

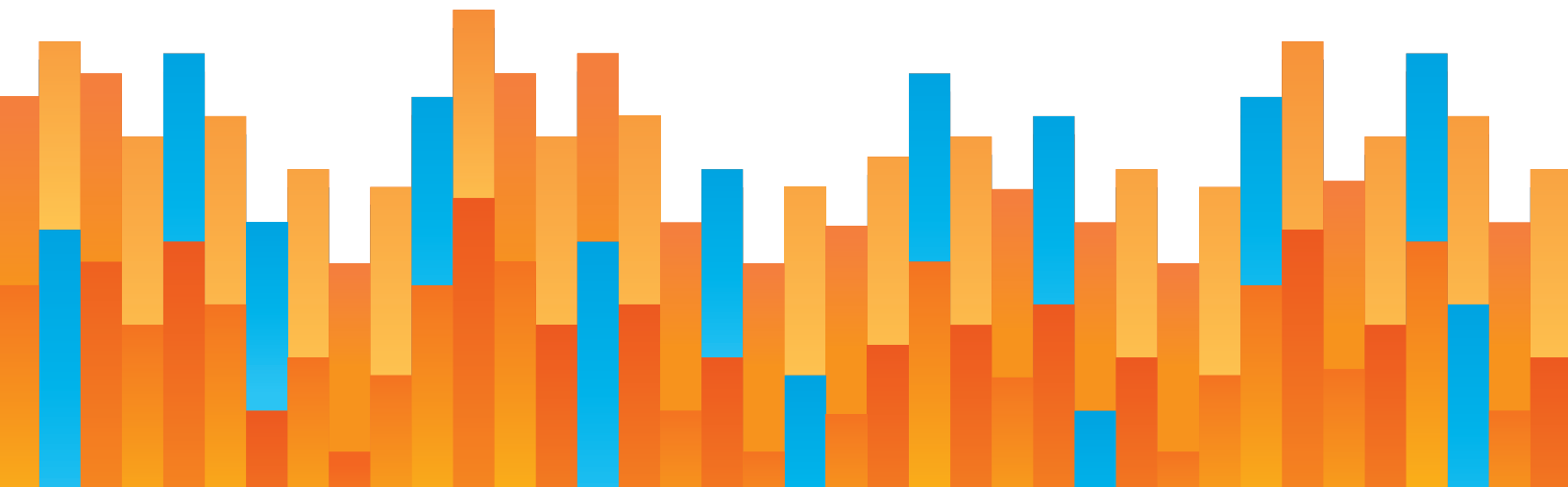


reason
FOUNDATION

FIVE ACTIONS TRANSIT AGENCIES SHOULD TAKE IN THE NEXT TWO YEARS

by Baruch Feigenbaum

September 2023





reason
FOUNDATION

Reason Foundation's mission is to advance a free society by developing, applying, and promoting libertarian principles, including individual liberty, free markets, and the rule of law. We use journalism and public policy research to influence the frameworks and actions of policymakers, journalists, and opinion leaders.

Reason Foundation's nonpartisan public policy research promotes choice, competition, and a dynamic market economy as the foundation for human dignity and progress. Reason produces rigorous, peer-reviewed research and directly engages the policy process, seeking strategies that emphasize cooperation, flexibility, local knowledge, and results. Through practical and innovative approaches to complex problems, Reason seeks to change the way people think about issues, and promote policies that allow and encourage individuals and voluntary institutions to flourish.

Reason Foundation is a tax-exempt research and education organization as defined under IRS code 501(c)(3). Reason Foundation is supported by voluntary contributions from individuals, foundations, and corporations. The views are those of the author, not necessarily those of Reason Foundation or its trustees.

TABLE OF CONTENTS

PART 1	INTRODUCTION	1
PART 2	THE FIVE ACTIONS	3
	Action #1: Transition Transit Agencies to Mobility Management Agencies	3
	Action #2: Require a Minimum Level of Transit Knowledge to Be a Board Member	5
	Action #3: Partner with Ride-Hail Companies	6
	Action #4: Partner with Microtransit Operators	7
	Action #5: Provide Transit Service Farecards to Low-Income Communities.....	9
PART 3	CONCLUSION.....	11
	ABOUT THE AUTHOR	12

PART 1

INTRODUCTION

COVID-19 accelerated a trend of declining transit ridership. Today, many transit agencies have lower overall ridership and higher overall debt. Most large agencies will face a severe financial cliff in late 2024 when federal stimulus funds have been depleted. Other than the Metropolitan Transportation Authority of New York (MTA), few have a realistic financial plan for 2024 and beyond. The status quo is not a viable option for the future.

