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Virginia, Washington and Arizona struggle to close budget gaps

States hit hard by economic downturn
October 10, 2008

Just months after slashing \$1.1 billion in road and transit projects from the state's six-year transportation spending plan, Virginia officials say the state's fiscal situation is so bad that they will have to hold a special meeting to cut even more.

The Commonwealth Transportation Board will meet in November or December to revisit the plan, The Washington Post reported. Estimates show a shortfall in the maintenance fund of \$740 million over six years. Under state law, maintenance projects receive priority over new construction, so planned capital improvements will have to be delayed to shore up the maintenance account. Virginia also must come up with \$50 million a year in dedicated funding for the Washington Metropolitan Area Transit Authority under the terms of legislation approved by Congress last week that authorizes \$150 million a year in federal funds that have to be matched equally by Virginia, Maryland and the District of Columbia.

Virginia relies on gasoline, motor-vehicle sales, license, and registration taxes to fund transportation. Gas-tax collections are at a 20-year low, according to the board, while the number of vehicles sold is forecast to drop. The average price of a newly registered vehicle has also tanked.

"Nobody considered the dive in car sales and the types of car sales," said Deputy Transportation Secretary Barbara Reese, noting the plummeting sales of pricey and fuel inefficient sport utility vehicles. "SUVs are more expensive than passenger cars. Cheaper cars mean less taxes."

Other states are resorting to cost-cutting measures including four-day workweeks. Some offices in Washington state began compressed work schedules this week with four 10-hour shifts instead of the typical five 8-hour shifts. The Department of Community Trade & Economic Development is among those agencies that will close Fridays to save on energy costs, the *News Tribune* reported. The schedule change came in response to an order by Gov. Chris Gregoire for agencies to trim operating costs by 1% and freeze hiring.

Arizona Gov. Janet Napolitano vowed Wednesday to freeze all state contracts larger than \$50,000 until they can be reviewed. Napolitano said the state must "ensure we are only spending what is mission-critical this year," the *Arizona Republic* reported.

With its depressed housing market, Arizona has been particularly hard-hit by the national economic downturn. Legislative budget officials have said the state shortfall for this fiscal year could range between \$550 million and \$1 billion. That would come on top of a nearly \$2 billion shortfall that legislators closed last spring.

Source: AASHTO October 10, 2008

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New York conference examines future transportation funding methods

Seminar held to look at future options for transportation financing
October 10, 2008

The New York State Department of Transportation sponsored a seminar titled "Beyond the Gas Tax" the week of Oct. 6 to look at future options for financing surface transportation.

NYSDOT, in conjunction with a university transportation center, offered a half-day session to look at current finances and options of the future apart from fuel taxes. Topics included "The Federal Transportation Revenue Situation and How to Address It," "The Federal Revenue Situation and Options—A Perspective from the Financial Community" and "Tying Together Transportation and Energy Policy."

In her opening remarks, NYSDOT Commissioner Astrid Glynn emphasized the need for substantially increased spending but recognized the challenges in the current budget environment that states face. She further emphasized the challenges the transportation sector will face and the need to make the necessary investments for the future.

Emil Frankel, former Connecticut transportation commissioner and assistant secretary for transportation policy for the U.S. Department of Transportation, said in his keynote address that the nation needs to increase transportation investment while assuring greater accountability through performance measures. He pointed out the likelihood that states and the federal government will shift transportation revenue sources from gas taxes to user fees.

Source: AASHTO October 10, 2008

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FHWA warns about the need for new revenue source

October 7, 2008

A spokesman for the Federal Highway Administration (FHWA) has warned about the need for a new revenue source to maintain U.S. roadways.

Doug Hecox said that Americans have driven 62 billion miles less than they did over the same period a year earlier. He said the problem is that the current financing system relies so heavily on conventional motor fuel sales that as Americans drive less and purchase less fuel, there is less revenue going into the highway trust fund to maintain the roads.

