Public Transit's Imperiled Future

By Lisa Schweitzer

Buried within this year's budgetary politics are long-standing problems in U.S. policy towards transit in its cities. One mistake, and a potentially crippling one if it continues, has been a chronic inability among U.S. leaders to come to an agreement about how to stabilize transit funding. This failure, shared by leaders in both parties, has put federal financial support for transit funding—already in trouble since 2009—into a death spiral. Planners advocate widely for public transit in cities as a means to help the environment, improve urban life and provide mobility to those who cannot afford a car. In the new era of transit funding, planners are going to have to help transit agencies find new sources of funding or scale back their transit visions for U.S. cities.

In 2009, the Federal Highway Trust Fund, which pays for a sizable chunk of U.S. transportation investment via the Mass Transit Account, fell short of its financial commitments. Why? Because the federal gas tax that supports the Highway Trust Fund is out of date. The U.S. has failed to increase the gas tax—which is 18 cents per gallon—since 1993. Throughout the intervening decades, the Highway Trust Fund remained in the black because Americans kept driving more, and they kept buying bigger, more gas-guzzling vehicles. They consumed so much gasoline per person that additional revenues made up for the way that inflation eroded the fund's purchasing power. But U.S. leaders did not take advantage of those growth times to bump up the tax by a nickel or a dime, when gas prices were low and when the growing economy could have easily handled it. Raising gas taxes now is both politically and economically much riskier, and the recession has hit gasoline consumption right along with everything else.

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Those problems make for a potent political one-two punch in bankrupting federal transportation funds. Leaders want to deliver on things that Americans value, like transit, but politicians don't want to pay the political penalty that comes with charging tolls or transportation taxes to cover project costs. Thus, politicians work in a constant state of temptation, not unlike college students with their parents' credit cards—spend now, pay later.

No recent president has fallen harder onto this political whipsaw than Obama. After the 2009 shortfall in the Highway Trust Fund, a report from the National Academy of Sciences recommended a modest increase in the gas tax and a gradual movement to mileage fees. The Obama administration's response was no way, no how.

Instead, Obama not only decided to ignore the shortfall, but to build on it. His 2011 State of the Union speech and budget emphasized an infrastructure extravaganza with no way to pay for it. It featured a new $8 billion yearly investment to create a high-speed rail system via a 54,000 percent increase in the budget for the Federal Railroad Administration. Even though high-speed rail companies will charge passengers once the system is in place (quite a bit, if fares around the world are any indicator), Obama's proposal had no clawback for the federal taxpayer and no plan to create a sustainable, long-term fund for seeding the projects.

Instead, the administration simply looted from general fund programs to provide start-up funding for the high-speed trains. Most unforgivable, the president's largesse was carved out of cuts to veterans' benefits, student loans, weatherization programs for the rural poor and aid to families. Even if you think that high-speed rail is a great idea, Obama's budget was an abysmally unfair way to try to pay for it.

Obama may have dodged the issue of raising the dreaded gas tax to fund the system and make up for the deficit in the Highway Trust Fund, but his high- speed rail proposal completely backfired on him. Around the country, from Wisconsin to Ohio to Florida, Republican governors made a media festival out of turning down federal high-speed rail funds. In doing so, the Republicans successfully portrayed the whole high-speed rail plan as yet another instance of Obama's fiscal irresponsibility and, worse, a wildly expensive vanity project.

Unfortunately, the budget blowback on the high-speed rail plan appears to be spreading into a new, much more strident call for eliminating federal involvement in transit investment entirely. Rather than update the gas tax for twenty years of inflation when the tax comes up for renewal, some right-wing firebrands have called for eliminating it entirely based on the argument that states also charge gas taxes and can well make decisions about how much to tax and what to spend it on.

The impulse, if successful, will change transit radically. Although most transit advocates argue that federal support for transit is minuscule by focusing on what transit receives relative to highways, 16 percent of the federal gas tax revenue goes to support mass transit, as does anywhere from 12 to 20 percent of tax revenues on other fuels. All told, the federal government pitches in about $9 billion a year to transit.

For those who would like to see U.S. transit systems expand, the push towards devolving infrastructure finance entirely to states and regions puts the battle for transit funding into familiar territory: the states already provide about $12 billion to transit in U.S. cities, and transit agencies currently spend quite a bit on lobbyists in state houses across the country. Nonetheless, states are in no better budgetary condition than the federal government.

Such devolution to states and regions may radically alter urban transit funding in significant ways, not all negative. As it is, federal transit spending has been concentrated among a handful of states as transit is primarily an urban service. Given the nature of gas taxes, the federal gas tax could go away and the states where transit is an important issue could (in theory) immediately pass an increase in their state gas tax commensurate to the federal tax, and consumers would pay the exact same amount at the pump. Gasoline buyers in places like California and New York are net donors to other states due to the large amount taxpayers in these states chip in to the federal funds, which then go to pay for roads in other locations. If California or New York or the other donor states made up for the loss of federal support with higher state taxes and kept their receipts, their transit operators might actually be better off with devolution.

