DOCUMENT RESUME

ED 287 097 CE 048 694

AUTHOR	Heaselden, Mark; And Others
TITLE	Financial Management for Transit: A Handbook.
INSTITUTION	Indiana Univ., Bloomington. Inst. for Urban Transportation.
SPONS AGENCY	Urban Mass Transportation Administration (DOT), Washington, D.C.
REPORT NO	DOT-I-86-10
PUB DATE	Apr 85
NOTE	222p.
PUB TYPE	Guides - Non-Classroom Use (055)
EDRS PRICE	MF01/PC09 Plus Postage.
DESCRIPTORS	*Accounting; Automation; *Budgeting; *Business Administration; Computer Oriented Programs; Credit (Finance); Decision Making; Microcomputers; *Money Management; Postsecondary Education; *Public Facilities; Risk; *Transportation
IDENTIFIERS	*Mass Transit

ABSTRACT

This handbook is primarily intended to serve as a primer for transit system managers who have not had any formal financial education through college classes, professional development programs, or extensive on-the-job programs. The following topics are covered: financial planning techniques for transit (beginning the financial planning process, turning strategy into a financial plan, budgeting, and coping with problems and pitfalls); accounting fundamentals (the accounting process, financial statements, working capital, cost analysis, break-even analysis, the cash and accrual basis of accounting, depreciation); budgeting (purposes of a budget, concepts in budgeting, budget preparation, internal preparation, external review, implementation, analysis techniques); cash control (the operator, the farebox, the vault, receiving vaults/ancillary equipment, vault handling and physical facilities, money counting, money room operators, funds transfer, other loss areas); inventory management (reasons for and requirements of effective inventories); risk management (elements of risk management, risk funding and decision making, property and liability insurance coverages, and establishment of a risk management policy); cash management (cash flow time lines, the concept of float, banking services, cash discounts, cash flow forecasts); debt financing (types of debt, planning and issuing debt); capital expenses (the time value of money, life-cycle costing, vehicle rehabilitation, tax benefit transfer); and automation in financial management. Appendixes explain various debt mechanisms and microcomputer applications. (MN)

****
* Reproductions supplied by EDRS are the best that can be made *
* from the original document. *
****

ED287097

U.S. Department of Transportation

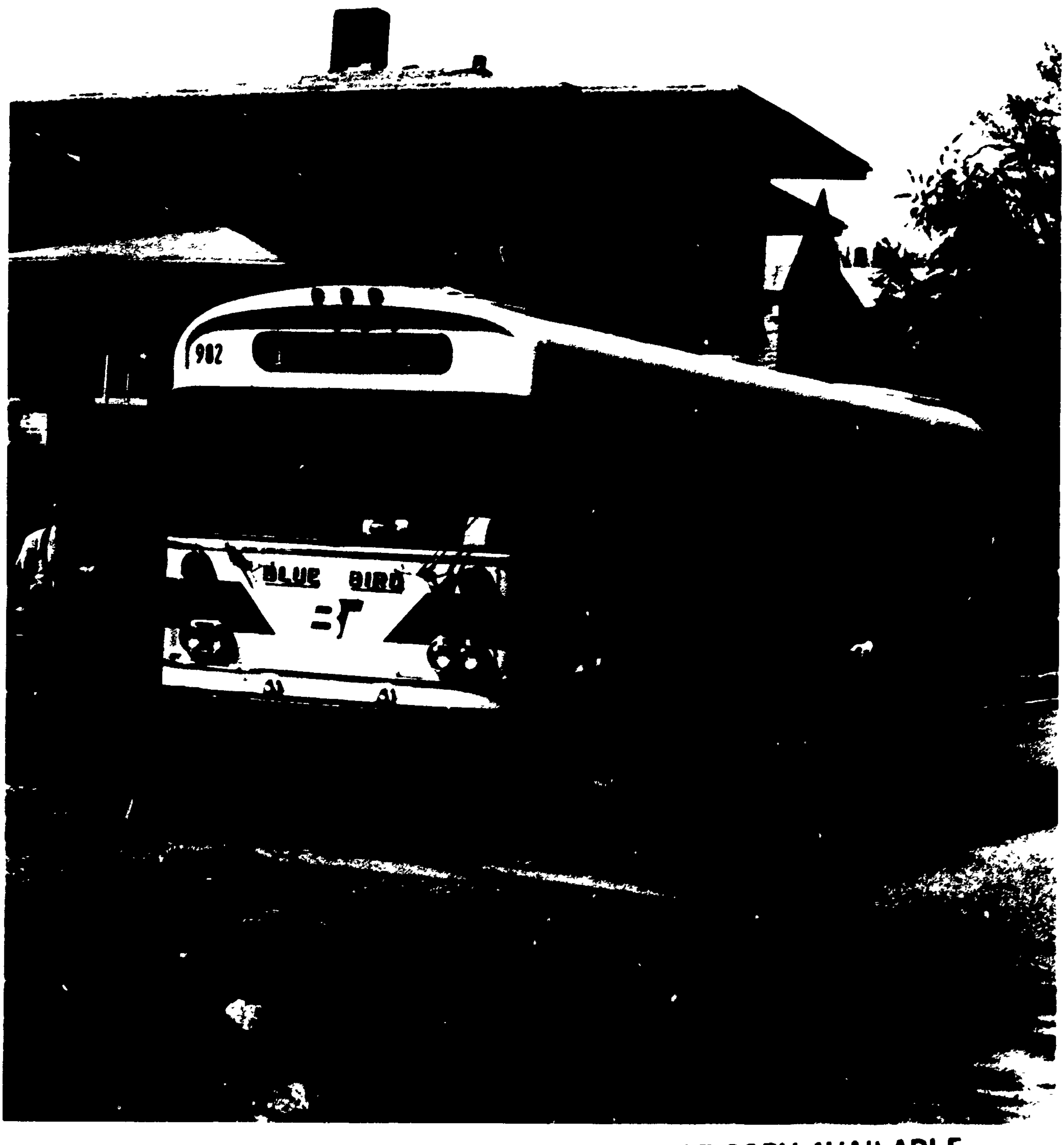
Financial Management for Transit
A Handbook

