APTA POLICY BRIEF

Public Transit Agencies Face Severe Fiscal Cliff

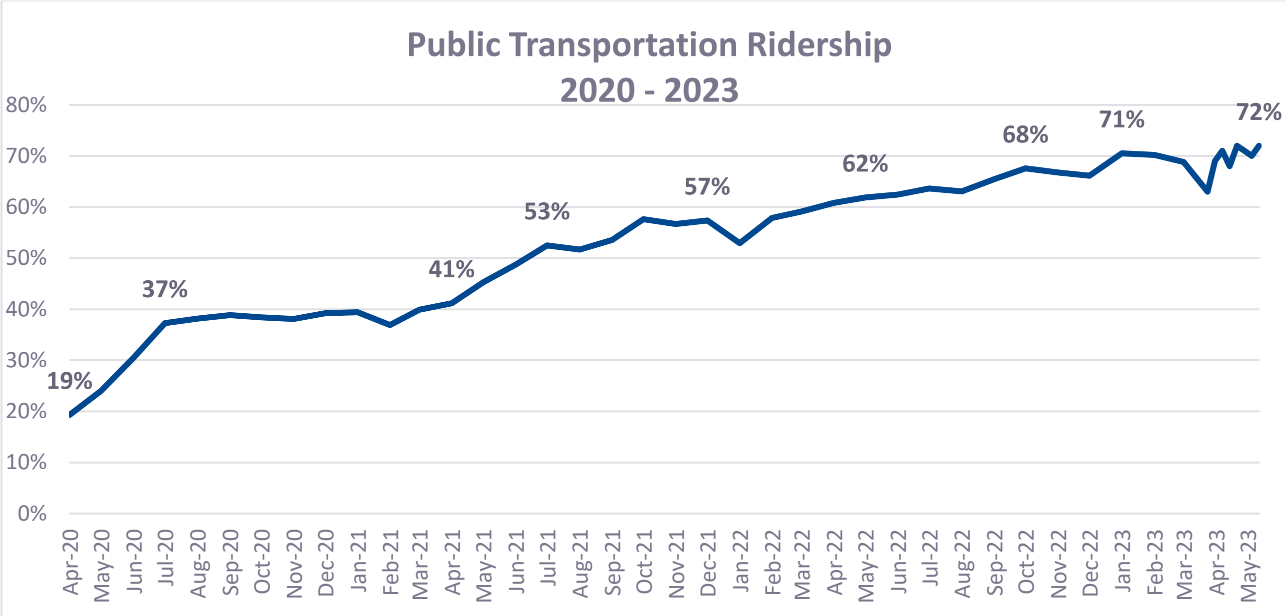
Key Takeaways

1. In May 2023, APTA surveyed its public transit agency members on future potential operating budget shortfalls, also known as the "Fiscal Cliff" that many agencies are facing.
2. One-half (51 percent) of 122 responding agencies say they are facing a Fiscal Cliff in the next five years.
3. For the largest agencies (i.e., agencies with operating budgets greater than $200 million), the percentage is higher—71 percent.
4. The operating budget shortfalls that the largest agencies expect to encounter range from 10 to 30 percent of their operating budgets.
5. Agencies facing a Fiscal Cliff rank finding new revenue sources (e.g., state and local funds or dedicated revenues) as more likely courses of action than cutting service or raising fares.

Background

Public transit agencies experienced unprecedented decreases in ridership and fare revenue because of the COVID-19 pandemic. Congress provided emergency funding as part of three separate laws in 2020 and 2021. This emergency funding helped public transit agencies avoid major service cuts or layoffs by replacing lost fare revenue and local and state funding due to the pandemic. Transit agencies have obligated more than 99 percent of these COVID-19 emergency relief funds. While ridership levels have recovered to more than 70 percent of pre-pandemic levels nationwide, those levels vary by agency, and there is some evidence that fare evasion has increased in the last three years. In addition, operating costs have increased substantially since 2019. As a result, transit agencies are facing a situation where COVID-19 relief funds are expended and operating costs have increased, but fare revenues have not returned, presenting a looming operating budget shortfall, or "Fiscal Cliff".

