Fiscal Cliff of Public Transit

MIT Mobility Forum | March 1, 2024

Speakers:

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Contents

I. Literature

For further reading on transit finance and the US Federal Government's historic role in funding public transportation:

Dagen Bloom, Nicholas. *The Great American Transit Disaster*. Chicago: University of Chicago Press, 2023. https://press.uchicago.edu/ucp/books/book/chicago/G/bo191431990.html

Freemark, Yonah and Rennert, Yindiwe. *Surmounting the Fiscal Cliff: Identifying Stable Funding Solution for Public Transportation Systems*. Washington, D.C.: Urban Institute, 2023. https://www.urban.org/research/publication/surmounting-fiscal-cliff

Ziedan, Abubakr, Candace Brakewood, and Kari Watkins. "Will Transit Recover? A Retrospective Study of Nationwide Ridership in the United States during the COVID-19 Pandemic." *Journal of Public Transportation* 25 (2023). https://doi.org/10.1016/j.jpubtr.2023.100046

Hudspeth, Nancy and Wellman, Gerard. "Equity and public finance issues in the state subsidy of public transit." *Journal of Public Budgeting* 30 (2018). https://doi.org/10.1108/JPBAFM-02-2018-0014

Manville, Michael and Seth Levine, Adam. "What motivates public support for public transit?" *Transportation Research Part A: Policy and Practice* 118 (2018) https://doi.org/10.1016/j.tra.2018.10.001

Smerk, George M. "The Urban Mass Transportation Act at Twenty: A Turning Point?" *Transportation Journal* 24 (1985): 52–74. http://www.jstor.org/stable/20712828.

II. Recent News

Tenser, Phil. "'We now stare at the fiscal cliff': MBTA budget on track for enormous deficits, officials say," *WCVB Boston.* March 14, 2024.

Enwemeka, Zeninjor. "Mass. has a transportation funding problem. A new task force is supposed to solve it," *WBUR Boston*. February 21, 2024

Ley, Ana. "The N.Y.C. Subway Is No Longer Broke. Can It Buy Rider Happiness?," *The New York Times.* October 6, 2023.

Woodhouse, Skylar. "Commuters Ditched Public Transit for Work From Home. Now There's a Crisis," *Bloomberg.* May 9, 2023.

III. Session Q&A

Moderator Questions

Q: Federal COVID emergency funds have lasted longer than anticipated, in part because transit agencies don't have enough operators to run target levels of service. What is the state of human capital in the transit industry?

> A: Jim Aloisi comments that CTA has made significant efforts to address the "cost side" of public transportation, but that we need to be realistic in recognizing that a) there is a significant labor shortage after the pandemic, and b) we will need to increase pay for operators, provide better working conditions, and ensure jobs are appealing to younger workers seeking career growth opportunities.
>
> A: Jeremy Fine notes that all CTA savings have been invested in service operators, with cuts being made in administration (non-service or safety-related positions). He adds that retention is a challenge, and that CTA is working to reduce barriers to entry by helping people obtain commercial drivers' licenses (CDLs) and offering more appealing positions.
>
> A: Mary Ann O'Hara (Chief Financial Officer at MBTA) adds that simply raising operator hourly rates has been the most impactful recruiting tool for MBTA, and that the agency is now hitting its operator targets. She adds that MBTA should not make cuts to administrative positions, as there are long-term costs to this strategy that aren't reflected in financial reports.

Attendee Questions

Q: Given work from home trends, should we rethink how public transit is subsidized? Should we shift from employer-based incentive programs to something more community-based?

> A: Jeremy Fine notes that CTA has been actively working to understand its post-COVID ridership cohorts and design fare products that attract, retain, and assist customers with different mobility patterns.

Q: Can transit agencies use capital funds to support or replace operating expenses? For example, should agencies be investing in autonomous technologies?

> A: Fred Salvucci argues that 2024 is not the time to pursue autonomous technologies. Alliances with operator labor will be critical for transit's survival.
>
> A: Jim Alossi adds that there is safety value in having a human operator, even if a vehicle could be driven autonomously. We should prioritize riders' perceptions of safety, and riders like having a human operator.
>
> A: Jinhua Zhao agrees that alliances with operator unions are critical at this moment, but adds that when technology is ready, autonomous technologies may allow us to redefine transit jobs by allowing operators to focus on customer service rather than actually operating vehicles.

