What is Transit? Time to Decide!

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Joshua Schank, PhD & Emma Huang

Public transit in the U.S. has a fundamental problem, a problem coming to a head because of the COVID-19 pandemic. Transit, unlike most services, tends to lose more money when more people use it. This happens because transit, for many reasons, charges patrons far less than the actual cost of a ride, meaning agencies lose money on every ticket sold (and cannot make it up on volume). As we are seeing as a result of COVID, the inverse is not true—a loss in ridership does not necessarily translate to money saved, in part because it is politically challenging for agencies to reduce service, but also because transit service involves high up-front capital investments. As a result, a loss in ridership in transit typically means a loss of revenue without a concomitant decrease in costs (at least in the short-term). This phenomenon means that transit is currently in a no-win situation financially. More riders mean higher costs and not enough revenue to make up for it, and fewer riders means lower revenues with no cost decrease to compensate.

How did we get here? This outcome is the natural result of asking transit to do too many things. Transit is often asked to solve many problems—traffic, pollution, global climate change, and inequities chief among them, not to mention issues that occur on transit such as crime, homelessness, racial profiling, public health concerns, and more. But transit's fundamental financial paradox arises when transit is asked both to reduce the number of people driving cars and to provide a public service for those without cars.

These two goals are not always aligned, leading to confusion about what transit is seeking to accomplish, and to a system that charges users far less than the actual cost of the service. As a society, we do not want to charge full price for transportation to our most vulnerable members. We also don't want to charge full price for a system that is typically slower and less comfortable than driving for most trips in U.S. cities. Charging full price for transit would not only impose a substantial burden on low-income people who can scarcely afford it but would also discourage more people from riding and create more traffic and pollution.[1] Hence, we find ourselves where we are today, where in most American cities outside of New York, transit fails to work as a public service, fails to provide an adequate alternative to driving, and continuously struggles financially. There must be a better way.

There are several potential paths forward. All of them require transformational structural changes that may seem improbable and therefore easy to dismiss. However, this time of crisis for transit could be different. Virtually every major transit agency in the U.S. is staring down a fiscal cliff that

1. This is further complicated by the fact that drivers don't bear the full true cost of driving. See Arnott, Richard, and Kenneth Small. "The Economics of Traffic Congestion." American Scientist 82, no. 5 (1994): 446–55. http://www.jstor.org/stable/29775281; See Dutzik, Tony and Benjamin Davis. "Do Roads Pay for Themslves? Setting the Record Straight on Transportation Funding." U.S. PIRG Education Fund (January 2011) https://frontiergroup.org/resources/do-roads-pay-themselves/

awaits when their COVID relief money runs out.[2] Perhaps this is the kind of motivation we need as a society to agree on some fundamental changes. The following are a few directions we could go—but we need to pick one:

Focus transit agencies on transit as a business.

Transit is being asked to fund numerous social objectives—among them reducing driving, climate change, homelessness, and others—none of which should be the objective of an organization that specializes in transit operations. Ideally a transit agency should have an objective very similar to other purveyors of private goods and services: to provide a product that satisfies its customers. If the agency achieves this objective, it will likely also find that demand for its product will increase, thus satisfying many other aims. But the first step is to put out a good product.

For transit to have customer service as its primary objective, it should be released from these other social objectives and price itself based on demand like other services. There is no clear logic for transit agencies being responsible for subsidizing low-income transportation users. This is not to say there is no logic for *society* to provide a subsidy—that need is quite clear. Low-income people face substantial barriers to opportunities, in a society where the income gap continues to grow, so trying to mitigate this problem makes sense. But transit agencies are ill-equipped, underfunded, and far too small of a segment of society to have a meaningful impact on these larger social objectives.

Similarly, if our society wants to keep transit fares low to incentivize people to take transit instead of driving, there should be an explicit subsidy for this purpose. The agency should set fares at the cost of providing the service, and then receive whatever additional subsidies are necessary from the state or locality that would like to see more people on transit and less people driving. This would also push policymakers, and their constituents, to make hard, but necessary, decisions around tradeoffs regarding the best use of funds to accomplish their stated goals. Any grantee could then measure performance of their investment on that basis. Alternatively, the state or locality could provide subsidies direct to users for the express purpose of riding public transit (or other modes they wish to incentivize).[3]

With responsibility for operating subsidies shifted away from transit, transit operators would be free to focus, like most goods and services, on providing the best possible product for customers in order to maximize revenue and grow their business. Transit could compete more effectively with alternatives because it would be able to develop, price, and market their product based on demand, with subsidies for other objectives funded by other government entities based on costs. Politically, it seems impossible to switch towards this model. What transit agency CEO or Board member wants to call for raising fares to cover costs and then push their respective governments to cover higher costs for passengers? But with an operating crisis looming, they might be forced

