

Learning from the Past to Finance Transit in the Future

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Transit Provides a Critical Public Service

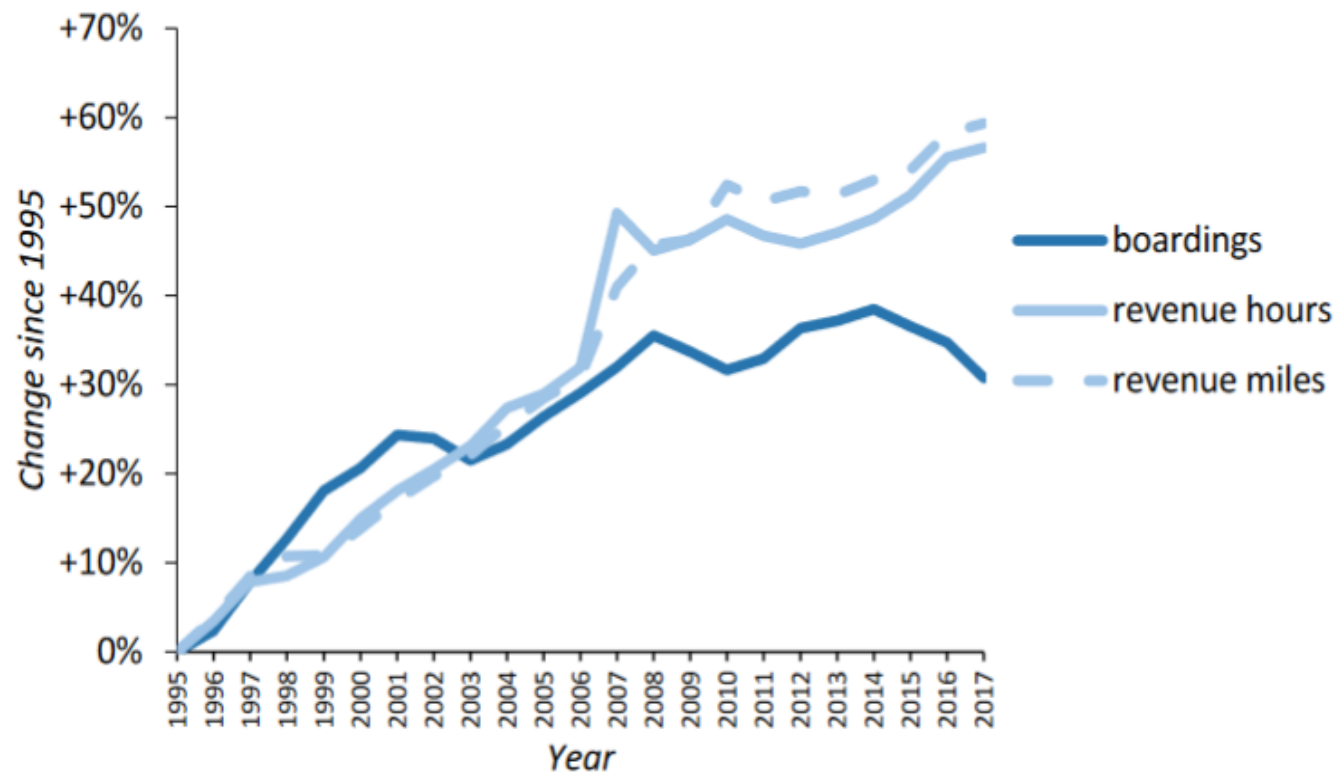
- Transit was in need of financial innovation before COVID and the pandemic imposed a huge financial crisis.
- Transit finance is determined by politics. Though we may try to manage it more like a business, its governance is always influenced by multiple competing political pressures.
- I will suggest some improvements in the way transit is financed in the future to create greater financial stability AND are politically feasible