Q: Is congestion pricing a viable model for the Boston region?

> A: Jim Aloisi comments that governments will likely transition to road use charging systems to replace gas tax revenues. Transit agencies need to position themselves as recipients of some of that revenue to achieve a more well-rounded and sustainable funding model.

IV. MIT Student Perspectives

Mobility Forum Reflections

Student participants in the Mobility Forum broadly agree that new funding sources are needed to ensure the long-term health of transit, and that federal funds should play a large role. Two key themes emerged in student responses to the panel:

- Transit agencies need to invest in services that will attract and retain customers. Students are not comfortable with the status quo of public transit and believe that new funding should be used not only to sustain current operations, but to improve service. Students commented that:
    - Providing more and better service is the best way to build financial support for transit. Agencies should focus on building ridership, and revenue or additional public funding will follow.
    - Transit agencies are not running sufficient levels of service. For example, CTA is currently operating at “crisis-level” headways due to insufficient funding.
    - Transit agencies need to adapt to post-COVID realities and changing trip patterns. Agencies can build ridership and recover revenue by designing services that are less oriented towards commuters.

- Transit agencies should develop local funding strategies in addition to seeking federal support. Students suggested additional strategies for creating sustainable funding sources for public transit:
    - Rather than relying entirely on federal funds, transit agencies should develop funding strategies that are more directly linked to the local economic value they generate. For example, transit systems could be supported by additional local property taxes, or even fees levied on businesses operating in transit sheds.
    - Employers benefit from proximity to public transit but do not always support transit financially. Employers bear costs for employees commuting by car because they often provide parking.

Author's Reflection

Around the country, local governments are working to expand transit service and increase its mode share relative to private vehicles. These efforts are central to addressing climate change and improving social and economic equity. Like other students, I think this is critical work. Transit agencies should invest in improving service even in the face of fiscal uncertainty. American public transit systems have faced fiscal precarity for nearly their entire existence, and while the post-COVID fiscal cliff is particularly steep, it is not without precedent.

