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Understanding COVID-19's Impact on Local Transportation Revenue – A Mid-Crisis View from Experts

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When COVID-19 swept into the United States in early 2020, it upended two patterns of behavior critical to transportation funding: how people traveled and where economic activity occurred. This study explored how, one year into the pandemic, experts in California believed that the COVID-19 pandemic was impacting local transportation budgets.

Study Methods

We interviewed 34 funding experts who represented local transportation and public works departments, state officials, and municipal finance experts. In these conversations we asked interviewees how they saw COVID-19 impacting their overall local transportation budgets in the short and long term, as well as which specific revenue sources were particularly effected. The interviews were conducted from December 2020 to March 2021, a time when the experts had not yet received confirmation of 2020 tax and fee receipts.

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Findings

The transportation revenue impacts from COVID-19 varied greatly by place, mode, and type of local government. For example, interviewees from large cities described being hard hit by lost economic activity in their downtowns—and thus lost sales tax revenue—once office workers shifted to remote work. Conversely, other interviewees described rural areas with increased sales taxes because their residents spent more money locally. Public transit operations were particularly hard hit, while funding for streets and roads remained more or less stable in many locations. Finally, revenue from sources like vehicle registration fees and property-based revenue remained relatively stable, whereas revenue from sources like sales and hotel taxes changed rapidly.

Public transit experienced the most drastic change in transportation revenues. Teleworking, business and school closures, event cancellations, social distancing recommendations, and fear of contracting coronavirus in public transit resulted in a sharp decline in transit ridership and significant losses in fare revenues. At the same time, transit agencies also faced new major expenses related to COVID-19, such as frequent cleaning to disinfect surfaces, providing personal protective equipment, and, in some busy locations, running more frequent service in order to permit social distancing on the vehicles.

Federal coronavirus relief funds allowed essential services to continue through the pandemic. Virtually every interviewee described federal funds from the Coronavirus Aid, Relief, and Economic Security Act (CARES) and the COVID-19 Restrictions Support Scheme (CRSS) as essential. Interviewees described these new funds as critical for local governments to keep offering public transit service and perform basic road maintenance and management.

The shift to telework had an enormous impact on transportation budgets by changing the location of taxable activities and thus reallocating revenue differently across local jurisdictions. The interviewees described revenue moving from one jurisdiction to another because consumers spent money near their homes instead of near their former workplaces and/or because some people relocated once teleworking freed them to live anywhere.

COVID-19 spotlighted long-term challenges with motor fuel taxes. Although the interviewees had feared a major drop in state and federal fuel tax revenues, by winter of 2021 many were anticipating an imminent return to pre-pandemic vehicle miles traveled (VMT) and thus only modest reductions in fuel tax revenue. For some interviewees this experience with a brief crash in fuel purchases and corresponding drop in fuel tax revenue starkly highlighted the need for California to reduce its reliance on fuel tax revenues in anticipation of rapid growth in the number of electric vehicles.

COVID-19 spotlighted long-term challenges with the distribution of sales tax from online purchases. Numerous interviewees described how the dramatic shift to online shopping created huge revenue windfalls for communities that host warehouses and corporate headquarters, but in the process drained revenue away from communities that had historically relied on sales taxes from local retailers and services to fund transportation. This re-allocation occurred because sales tax revenue from online purchases is sometimes allocated to the place where the retailer has its headquarters, sometimes to the location of a warehouse, and sometimes to the community where the consumer lives.

Implications

Local governments can prepare for future unanticipated shocks to transportation budgets by packaging revenue from a set of taxes and fees that draw on different tax bases, such as property and vehicle ownership, retail sales, and transportation user fees. State leaders can support local transportation by planning for revenue streams to support the variety of different local entities and modes, expanding local governments' powers to impose taxes and fees that they identify as appropriate to their own capacities and constraints, rationalizing which jurisdictions receive sales tax from online purchases, and preparing to replace fuel taxes with a tax unrelated to burning fossil fuels.

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To Learn More

For more details about the study, download the full report at transweb.sjsu.edu/research/1938B

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