

More money, fewer riders for Michigan transit

Illogical funding model discourages public transportation from serving more customers

By James M. Hohman | April 2023

People stopped riding the bus in Michigan when the pandemic happened, and they haven't come back. They took 83 million rides on government-run transit systems in 2019. This fell to 32 million rides in 2021. With a 61% drop in riders over just two years, people might worry that bus service in the Great Lake State is in dire shape. It's not. Transit gets more money than ever, despite serving fewer than half the people it used to. This points to a service that is in dire need of a rethink.

Dividing expenses by users demonstrates the problem. The average cost of a transit ride in 2021 was \$22.71, of which the government picks up \$21.58 of the cost. Fares cover the remaining \$1.13. Before the pandemic, rides averaged \$9.87, with governments picking up \$8.42 and fares covering \$1.44.

In lieu of having users pay for the service, governments spend tax revenue. Federal funding

comes from a cut of the federal fuel tax plus whatever else Congress authorizes. State funding comes from fuel and registration taxes that lawmakers earmark to transit. Local funding comes from locally authorized property taxes. Fares covered 15% of costs before the pandemic, and just 5% of costs after.

This financial model does not bode well for efficient use of funds. Transit's financial success comes more from lobbying and convincing voters to authorize

property taxes than it does from getting people where they want to go.

Even with taxpayers covering the bulk of the costs of transit services, few people in Michigan use transit. If a community is going to provide regular bus routes, it ought to start with the most regular transportation demand people have — getting to and from work. Few people use public transit for this purpose. The Census Bureau asks people about their

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commuting patterns and finds that fewer than 1% of people in Michigan use transit to commute. More people walk to work than take the bus. Even in Detroit, where the city's Department of Transportation serves between 25% and 30% of all the bus users in the state, only 7.5% of people used the bus for their commute. More people carpooled.

While some may dream of a world where people have great options to get where they want to go without needing a personal vehicle, transit policy is not set up to provide people with that option. Imagine if the pandemic had had the opposite effect: a sudden wave of interest in using public transit. If transit used a normal financial model, user fees would pay for services, and increased demand would give transit agencies more revenue to meet that demand. Services would expand with demand, transit agencies would take advantage of scale, people would get more and better options.

But this is not what would happen to transit in the real world. There is a fundamental divide between finance and use. If ridership spikes, revenue does not increase with it because fares only cover a tiny part of expenses. The bulk of revenue is disconnected from demand for services. Whether they do the job well or not, transit agencies still get funded. The fact that they serve fewer than half of the people they did before 2020 has been a boon to transit finances, not a curse.

On the other hand, if demand for bus services spike, transit systems struggle to meet demands. They don't get more money to pay for more frequent services. Governments don't collect more in taxes when transit demand increases, so transit agencies would get the same amount of subsidies spread over a greater number of people.

Transit services aren't driven by the demands and desires of people looking for better options. It's a subsidy-chasing industry that also serves riders rather than a rider-serving industry that also gets subsidies to lower costs.

Until the system has positive feedback loops, where more demand leads to more revenue and better services, advocates should stop funneling more and more cash into a service that doesn't work. It's better to prioritize solving the remaining transportation problems of people who can't afford to or are unable to drive cars and trucks.

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