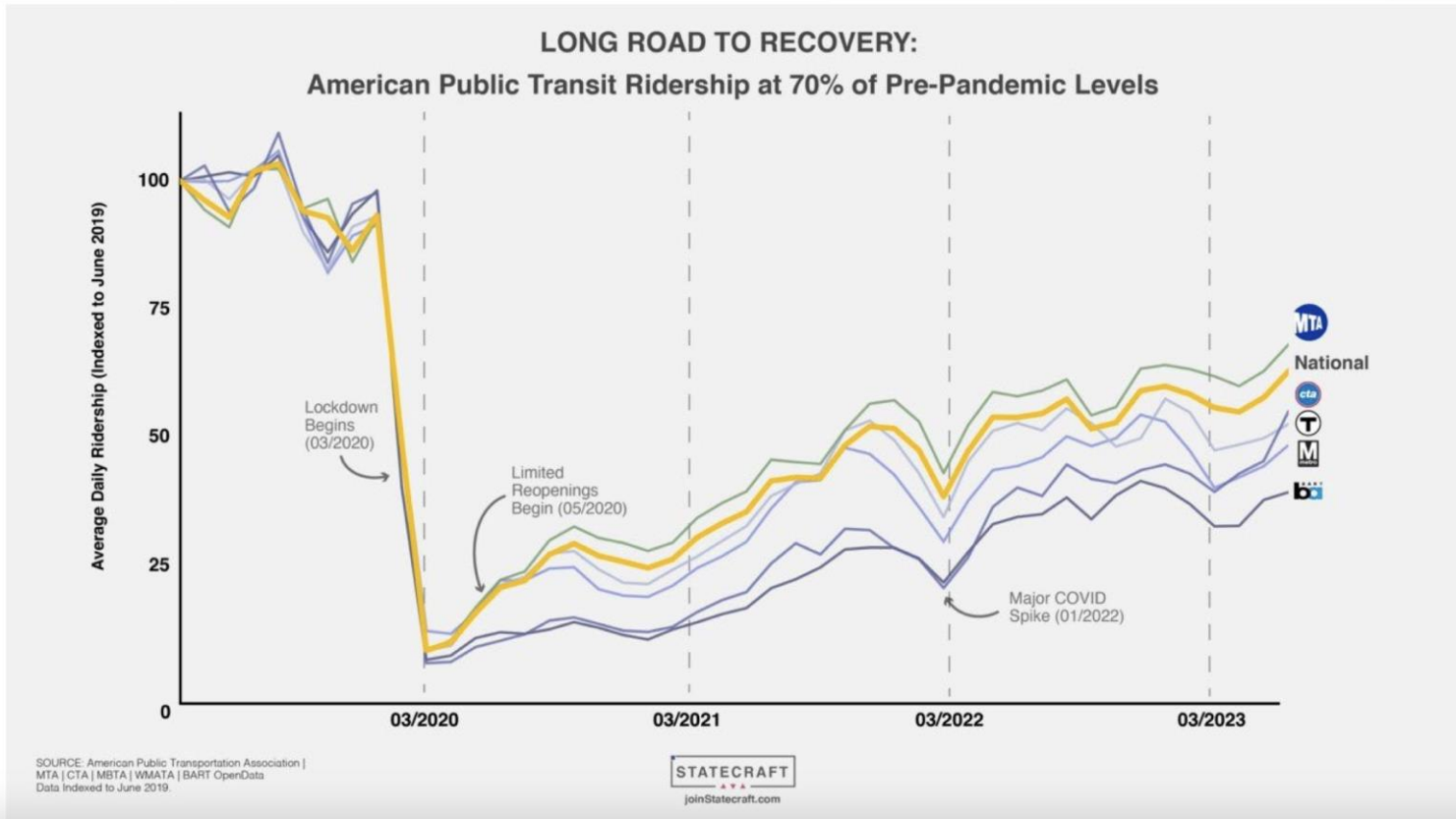
While transit agencies invest in better service, policymakers must develop strategies to make transit more competitive with automobility. The carrot of better transit will need to be supported by a stick that makes driving less appealing. Like Jim Aloisi, I agree that road use charging should be used to replace lost gas tax revenues. It should also be used to disincentivize driving. Local governments can also work to reduce parking supply and advance land-use policies that achieve levels of density that are more supportive of transit. In much of America, the deck is stacked against public transit. These and other policies will help address a century of policy decisions that favor private vehicles.

The "death spiral" is a widely discussed principle in public transit: when agencies experience funding shortfalls, they are forced to make service cuts that lead to decreased ridership and reduced revenue. Without a sustainable funding source, the post-COVID fiscal cliff could trigger such spirals. Alternatively, transit agencies and policymakers can work to create an upward spiral for public transit where service improvements lead to higher ridership, leading to more improvements and more ridership. In an upward spiral, fiscal sustainability follows growth – whether this is achieved through growth in farebox revenue or a fundamental shift in how transit is subsidized, transit's appeal relative to other modes will be central. To compete, transit will require a renewed and expanded commitment of public funds *plus* a set of coordinated policies to make transit the best option for most trips.