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Photo: Ann Forsyth

Before anybody gets the wrong idea, these potentially good outcomes are unlikely. Most of the populous states like California and New York already have among the highest gas taxes in the country, and while those are a pittance compared to gas taxes around the globe, raising them would not be an easy political battle. The loss of federal funding would be, in the absence of state and local goverments stepping up, a massive loss in funding for transit across the board.

Even if the more populated and wealthier states did gain the opportunity to tailor transit policy to their own needs, mid-sized regions are likely to lose out big. These are the systems that benefit a great deal from the Federal Transit Administration's New Starts Program in transit. They do not have regional or city tax bases that can support the very high capital costs of most new investments, and they are in states where rural interests dominate state houses. Those types of cities will have to get pretty creative about their bus operations because they will not be able to afford the light rail that places like Portland and Charlotte built with significant federal help. In these places, the progressive planner may perhaps take solace in knowing that low-income rural populations, which have little choice but to drive, will have lower gas taxes.

Both liberals and conservatives have come forward with their own ideas for dealing with new infrastructure funding needs: privatization and an infrastructure bank. The latter featured prominently in President Obama's ersatz budget, and it was perhaps an idea that deserved more attention than it received. The U.S. has had multiple proposals for a federal infrastructure bank, none of which have gained much traction.

Supporters of the idea point to the European Investment Bank (EIB) as the best analogue for their hopes. The EIB was set up by the European Union as a financing arm to help governments (mostly) borrow funds for projects at a comparatively low cost and secured against their own-source revenues, offering low-risk returns for investors. The EIB has been in existence for decades, and its main advantage is that it borrows from capital markets rather than drawing on European Union funds. Its shareholders are the twenty-seven member states. The EIB makes loans for a wide range of projects, including infrastructure, to locales both inside and outside of the EU: it recently financed climate mitigation strategies in India, for just one example. And of particular interest here, it funds many public transit projects throughout Europe.

One of the most recent opportunities for implementing an infrastructure bank agreement has arisen with Mayor Antonio Villaraigosa's 30/10 plan in Los Angeles. In 2008, voters in Los Angeles approved a half-cent increase in sales taxes in Southern California specifically for transportation projects for thirty years. The largest portion of the proceeds, estimated at over $30 billion in 2008, would be earmarked for transit projects. Villaraigosa has tried to get federal interest in allowing Los Angeles County to borrow against that funding at a low interest rate so that the county can construct all the planned projects in ten years and pay off the loans over the remaining twenty years the sales tax is in place—thus the "30/10" moniker.

Despite the plan's appeal, Villaraigosa's efforts have not yet succeeded. The lingering economic stagnation in the U.S. has eroded retail sales and the total revenue that Los Angeles County might raise with the tax over the course of the thirty years. Capital markets, too, have been unstable and conservative since 2008, and they are likely to remain that way until there are federal decisions taken about regulating government-sponsored enterprises (GSEs) in the aftermath of the housing bubble, in which one of the U.S.'s largest and most well-established GSEs, Fannie Mae, is implicated. A U.S. version of the EIB is likely to be structurally much like Fannie Mae, and investors are simply waiting to see whether and how it changes. There is little reason to believe that investors will materialize or that conservatives would go along with creating another very large GSE until the issues associated with Fannie Mae seem to be resolved.

Los Angeles County, and the handful of others like it across the U.S., are exceptional in their size and tax base. In addition to the immediate problems of establishing another GSE at the federal level is the simple, unavoidable fact that localities still have to have a lot of their own-source revenues for an infrastructure bank to agree to finance their projects. Infrastructure banks also must take seriously the persistent risks associated with project cost overruns and low ridership that plague many infrastructure investments, but particularly transit investment in the U.S. While the former happens routinely in projects around the world, the latter does not.

This problem also plagues the privatization ideas much beloved by U.S. conservatives. The death of President Obama's high-speed rail plan allowed Congressional Republicans to bring up one of their perennial favorites: privatizing

Amtrak in the northeastern U.S., the only corridor that makes any money at all. There is very little evidence to suggest that privately run mass transit system can sustain a wide geographic network even if, in some parts of the network, firms can swing a profit. And for many of the older systems in the U.S., it is hard to figure out who might bid for the opportunity to run ill-maintained networks that come with a billion dollar price tag for urgent maintenance, rehabilitation and rolling stock replacement.

The depressing prospects for public transit funding mean a future of poor service and higher fares. Given current levels of service in the U.S., the idea that things will get worse should keep us awake at night. The leading systems in the U.S. are already there. San Francisco residents faced four fare increases in six months, even as BART, a rail operator, cut service from every eight minutes to every twenty minutes in response to a $300 million budget deficit. In New York, the MTA eliminated discounted student passes and cut service frequency as part of its struggle to cope with an $800 million deficit. Those who are poor suffer the most from our long-term disinvestment in transit, and the future of serving these riders looks extremely dim.

For three decades, planners have been among the most vocal advocates for investment in public transit. The end of federal support for transit means a much longer and more difficult fight to create the sorts of transit systems that really unite regions and connect impoverished residents to new opportunities. P²