“

Most large agencies will face a severe financial cliff in late 2024 when federal stimulus funds have been depleted.

”

This brief details the second of three sets of actions that transit agencies need to take. The recent “Five Actions Transit Agencies Should Take Immediately” brief described actions that transit agencies need to implement as soon as possible for the best result.¹ This second set of actions, as explained in this brief, recommends what transit agencies should adopt over the next two years. The final set of actions will be detailed in the forthcoming book,

¹ Baruch Feigenbaum, “Five Actions Transit Agencies Should Take Immediately,” Reason Foundation, August 2023, <https://reason.org/policy-brief/five-actions-transit-agencies-should-take-immediately/>

Reinventing Transit for the 21st Century; these are larger changes that agencies should make over the next five years.

The five actions that transit agencies should adopt over two years are:

- #1 Transition to become mobility management agencies,
- #2 Require a minimum level of transit knowledge to serve on transit agency boards,
- #3 Partner with ride-hailing services,
- #4 Partner with microtransit providers, and
- #5 Provide transit service vouchers to low-income residents.

PART 2

THE FIVE ACTIONS

ACTION #1: TRANSITION TRANSIT AGENCIES TO MOBILITY MANAGEMENT AGENCIES

U.S. transit agencies are predominantly governed by boards composed of members representing different political jurisdictions. For example, New York's MTA is governed by a 16-member board, all appointed by the governor with the advice and consent of the State Senate.²

“

Twenty-first century transit boards need to have more input on operational and business decisions compared with the politically driven boards governing most transit agencies today.

”

² “The Related Entities,” Metropolitan Transportation Authority, Web.MTA.info. <http://web.mta.info/mta/compliance/pdf/MTA-Creation-Structure.pdf> (1 Apr. 2020).

Twenty-first century transit boards need to have more input on operational and business decisions compared with the politically driven boards governing most transit agencies today. These professional boards would be tasked with serving transit's many audiences but with a focus on transit-dependent customers. Government subsidies would be limited to addressing equity issues, such as decreased fares for students and low-income individuals.

Exactly who would be on the board? The board needs to comprise experts but also represent the stakeholders that it serves.³ In regions with an existing transit agency board, some of the stakeholders would come from that board. The board would comprise other non-traditional stakeholders including riders, landowners within a quarter mile of major stops, local governments, private sector businesses, and taxpayer groups. Such members would represent the community that the transit agency serves. The board would have a fiduciary duty to the transit system. The following is one potential board structure:

- Taxpayer Representatives (3)
- Rider Representatives (3)
- Land-Owner Representatives (2)
- Local Governments (2)
- Public Transit Manager (1)
- Private Transit Providers (1)
- Ride-Hail Companies (1)

Not all regions have a traditional transit agency board. In regions without an existing transit agency, an alternative management structure is a 501(c)(3) non-profit entity, in which all revenue is reinvested into the service. For example, Feonix is a transit coordination service that matches customers with mobility providers in rural areas in five states.⁴ Feonix partners with private sector mobility companies, state governments, transit agencies, non-profit community groups, and interest groups. Given that Feonix does not operate any of the services, it does not have any conflicts of interests in recommending the best service.

³ "Utility Co-Ops," National Cooperative Business Association Clusa International, [ncbaclusa.coop](https://ncbaclusa.coop/resources/co-op-sectors/utility-co-ops/), 2021. <https://ncbaclusa.coop/resources/co-op-sectors/utility-co-ops/> (14 Dec. 2021).

⁴ "Every Mile Matters," *feonixmobilityrising.org*, Feonix Mobility Rising, 2021. <https://feonixmobilityrising.org> (14 Dec. 2021).

Both types of boards would have four basic tasks. The first task is to set transit policies and goals. For example, one policy could be to provide all residents in the urban core access to transit service within 15 minutes between the hours of 6 am and midnight. A second policy could be to ensure all transit vehicles are no more than 20 years old or are extensively refurbished.

The second task is to contract out transit services, operate service that cannot be contracted, and evaluate the performance of service contracts. In some scenarios the board would plan and operate service itself. In another, it might handle route planning while a contractor operated the service. Alternatively, the contractor could handle both the route planning and service operations.