The Fiscal Cliff
Navigating the US Transit Operating Budget Crisis

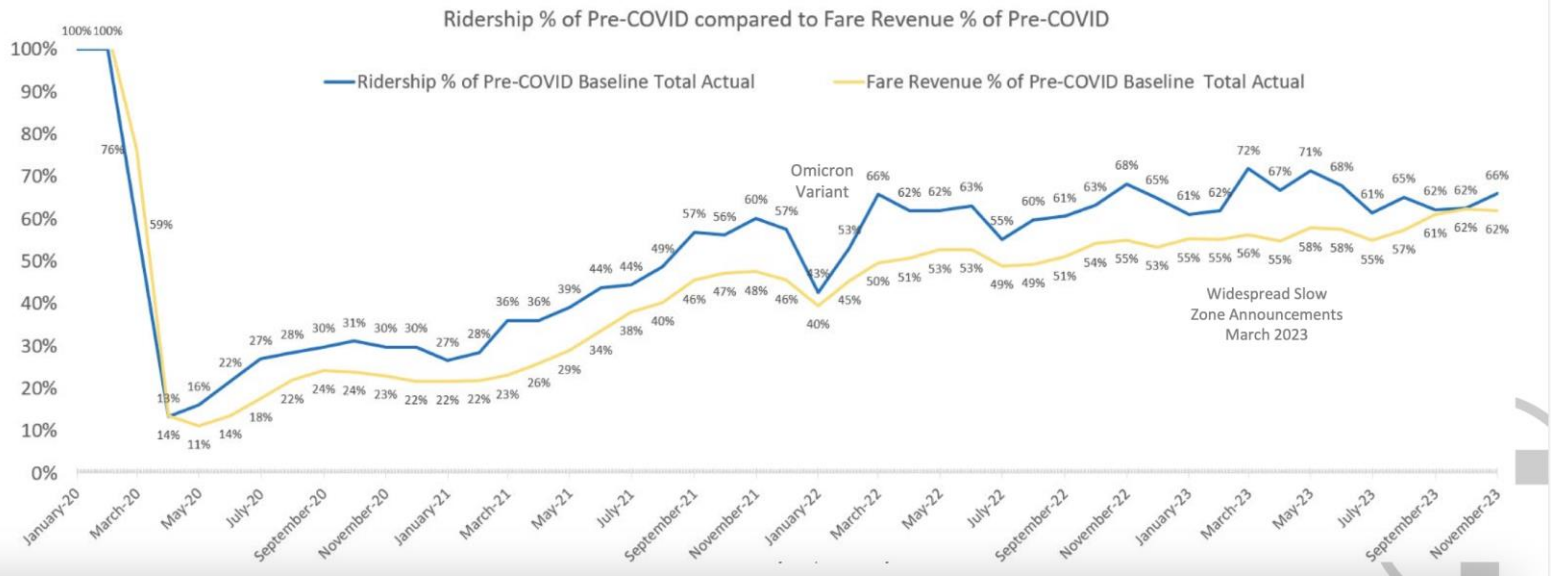
Peer Transit Agencies Show Similar Ridership Trends

Ridership data through Spring 2023 for peer agencies



Post-Pandemic Ridership Patterns Begin to Solidify

- Ridership and fare revenue recovery has leveled off, peaking at 72% of pre-pandemic levels for ridership and 62% for fare revenue
- FY24 Q1 fare revenue averages 58%, resulting in an annual loss of $292M compared to pre-pandemic revenue if current trend continues
- Updated ridership and fare revenue projections have been generated to reflect actual trends



Sources of Transit Financial Assistance for Operations, 1975-1980

Calendar Year	Percent of Total Assistance for Operations (Excludes Farebox Revenue)		
	Federal Government	State Governments	Local Governments
1975	21.4%	28.9%	49.7%
1976	25.7%	22.3%	52.0%
1977	30.7%	25.1%	44.2%
1978	30.9%	25.3%	43.8%
1979	30.4%	21.4%	48.1%
1980	30.2%	22.7%	47.1%

Peer Transit Agencies Projected Deficits

- Peer transit agencies with significant legislative support, such as MTA, have leveraged new revenue sources such as payroll mobility taxes, fare increases, and gaming license revenue to create future year surpluses for investments in safety & service
- Agencies without legislative support, such as WMATA, are proposing up to 60% service cuts to balance their FY25 budgets
- The MBTA's FY25 Operating Budget is currently in development, and one-time revenues are not enough to support ambitious safety & service investments

Crisis Averted *FY25 Crisis Likely Averted*

Legend
Deficit
Surplus

	WMATA	NY MTA	BART	CTA	La Metro	MBTA	NJ Transit	SEPTA	Average
Dedicated Sources	0%	37%	35%	57%	80%	59%	26%	44%	42%
State/Local Subsidies	53%	6%	3%	1%	14%	20%	4%	10%	14%

Anticipated Deficit When Federal COVID Deficit is Exhausted ($ in M)

