

COVID-19

Tackling public transit's funding gap during the recovery

Short-term fixes and long-term opportunities



Tackling public transit's funding gap during the recovery

Public transit ridership in Canada has collapsed amid the COVID-19 crisis, leading to huge financial shortfalls for transit operators across the country. As attention turns towards economic recovery, provincial and municipal policymakers, and transit operators must work together to address transit's short-term revenue crunch—and the long-term changes needed in a post-pandemic world. The Canadian federal government should also play a role in public transit's recovery, supporting the infrastructure and other investments needed to preserve transit's role in making our cities livable, environmentally sustainable, and economically productive.

Why public transit matters

Governments across Canada continue to grapple with the social, health, and economic impacts of the COVID-19 crisis. Now they are also faced with lasting, consequential decisions about their financial priorities during the post-crisis recovery—which is why it's important to remember why public transit matters.

Critical to our cities' economies

Public transit services are a vital part of the economic fabric of Canada's urban, suburban, and exurban areas, providing reliable, efficient transportation to work, school, shopping, and other destinations. Labour markets depend on transit to ensure that employers have access to qualified labour, and that workers, in turn, are able to choose the most suitable jobs. Canada's productivity growth will continue to rely on transit services that match the right worker to the right job.

Unmatched capacity and cost-effectiveness

We've seen a mobility transformation in recent years, especially when it comes to first/last-mile trips, including ride-sharing, micro-mobility, and active transportation. Yet none of these options can supplant public transport's cost-efficiency and high capacity. Without mass transit, our roads and highways would be overwhelmed by congestion well before the economy recovered.

Safety

Public transit remains one of the safest travel modes available; indeed, shifting trips from cars to transit creates financial and economic value by reducing collisions and associated injuries and deaths.

Environmental impact

With the exceptions of walking or biking, it's difficult to beat transit in terms of greenhouse gas emissions and local air pollutants per trip.

Equity and inclusion

Transit is a major contributor to equity and inclusion for low-income groups, visible minorities, and disadvantaged urban and suburban communities. Public transit provides an essential mobility service for people without access to other travel modes, enabling them to get to their jobs and fully participate in society.

Land use and urban planning

Careful planning for transit corridors and stations can support provincial and regional governments' land-use objectives, including transit-oriented development at appropriate station locations.

The first step in funding transit's recovery is understanding transit demand going forward

In the first months of the COVID-19 crisis, public transit ridership collapsed by 70 to 90 percent as governments at all levels took steps to contain the outbreak by asking people to remain at home. The impact on transit revenues was catastrophic, especially for operators with high farebox cost-recovery. Nationally, Canadian transit agencies currently face a financial shortfall estimated at \$400 million per month.

Addressing this funding gap during the recovery requires transit operators—as well as provincial and municipal governments—to first unpack the factors that will hold back transit demand as restrictions are lifted and economic activity recovers, and determine their relative importance.

Key factors affecting transit demand

- **Employment levels:** Historically, employment has been a key driver of ridership, especially to and from cities' central business districts. The COVID-19 crisis has taken an unprecedented toll on jobs: between February and April, over three million jobs were lost (a 15.7 percent drop), and another 2.5 million people were working less than half their usual hours.¹ The result has been dramatically fewer transit trips.

It's not yet clear if employment levels have bottomed out, and while authorities have begun to lift lockdown restrictions, they're doing so gradually—and some parts of the economy could be potentially closed for months longer. Even when all sectors finally reopen, it'll take many more months for economic activity and employment to fully recover. The current expectation is that employment trends could hold back transit demand well into 2022.

- **Remote work:** Even as employment recovers, increased reliance on remote working will likely undermine transit ridership further. More than one in four (27.5 percent) of Canadians employed more than half their usual hours in April—3.3 million workers—had adapted to the COVID-19 shutdown by working from home.² While this figure may represent “peak remote working” compared to the pre-COVID-19 period, it's unclear how many Canadians will choose to continue working for home some or all of the time.

- **Health concerns:** Public transit may be viewed as a relatively high-risk environment for the spread of infectious diseases like COVID-19. Some former transit users will likely avoid travelling on buses and trains; others will want to see concrete measures in place to mitigate contagion risk, such as enhanced cleaning protocols for stations and vehicles, mandatory mask usage, adherence to physical distancing, management of peak passenger loads, or even some form of passenger screening. Ultimately, customers' perceptions of how well transit operators are addressing their health concerns will shape the recovery of transit demand.
- **Non-work-related trips:** The work commute isn't the only thing that gets people on transit; non-work trips for school, shopping, and leisure are other important drivers of transit ridership. Yet here too, the recovery trajectory remains uncertain. It's unclear when governments will lift restrictions on schools, restaurants, shopping centres, sporting events, concerts, and other parts of the services sector—and it's equally unclear how quickly people will return. Some institutions, like universities, have already decided to move their activities online for the Fall 2020.
- **Mobility alternatives:** Underlying all these factors is the growing availability of—and rising consumer interest in—new mobility options, especially those targeting the first/last mile, such as ride-sharing, micro-mobility, and cycling. Transit operators must also contend with continued reductions in the relative costs of using other travel modes. Some factors, such as the drop in gas prices, are relatively new; others are simply the result of the mobility sector's ongoing transformation.