"As Americans are driving less, they're actually giving less money to the states with which to keep highways safe," Hecox said. "As Americans are finding new ways to avoid going to the gas stations, I mean finding increasing or radically increased fuel efficiency through hybrid cars or the electric cars we hear are just about ready to come out of Detroit, that condition is only going to worsen."

Hecox said lawmakers will have to work hard to reform highway finance and figure out a new revenue source for the trust fund, otherwise state DOTs will struggle to keep up with demand.

Source: *Wisconsin Radio Network* October 7, 2008

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U.S. DOT announces new plan to reduce traffic on congested roadways

Plan involves creating new marine highways
October 9, 2008

The federal government will establish a new national network of marine highways to help move cargo across the country in order to cut congestion on some of the nation's busiest highways, announced U.S. Deputy Secretary of Transportation Thomas Barrett Oct. 9.

The Department's "Marine Highways" initiative calls for the selection and designation of key maritime inland and coastal maritime corridors as marine highways, the Admiral said. These routes will be eligible for up to \$25 million in existing federal capital construction funds, he noted, and ensures that these communities will continue to qualify for up to \$1.7 billion in federal highway congestion mitigation and air quality (CMAQ) funds.

"This initiative does more than simply add new lines to a map," said Deputy Secretary Barrett. "It makes our roads safer, expands our capacity for moving goods and reflects the kind of 21st-century innovation we are going to need to be competitive in today's global marketplace."

The Deputy Secretary noted that the initiative makes it easier for companies to take advantage of the new maritime routes by providing businesses with assistance in locating shippers willing to move goods by water.

"These highways have no stoplights, traffic or potholes," said Barrett. "Sometimes transportation solutions require new concrete, but other times the answer is as simple as using existing water."

Admiral Barrett announced the new initiative, which is outlined in an interim final rule, during a visit to the Norfolk, Va.-based James River Barge Line. The new service plans to move cargo up the James River to Richmond, shifting more than 4,000 trucks-worth of cargo off nearby I-64 and onto the waterway.

Deputy Secretary Barrett said the interim final rule is available for review at [Maritime Administration](#) and would go into effect after a 120-day comment period.

Source: *U.S. DOT* October 9, 2008

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Tax Supported
Special Report

The Effect of U.S. Surface Transportation Funding Challenges on GARVEE Bonds

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Summary

The ability to leverage federal highway and transit grant funding to accelerate the delivery of infrastructure improvements has been a valuable tool available to states over the course of the last decade. Given the limitations on available funds at both the federal and state level, grant anticipation revenue vehicles (GARVEEs) have been taken advantage of by states to differing degrees — in some cases, to marginally supplement investment while maintaining a reasonable amount of flexibility to continue regular infrastructure maintenance, rehabilitation, and investment in future years. In almost every instance, states have entered into GARVEE borrowing programs with the knowledge that the existing funding paradigm was unsustainable. Credit quality has largely been driven by the long history of the program, the strength of the pledge, legal covenants to create an effective first lien on reimbursements or obligation authority, and programmatic administrative precedent. Recent announcements from the Federal Highway Administration (FHWA) on the financial condition of the highway trust fund (HTF) and the need for administrative changes in long-held reimbursement processes have raised new concerns. On the other hand, timely legislative and executive actions to forestall near-term payment interruptions reinforce some long-assumed credit underpinnings.

The transfer of \$8.017 billion in general fund resources to the HTF is clearly a positive action for state departments of transportation (DOTs) and for GARVEE bondholders that both solves the near-term cash crunch and underscores the relative importance of the highway program in the Federal budget, which is a key credit factor. However, the transfer is a very short-term fix that provides policymakers up to a year to find a longer term solution. The U.S. Senate and House of Representatives passed bills that would transfer \$8.017 billion from the general fund to the HTF on Sept. 10 and Sept. 12, respectively. The president signed the bill on Sept. 15. Absent such an emergency transfer, the FHWA was anticipating the need to implement a significant slowdown in reimbursement rates to state DOTs, as the HTF balance has evaporated due to a combination of past spending increases and reduced fuel consumption. The transfer to the HTF has allowed the FHWA to reinstate daily reimbursements, meaning that state DOTs can resume the normal billing process.