FY2025	-$750	+$1,600	+$100		-$400	-$182	-$100		-$300*
FY2026	-$830	+$2,000	-$300	-$700	-$1,000	-$620	-$900	-$60	-$627*

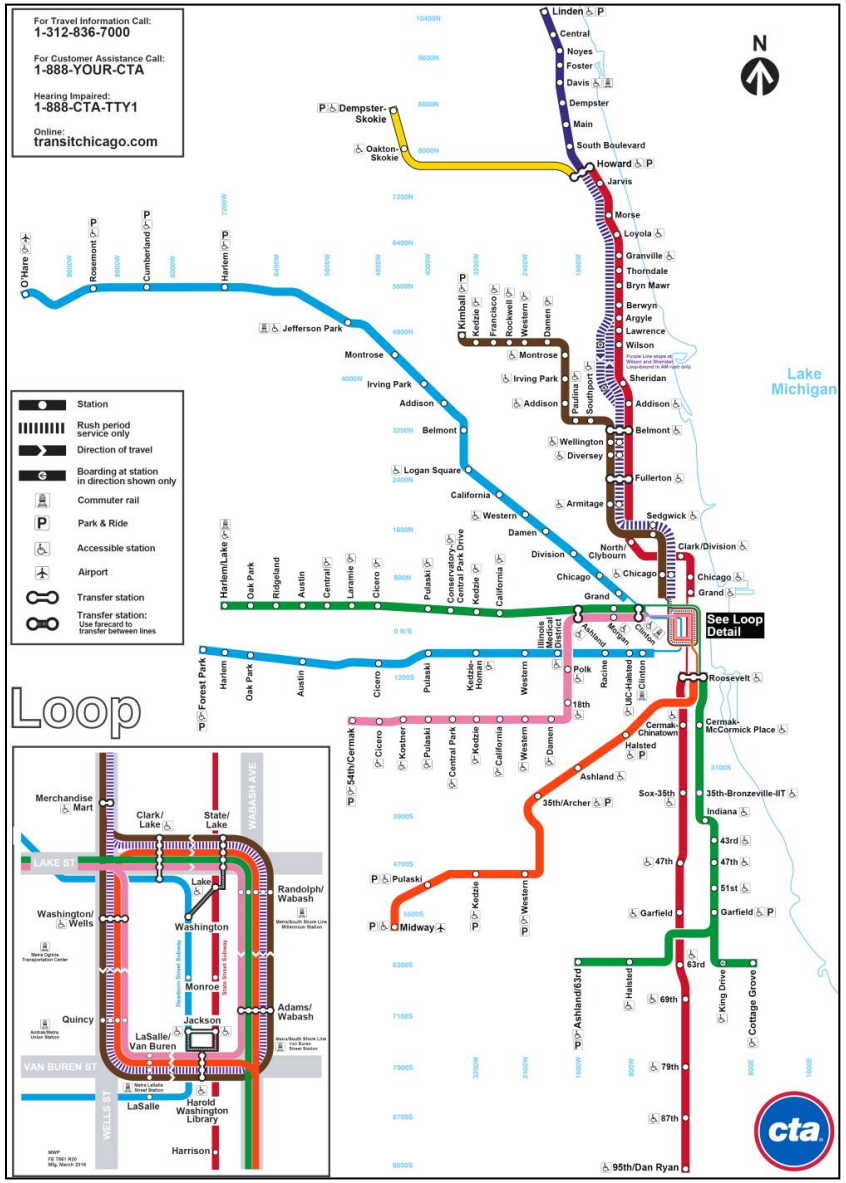
From WMATA Future Financial Planning FY2025-2035 presentation June 22, 2023. SEPTA Federal Relief depletes in FY2024.SEPTA using Stabilisation Fund for FY2025 and FY2026
CTA amount for entire Chicago -RTA region. MBTA Deficits Updated with January 2024 Pro Forma Projection (Outcome C). Based on publicly available sources as Month/Year
**MTA outlier suprlus values excluded from deficits in the 'Average' column*