Most of these factors are likely to be temporary or cyclical in nature. While the economic recovery is likely to span a number of years, employment levels will return, health concerns will ease, and even the shift to remote working may well dissipate over time.

However, some factors—such as the accelerated adoption of online collaboration tools in work, school, and other environments—could have potentially permanent effects and drive lasting, structural changes in trip patterns. While these shifts may not ultimately change the amount of time people spend travelling, they will augur a change in the type, destination and possibly timing of trips they take.

Which factors affect ridership, and the extent of that impact, will vary for each transit organization, depending on the organization's exposure to urban, suburban, or exurban trips and to different sectors of the economy. Scenario planning—as noted in both a [report from Deloitte's Center for the Long View](#) and a recent article on [four possible futures for mobility](#)—will be a useful tool in helping transit operators envision and plan for the future.



A short-term financial response is the first step toward securing public transit's recovery

The public policy response to public transit's COVID-19 crisis-driven financial shortfall should be driven by three key considerations:

- Whether the factors contributing to lower ridership are temporary or permanent
- Whether the impact of those factors can be mitigated by transit operators (e.g., perceived health risks) or are outside of their control (e.g. employment, remote-work trends)
- The financial capacity of senior-level governments

Transit operators should swiftly adjust operations in response to the financial shortfalls caused by factors that will clearly have a permanent, long-term impact; there is no point in postponing action in such cases. However, when it comes to addressing the financial shortfalls driven by temporary factors, a strong case can be made for policymakers to compensate transit agencies for most—but not all—of the financial shortfall which is temporary in nature. Provincial governments must take the lead in delivering this financial support, because they typically control the funding and regulatory framework for transit agencies. Municipal governments are unlikely to have the resources required, while the federal government's level of engagement is most valuable in terms of ongoing investment in transit infrastructure.

Policymakers should clearly specify the purposes for which this compensation can be used and the expected benefits to transit users and society at large. For example, transit operators may be required to use the funds to maintain particular services or frequencies, or undertake additional cleaning and maintenance to restore public confidence. This financial support should also be designed in such a way that it makes transit operators responsible for mitigating the impact of declining ridership and revenues to the extent they are able. Providing financial support at a level below the total financial shortfall provides an incentive for transit operators to take mitigation actions; the more mitigation that is possible, the lower the financial support provided.

In practice, only transit managers have the operational knowledge needed to effectively diagnose and implement appropriate mitigation measures in areas under their control. Senior-level governments are not in a position to impose mitigation measures, as they lack the requisite information and expertise to do so. This short-term financial compensation can support transit operators through the next 24 months, enabling them to adjust to the new normal and empowering them to take action to boost ridership and deliver services more efficiently.



Crafting the short-term response to public transit's financial shortfall

- Financial compensation covering a relatively large share of the drop in transit ridership revenues, with a commitment to provide support for a period long enough (e.g. six to nine months) to enable transit authorities to provide an initial, evidence-based assessment of the factors behind the ridership drop and ridership recovery prospects.
- Continued financial support should be tied to a business case that sets out how the additional funding will be used and how it will impact transit riders and the wider community. The business case should reflect a most-likely scenario, but also include upside and downside scenarios as well.
- Financial support should not cover transit provider's total shortfall (e.g. 80 to 90 percent), to provide a strong incentive for them to address temporary challenges, maintain ridership, and contain operating costs. Examples include enhanced cleaning protocols, and reducing expenses unrelated to service quality.
- Provincial governments must take the lead in designing and delivering the financial support package for public transit, because only they have the jurisdiction to fund and regulate transit operations in practice. Most municipalities are unable to fully cover transit funding gaps on their own. The federal government also has a part to play, albeit a different one: via federal infrastructure funding for major transit capital projects.



Transit providers must use this time to develop new, longer-term financial frameworks

Providing short-term financial support to transit operators also creates an important opportunity for these organizations—and the governments that support them—to reimagine transit for a post-pandemic world.

By compensating transit providers for the immediate financial shortfalls they are facing, governments buy them the time required to develop a longer-term financial framework that provides the funding and governance structure needed to ensure transit's long-term competitiveness relative to other travel options. This longer-term plan could include:

- Optimizing the service plan and network to better balance ridership return and growth with cost reductions, especially as ridership patterns change in the post-COVID-19 world.
- Introducing service delivery innovations, such as flexible routing and on-demand services to provide more responsive transit services, where appropriate.
- Adopting clean technologies, particularly electric propulsion technologies for passenger rail and buses.
- Introducing more efficient service-delivery models such as outsourcing and competitive procurement, which are already standard practice in Europe and Australia.
- Reforming fare structures to boost ridership and improve financial cost recovery. These reforms could help make transit more competitive for shorter trips, provide incentives for off-peak travel, remove obstacles to inter-regional travel, and support financial cost recovery.