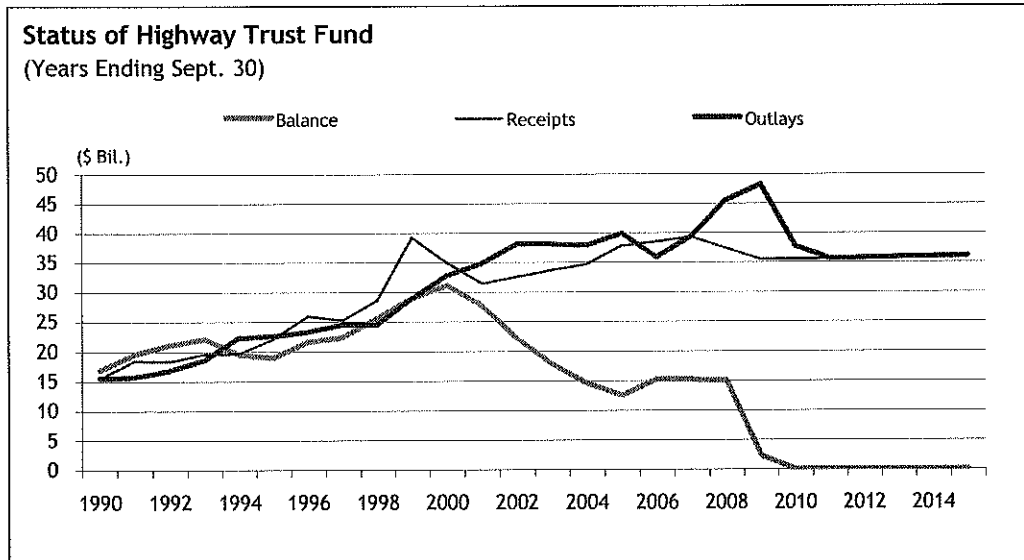
Fitch Ratings will continue to monitor the status of the HTF balance and the development of legislative proposals to reauthorize the program and the gas tax that supports it. In addition, Fitch will also be contacting state DOTs to determine what administrative procedures will be necessary should the FHWA need to slow the reimbursement timing and the reimbursement rate, especially with respect to direct-pay GARVEEs, which are more dependent upon timely administrative action. Estimates vary on how long the current HTF balance will last before FHWA moves to a pay-as-you-go reimbursement, but one thing is definite — absent a change to the HTF program, DOTs with GARVEE bonds will need to make adjustments in their cash flow management.

With the current surface transportation program — the Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users (SAFETEA-LU) — expiring on Sept. 30, 2009, timely action on thorny political issues will be required through what now portends to be difficult economic times. The next authorization will likely prove challenging given the need to make tough decisions on gas tax levels, the federal role in funding surface transportation, and the role of the private sector. Should gas tax collections remain at current levels, the HTF program will not achieve the increases seen over the past 12 years. In fact, given the resurgence in public transportation ridership, there could be political pressure to provide a larger allocation to the mass transit account.

What Does This Mean for GARVEE Bonds and Other Bonds with a Similar Pledge?

In Fitch’s view, the cash flow problems experienced by the FHWA are likely to return prior to the end of federal fiscal year (FFY) 2009 or early in FFY 2010 barring a major move by a new congress and administration to enact successor legislation. Without a gas tax in excess of what is needed by the program, it is unlikely that a balance in the fund will begin to build, meaning that there will be little to no cushion to deal with short-term declines in gas tax collections and that disbursements to states will be made on a pay-as-you-go basis from the biweekly deposits of gas tax collections into the HTF. There is also the potential for full reimbursement to take place over a longer period of time than the two-week reimbursement rate that FHWA was considering in September (80% one week later and 20% the second week). Under such a scenario, direct-pay GARVEE bonds would be more exposed to timing risk than those with a reimbursement structure or a back-up pledge of state resources.