Three Takeaways

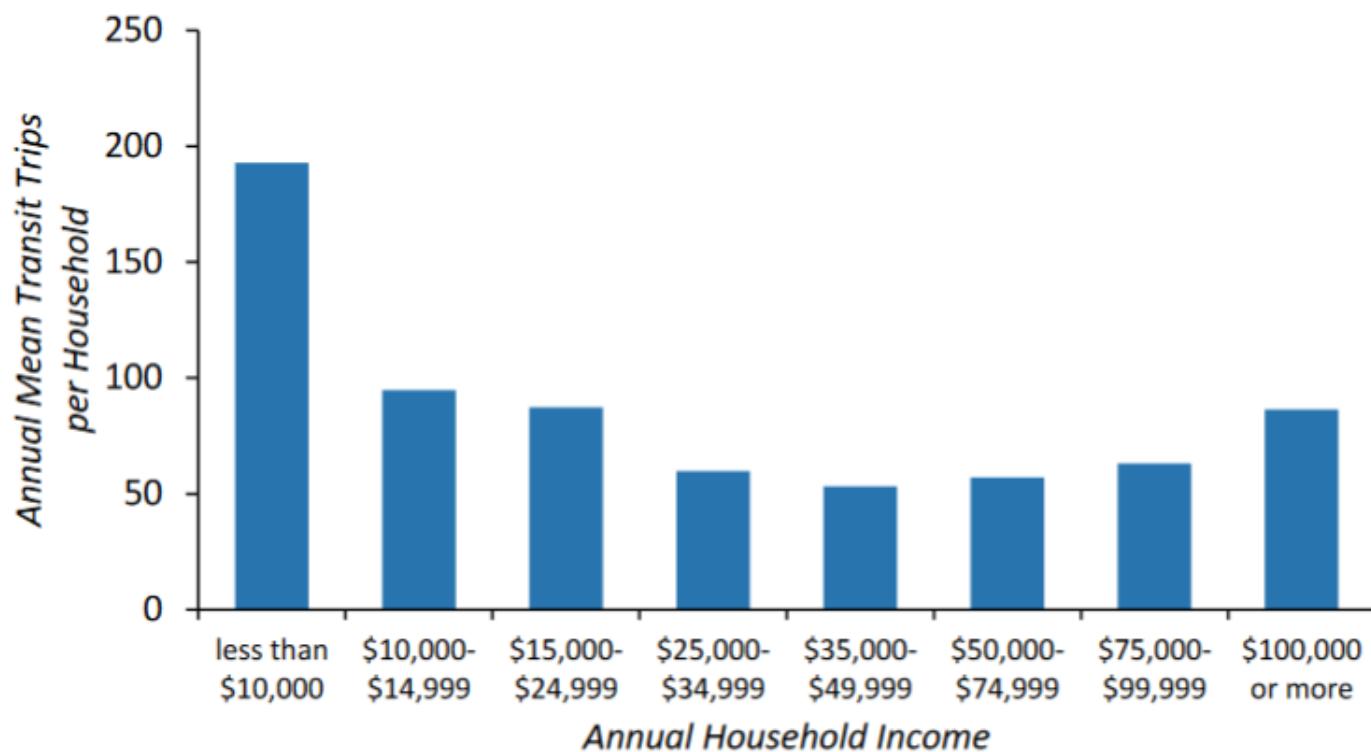
- Transit pricing, fares, and taxes should be policy instruments as well as revenue sources. Revenue instruments should be designed to achieve policy objectives like increasing transit's market share, better serving transit dependent populations, reducing traffic congestion, and promoting urban development objectives.
- New options like integration of line-haul transit with ride-hailing services don't change these principles.
- Transit should be financed by multiple diverse revenue streams, including fares and complementary taxes and fees that reflect the benefits that transit delivers.

