

## Reconnecting Small-Town America by Bus: New Federal Transit Rules Spur Investment

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**Millions of rural residents have lost access to scheduled intercity bus service in recent years as the nation's largest private carriers have focused on profitable, longer-haul interstate travel. This Spotlight on the Issues illustrates how one state has created a successful public-private initiative to restore service to its rural communities. What Washington State has accomplished serves as a model for other states looking to take advantage of alternative local match requirements.**

Small towns across the United States have lost their intercity bus service, leaving many rural residents with no choice but to drive to regional medical facilities, airports, or homes of relatives and friends in neighboring towns and cities. Therefore, a growing number of older adults who no longer drive have even fewer options. Many must rely on family or friends or must stay home. According to the Bureau of Transportation Statistics, between 2005 and 2010, 8.4 million rural residents lost access to scheduled intercity bus transportation as private bus companies withdrew service from bus depots across America.<sup>1</sup> This downward trend in service began as early as the late 1960s. The problem was exacerbated by deregulation of the industry in 1982 and by industry strikes in 1984 and 1990. In 2004, Greyhound Lines, America's largest intercity bus company, completed a network transformation that focused on profitable, longer-haul interstate travel, resulting in further loss of service to small-town America.<sup>2</sup>

In response to this trend, the states, the private sector, and the federal government are working together to

restore intercity bus service to rural America and to make long-distance travel by public transportation convenient, even when transfers to other carriers are required. The Washington State Department of Transportation (WSDOT) leads the way with its model Travel Washington program (box 1).

### **Connecting Communities: The Travel Washington Program**

Travel Washington connects rural communities to major transportation hubs and urban centers through an intercity bus service (see figure 1) that is operated by local private carriers under contract to WSDOT. Grape Line service between Pasco and Walla Walla began in 2007. By 2010, three additional feeder bus lines were operating.<sup>3</sup> A fifth line has been planned and could begin service if funding is identified. In total, the bus companies operating those current four lines provided more than 50,000 passenger trips in 2012.<sup>4</sup> More than two dozen towns in the state have seen their intercity bus service restored along 400 route miles. Now the bus companies provide one, two, or three roundtrips every day of the year.

**Box 1. Keeping Older Adults Connected in Washington State**

Washington State’s innovative public transportation program helps keep older adults connected in their communities and beyond. “Rural Transit Connects,” a video by the Public Policy Institute, tells the story.

Watch the video at <http://www.aarp.org/ruraltransit>.



Residents and visitors to Washington State take advantage of the service for various reasons. Military veterans on the Olympic Peninsula ride the Dungeness Line to their medical appointments in Seattle. Residents of Port Townsend take the bus to Seattle–Tacoma International Airport for domestic and international flights. Canadian tourists roll their bikes off the ferry in Port Angeles and load them onto a Dungeness Line bus en route to the lavender fields around Sequim. An older couple, both of whom can no longer drive, boards the Gold Line in Kettle Falls to visit grandchildren in Spokane. With the purchase of a single ticket, seasonal agricultural workers from as far away as California can travel to orchards in north-central Washington

through interlined service<sup>5</sup> between Greyhound and the Apple Line.

The Travel Washington program is a partnership involving the WSDOT, the Federal Transit Administration (FTA), and the private sector. FTA’s grant program under 49 U.S.C. § 5311(f) provides half the money for Travel Washington and requires a 50 percent local match. In Washington State, the private sector provides this match through an innovative funding arrangement that allows the state to count in-kind contributions by Greyhound to meet the local match required by FTA. The following description of the Travel Washington program details the alternative match requirements.

Figure 1. Travel Washington Statewide Intercity Bus Network Map



**Using Private In-Kind Contributions toward Local Match: New Law under MAP-21**

Recognizing the difficulty states and localities have meeting the traditional match requirement, FTA agreed in 2006 to pilot an alternative match arrangement, which WSDOT had proposed. In the proposal, WSDOT argued that intercity bus transportation is as much about connecting rural towns

to the rest of the country as it is about connecting small towns within a state to one another. It contended that long-distance corridor investments made by private carriers, such as Greyhound, should offset the match requirement.

In 2012, the U.S. Congress formalized the program by statute with the passage of the Moving Ahead for Progress in the 21st Century Act (MAP-21), the nation's surface transportation law.<sup>6</sup> The act gave



all states the certainty of the program's availability and rules over time. Today, about half the states have in place, or are planning, an intercity bus program that takes advantage of this in-kind funding arrangement, which is described next.