MIT Mobility Forum | A CTA Perspective

Overview of CTA

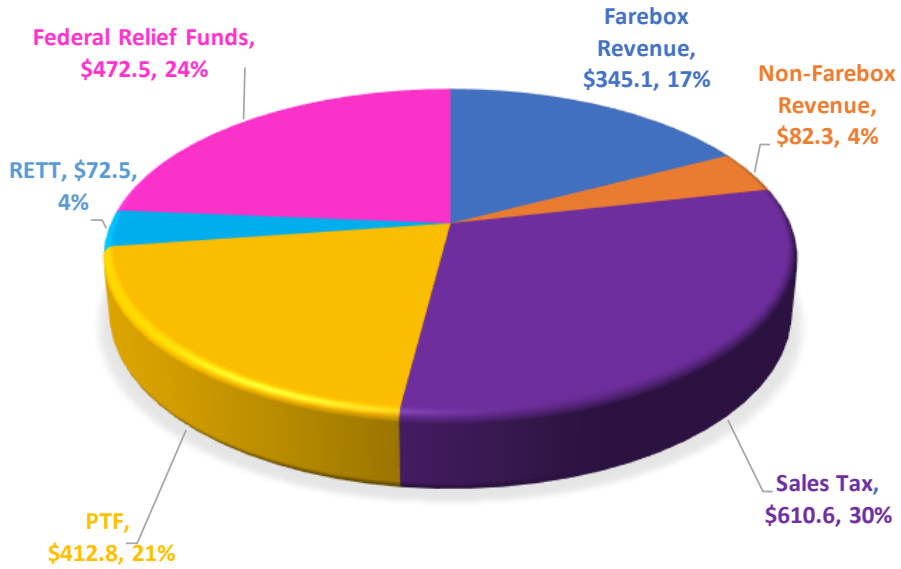
- **CTA provides 900,000+ rides per day to Chicago and 35 near suburbs**
  - CTA provides 80-85% of regional rides
  - Metra provides suburban rail
  - Pace provides suburban bus
  - RTA provides oversight for the 3 service boards

- **CTA Highlights**
  - $1.996B operating budget
  - $3.6B 5-year capital budget
  - 10,000 employees
  - 8 rail lines
  - 127 bus routes



2024 Operating Budget - Revenue Overview

- Revenue within the $1.996B operating budget is derived from three main sources: system-generated revenue (21%), public funding (55%) and federal relief funds (24%)
- 2024 fare and pass revenue was budgeted to be 59% of 2019 revenue, which is up 5% from 2023
  - 2022, farebox revenue grew by $48 million or 20% (49.7% of 2019 levels)
  - 2023, farebox revenue grew by or $38 million or 13% (56.2% of 2019 levels)
- Public funding is budgeted to be 34% higher (~$275M) than 2019 helping to offset the decline in system-generated revenue
  - Growth is due to the addition of online sales, cannabis sales, inflation and a strong economy
- Federal relief funds account for 24% of Operating Revenue
  - Positive variance on revenues and expenses would reduce the total amount drawn for 2024



Public Funding ($1096M)

1. Sales Tax (~$610M from RTA portion)
2. Public Transportation Funds (PTF) (~$413M from State Road & GR Funds)
3. Real Estate Transfer Taxes (RETT) (~$72M City of Chicago)

Note: While not part of Public Funding, Reduced Fare Subsidy also comes from the State of Illinois and has been cut since 2015

Facing the Funding Cliffs

Pre-Pandemic, Funding Was Inadequate

- 50% of operating funding
- 60% of capital funding
  - Plus, intermittent state capital bond program

Due to the Pandemic, Transit Faced Existential Risks

- Proved CTA is an essential service during the pandemic
  - Provided over 250,000-500,000 rides per day during the height of the pandemic
- Awarded $2.2B of federal relief funds
  - 2024 budget projected funds to be available through late 2025/early 2026 ($1.03B remaining)

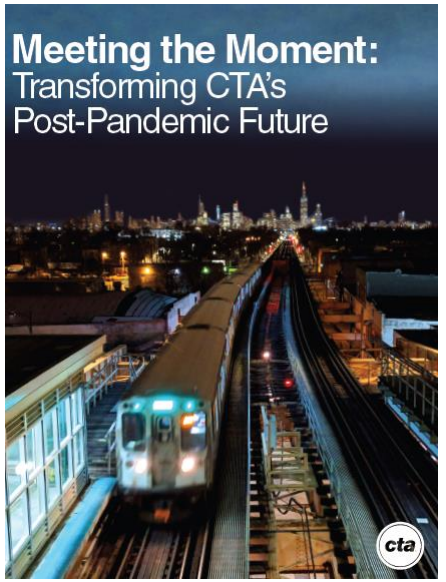
Going Forward, Transit Still Faces Risks