Public transportation ridership has recovered steadily over the past three years. As of the first half of 2023, public transportation ridership has recovered to more than 70 percent of pre-pandemic levels. Bus ridership has generally recovered more compared to pre-pandemic levels than rail modes. Rail ridership has seen more impact from work-from-home and downtown occupancy trends. Bus systems tend to serve more non-commute trips which have more closely returned to pre-pandemic levels. These ridership trends have had a profound impact on transit agency fare revenues.



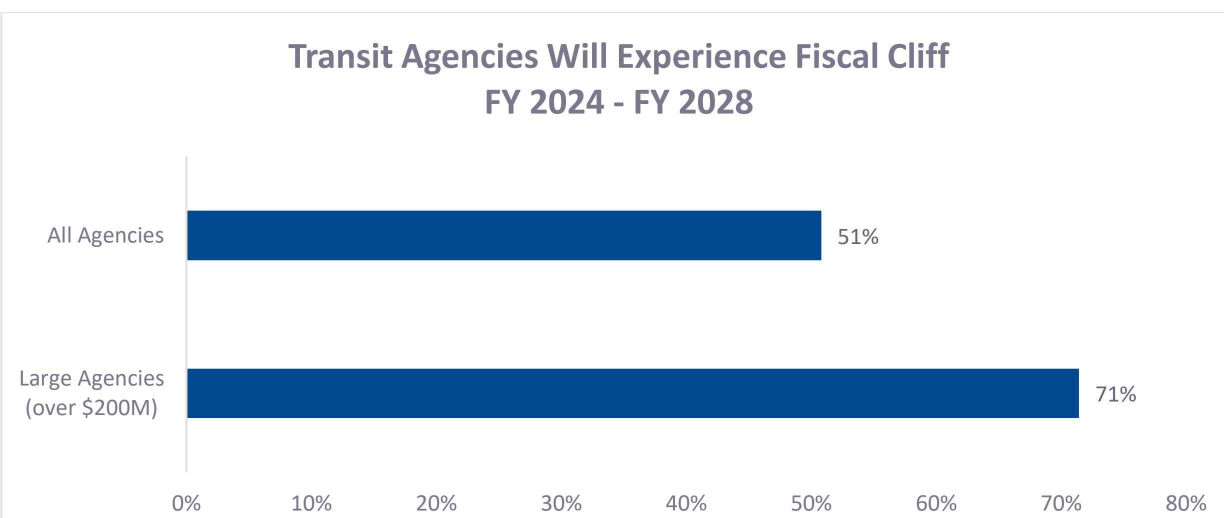
Public Transportation Ridership 2020 – 2023, Percent of Same Period in 2019.

In May 2023, APTA surveyed its members on future potential operating budget shortfalls that many agencies are facing. One hundred and twenty-two (122) APTA transit agency members responded.