All 50 states receive funds from the HTF. However, not all states have levered their federal dollars. Immediately prior to the FHWA’s move to weekly reimbursements it proactively held a call with the states to announce the change. Fitch understands that states indicated to the FHWA that debt service needed to be a priority. While such a stance is important, there are more than 20 states that have not levered federal funds and from an equity standpoint it may be difficult for the FHWA to prioritize allocations to those states with GARVEE bonds at the cost of those who have not levered their federal funds.



The chart on page 2 shows historical and projected deposits and outlays and the balance of the HTF. The projections reflect Office of Management and Budget (OMB) assumptions for outlays through FFY 2009, the last year that estimates are available. A hypothetical Fitch scenario that assumes no major change in funding levels through an economic crisis indicates the following possibilities: receipts for FFY 2008 reflect a 5.0% reduction from FFY 2007 plus the \$8.017 billion transfer; receipts for FFY 2009 are also projected to decline by 5.0% , reflecting continued economic pressure and the related effect on fuel consumption and other activities that drive tax receipts; outlays are constrained to estimated receipts given no estimated balance; and receipts for FFY 2010–2015 grow at 0.33%, which is the compound annual growth rate of HTF receipts over the 1990–2007 period.

The spending increases provided by TEA-21 and SAFETEA-LU have resulted in outlays exceeding receipts beginning in 2001. When the balance in the HTF is gone in 2010, outlays are restrained to current collections, meaning that actual cash to DOTs drops by more than 20% to \$31 billion — a level last seen in the early part of the decade. Given the long-term nature of construction projects and the fact that reimbursements parallel spending, the actual reimbursement for work will tend to occur several years after the obligation of those funds. Estimates indicate that 65%–75% of obligation authority will actually be disbursed in the first two years, with the remaining funds disbursed over another two to three years. This spending pattern, coupled with the recent increases in the program, has resulted in a wave of reimbursements for prior work that can be seen in the spike in outlays beginning in FFY 2006. Given the limited balance in the HTF, DOTs could see a significant reduction in the obligation authority provided for new projects as HTF receipts must first be used to liquidate prior obligations. As prior obligations get liquidated, room for new projects will be created. Fortunately, GARVEE bonds are secured by both obligation authority and actual receipts. Total GARVEE debt service in 2009 is estimated to be approximately \$970 million. The table below shows historical and projected activity in the highway and mass transit accounts of the HTF.

Status of Federal Highway Trust Fund

(\$ Bil., Years Ending Sept. 30)

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Highway Account SOY Balance	19.21	22.55	20.37	16.14	12.99	10.81	10.59	10.38	17.50	10.80	0.71	0.00	0.00	0.00	0.00	0.00
Receipts	30.35	26.92	27.98	28.96	29.79	32.91	33.70	34.31	32.59	30.96	30.96	31.07	31.17	31.27	31.38	31.48
Outlays	27.00	29.10	32.22	32.11	31.97	33.12	33.91	35.21	39.30	41.05	31.67	31.07	31.17	31.27	31.38	31.48
EOY Balance	22.55	20.37	16.14	12.99	10.81	10.59	10.38	9.48	10.80	0.71	0.00	0.00	0.00	0.00	0.00	0.00
Transit Account SOY Balance	9.75	8.55	7.37	6.10	4.82	3.78	1.95	4.86	5.70	4.25	1.56	0.00	0.00	0.00	0.00	0.00
Receipts	4.63	4.55	4.62	4.76	4.93	4.98	4.86	5.05	4.80	4.56	4.56	4.58	4.59	4.61	4.62	4.64
Outlays	5.83	5.73	5.89	6.04	5.97	6.81	1.95	4.21	6.26	7.25	6.12	4.58	4.59	4.61	4.62	4.64
EOY Balance	8.55	7.37	6.10	4.82	3.78	1.95	4.86	5.70	4.25	1.56	0.00	0.00	0.00	0.00	0.00	0.00
Total HTF SOY Balance	28.96	31.10	27.74	22.23	17.81	14.58	12.55	15.24	23.20	15.04	2.27	0.00	0.00	0.00	0.00	0.00
Receipts	34.97	31.47	32.60	33.73	34.71	37.89	38.56	39.36	37.40	35.53	35.53	35.64	35.76	35.88	36.00	36.12
Outlays	32.83	34.83	38.11	38.14	37.94	39.93	35.86	39.42	45.56	48.30	37.79	35.64	35.76	35.88	36.00	36.12
EOY Balance	31.10	27.74	22.23	17.81	14.58	12.55	15.24	15.18	15.04	2.27	0.00	0.00	0.00	0.00	0.00	0.00

SOY — Start of federal fiscal year. EOY — End of federal fiscal year. HTF — Highway trust fund. Note: Numbers may not add due to rounding.