Some of these opportunities—particularly network optimization and service-delivery innovations—may form part of the reforms and other actions tied to the short-term financial support described earlier. Other challenges, like removing barriers to inter-municipal travel, may become easier to address now that transit agencies need to rebuild their ridership from scratch. Yet others will require longer periods, additional funding, and improved governance regimes (e.g., including performance incentives).

Funding will remain a major challenge for both governments and transit operators over the longer term. This is especially true for transit providers that currently rely on dedicated funding sources in long-term decline, such as fuel taxes. But the challenge will be exacerbated in a post-COVID-19 world in which governments will face many other non-transit-related demands on their revenues. As a result, it will be important for governments and transit operators alike to renew efforts to secure transit funding from sources other than consolidated revenues—ideally, from the mobility sector itself, through congestion charges, road tolls, vehicle registration fees, land value capture, and other mechanisms.

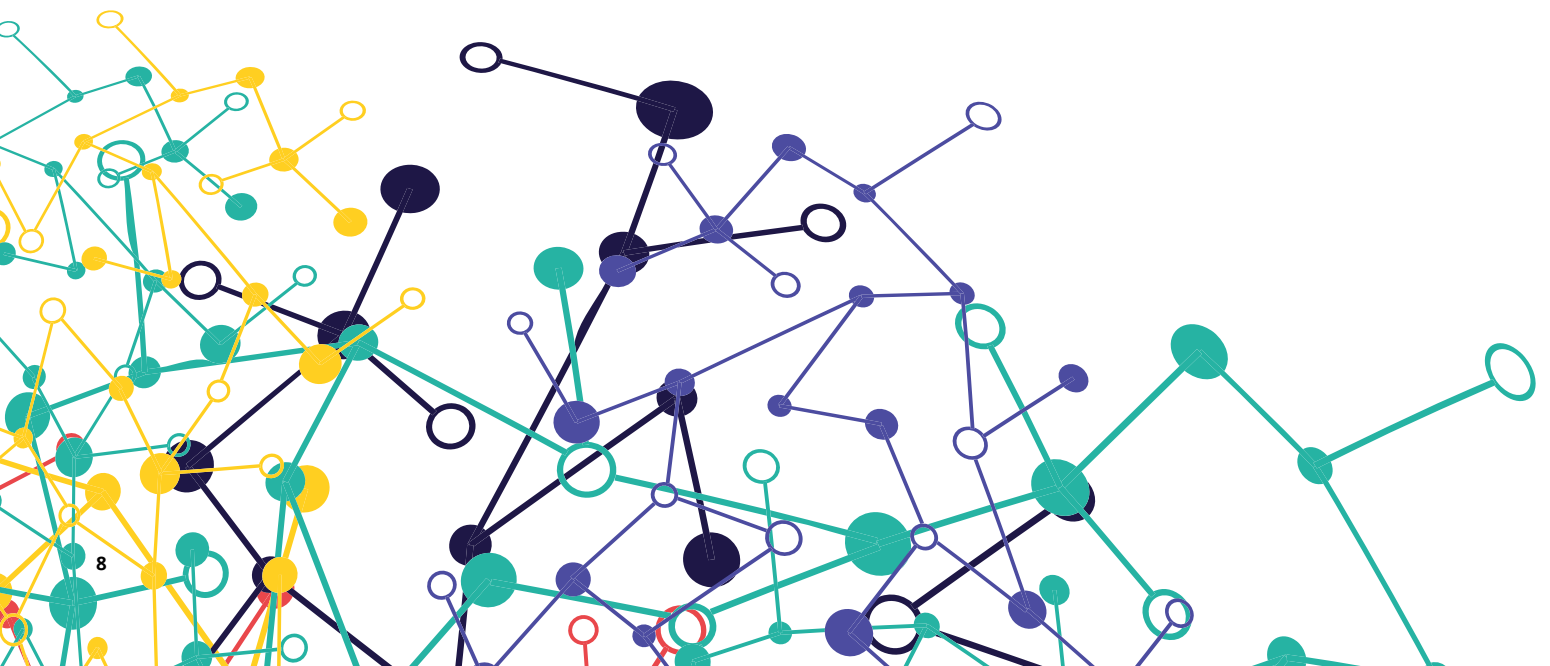


Let's use the COVID-19 recovery to build better, smarter, more resilient public transit in Canada

As Canada turns its attention to the process of recovering from the impact of the COVID-19 crisis, it's imperative that the country's public transit not be left behind. Public transit plays a critical role in our cities' prosperity and is a powerful and essential force for social and economic inclusion. In short, public transit matters. Withholding financial support in the short-term would risk sending transit agencies into a downward spiral of higher fares, reduced services and further reductions in passenger demand.

Provincial and municipal governments must work together on effective policy decisions that help Canada's transit providers deal with the staggering financial impact of plummeting ridership—and prepare for the new normal in a post-pandemic world. These decisions should include short-term financial support that enables transit operators to maintain services while providing the safe, hygienic, physically distanced experience customers demand.

At the same time, provincial governments should work with municipalities and transit providers to develop a new financial framework that improves public transit's long-term financial and operational resiliency. Canada's federal government also has an important role in public transit's recovery, by providing the vital investment in transit infrastructure needed to make our cities more livable, more environmentally sustainable, and more economically productive.



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