According to MAP-21's program guidance, FTA allows a contribution of *unsubsidized* private capital to subsidize an unprofitable rural intercity feeder bus route that a private operator might otherwise discontinue. To be eligible, the in-kind match by the private operator must be calculated for service that connects the rural community to points beyond those served by the intercity feeder bus system. For example, Greyhound's investment of buses, drivers, insurance, and so on to provide service between Seattle and Bellingham to the north and between Seattle and Olympia to the south can be used to offset another private operator's expenses of providing feeder bus service from rural towns on the Olympic Peninsula to Seattle, where its feeder bus passengers can connect with Greyhound. The new program rules allow WSDOT and Olympic Bus Lines to access the federal grant funds under Section 5311(f), which would not be available if they could not fund the sizable local match.<sup>7</sup>

### Funding the Bus Lines: An Example

To illustrate the match arrangement, here is a rough example of the cost structure and in-kind subsidy:

- Olympic Bus Lines, operating the Dungeness Line bus between Port Angeles and Seattle, calculates its annual project costs and submits a bid of \$525,000 to WSDOT in response to a state Request for Proposals. It seeks a federal 5311(f) subsidy from WSDOT for this amount, which will require a local match contribution of the same amount. The FTA stipulates that the federal share must be matched dollar for dollar.
- Greyhound operates in the Interstate-5 corridor between Bellingham and Olympia, with connections to the Dungeness Line in Seattle. Greyhound calculates its fully allocated cost per mile (capital and operating expenses) and multiplies that amount by the total revenue miles it serves in the corridor. Only those runs that actually connect with the feeder service can be used in this calculation. FTA allows up to 50 percent of those fully allocated costs to count toward Greyhound's in-kind match, provided that Greyhound has not received a public subsidy. This amount is assumed to be roughly equivalent to Greyhound's capital costs associated with its service in the corridor. In 2012, Greyhound calculated its available in-kind contribution from investment in the Bellingham to Olympia corridor to be \$553,000.
- Then WSDOT applies the bulk of this in-kind contribution from Greyhound to meet the local match requirement and obtains a federal 5311(f) grant of \$525,000. WSDOT

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agrees to pay Olympic Bus Lines \$525,000 annually to run service on the Dungeness Line and allows Olympic Bus Lines to keep its farebox revenue.

Given the paperwork involved, no actual money is exchanged between Greyhound and Olympic Bus lines. Greyhound certifies its calculations in a letter to WSDOT. It also agrees to consult with WSDOT before making any significant schedule change that could affect Olympic Bus Lines' operations.<sup>8</sup> Given the paperwork in this program, one might wonder why Greyhound participates. By interlining its services with feeder routes, Greyhound attracts new customers, who can now leave their cars behind and seamlessly transfer to Greyhound's network of routes that span the United States and cross into Canada and Mexico. Greyhound estimates that integration of its service with intercity feeder buses and local public transit, along with interline ticket sales, added more than \$11 million in revenue to its bottom line in 2012.<sup>9</sup>

Greyhound's in-kind subsidy reduces the financial risk faced by smaller feeder bus operators. In the words of Olympic Bus Lines owner Jack Heckman, "Without that [subsidy], there is no way we could provide the level of service—the quality of service, the number of runs, the quality of buses. It is imperative that we have this funding to operate successfully."<sup>10</sup>

Local actors also support the feeder service. For example, Clallam Transit, the local transit provider in Port Angeles and the surrounding area, provides Olympic Bus Lines with a designated bus bay in its new downtown transit center, which was built largely with local dollars. Similarly, the Central Washington Airporter's Grape Line ticket agent provides customer service duties for Valley Transit in lieu of paying rent for office space at the local transit center. This arrangement provides transit



customers with a one-stop location to purchase a local transit pass or intercity bus ticket. Greyhound pays local ticket agents a commission for the sale of Greyhound tickets.

Through a competitive selection process for each bus line, WSDOT contracts with local private bus carriers to operate the service. Competitors are evaluated on (a) their ability to satisfy WSDOT's requirements, (b) the efficiency of their proposed capital and operating budgets, and (c) the quality of their customer service and marketing plans. WSDOT specifies the locations to be served, the schedule, the daily bus inspections, the regular vehicle maintenance, a bus wash after every run, the indoor bus storage, and the various service parameters (for example, every bus must be equipped with a wheelchair or scooter lift and a bike rack). WSDOT also requires that operators participate in the regional transportation planning process and coordinate with local planning organizations, local governments, and human service transportation providers.