A third task is to coordinate service. The board would address questions such as: Is there a single payment application that works for fixed-route bus and rail, microtransit, and scooters? How does contractor A's service align with contractor B's? The board would coordinate traditional fixed-route service with mobility services including variable-route transit, ride-hailing, bike-sharing, and scooter-sharing that connects to existing fixed-route service. To avoid wasting taxpayer funds, the mobility management board would need to coordinate any subsidized services.

The fourth task for the board is to foster innovation and competition. Many private providers including Uber and Lyft have ride-hailing, scooter-sharing, and bike-sharing operations. They are happy to coordinate with government fixed-route public transit providers but will seek to promote their own scooters—for example a Lime scooter, a company with which Uber has a partnership, over a Spin scooter, which is an independent company.⁵ Regulators should ensure that all companies are free to operate in a given environment and that they are not picking winners and losers by reducing the number of companies that can operate in a city.

ACTION #2: REQUIRE A MINIMUM LEVEL OF TRANSIT KNOWLEDGE TO BE A BOARD MEMBER

Just as important as who is on the transit board is their level of transit system expertise. Ideally, a transit board would have 12-15 members, all of whom are required to have a college degree in a transportation-related field such as engineering, planning, economics,

⁵ Sophia Kunthara, "Via Raises \$200M in Exor-Led Series E, Reaches \$2.25B Valuation."

management, public management, etc. as well as five years of experience in public or private transportation. Members could be current or retired politicians with experience serving on a transportation committee in government, operating a transportation-related company, operating a transportation-related non-profit, or working in a transportation field in academia.

Realistically, at least half of the members should have these qualifications. In addition, the group needs to include members from a mix of backgrounds. Not all of the members should be engineers or planners. Economists and those with management degrees are also important.

ACTION #3: PARTNER WITH RIDE-HAIL COMPANIES

In some cities, ride-hailing companies and transit agencies compete with each other. This creates inefficiency and wastes limited taxpayer funding. The key is to create a more collaborative relationship in which each party benefits, similar to how transit agencies bundle and contract transit service with private transit providers. In this new model, transit agencies operate certain routes in some geographic areas, while ride-hailing companies operate different routes in other geographic areas. With ride-hailing, the traveler downloads an app to a smartphone⁶ and uses it to book a ride and prepay using a credit card or other stored payment method. Uber, Lyft, and local ride-hailing companies have become ubiquitous in many metro areas around the country. Ride-hailing services operate in each of the 50 largest metro areas.

“

Increasingly, ride-hailing companies are expanding beyond single-occupant riders traveling between an origin and a destination.

”

Increasingly, ride-hailing companies are expanding beyond single-occupant riders traveling between an origin and a destination. While this service stalled during COVID-19, it is now

⁶ Niklas Mey, “What is Ride hailing,” *sparelabs.com*, Spare Labs, 30 June 2021. <https://sparelabs.com/en/what-is-ride-hailing/> (14 Dec. 2021).

growing again.⁷ These companies are partnering with transit agencies to operate first-mile and last-mile connections between transit stations and residences or employers.⁸ Uber and Lyft have introduced carpooling services—UberPool (now called UberX Share) and Lyft Line (now called Lyft Shared)—designed for riders to request a shared ride at a lower price.⁹ Waze, owned by Google, also has a carpool app that allows you to search through pictures of drivers and select one traveling to a nearby location.

The main challenge for established ride-hailing services is becoming profitable. Several services, including Gett (a New York City-based service that focused on commercial clients), have shut down, and the business model remains challenging.¹⁰ Both Uber and Lyft are experimenting with automated vehicles that could eliminate drivers and reduce labor costs over the long term.

ACTION #4: PARTNER WITH MICROTRANSIT OPERATORS

Most lower-density areas have limited transit service options.¹¹ Public agencies cannot justify operating a 40-foot bus let alone a 60-foot bus on marginal routes with few riders and a low farebox recovery ratio. For the past five years, private transit providers have been experimenting with supplementary fixed-route or on-demand service. Unfortunately, most of these trials have been unsuccessful. In certain regions, including the San Francisco Bay Area, public agencies have been hostile to private providers, particularly when they think private entities “are stealing their riders.” Private entities continue to experiment with new service delivery models. While Bridj, Chariot, and Leap each failed, Via found success by operating its \$5 shuttle-based ridesharing system in Arlington (Texas), Chicago, London, Los Angeles, New York, Paris, and Washington, D.C. through customizing its service based

⁷ Daniella Genovese, “Uber Expands Pooled Ride Option to Five More Cities,” *foxbusiness.com*, FOX Business, 3 May, 2023. <https://www.foxbusiness.com/lifestyle/uber-expands-pooled-ride-option-five-more-cities> (11 Aug. 2023).

