Title

Public Transit’s Post-pandemic Fiscal Challenges

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Publication Date
2023-02-26

POLICY BRIEF

Institute of Transportation Studies | UNIVERSITY OF CALIFORNIA

Public Transit's Post-pandemic Fiscal Challenges

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February 2023

Issue

The COVID-19 pandemic and its aftermath have caused significant financial uncertainty and distress for most transit operators in California (and, indeed, nationwide). Emergency measures taken early on to protect drivers and passengers meant increased operating costs at the same time that ridership and revenues — especially from fares — plummeted.

In the face of this crisis, the federal government provided transit agencies with unprecedented operating support through three pandemic stimulus bills, which proved essential in filling budgetary gaps, stabilizing finances, preventing layoffs, and maintaining service. Other transit subsidies such as local option sales taxes (LOSTs) bounced back robustly after an initial decline.

Yet ridership has returned only slowly and unevenly on most systems. In 2023, as some agencies spend down the last of their federal relief funds, financial shortfalls loom at formerly high farebox recovery and commuter-focused systems. Meanwhile, protracted labor shortages of vehicle operators and mechanics are preventing many systems from providing desired levels of service.

To explore these issues, the research team surveyed transit agencies in California and across the country, conducted interviews with agency management, and analyzed financial and ridership data.

Key Findings

- **Ridership and fares are down** (See Figure 1). Those who continued to ride transit in the early pandemic were disproportionately poorer, women, and essential workers. Commuter-oriented lines and systems, along with those serving a higher-income ridership before the pandemic, saw especially steep declines in both ridership and fares. Overall, transit ridership numbers have rebounded somewhat by early 2023 but remain well below pre-pandemic levels on most systems.

- **Discounted fare programs are increasing.** After many agencies suspended fares early in the pandemic, many are adapting to a "new normal" by expanding targeted, discounted fare programs. Few, though, are considering permanently eliminating fares altogether, due largely — though not exclusively — to the need for fare revenues.

- **Operating costs are up.** Transit service grew more expensive to provide during the pandemic. A vehicle-hour of revenue service in California increased in cost by an average of 18% between Fiscal Year 2019 and Fiscal Year 2021. However, transit agencies did reduce overall expenditures by 12% statewide over the same period, partly because of cuts in service.

- **Labor shortages remain.** A persistent pre-pandemic issue, labor shortages have worsened during the pandemic. Eighty-seven percent of surveyed California transit agencies and 91% of U.S. systems reported struggling to recruit and retain frontline workers.

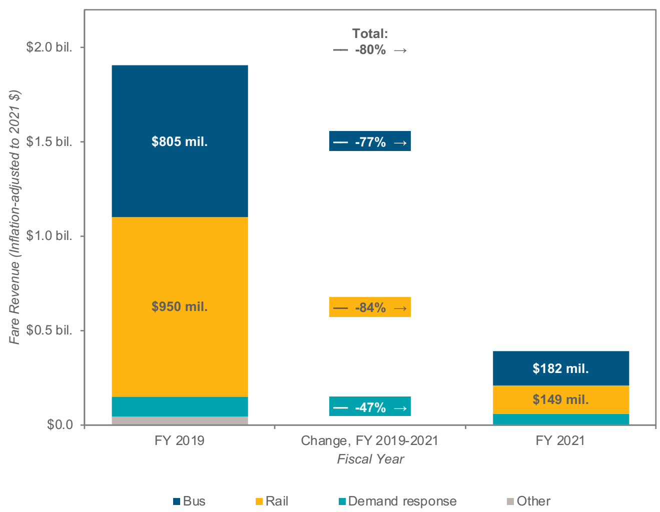

Figure 1. Transit Fare Revenues in California Are Down Substantially

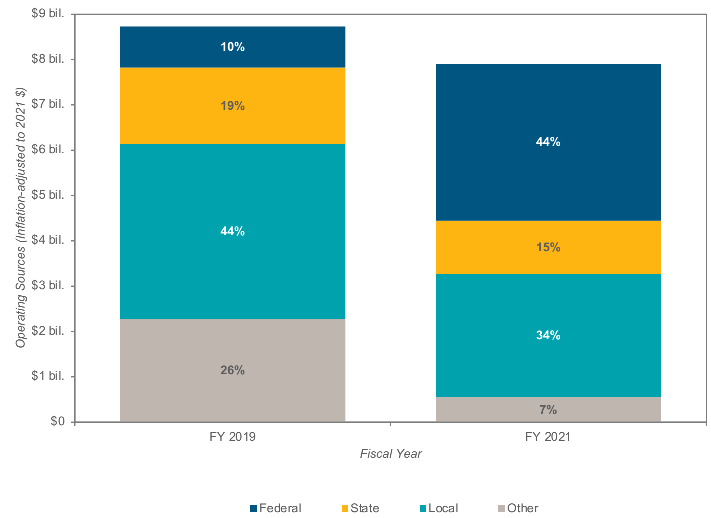

Figure 2. The Enormous, Temporary Increase of Federal Operating Support for California Transit Agencies