Typical GARVEE Structures

There are three types of GARVEE bonds that have been issued: direct-pay; reimbursement; and those with a back-up pledge of state resources. In Fitch's view, the temporary move by the FHWA from daily reimbursement to weekly reimbursement and the potential for a reimbursement rate of 80% indicates that direct-pay GARVEE bonds may have more risk relative to their brethren given that, in such a situation, full and timely payment is even

more dependent upon timely action and careful cash management by state DOTs. While direct-pay GARVEE structures include a covenant by state DOTs to de-obligate funds, this is only beneficial if there are funds in the HTF, and there is sufficient time to make the administrative adjustments. According to the FHWA, a zero cash balance was a real possibility absent the \$8.017 billion transfer. If this were to occur, a state would need to produce grossed up billing no later than one week before debt service, such that the 80% reimbursement would cover debt service. Alternatively, the state could take federal funds already received and slated for one federal project and redirect them for debt service, with reimbursement for the project coming at least one week later. While this risk is manageable, it will affect progress on other projects and does require close coordination. Variable reimbursement timing and reimbursement rates throughout the year pose an even bigger challenge.

In the case of reimbursement GARVEEs, a one-sixth and ¹/₁₂th monthly set-aside is generally included in the cash waterfall, which provides stronger bondholder security as required deposits happen on a monthly basis and would require smaller, but more frequent redirections by state DOTs. Under this structure, states also have the added flexibility of redirecting funds from both federally eligible and state projects.

The bonds with a back-up pledge are the least exposed to such timing issues as state funds are legally pledged and established mechanisms under the indenture could be redirected in a timely fashion. Those with a debt service reserve fund are much less dependent on timely administrative action, but there are only a few GARVEE bonds with this structure in place.

Future Administrative Challenges for State DOTs

The current authorization (SAFETEA-LU) will expire on Sept. 30, 2009, and the 18.4-cent federal gas tax expires Sept. 30, 2011. While the policy pressures for a larger program and a rebalanced allocation formula are not any worse than before, there is one key difference: the balance of the HTF. In past years, the size of the balance allowed for extensions and increases without a change in the fuel tax. Towards the end of FFY 2009 the combination of a weak economy and fuel prices could result in a balance that requires FHWA to re-institute the weekly reimbursement and an 80% reimbursement rate.

The increased cash flow pressure state DOTs are facing to make timely debt payments for GARVEE bonds and fund all other obligations is likely to have adverse implications for state programs either in the form of reduced spending for new projects or in the deferral of major maintenance. If there is no cash balance at the federal level, states will need to create their own to smooth out and limit reallocations, which can be difficult programmatically over a sustained period of time. As a result, state DOTs face the potential for declining or slower federal sources, declining state gas tax collections, and a more constrained cash flow position at a time when the condition of U.S. infrastructure is seen by many to be in a state of crisis.

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Curing Congestion: Variable Toll Pricing Gets Cars Off the Road

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Jessica A. Knoblauch
Our Planet

Across the country, air quality in big cities suffers from an onslaught of daily commuters in cars. Some government officials are tackling traffic congestion head on. New York Mayor Michael Bloomberg introduced a congestion pricing plan last year that would have discouraged automobile use and encouraged commuters to bike, walk or use mass transit. Bloomberg's plan, stillborn amid fierce turf wars, would have charged a fee to drivers entering the busiest parts of Manhattan during its heaviest times of use. It was modeled closely on London's highly successful pricing plan, put in place in 2003. 