⁸ “Three Revolutions: Shared, Automated, and Electric,” *3rev.ucdavis.edu*, University of California-Davis, 13 May 2021. <https://3rev.ucdavis.edu/transit-ridehailing-partnerships> (14 Dec. 2021).

⁹ Brett Helling, “LyftLine Versus UberPool: Which is a Better Deal,” *ridester.com*, ridester, 14 Aug. 2021. <https://www.ridester.com/lyft-line-vs-uberpool-differences/> (14 Dec. 2021).

¹⁰ “All Your Ground Transportation in One Place at Last,” *gett.com*, Gett, 2021. <https://gett.com/intl/> (14 Dec. 2021).

¹¹ Jeremy Mattson, “Relationships Between Density, Transit, and Household Expenditures in Small Urban Areas,” *Transportation Research Interdisciplinary Perspectives*, (2020) Elsevier. <https://www.sciencedirect.com/science/article/pii/S2590198220301718> (13 Dec. 2021).

on a city's particular needs. Via has also been successful at securing external funding.¹² For example, Mercedes-Benz has invested \$50 million in a joint venture with Via. The company has raised approximately \$137 million in funding from investors.

Even when public agencies don't contract with a private provider to operate the service, they may contract to develop the electronic software for users. For example, Ride On (the transit system in Montgomery County, Maryland outside Washington, D.C. region) is piloting paratransit service in two areas with medium residential and employment density. Via developed the Flex app that Ride On will use while the county will operate the buses.¹³ These partnerships are not just for large metro areas but for smaller regions as well. The Central Ohio Transit Authority (COTA) is also partnering with Via on a customizable app.¹⁴ These public-private microtransit services are the fastest growing type of transit service.



Some public transit agencies have created their own apps for their microtransit services.



Some public transit agencies have created their own apps for their microtransit services. For example, in Tucson, the Sun Tran agency is offering Sun on Demand, which allows passengers to skip stops and travel directly to a destination in the adjoining service zone (Sun Tran divides its service areas into zones).¹⁵ Houston Metro is allowing riders to use an app on its existing shuttles, which serve distinct geographic areas or special events.¹⁶

¹² Sophia Kunthara, "Via Raises \$200M in Exor-Led Series E, Reaches \$2.25B Valuation," *news.crunchbase.com*, Crunchbase News, 30 March 2020. <https://news.crunchbase.com/news/via-raises-200m-in-exor-led-series-e-reaches-2-25b-valuation/> (28 Sep. 2021).

¹³ "Montgomery County Department of Transportation Ride on Flex Transit Performance Assessment," Metropolitan Washington Council of Governments, *mwcog.org*, 2020. https://www.mwcog.org/assets/1/6/FY20_Montgomery_-_Flex_Microtransit.pdf (4 Aug. 2021).

¹⁴ "Via Launches COTA Plus On-Demand Transit in Partnership with Central Ohio Transit Authority," *ridewithvia.com*, Ride with Via, 18 July 2019. <https://ridewithvia.com/news/via-launches-cota-plus-on-demand-transit-in-partnership-with-central-ohio-transit-authority/> (4 Aug. 2021).

¹⁵ "Routes and Services," *suntran.com*, Suntran, 2021. <https://www.suntran.com> (14 Dec. 2021).

¹⁶ "How to Ride Metro," *ridemetro.org*, Houston Metro, 2021. <https://www.ridemetro.org/Pages/RideMETRO-App.aspx> (14 Dec. 2021).

Generally, the private sector has several advantages in providing microtransit service including flexibility, creativity, and the ability to customize service levels. Private companies also have more experience and staff when creating the apps. They can apply lessons learned in one city when they begin offering services in another, taking into consideration unique differences. Transit agencies should consider partnering with private sector providers to offer such service.

ACTION #5: PROVIDE TRANSIT SERVICE FARECARDS TO LOW-INCOME COMMUNITIES

Traditionally, subsidies for transit are paid directly to transportation providers. However, both an Urban Institute study and a Brookings Institution study showed that provider subsidies contribute directly to inefficiency.¹⁷ With a provider-side subsidy program, payments are made directly to the transit operator to maintain certain fare and service levels.¹⁸ Since the provider receives the same subsidy regardless of demand, there is limited incentive to improve service beyond the absolute minimum level required to receive funds. Further, since providers subsidize all commuters regardless of income, they must seek subsidies far in excess of what it would cost to provide service to low-income commuters—the most important transit demographic.