Transit Service & Boardings, 1995-2017



Data source: APTA, 2019

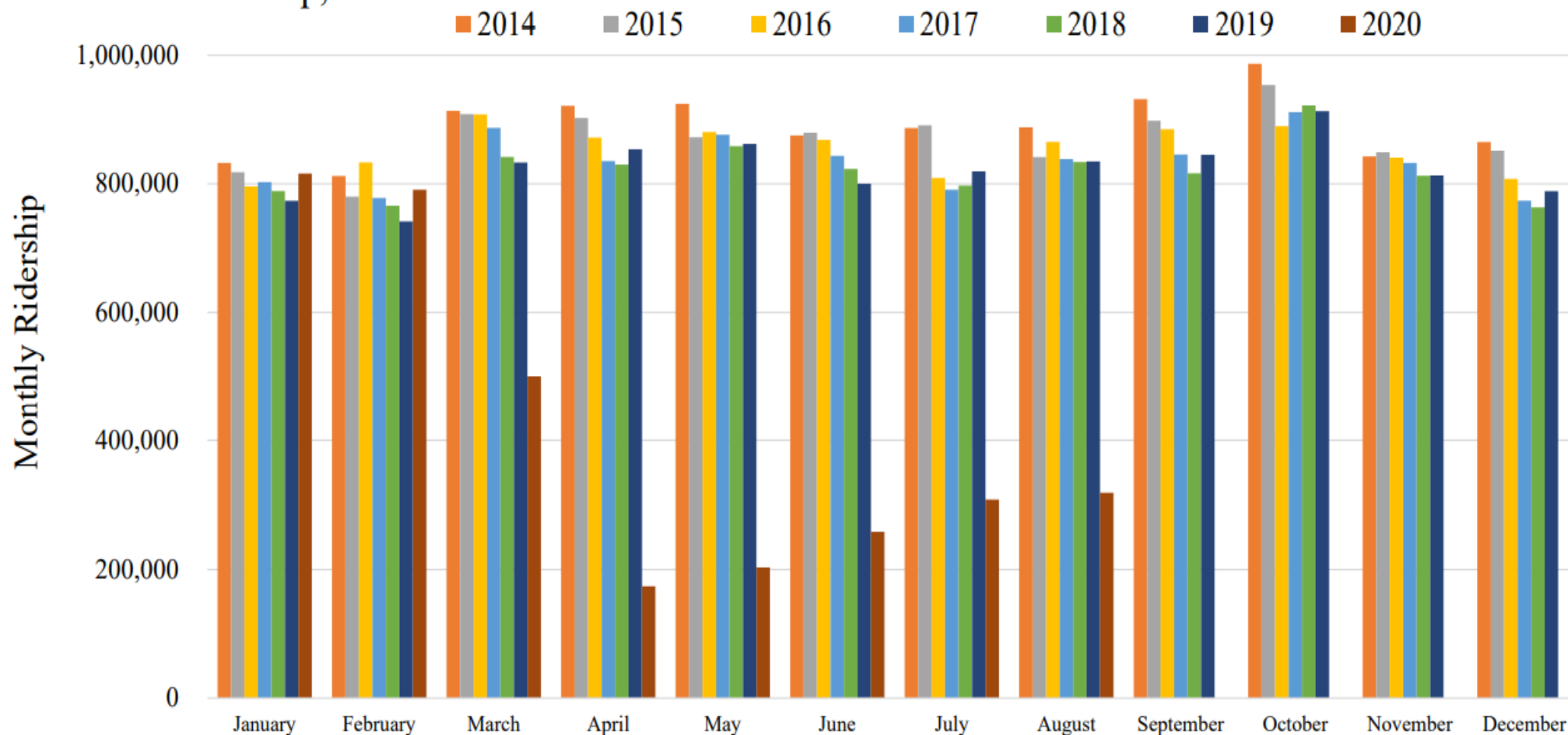
Transit Trips Critical to Low-Income People



Data source: FHWA, 2009, 2017

The Pandemic Hit Transit Ridership Hard & Quickly

Public transit ridership, all sub-modes.