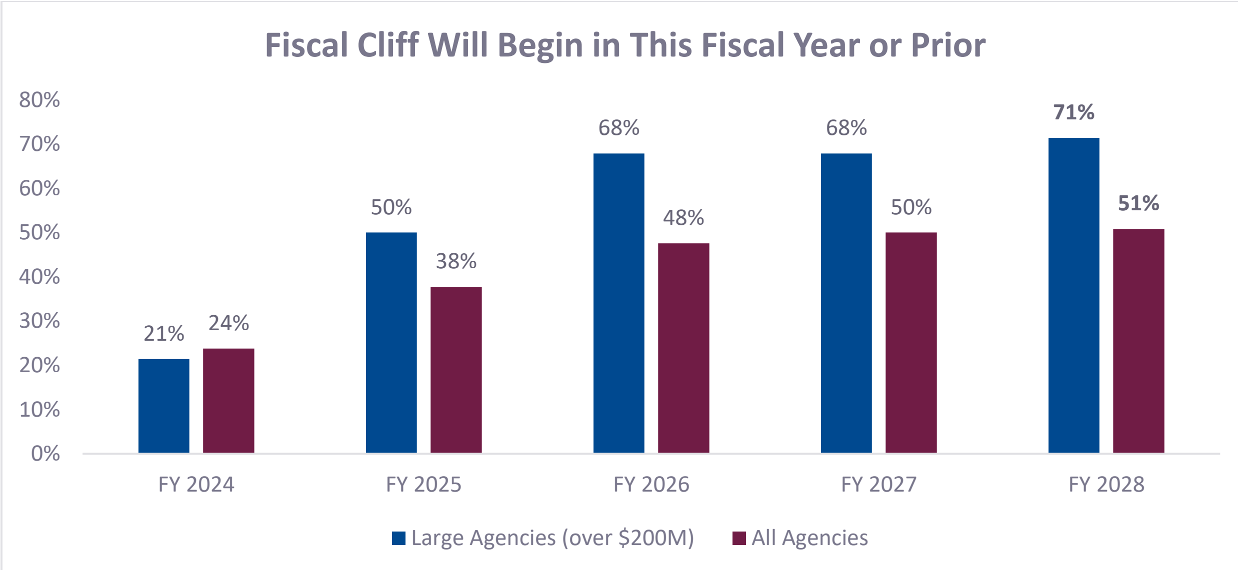
For the survey results, we established two categories for analysis: all respondents and large agency respondents (i.e., agencies with annual operating budgets greater than $200 million). Seventy-five percent of large agencies responded to the survey and all responding agencies represent nearly $32 billion of approximately $50 billion in total fiscal year (FY) 2021 transit industry operating expenses.

Survey Results

One-half of responding agencies (51 percent) indicated that they will experience a Fiscal Cliff in the next five fiscal years. Seven of 10 large agencies (71 percent) stated that they are likely to experience a Fiscal Cliff in the next five years. These results correlate with what APTA members have shared at recent APTA conferences and committee meetings.



A majority of those agencies that anticipate a Fiscal Cliff stated that the Fiscal Cliff would begin to hit in FY 2024 or FY 2025.



Responding agencies were presented with a list of potential responses to operating budget shortfalls and were asked to rank them. Agencies indicated that they are more likely to pursue increased funding from state or local sources, or find efficiencies to reduce their own costs, rather than increase fares or reduce service. Agencies are thinking proactively about how they retain riders and grow ridership and are aware that reducing service and increasing fares have negative impacts on ridership. As one respondent commented, “as we are recovering ridership, fare increases and service cuts are not viable options.”

Public Transit Agency Responses to Fiscal Cliff

Most Likely to Pursue →	Seek Increased State Funding
	Reduce Transit Agency Costs
	Seek Increased Local Funding
	Seek New Dedicated Tax Revenues
	Seek Other New Revenues (e.g., Advertising, Naming Rights)
	Reduce Service
	Shift Funds from Capital Budget to Operating Budget
	Seek Increased Fares
Least Likely to Pursue →	Reduce Workforce

Some agencies are considering longer-term solutions, such as pursuing local ballot initiatives to create dedicated funding sources. In the meantime, they are seeking local or state funds to bridge the gap.

In conclusion, one-half of public transit agencies, including 71 percent of large transit agencies, face a Fiscal Cliff in the next five years. Agencies facing a Fiscal Cliff are seeking new revenue sources (e.g., increased state and local funding and new dedicated revenues) and reducing transit costs. The agencies are less likely to cut service and raise fares as they continue to aggressively work to restore transit ridership. Some state and local governments have begun to provide the necessary operations funding to continue these essential services.

The American Public Transportation Association (APTA)

The American Public Transportation Association is a nonprofit international association of 1,500 public- and private-sector organizations that represents a $79 billion industry that directly employs 430,000 people and supports millions of private-sector jobs. APTA members are engaged in the areas of bus, paratransit, light rail, commuter rail, subways, waterborne services, and intercity and high-speed passenger rail. This includes transit systems; planning, design, construction, and finance firms; product and service providers; academic institutions; transit associations and state departments of transportation. APTA is the only association in North America that represents all modes of public transportation. APTA members serve the public interest by providing safe, efficient, and economical transit services and products.

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APTA Vision Statement

APTA leads public transportation in a new mobility era,
advocating to connect and build thriving communities