilitating state efforts to assist the intercity bus industry. The act requires each state to set aside a portion of its nonurban transportation grant funds (section 18 of the Federal Transit Act[8]) to develop and support intercity bus transportation. States must spend at least 5 percent of their section 18 funds for intercity bus service in fiscal year 1992, 10 percent in fiscal year 1993, and 15 percent in subsequent years. However, a state is excused from this requirement if the governor certifies that the state's intercity bus needs are being met. In making this certification, the governor may assess intercity bus needs relative to other rural needs of the state.

Nationwide, section 18 authorizes over $122 million to be set aside for intercity bus service for fiscal years 1992 through 1997. For fiscal year 1992, the Department of Transportation (DOT) apportioned over $106 million for section 18, which would result in a set-aside of about $5.3 million for intercity bus service. For the current fiscal year DOT apportioned over $91 million for section 18, which results in a set-aside of about $9 million.

The act gives states wide latitude in determining how to spend the section 18 allocation. The funds can be used for operating assistance, terminal development projects, and coordination between small transit operators and intercity bus carriers. Such flexibility will allow states to develop their own approaches to meeting intercity bus service needs. In fiscal year 1992, 22 states programmed section 18 set-aside funds for a variety of intercity bus needs (see app. I). They programmed more than $500,000 for capital projects, which include building or remodeling terminals; about $1.5 million for operating assistance; over $300,000 for planning assistance; and about $100,000 for other purposes, which include project administration and other state administrative activities. States have placed an additional $2.7 million in reserve until they decide how or if they want to allocate the money. In fiscal year 1992, only four states certified that their intercity bus needs were being met and that they did not intend to use the set-aside funds for intercity bus service.[9] However, 24 states have not decided how to use their funds and have not programmed any set-aside funds. Some of these states may eventually certify that their needs are being met--they have 3 years to do so--and not use the funds for intercity bus service.

It is important to recognize that more states are providing assistance to support intercity bus service as a result of the act. Thirteen of the 22 states that programmed fiscal year 1992 ISTEA

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[8]Formerly called the Urban Mass Transportation Act of 1964.

[9]These states were Maryland, Missouri, Texas, and West Virginia.

funds for intercity bus use were not providing assistance to support intercity bus service when we conducted our earlier review.[10] For example, Kansas, which did not previously provide assistance for intercity bus service, now plans to use section 18 grants to fund van service between Belleville and Salina, a distance of about 75 miles. The route was abandoned several years ago by Greyhound.

## FTA CLARIFIED ACTIVITIES ELIGIBLE FOR ASSISTANCE AND AGREED TO MONITOR LABOR PROTECTION PROVISION

Our earlier work revealed several issues that could limit using the set-aside funds to support intercity bus service, and we made several recommendations to FTA to address these issues as it developed guidance to implement the section 18 set-aside. FTA issued program guidance in November 1992 and has been responsive to our recommendations.

Feeder service, provided by local transit agencies transporting people to intercity bus stops, has enhanced access to bus service in some remote rural areas and may be more cost-effective than intercity bus service on sparsely travelled routes. When we issued our report, however, it was not clear what aspects of feeder service would be eligible for the set-aside funds. We recommended that FTA clearly state the specific aspects of the arrangements between rural connection providers and intercity bus carriers that count toward meeting the set-aside and to specifically include marketing efforts and extended hours of service, which were found to enhance the effectiveness of these activities.[11] FTA followed our recommendation and in program guidance explicitly defined these and other aspects of feeder service that can be funded by the set-aside grants.

Since scant data existed on the effects of declining intercity bus service, we also recommended that states be allowed to use the set-aside funds to gather data to identify intercity bus needs. FTA agreed that this activity was eligible for funding. In fiscal year 1992, five states programmed some section 18 funds for planning. Florida is using its entire 1992 set-aside to study the state's intercity bus needs.

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[10]The following states obligated 1992 funds for intercity bus service but did not have intercity bus programs when we conducted our prior review: Alaska, Arkansas, Florida, Hawaii, Idaho, Illinois, Kansas, Kentucky, Minnesota, Mississippi, South Dakota, Washington, and Wyoming.