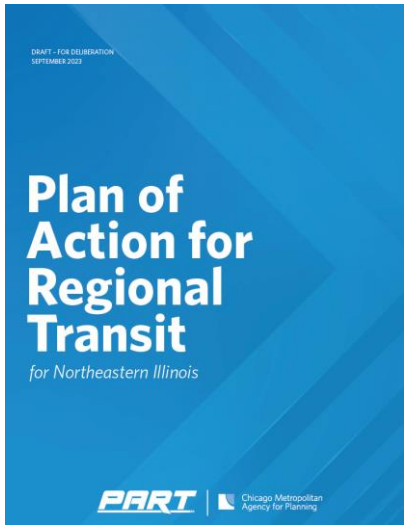
- Annual budget gaps of $500 million (over 20% of 2024 budget) and growing
  - Fare increases nor service cuts will not close the gap and are not supported by riders
- Significant capital funding is needed to fund transit of the future as well as state of good repair needs
- Working with State legislature and other stakeholders to address permanent long-term funding solutions

How to Address the Funding Cliffs

Making the Pitch for Additional Funding

- Customer Focus
  - Addressing customer concerns via Meeting the Moment & scorecard
  - Better regional integration
- Legislative Focus
  - Driver of economic growth, environmental agenda and equity goals
  - Reduced expenses and increased non-farebox revenues by a cumulative $1B over the past 8 years
    - Admin costs (8.5%)
  - Farebox growth of 20% in 2022 and 13% in 2023
  - State operating and capital funding has lagged peers
    - CTA only receives 50% of the regional funding despite delivering over 80% of the regional trips
  - Strategic plans (RTA & CMAP)
    - Future of transit + funding sources + governance
      - Funding options include:
        - Sales taxes
        - State funding
        - Congestion pricing
        - Federal funds



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Strategies for Funding Transit Operating Needs

1) Improved public transport is an essential component of a strategy to achieve sustainable accessible metropolitan areas, but is not included in federal plans focused nearly exclusively on EV promotion. Major additional, stable and sustainable funding for improved transit operations and maintenance needs should become a federal funding priority to help large and medium sized metropolitan areas improve accessibility while reducing air pollution and climate change emissions.

2)The goal: transit should thrive in the long run, but it must survive the Fiscal Cliff in the short run, and maintain currently inadequate transit services. Because of its " lumpy" quality, with benefits spread unevenly across metropolitan areas, and its regional characteristic (larger than municipal boundaries, but smaller than state jurisdiction), political support for significant funding is difficult to achieve.

3) One element of a short term strategy: build stable ridership through pretax employee transit pass programs like the MIT mobility pass.

4) The MIT mobility pass concept: major employers fund transit passes for employees, recouping their cost by reductions in expenditure/space required for employee parking. It will improve transit ridership and reduce auto use modestly, and can be a useful, but not transformative initiative.

To meet the existential challenge of climate change, transition to EVs is now national policy, which introduces **three potential "pattern break" opportunities:**

- **Federal assistance for vehicle ownership through the explicit public subsidy for vehicle ownership, as well as the cross subsidy inherent in CAFE, to incentivize shift away from petroleum consumption has a regressive impact and justifies a complementary increase in transit funding, both to incentivize less auto use and improve equity.**
- **The gas tax foundation for roadway infrastructure maintenance is now eroding, and needs to be replaced, at both the federal and state level.**
- **The conventional pattern of user fee support for infrastructure was abandoned in the recent federal infrastructure bill, which relied instead on deficit finance.**

Recognizing the **regressive nature of subsidy for purchase of EV vehicles**, **and** the threat to infrastructure maintenance posed by **reduction in gasoline consumption**, there is major equity argument to fund complementary dramatically expanded funding for O & M of both roadways and transit on a national basis to support universal accessibility of metropolitan areas. This needs to occur primarily at the federal level, because it is federal EV policy that is driving the need for a new source of roadway maintenance and a complementary robust transit funding initiative, and because only the federal government can use deficit funding.