April 1985

U.S. DEPARTMENT OF EDUCATION
Office of Educational Research and Improvement
EDUCATIONAL RESOURCES INFORMATION CENTER (ERIC)

- ☑ This document has been reproduced as received from the person or organization originating it.
- ☐ Minor changes have been made to improve reproduction quality.

- Points of view or opinions stated in this document do not necessarily represent official OERI position or policy



CE048694

ERIC

BEST COPY AVAILABLE

Financial Management for Transit: A Handbook

Final Report
April 1985

Prepared by
Institute for Urban Transportation
Indiana University
825 East Eighth Street
Bloomington, Indiana 47405

Prepared for
University Research and Training Program
Urban Mass Transportation Administration
Washington, D.C. 20590

Distributed in Cooperation with
Technology Sharing Program
Office of the Secretary of Transportation

DOT-I-86-10

ERIC

ACKNOWLEDGEMENTS

This handbook developed over a period of two years and was contributed to by many IUT staff members and associates. IUT staff wrote all of the chapters in this handbook, but we relied heavily upon contributers from outside the Institute and we would like to thank them for their cooperation. We appreciate their assistance and give them credit for their contributions; we accept the responsibility for any errors in interpretation on our part that may have occurred.

The principal authors from IUT's staff which participated in this project include: Mark Heaselden, Lennart Henriksson, Kent McDaniel, Peter Perreault, George Smerk, and Eve Wyatt. Other staff members contributing were Kevin Cordes and Leslie Cleveland. Administrative assistance and report coordination were provided by Maria Lee and Cheryll Fifer-Brown.

In certain chapters we relied heavily upon material developed by adjunct faculty members, industry representatives, or existing documents. For this assistance we would like to especially acknowledge the contributions of: Ned Hill for course material for Cash Management; Dan Leffers and George Smerk for Risk Management; Brian O'Neil for course material for Inventory Management; William Sartoris for course material for Capital Expenses; and Rick Stern for Cash Control. We also acknowledge extensive use of two studies for their contributions to the section on Bus Rehabilitation in Capital Expenses: "The Role of Rehabilitation in Transit Fleet Replacement," prepared for the Puget Sound Council of Governments in March 1983; and "Survey and Analysis of Bus Rehabilitation in the Mass Transportation Industry" (November 1980) by B.B. Balzer, A.E. Savage, and R.C. Stark.

We also want to thank two members of the Urban Mass Transportation Administration for their assistance in this project. Judy Z. Meade served as Manager of the Centers for Transit Research and Management Development Program, which provided funding for this project. Ed Thomas provided guidance and assistance as Technical Monitor for this project.

ERIC

INTRODUCTION

The transit industry has been in a state of financial crisis for several years and there is still no relief in sight. Decreasing sources of financial support, increasing costs, shifting governmental roles, and changing regulatory requirements are creating pressures on transit management to reassess existing assumptions and seek internal economics. Above all, this complex environment creates the critical need for sound financial management principles. Although financial management is frequently confused with accounting, it is far more than a means for tracking money flow. At its heart lies the allocation and management of an organization's financial, human, and physical resources: it thus creates a basic framework for managerial decision making. Ultimately every decision a transit manager makes has financial implications.