Each company must promote and market WSDOT's Travel Washington brand and must coordinate stations and schedules with local transit, Greyhound, and Amtrak. Private operators such as Olympic Bus Lines go the extra mile: they provide first-class service to their customers and even offer complimentary

**Box 2. States That Use Private Sector In-kind Contributions by Greyhound Lines**

Alabama	Kansas	Oregon
Arkansas	Maryland	Texas
Arizona	Missouri	Utah
California	Montana	Vermont
Colorado	Nevada	Washington
Illinois	North Carolina	West Virginia
Indiana	Ohio	

Note: In addition, five other states (Massachusetts, New Hampshire, South Carolina, Virginia, and Wisconsin) are in various stages of planning programs and working on the grant application process, according to Randy Isaacs of Greyhound's State Government Affairs office (e-mail correspondence, March 3, 2014). Furthermore, Minnesota has used in-kind contributions from Jefferson Lines according to Steve Woelfel, chief executive officer of Jefferson Lines (phone interview, March 11, 2014). Participating states could not be verified with FTA.

WiFi, bottled water, and homemade chocolate chip cookies. Two-year contracts are written with an option to renew for two years. After four years, each operator must compete again to continue providing the service.

**Growing Interest: Spread of the Program**

The Washington State Department of Transportation has implemented the most focused and well-branded state program thus far, according to Randy Isaacs of Greyhound's State Government Affairs office.<sup>11</sup> Greyhound is also working with a number of other states. To date, 20 states are operating or implementing projects that will use in-kind contributions by Greyhound. Another five states are in various stages of project planning and grant solicitation.

Washington State's success has inspired the interest of its Canadian neighbors.

Transit managers from Alberta, British Columbia, Manitoba, and Saskatchewan have all reached out to the WSDOT staff for information about the state's program.

**Restoring Services: A Public-Private Partnership with Promise**

The private sector has provided intercity bus service in the United States since the advent of such service and continues to do so today. But changing market conditions no longer allow it to profitably serve our nation's small towns without subsidies. FTA and WSDOT have found a way to limit the public subsidy required by taking advantage of the in-kind investment by the larger for-profit carriers. Washington was the first state in the nation to promote this form of public-private partnership. With nearly half the states looking to participate in this program, rural America is beginning to see its intercity bus service restored.

## Endnotes

- <sup>1</sup> “The U.S. Rural Population and Scheduled Intercity Transportation in 2010: A Five-Year Decline in Transportation Access,” U.S. Department of Transportation, Research and Innovative Technology Administration, Bureau of Transportation Statistics, Washington, DC, February 2011.
- <sup>2</sup> For a detailed summary of the history of the intercity bus industry in the United States, see *Effective Approaches to Meeting Rural Intercity Bus Transportation Needs*, TCRP Report 79 (Washington, DC: Transportation Research Board—National Research Board, 2002).
- <sup>3</sup> An intercity feeder bus route is a minor route that connects rural communities to the mainline interstate routes typically served by Greyhound.
- <sup>4</sup> See National Transit Database, 2012 Rural Subrecipient Service Data, <http://www.ntdprogram.gov/ntdprogram/data.htm>.
- <sup>5</sup> Interlined service results from an agreement between transportation operators to sell and honor each other’s tickets, thus ensuring that a rider can make one purchase to get from point A to point B, even though there may be multiple operators providing services between those points of travel.
- <sup>6</sup> MAP-21, 49 U.S.C. § 5311(g)(3)(D), provides that “in the case of an intercity bus project that includes both feeder service and an unsubsidized segment of intercity bus service to which the feeder service connects,” the local match “may be derived from the costs of a private operator for the unsubsidized segment of intercity bus service as an in-kind match for the operating costs of connecting rural intercity bus feeder service funded under subsection (f).”
- <sup>7</sup> FTA grant rules allow Washington State to calculate the in-kind contribution for the entire Interstate-5 corridor served by Greyhound, from cities in Canada to Sacramento, California, provided that Oregon and California have not tapped out the available in-kind match for Greyhound services in each state.
- <sup>8</sup> Greyhound reserves the right to terminate the offer of the in-kind match if the feeder service operator ceases operations, revises the service so that it competes with or no longer provides a meaningful and complementary connection to Greyhound, or operates a related service that competes with Greyhound.
- <sup>9</sup> Interview with Michael Timlin, Greyhound Lines, Olympia, Washington, July 10, 2013.
- <sup>10</sup> Interview with Jack Heckman, Olympic Bus Lines, Port Angeles, Washington, July 12, 2013.
- <sup>11</sup> E-mail correspondence with Randy Isaacs, March 3, 2014.

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