2. See https://www.governing.com/now/for-mass-transit-agencies-a-fiscal-cliff-looms; https://www.governing.com/now/for-mass-transit-agencies-a-fiscal-cliff-looms-part-ii; https://www.enotrans.org/article/looking-to-the-horizon-how-agencies-are-anticipating-the-mass-transit-fiscal-cliff/
3. For example, we have suggested previously that Universal Basic Mobility (UBM), in which government provides a subsidy for low-income people to use towards a variety of mobility options and are not limited to transit, is a way to provide substantial benefits to those that need it the most. We have also suggested previously that it should not be the sole responsibility of the transit agency to provide this. See https://transweb.sjsu.edu/research/2236-Public-Transit-Equity-Congestion-Pricing

to choose from difficult options. This one would be a responsible and effective choice that could attract new customers while still taking care of basic societal needs.

Provide and fund transit explicitly as a public service.

In many cities in the U.S., transit functions primarily as a public service for people who cannot afford or are unable to drive. If transit is going to act as a public service, then it should be funded explicitly for that purpose, just as we fund other public services, without fares. When we provide libraries, parks, schools, and fire departments, we do not ask people to pay per use. Instead, we use taxes to ensure that these services exist, that (hopefully) they are delivered effectively, and that anyone can use them as needed.

Transit is not only asked to help people who cannot drive, but to contribute to solving numerous other social problems. For example, LA Metro (where both authors of this perspective used to work), is often asked to solve very important societal challenges related to homelessness, small and minority-owned businesses participation in government contracts, security and policing, and the creation of job opportunities.[4] But the agency does not have an explicit nor steady funding source for any of these purposes, each of which has costs, nor is it the expertise of the agency. What inevitably happens, at LA Metro and other agencies, is that funds for transit operations must be diverted to these other unfunded mandates. Meanwhile, these other mandates also lack sufficient resources to make a substantial difference.

Moreover, for transit the idea of providing a public service gets mixed up with the idea of attracting more riders and this confuses how we evaluate performance. A typical publicly provided service does not necessarily have the goal of attracting more customers. The service exists for those who need it and choose to use it, and they deserve to have a high-quality customer experience, but the service is not judged based on how many people use it. For example, are public parks and libraries funded based on their ability to attract customers? How about fire stations? These services are typically provided, and available at no cost to customers, because they are cornerstones of society. Transit could be treated the same way, with a fareless system (something that several cities are already considering or piloting).

Shifting transit to a public service could have the benefit of shifting the evaluation of the service to being primarily based on how well it is provided, rather than how many people use it.[5] Traditional metrics such as on-time performance are useful, but perhaps more critical are customer experience metrics such as customer wait times, distances to a transit station, door to door travel time, cleanliness, and communications. Using these metrics rather than ridership as a gauge for effectiveness would enable transit to focus on providing the best possible service with the funds available.

4. Metro's FY23 Adopted Budget includes $30.3M for a low income fare program, $49.9M for a K-14 fareless pilot, $296.M for a Reimagining Public Safety effort, which includes $16.3M towards homeless and mental health outreach initiatives https://www.metro.net/about/financebudget/
5. We recognize that a risk of funding transit explicitly as a public service is that it can more easily invite disinvestment if that is not a value upheld in the community or if the political support is diminished; however, there is a promising movement towards considering transit a basic human right, more of which we discuss later.

This model does not necessarily mean completely abandoning the idea of getting more people to ride transit. If a public service is well-run, it will attract more people, especially if it is free for users. But by placing the public service goal front and center, we can develop metrics specific to customer experience (rather than ridership) and hold transit agencies accountable for meeting them. This would reorient transit funding and operations in a way that will better service that goal.

This seems to be the direction that many cities are going as they pursue fareless concepts and promote the idea of Universal Basic Mobility. There is a strong argument that transit, like health care or housing, is a basic human right. Additionally, the very nature of a transit system as a direct connection to the community means it can be an effective conduit to get wraparound resources to people. Planning, operating, and funding transit as a public service would provide the greatest benefit to those that need it the most, and transit operators can focus on ensuring they meet this goal. And if equity is a core value of a transit agency, this would be one way of upholding that. With transit explicitly provided as a public service, transit operators can focus on ensuring that they meet this goal.

Start by choosing a funding method that reflects transit's purpose.