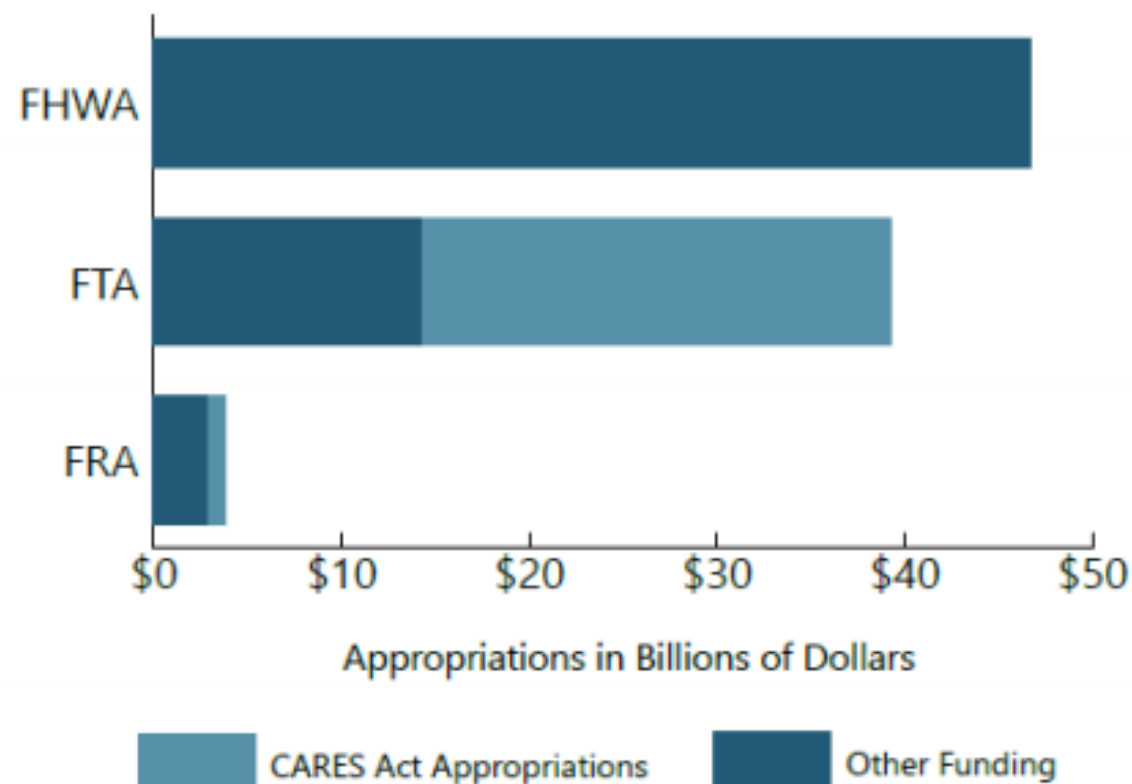
Agencies That Have Fared Best Have Had Agility and Multiple Sources of Finance (Short & Long Term)

- Fare revenue fell dramatically, but several other sources of transit revenue rebounded quite quickly - - e.g. sales taxes, motor fuel taxes,
- Transit properties that could reprogram or borrow capital funds for operations in the short term had more options than impenetrable firewalls between capital and operating budgets