According to the mayor's congestion scheme, part of PlaNYC, the revenue collected would be used solely to fund expansions and improvements to the regional transit system. Transportation Alternatives, a nonprofit group whose mission is to "reclaim New York City's streets from the automobile," strongly supports the initiative. "A congestion pricing plan is the most cost-effective way to jump-start transit improvements and reduce traffic congestion," says Wiley Norvell, the group's communications director. But commuters hated it, as did the general public: According to a Quinnipiac poll in 2007, almost two-thirds of New York City voters opposed the plan.

Congestion pricing plans are already in place across the country. On Los Angeles' private 91 Express Lanes, the tolls increase gradually during peak hours to almost \$1 per mile. But while congestion pricing eventually reduces gridlock, drivers are quick to fight the rate increases. Observers in Houston blame heated opposition for Harris County canceling a price increase on the Westpark Tollway.

Mayor Bloomberg's proposal was rejected by state legislators last July, causing the city to miss a deadline to apply for federal funding--as much as \$354 million if the plan is enacted. "Congestion pricing didn't fail on its merits and flaws, but on the politics of Albany," says Norvell.

New York's plan may be revived. Proposals on the table include restricting cab hailing to designated taxi stands and barring cars with certain license plate numbers from entering Manhattan on specified days. Bloomberg claims his plan would bring a six percent reduction in traffic, and serve as a model for clogged California cities.

Before it instituted congestion pricing, London was plagued by gridlock, poor air quality and hazardous streets. But since the implementation of a \$13 charge during peak traffic hours, the plan has significantly reduced traffic congestion, improved bus and taxi service and generated a substantial amount of revenue, according to a recent study by the Victoria Transport Policy Institute. Two-thirds of Londoners now approve of the charge, and the pricing plan is scheduled for expansion into West London.

A 2006 congestion pricing test--dubbed the Stockholm Trial--produced similarly promising results. A Swedish report concluded that travel times fell significantly during the test period. Emissions of both carbon dioxide and particulate matter were reduced, access for bus service to, from and within the inner city improved and travel by public transport increased by approximately 4.5 percent.

Though improved public transportation plays a role in ensuring a pricing plan's success, Stockholm's report shows that, on its own, expanded public transport has little effect on travel by car.

"It is only when car travel becomes more expensive in the form of higher costs or longer travel times (traffic jams) that public transport can increase its market share to a considerable extent," stated the report. In short, a congestion pricing plan simply cannot work without some sort of financial incentive.

New York is already the least car-dependent city in the U.S., since 72 percent of trips in the city are five miles or less. In fact, results from the New York Bike-Share Project (an experiment that ran for five days last summer, allowing bikers a free 30-minute bike rental) confirmed that New Yorkers would be willing to use bikes if they were more available. David Haskell, founder of the bike-share project, says that hundreds of people expressed strong support.

Bike-sharing has taken off in Europe. This past summer, Parisians parked more than 10,000 bicycles at 750 stations, and plan to almost double that number in 2008. The program, called "Velib"--short for free bike in French--allows riders to take bikes from one station and drop them off at another for a small fee. Other successful bike-share programs can be found in Barcelona, Stockholm, Oslo, Copenhagen and Frankfurt.

Economists and environmentalists agree that it's simply not possible to maintain clean air and gridlock-free streets with one person per vehicle. If that means making drivers feel the pain, the long-term gains are worth it.

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Transit officials face budget crisis

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By [CHERYL CHUMLEY](#)

Published: October 21, 2008

No more money: That's the main message Prince William budget officials wanted to give supervisors Tuesday at a presentation aimed at solving overcrowding problems for bus and train commuters.

The Potomac and Rappahannock Transportation Commission is seeking approval to buy seven buses to expand service.

Virginia Railway Express, meanwhile, wants to balance its fiscal 2010 budget, which is running at a projected million-dollar deficit. The VRE board is currently working on a budget plan to offset that shortfall.