A third alternative to address this issue is to deal directly with funding first. The method by which revenue for public services is raised has a substantial impact on how it is spent. For example, the federal government has used a gas tax to fund much of its transportation investments over the last 60+ years. This is part of the reason that most of that money goes to highways, even as the era of dramatic highway expansion has ended, as it was sold as a way to build out the highway system by having users pay for it. Transit is often funded through sales tax initiatives or other methods that are not directly user based. A general taxation method lacking any specificity related to transit leads to investments that satisfy a broad constituency. This may lead to widespread and sometimes conflicting goals for transit, as the revenue must be spent on multiple projects and initiatives rather than directed towards a specific goal.[6]

For many services, costs are borne exclusively by the users of that service. But if users alone could afford to pay the full cost of transit, transit would likely still be privately owned and operated. But it is not, because most private transit providers went bankrupt and had to be taken over by the public sector to survive. Unfortunately, when this happened, the transition did not occur in a thoughtful and orderly manner, wherein all potential funding sources were considered and the best one was selected. Instead, transit has generally been funded through more of a "whatever works" approach wherein the funding method that is most politically acceptable at the moment is the one that wins out. Sometimes this means raising the fare, or cutting services, or sales tax ballot initiatives, or property tax revenues, cap and trade revenues or any funding surplus that happens to be lying around. It means there is rarely, if ever, any thought given to the public policy outcomes that result from the method selected.

Perhaps society might benefit if we recognized that transit can be what we want it to be, and fund it accordingly based on the funding sources that best achieve those objectives. For example, is the purpose of transit to provide equitable mobility for those least able to afford it? This suggests

6. See Michael Manville's paper "Measure M: Lessons from a successful transportation ballot campaign." https://www.enotrans.org/eno-resources/measure-m-lessons-from-a-successful-transportation-ballot-campaign/

that taxes or fees primarily borne by wealthier residents might be a good funding source, such as a tax on vehicle registration in direct proportion to vehicle value. Perhaps transit is intended as a climate change solution? In that case, it should probably be funded by polluters, such as through a carbon tax. Or maybe transit is intended to help with congestion? In that case, using congestion pricing as a funding source makes sense.

In some cases, it might be easier to start with a funding source. Many substantial transit initiatives in the U.S. have been funded through ballot measures. It may be possible to frame a ballot measure in very specific terms that indicates exactly what problem it will solve and that holds the government agency recipient responsible for solving those problems. While this is virtually impossible to do when ballot measures are framed around long-term infrastructure investments, where the benefits are far in the future, they are much more manageable when aimed at a specific near-term goal. Given the concurrent crises in major cities regarding equity and climate, a ballot measure framed around specific measurable improvements in those areas could be a successful means of rescuing and improving transit.

In other cases, the funding method itself could be more impactful than the spending of the revenues. For example, road pricing is the most obvious example of a funding method for transit that could have far better outcomes just by existing than by generating revenue. But even a gas tax, or a vehicle registration fee can likely do more to improve certain outcomes—such as climate or equity—than many transit expenditures. The method of how we fund transit is a powerful public policy lever, and if we harness it effectively, we can create better outcomes in line with what transit is intended to achieve.

Conclusions

Many urban areas are trying to negotiate the future of public transit right now. Revenues and ridership have fallen, COVID-19 relief money is running out, and new funding sources are needed to keep transit afloat. This seems like an ideal time to have a conversation about transit's purpose, and to focus the mission and funding of transit agencies on achievable goals.

Maybe we are at an inflection point where we can be honest with voters that transit is unlikely to solve all their problems, and instead could potentially be helpful in tackling one. One option is to have transit agencies act as true transportation solutions, tasking them with providing the most competitive transportation services possible, while enabling other agencies that are far better equipped to deal with these social challenges. Another option is to focus exclusively on equity and treat transit as a public service. This would imply a fareless system. A final option would be to start by selecting a funding source that is aligned with the goals of transit, which would go a long way towards focusing the mission of transit agencies.

None of these options are easy from a political standpoint in most regions. But the longer we wait to start pushing them, the worse the situation will become. Right now, transit in most American cities has no clear path to ridership recovery or financial stability. If we truly care about any of the problems transit has been asked to solve, we had better get started now by picking one.

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About the Authors

Joshua Schank holds a PhD in Urban Planning from Columbia University and a Master of City Planning from the Massachusetts Institute of Technology. He is a Research Associate at the Mineta Transportation Institute, a Managing Principal at InfraStrategies, and a Senior Fellow in the Institute for Transportation Studies at the University of California, Los Angeles.
Dr. Schank previously served as Chief Innovation Officer of the Los Angeles County Metropolitan Transportation Authority (Metro), President and CEO of the Eno Center for Transportation, and Transportation Policy Advisor to Senator Hillary Clinton (D-NY).

Emma Huang is a Senior Consultant with InfraStrategies LLC. Emma previously worked as a Transportation Planner in the Office of Extraordinary Innovation at LA Metro. She has a Master of Public Policy from the University of California, Los Angeles.

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