[11]Frederic Fravel, Elisabeth Hayes, and Kenneth Hosen, The Intercity Bus Feeder Project Program Analysis, (Bethesda, Md.: Ecosometrics, Inc., 1990).

We also reported that federal labor protection requirements might discourage some states from using section 18 funds to assist the intercity bus industry. Section 13(c) of the Federal Transit Act requires the Secretary of Labor to ensure that the employment status and benefits of transit employees are not harmed as a result of assistance under the act. For example, using section 18 funds to replace service on a route that an intercity carrier planned to drop could result in the replacement carrier's having to pay salary and benefits equal to those paid by the previous carrier. Doing so could be cost-prohibitive and could thus discourage states from using section 18 funds for this purpose. Section 13(c) requirements could be an obstacle to using federal transit funds because the requirements may delay the release of transit funds and because the state or carrier may incur costs as a result of the labor protection provisions.

Our final recommendation was for FTA to assess whether section 13(c) did, in fact, pose a barrier to using the set-aside funds. If so, we recommended that FTA work with the Department of Labor to resolve any problems. The Department of Transportation agreed to monitor the situation and to work with the Department of Labor to resolve any concerns that arise. So far, section 13(c) does not seem to have caused problems with using the set-aside funds. We do not know of any instance in which the labor provision is preventing states from using the section 18 funds for intercity bus service.

## CONCLUSIONS

Since regulatory reform of the intercity bus industry in 1982, about 7,000 locations have lost bus service. Most of these locations are in small rural towns without any other public transportation. The limited evidence available suggests that the riders who have been losing service are those least able to afford and least likely to have access to alternative transportation.

Many states have provided funds to prevent further deterioration or elimination of intercity bus service. Furthermore, states' efforts to expand intercity bus transportation may have been facilitated by the section 18 set-aside. FTA's guidance on implementing the set-aside allows the states flexibility to develop their own approaches to meeting intercity bus needs and allows states to use the funds to collect information to better understand the effect of declining service and develop appropriate responses. Continued federal support will help states to ensure the availability of intercity bus service where it is needed most.

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Mr. Chairman, that concludes our testimony. We would be happy to respond to any questions you or the Subcommittee might have.

STATE OBLIGATIONS FOR INTERCITY BUS PROJECTS UNDER THE INTERMODAL SURFACE TRANSPORTATION EFFICIENCY ACT, FISCAL YEAR 1992

| State | Capital projects | Operating assistance | Planning assistance | Other[a] |
|---|---|---|---|---|
| Alaska | b | $19,038 | b | b |
| Arizona | b | 77,000 | $20,000 | $ 38,000 |
| Arkansas | b | 77,066 | b | 25,000 |
| Florida | b | b | 160,140 | b |
| Hawaii | b | b | b | 20,951 |
| Idaho | b | 48,267 | b | b |
| Illinois | b | 168,600 | b | b |
| Iowa | b | 106,406 | b | b |
| Kansas | $35,000 | 49,643 | b | b |
| Kentucky | 60,000 | 79,726 | b | b |
| Maine | b | 60,000 | b | b |
| Massachusetts | 50,000 | b | 20,000 | b |
| Michigan | 202,057 | b | b | b |
| Minnesota | b | 272,845 | b | b |
| Mississippi | b | 96,446 | b | b |
| Nebraska | 6,000 | b | b | 7,000 |
| Nevada | b | b | 11,000 | 9,734 |
| North Dakota | b | 28,850 | b | b |
| South Dakota | b | 30,866 | b | b |
| Washington | 180,600 | b | b | b |
| Wisconsin | b | 398,401 | b | b |
| Wyoming | b | b | 19,694 | b |
| Total | $533,657 | $1,513,154 | $311,834 | $100,685 |

[a]Includes project administration and state administration.

[b]No funds obligated.

Note: States have placed an additional $2,736,189 in reserve until they decide how they wish to allocate the money.

Source: DOT.

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