"The PRTC and VRE subsidies are paid for by the gas tax ... and whatever happens has to be paid for by [this] two percent motor vehicle fuel tax," said David Tyeryar, budget director, during a brief presentation on the costs to offset high ridership demands on the bus system. "I'm going to recommend ... [the county] shouldn't make any decisions on service expansions ... until you know that the service is affordable within the 2 percent motor fuel tax."

Tyeryar also recommended that the board wait until appointees to the Strategic Plan Task Force finish their planning to see "where transportation fits into the big picture" of Prince William's long-term goals.

The VRE has already imposed a 3 percent fare increase, with two more on the way. The second, slated for January, is a 7 percent hike; the third, proposed for July 2009, could result in as much as another 10 percent increase, according to background documents presented to the board.

The PRTC, meanwhile, will consider following the VRE's path of fare increases at its board meeting next month.

"In November, the PRTC Board will decide how much of a fare increase and how much of a service expansion, if any," Tyeryar said.

To meet the increasing demand for service, the PRTC estimates it needs another \$500,000 for this year, according to background documents to the supervisors.

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washingtonpost.com

Anticipated County Aid For PRTC Is in Doubt

Commission Faces New Fiscal Troubles

By Kristen Mack
Washington Post Staff Writer
Thursday, October 23, 2008; PW01

Bus ridership has increased 30 percent in Prince William County in the past three months, and diesel fuel costs have dipped, creating budget complications for the Potomac and Rappahannock Transportation Commission.

The PRTC had planned to address a portion of its anticipated \$1 million budget shortfall with a fare increase, but it was also counting on an extra \$535,000 from the Board of County Supervisors to get through this fiscal year. But Tuesday, the county's budget director advised against the supplemental funding.

"We'd be foolish to not recognize that the deterioration in the financial climate is going to make [managing] expenditures more difficult," PRTC Executive Director Alfred Harf said.

"We are a week away from knowing how problematic this new advice from the county budget staff to its board is going to be for us," he added, referring to the PRTC's upcoming presentation to supervisors to push for approval of the fare increase, which would, among other things, add four buses to the 122-member fleet.

The PRTC relies on a portion of the 2 percent motor fuel tax the county collects, which amounts to roughly \$12 million a year. A dip in gas prices means fuel tax revenue is likely to decrease. The county is saying it can't afford to provide a subsidy from its general fund, as it had planned.

"We are in a new fiscal reality," said David L. Tyeryar, the county's budget director. "Real estate assessments are worse than they were in March. The economy is changing, and changing fast, around us."

Tyeryar advised the board against making decisions on bus service expansion until it has a revised five-year plan from the PRTC.

"We rely on your recommendations," Supervisor Maureen S. Caddigan (R-Dumfries) told Tyeryar. "What I'm hearing loud and clear is that we don't have the extra money for a subsidy. I think the board needed to hear that from you, because we are having a difficult budget."

Last month, the PRTC began holding public hearings to get feedback on a proposed transportation plan that includes raising bus fares on the OmniRide, OmniLink and Metro-Direct buses.

The proposed fares for SmarTrip users on OmniRide and Metro Direct would go from \$4 to \$4.75 and \$2.10 to \$2.40, respectively.

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For OmniLink, two fare options are proposed. The first option would increase fares from \$1 to \$1.10 for SmarTrip and cash users, and the second option would raise fares only for cash users, from \$1 to \$1.25.

The commission is scheduled to vote on the increases Nov. 6.

Bus fares cover about \$6.5 million of the PRTC's roughly \$27 million operating budget. The proposed fare increases would generate an additional \$367,000 in fiscal 2009 and would begin by January if approved.

In addition to the new buses, the fares would cover fuel costs and an additional 10.5 service hours, Harf said.

Fare increases, the first proposed since spring 2007, are part of a larger plan to address the budget shortfall. The plan also recommends deferring "nonessential" items from the PRTC's budget and creating a fare-indexing policy that would raise fares every two years. The PRTC was depending on the cities of Manassas and Manassas Park to contribute \$535,000 as well.

Tuesday's recommendation from Tyeryar "leaves us with a recognition that changes are going to be made to the plan," Harf said. "I can't tell you what those changes are going to be, because we are still in the process of completing analytical work."

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