Innovative Partnering to Increase Ridership and Revenue

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Public transport is suffering from inadequate financial support

- The world economic slowdown has reduced both fare revenues and tax revenues
- The cost of producing public transportation continues to grow faster than the rate of inflation (fuel, labor, capital renewal)
- The long lead time needed before benefits of capital renewal or new investments materialize make it difficult to marshal the political will to attract financial support today for benefits 5-10 years into the future
- Credibility of transit organizations is damaged by sub-par performance caused by inadequate finance, and makes it all the more difficult to build political will

Yet there is continued high expectation for more and better public transportation

- To support density and economic growth
- To improve environmental benefits
- To moderate or provide alternatives to auto congestion

A promising set of initiatives involves innovative public/private relationships

- PPPs are designed to achieve long-lasting mutual benefits through stable, long-term relationships
- A key ingredient in PPPs is achieving a willingness by beneficiaries to pay, when their first preference would be to receive benefits financed by Other People's Money
- With the current downturn in public finance, there may be recognition that the "Other People's Money" solution will not be available in timely fashion
- Direct "Public Private Partnerships" involve payment by beneficiaries in exchange for greater certainty of benefits earlier, to achieve mutually agreeable outcomes

Today's discussion will explore four examples of this kind of possibility

a) Employer-based transit passes, with both pre-tax subsidy and employer subsidy **(Agency report: MBTA, WMATA)**

b) Employer-based transit passes with universality of access within the reference group **(Agency report: RIPTA, MIT)**

c) Financing of Crossrail based upon capturing contribution of three beneficiaries **(Agency report: TfL)**
  - Riders
  - Business
  - UK treasury

d) Financing of transit facility expansion through PPP **(Agency report: Translink, TfL)**

Employer-based passes

a) Pre-tax treatment provides an effective Federal subsidy of 30%

b) Employer benefits by increased morale, decreased parking cost; often provides subsidy of 30-70%

c) Transit providers benefit from stable, reliable payment, increased utilization, and increased revenue

Universal employer-based passes

a) Employer/institution benefits from increased accessibility, decreased parking cost, improved morale

b) Employees and clients benefits from low marginal cost of use

c) Transit provider benefits from stable funding, increased ridership, increased revenue

Crossrail benefits from avoiding competition for "Other People's Money"

a) Increased fares available **only if system expands with Crossrail**

b) Increased business levy occurs **only if Crossrail is built**

c) UK government collects taxes from construction work employees on Crossrail **only if the project is built**

Public/Private Partnerships on complex expansion

a) Long-term commitment to a complex, multi-year investment is difficult to build and maintain in an environment of competition for resources and annual appropriation

b) A Public-Private Partnership can provide contractually-based stability over time regardless of the source of the revenue stream

c) If the source of the revenue stream is in part unique to the project (i.e., vendor finance and/or uniquely available revenue stream) political competition for funding can be moderated.

d) In contrast to the normal public funding process (develop the political will to pay now, for future uncertain benefit), PPP usually entails paying in the future when value is delivered. With vendors bearing at least part of the quality risk, it is often more politically feasible.

Topics

Employer-based pre-paid transit pass based on payroll deduction in Boston

- Origin as civic demonstration by John Hancock Insurance (1970's)
- Strengthened and expanded by Clean Air Act regulations (1970's and 1980's)
- Further strengthened by tax deductibility (1990's)
- Savings in parking expenditure by employer
- Zero marginal cost for employee
- Detailed data from MIT employee use shows that
  - MBTA receives more payment from MIT than normal fare value of actual usage.
  - MIT benefits from reduced cost of providing employee parking
  - Employees benefit from increased convenience and use transit more
  - In many cases MIT employee contribution exceeds actual use value, showing that convenience is valued

Universality of access combined with employee and student passes at RIPTA (1/2)

- By treating the basis of payment to the transit provider as variable, based on an estimate of actual use by employees and students in the participating institution, the institution only pays for actual use of transit
- Because of group purchase of access by the institution, all students and employees in the participating institution enjoy zero marginal cost of using public transit, resulting in increased use of transit, reduced used of autos and parking, and increased revenue to the transit provider
- A controlled pilot program at MIT shows that universality and pay-per-use results in incremental transit and reduction in parking use, above and beyond the utilization rates of the “traditional” monthly pass, with the transit provider receiving approximately the same revenue

Universality of access combined with employee and student passes at RIPTA (2/2)

- Many transit agencies have experimented with some form of universal pass, but RIPTA has the most extensive universal pass system we have identified where payment varies with utilization
- Reduction of “agoraphobia” among both participating institutions, employees, students, and the transit agency may have beneficial impact beyond convenience value of “traditional” monthly pass, similar to TfL experience with “daily cap”

Crossrail finance based on securing value from beneficiary groups (1/3)

- By basing the financing of the Crossrail expansion approximately 1/3 on increased fare receipts of the expanded system, TfL is assuming the ridership risk that Crossrail will actually achieve systemwide ridership increase and/or it will be feasible to increase fares for the superior system extent, quality, and reduced crowding
- While this requires unusual political will and commitment, it is the future TfL which will experience both the benefits and the risk

Crossrail finance based on securing value from beneficiary groups (2/3)

- By securing 1/3 of the capital cost of Crossrail from the UK government, TfL has essentially convinced the UK government to contribute to the megaproject the increased tax revenues which will be generated by the construction project
- The UK treasury will still experience net benefit from the net economic growth stimulated by the promised service expansion of Crossrail, but would have undoubtedly preferred to get a free ride from the entire stimulus benefits of the project, both short and long term
- This has required building unusual political will by the UK treasury to contribute 1/3 of the cost so that the project can happen (a variant of tax increment financing), but it is the future UK treasury which will receive the increased revenue

Crossrail finance based on securing value from beneficiary groups (3/3)

- TfL (really the Mayor) convinced the London business community to support an increase in the business levy in order to generate approximately 1/3 the construction cost of Crossrail
  - This is a levy on the extended area of system benefit, not just a few blocks near the stations
- Clearly the first preference of the business community would have been to “free ride” based on other people’s money, but the willingness to pay based on the firm belief that the agglomeration benefits of Crossrail will be a huge net gain was essential and instrumental in convincing the UK treasury to do its share

Public private partnerships to facilitate complex expansions (1/2)

- A well structured public private partnership with clear roles and expectations for public and private partners can provide a single point of accountability for coordinating and integrating the multiple components of a complex expansion, and improve outcomes by creating a “climate of no excuses”
- On the other hand
  - it requires significant skill to manage the procurement process
  - well-written legal documents
  - serious competition among competent bidders in order for the public agency to select the right partner
  - consistent oversight and management to achieve improved outcomes

Public private partnerships to facilitate complex expansions (2/2)

- Once a private partner is selected, the project is “too big to fail,” and an unscrupulous private partners can force costly change orders or delay negotiations
- On the other hand, extensively punitive orientation of the public partner, or worse yet reneging of agreed payment schedule can cause the relationship to sour
- One of the strengths of the PPP approach is contractual continuity of priority across administrations, but it is essential that the contractual relationship which continues while political administrations change is clearly reflected in the legal document so that the collaborative culture of a successful PPP can survive