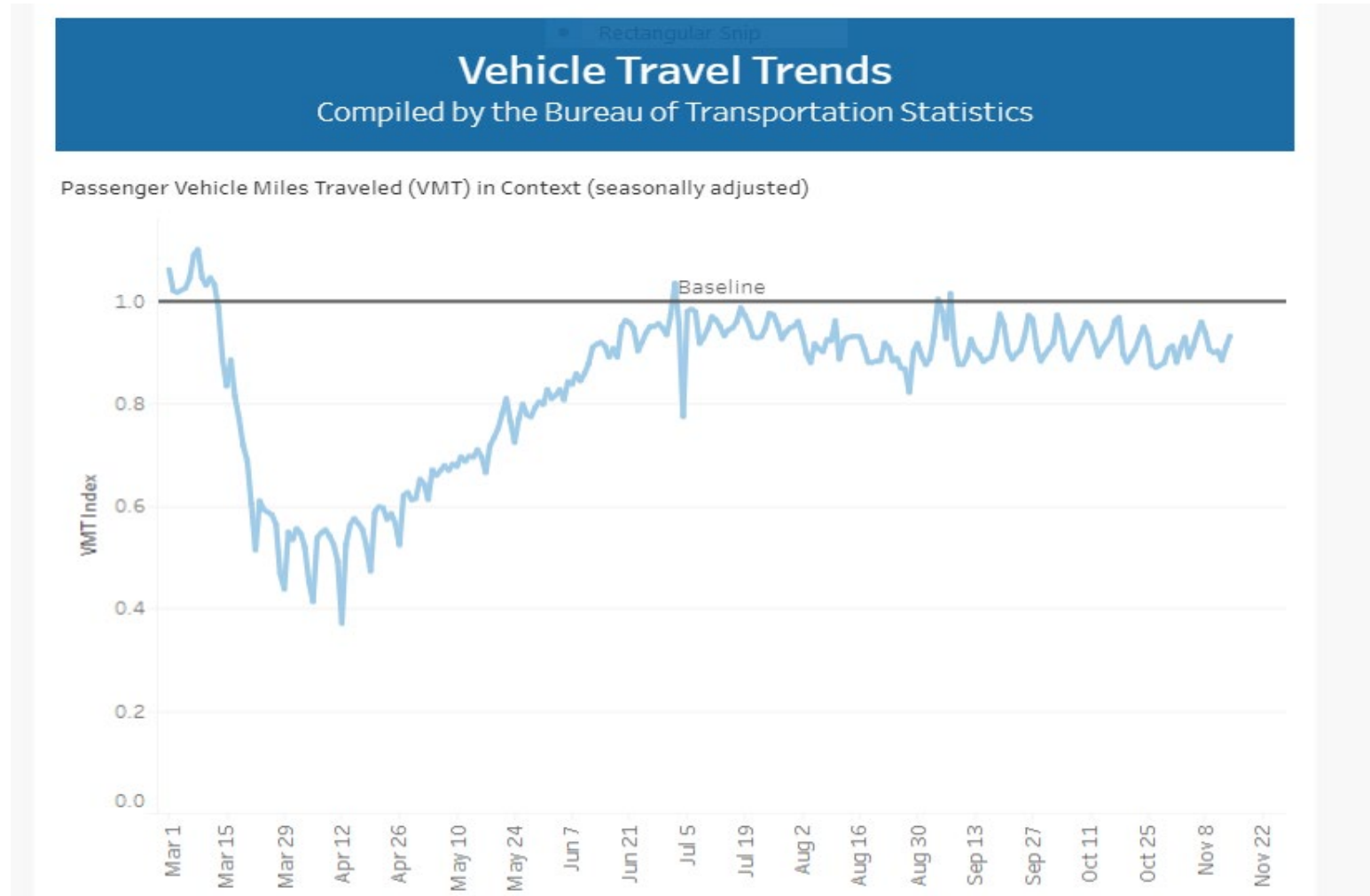


FEDERAL CARES ACT FUNDING CRITICAL BUT SHORT TERM

DOT Funding for Surface Transportation Agencies for FY2020, Including CARES Act Appropriations