In response to this problem, the Institute for Urban Transportation/Center for Transit Research and Management Development at Indiana University (IUT) developed a ten day training course called "Financial Management for Transit." Since 1982, this course has been offered twice each year to financial managers from transit systems from all over the United States. Instructors for the course have been selected from experts in the transit industry and from faculty members of the Indiana University School of Business who have borrowed the proven techniques from private industry and adapted them for use in the public sector.

This handbook developed as a logical outgrowth of the "Financial Management for Transit" training course. IUT staff members used the training course notebooks as a base, along with other available studies and documents. From this material we developed a handbook which addresses many of the fundamental financial management issues that the transit industry faces. Each of the ten chapters addresses a separate financial topic and can be used by itself for a specific use, or the chapters can be used in conjunction to provide a comprehensive approach towards financial management. Despite the variety of topics, this handbook is not intended to encompass all of the financial management issues of the transit industry; nor can it completely cover any of the topics that are included. This handbook is merely intended to be a primer for transit managers that have not had the opportunity for a formal financial education, either through college classes, professional development programs, or through extensive on-the-job experience. We hope that some of the ideas presented in this handbook will be beneficial even to those financial managers who have had formal training and experience.

ERIC

TABLE OF CONTENTS

ERIC

ERIC

ERIC

ERIC

LIST OF FIGURES

CHAPTER ONE

FINANCIAL PLANNING TECHNIQUES FOR TRANSIT

Introduction

Financial planning in transit has always been important. From the very earliest private enterprise days of the industry to the present days of public ownership, there has been an obvious need to gauge carefully the resources needed for carrying out operations and to make the necessary capital investments to the transit property.

Financial planning is even more important in times when money is scarce. Management effort is always directed toward the scarce resource; when labor is short, the management of personnel function becomes an important factor. With mounting concern over fiscal problems in transit, management attention should be increasingly directed toward financial planning. What should be and what actually is are often two very different things; the financial planning that prudence and good management demand is often missing in transit, replaced by fiddling with budgets and cost-cutting programs that are simple reactions rather than carefully crafted events.

Financial planning is more difficult and more necessary at present because of the many financial uncertainties facing transit. While uncertainty is no stranger to the transit industry, it has taken on a new dimension. From a financial viewpoint, the federal aid program, begun in 1961, had continually expanded the number of programs and the federal funds available; for many years the trend was steadily upward. Since 1981 the level of federal support has actually diminished and the massive federal deficit suggests that this decline may continue into the future.

Local and state support of transit is another uncertainty. In recent decades, there have been substantial increases in state and local support for transit operations, capital, planning, and other programs--usually matching a federal grant--but this support tends to fluctuate with the condition of the economy. In bad economic times, when transit ridership and fare receipts usually fall, it is difficult for state and local government to provide additional funds for transit. Add local political conflicts between city and suburb, rising costs of labor and supplies, and citizen tax revolt, and the financial situation in transit

CHAPTER ONE

FINANCIAL PLANNING TECHNIQUES FOR TRANSIT

Introduction

Financial planning in transit has always been important. From the very earliest private enterprise days of the industry to the present days of public ownership, there has been an obvious need to gauge carefully the resources needed for carrying out operations and to make the necessary capital investments to the transit property.

Financial planning is even more important in times when money is scarce. Management effort is always directed toward the scarce resource; when labor is short, the management of personnel function becomes an important factor. With mounting concern over fiscal problems in transit, management attention should be increasingly directed toward financial planning. What should be and what actually is are often two very different things; the financial planning that prudence and good management demand is often missing in transit, replaced by fiddling with budgets and cost-cutting programs that are simple reactions rather than carefully crafted events.

Financial planning is more difficult and more necessary at present because of the many financial uncertainties facing transit. While uncertainty is no stranger to the transit industry, it has taken on a new dimension. From a financial viewpoint, the federal aid program, begun in 1961, had continually expanded the number of programs and the federal funds available; for many years the trend was steadily upward. Since 1981 the level of federal support has actually diminished and the massive federal deficit suggests that this decline may continue into the future.

Local and state support of transit is another uncertainty. In recent decades, there have been substantial increases in state and local support for transit operations, capital, planning, and other programs--usually matching a federal grant--but this support tends to fluctuate with the condition of the economy. In bad economic times, when transit ridership and fare receipts usually fall, it is difficult for state and local government to provide additional funds for transit. Add local political conflicts between city and suburb, rising costs of labor and supplies, and citizen tax revolt, and the financial situation in transit