- **Capital projects are mostly on track.** The pandemic affected operations more than capital projects, such as new vehicle purchases and new facilities. About one-third of California systems and half of U.S. agencies surveyed in summer/fall 2020 reported capital project delays. By fall 2021/winter 2022, however, only two in 10 California agencies and one-third of U.S. respondents reported delays. Around 20% of each even reported accelerating projects. Capital expenditures fell slightly from FY 2019 to FY 2021.

- **A policy intervention *worked*.** The federal pandemic stimulus provided California (and U.S.) transit agencies with a critical lifeline when they most needed it. Transit managers credited the fiscal stimulus for preventing much deeper and longer-lasting service cuts. The three federal stimulus bills together provided $10.4 billion to the state and dramatically changed the makeup of California transit operator revenue. The federal share of operating revenues rose from 10% in FY 2019 to 44% in FY 2021 (See Figure 2). The bills collectively supplied more than a year's worth of operating expenses to most transit agencies; the median agency in the state's major regions received nine times more in stimulus funds than their annual fare revenue losses. This has helped many transit operators cover ongoing shortfalls.

- **Most subsidies bounced back.** Receipts from LOSTs for transit recovered more quickly and robustly than many analysts predicted. After an initial decline, revenues began to exceed pre-pandemic averages by the second half of 2021.

- **But fiscal cliffs loom.** On one hand, the majority of California and U.S. agencies we surveyed foresaw pandemic relief funds lasting through at least FY 2022 and in many cases longer. On the other hand, 72% of California agencies reported expecting financial shortfalls after federal pandemic relief funds were spent, higher than the national response of only 47%. Agencies that depended most on fare revenues before the pandemic tend to be suffering most from fare revenue losses today.

Conclusions

Together, Figures 1 and 2 paint a picture of both the success of the federal stimulus bills and a looming fiscal cliff for many transit operators. The massive, unprecedented increases in federal support for transit operations came at a crucial time and largely filled the hole left by short-term losses of many other subsidy revenue sources and the continued losses in fare revenues. Looking ahead, the $3.5 billion in annual federal funds covering 44% of California operating expenses in FY 2021 are slated to revert to the pre-pandemic 10% share (less than $1 billion). Unfortunately, with ridership and associated fare revenues still depressed, and state and local revenue sources climbing only modestly, total operating revenues for California are largely flat (at roughly FY 2019 levels), despite substantial increases in operating costs.

Rising costs, depressed fare revenues, and the zeroing out of federal relief funds point to a rocky fiscal future for public transit in California, particularly among formerly high-fare revenue, commuter-oriented systems. Operating subsidies from the state and local sources will need to increase, service will need to be cut (likely depressing ridership further), or some combination of the two will be required to return California's transit systems to a more stable financial footing in the years ahead.

More Information

This policy brief is drawn from the "Transit Finance and the Pandemic" research project by the UCLA Institute of Transportation Studies. The full project can be found at www.its.ucla.edu/project/transit-finance-and-the-pandemic.

Figure Data Sources:

BLS (2023). CPI for All Urban Consumers (CPI-U). *Bureau of Labor Statistics*. https://data.bls.gov/PDQWeb/cu.

FTA (2023). The National Transit Database (NTD). *Federal Transit Administration*. https://www.transit.dot.gov/ntd.

Research presented in this policy brief was made possible through funding received by the University of California Institute of Transportation Studies (UC ITS) from the State of California through the Public Transportation Account and the Road Repair and Accountability Act of 2017 (Senate Bill 1). The UC ITS is a network of faculty, research and administrative staff, and students dedicated to advancing the state of the art in transportation engineering, planning, and policy for the people of California. Established by the Legislature in 1947, the UC ITS has branches at UC Berkeley, UC Davis, UC Irvine, and UCLA.

Project ID: UC-ITS-2022-15 | DOI: 10.17610/T6MW3R