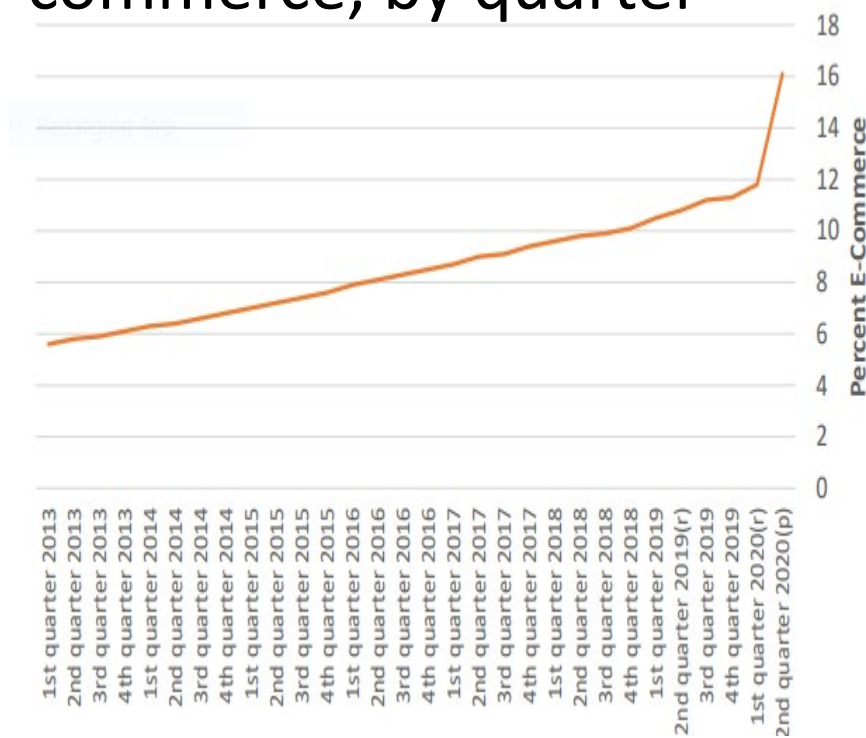


FUEL TAX REVENUE FELL BUT REBOUNDED WITH VMT

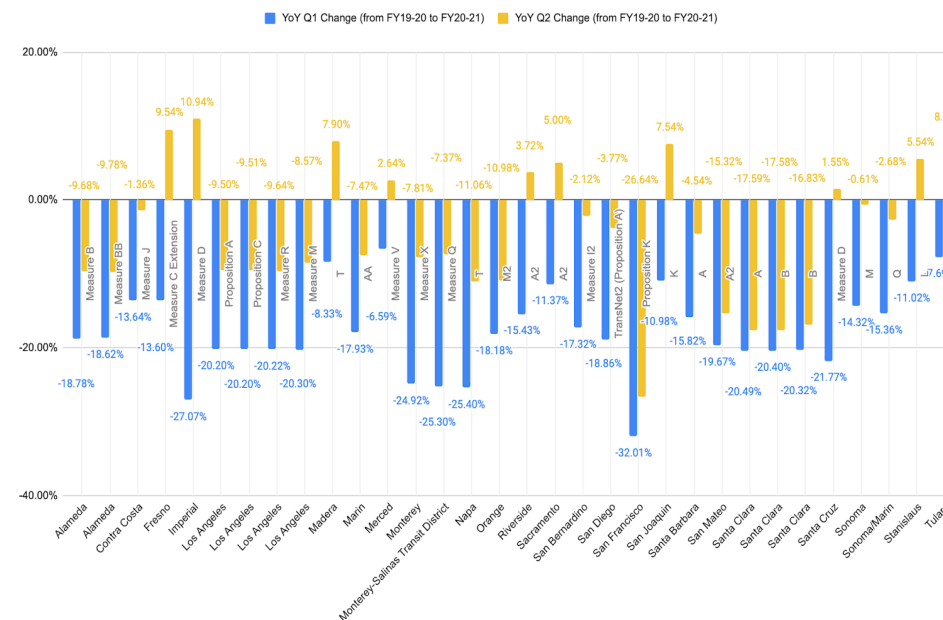


Transportation Sales Taxes Have Rebounded

- % of Retail Sales by e-commerce, by quarter



- County transportation sales taxes in CA



TAKEAWAYS FROM COVID EMERGENCY

More Essential than ever

- Transit is an essential service that served essential workers.
- Low income, carless, transit dependent, minority workers needed transit more than ever.
- People who could telecommute & had autos available left transit in much larger numbers and may be slow to return.
- Operating costs rose and fare revenue declined; other sources of revenue rebounded more quickly.



The Perennial Search for Revenue

- Transit finance is a history of “crises,” leading to negotiations in which
 - Transit agencies must seek infusions of cash to meet their costs.
 - Politicians seek more service and capital investments in their districts in exchange for revenue support.
 - Labor unions seek higher wages and benefits to consume the revenue.
 - Riders want lower fares and more service.
 - Governance organizations emphasize short-term fixes.
 - All agree that efficiency & equity are top priorities but judge these using different criteria.
- The cycle is repeated and soon another crisis occurs



LONG-TERM TRANSFORMATIONS UNDERWAY BEFORE COVID WILL CONTINUE AFTER

- Transit must continue to become more integrated with telecommunications via smart phones.
- Ridehailing **MUST** be integrated with transit services.
- Motor fuel taxes will continue to decline as a revenue source for transit as fuel economy grows steadily and electric vehicles come to dominate the fleet.



Transportation Revenue Should Be An Instrument Of Transportation Policy

- Route structures, capital plans, and fares are too often determined separately from questions of revenue.
- Transportation finance should be a central element of transportation policy and not something done after other elements of planning have been completed.



Pursue Policies Pursue Multiple Long Term Objectives: Not Revenue Alone

- Example: Peak/Off-Peak differences and distance based fares encourage more ridership for shorter trips and raise more revenue than flat fares.
- Example: Deep discount fares to large employers, schools and colleges, and residential communities increase ridership & are new sources of revenue.
- Example: Congestion pricing of roads (express lanes) can be coupled with increased transit service in affected areas and paid for by congestion fees
- Question: Does free fare operation help or hinder efforts to increase efficiency & equity?

Lesson from the Pandemic

- Agencies receiving funding from multiple sources fared better than those dependent on fewer sources
- Fares, property taxes, sales taxes, fuel taxes, payroll taxes, general funds (e.g. income taxes) are all sources of revenue that were affected differently by this crisis & other crises; dependence on one or two sources increased risks due to declining or delayed revenue during the crisis



Thank you for Your Attention

Thank you to Steve Polzin, Evelyn Blumenberg, and Brian D. Taylor for
some of the graphs

Questions and Comments Invited: mwachs@luskin.ucla.edu