Under a user-side subsidy program, low-income riders purchase trips at a rate far below the rate offered to the general public.¹⁹ Qualified riders receive a farecard, which covers the rider's full cost of making trips. The card might be good for a specified period of time or for a specified number of rides. Farecards can be funded by a local revenue source. The local transit coordinating entity can send farecards directly to eligible transit riders. Those farecards can only be used for transportation services and not be traded or redeemed for cash.

¹⁷ Ken Williams, "Transport Pricing and Accessibility, Brookings Institute, June 2017. https://www.brookings.edu/wp-content/uploads/2017/07/pricing-and-accessibility-paper_web.pdf, 4 (January 2021); Ronald Kirby and Robert McGillivray, "Alternative Subsidy Techniques for Urban Public Transportation," Urban Institute. 1989. <http://onlinepubs.trb.org/Onlinepubs/trr/1976/589/589-005.pdf> (2020).

¹⁸ Bruce Spear, "User Side Subsidies Delivering Special-Needs Transportation Through Private Providers, "National Academy of Sciences Transportation Board Transportation Research Record, *onlinepubs.trb.org*, 1984, <http://onlinepubs.trb.org/Onlinepubs/trr/1982/850/850-003.pdf> (5 Aug. 2021).

¹⁹ Ronald Kirby and Robert McGillivray, "Alternative Subsidy Techniques for Urban Public Transportation."

“

The elderly and disabled prefer user-side subsidies compared with provider subsidies because they lead to better service for the rider.

”

In the 1970s and 1980s the Federal Transit Administration (then the Urban Mass Transportation Administration) examined various user-side subsidies. Most of the evaluations were for shared-ride taxi service for the elderly and handicapped.²⁰ The elderly and disabled prefer user-side subsidies compared with provider subsidies because they lead to better service for the rider. Administrative costs vary based on the size of the system and can be a challenge for smaller systems. Limiting the subsidy to 50% of the overall cost of the trip and the income level to the poverty threshold reduces costs but may not allow the neediest households to use the service.²¹ The biggest disadvantage of user-side subsidies is administrative. Agencies need to have policies in place to prevent fraud.

User-side subsidies have not been extensively used for fixed-route mass transit. However, there is no reason that they cannot be applied to benefit low-income transit-dependent riders on both fixed-route and on-demand service. A 21st century transit system needs to provide subsidies directly to those who actually need them.

²⁰ Spear, “User Side Subsidies Delivering Special-Needs Transportation Through Private Providers.”

²¹ Ibid.

PART 3

CONCLUSION

Transit agencies need to make three major sets of changes as they transition to 21st century mobility agencies. The first brief described a set of five actions transit agencies should make within the next six months. The second set, as explained in this brief, provides an additional five recommendations that transit agencies should adopt over the next two years. The final set, detailed in the forthcoming book, *Reinventing Transit for the 21st Century*, examines wholesale changes that agencies should make over the next five years.

Making these changes will not be easy. And they will require both political and technical leadership from senior staff and elected officials. However, agencies need to move quickly to implement these changes. With finances still limited and ridership remaining low, agencies do not have much choice if they want to continue to provide transit service to needy residents.

ABOUT THE AUTHOR

Baruch Feigenbaum is senior managing director of transportation policy at Reason Foundation.

Feigenbaum has a diverse background researching and implementing transportation issues including revenue and finance, public-private partnerships, highways, transit, high-speed rail, ports, intelligent transportation systems, land use, and local policymaking. Prior to joining Reason, Feigenbaum handled transportation issues on Capitol Hill for Rep. Lynn Westmoreland.

Feigenbaum is a member of the Transportation Research Board Bus Transit Systems and Intelligent Transportation Systems Committees. He is vice president of programming for the Transportation and Research Forum Washington Chapter, a reviewer for the *Journal of the American Planning Association (JAPA)*, and a contributor to *Planetizen*. He has appeared on NBC Nightly News and CNBC. His work has been featured in the *Washington Post*, *The Wall Street Journal* and numerous other publications.

Feigenbaum earned his master's degree in transportation planning with a focus in engineering from the Georgia Institute of Technology.

