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HOW MUCH FARE IS FAIR?

Debate Over MBTA Fares Redux

Preserving Equity While Preserving The System

By William Lyons | Feb 28, 2016 Reprints | Print

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I last wrote on the subject of MBTA fare hikes and fair equity on June 14, 2015. The following month, the fiscal year 2016 state budget was signed into law. In so doing, the Legislature left in place the fare increase limitations established in 2013. As a result, the MBTA is limited to fare increases not exceeding 5 percent per year.

The problem with this cap is that operating expenses are rising at a rate faster than the cap. As a result, the MBTA is confronted with a structural deficit in its operating budget. In fiscal year 2014, the MBTA's operating expenses rose by 7.6 percent; in fiscal year 2015, they rose by 5.5 percent. Anyone who has managed a household budget knows that these expenses are not sustainable in light of the constrained revenues established by fare increase caps.

Without raising fares to keep up with expenses, which is not permitted by law, the MBTA must reduce expenses by cutting costs or increase non-fare revenues. The good news is that the MBTA, through the new Fiscal Management and Control Board, is doing both. Since the establishment of the control board, the MBTA has increased non-fare revenue by 16.8 percent. It has also reduced overtime expenses by 25 percent and realized significant decreases in the cost of fuel and energy due to market conditions. All told, the MBTA has reduced its structural deficit for fiscal year 2016 by $76 million.

The bad news is that the reduction in the fiscal year 2016 structural deficit by $76 million still results in a residual structural deficit of $94 million. Without action, this structural deficit will increase to $427 million by fiscal year 2020. No amount of cost cutting can make up for these accelerating operating costs.

Delaying The Inevitable

That brings us back to the fare increase debate. My proposition last June was to tie fare increases to actual operating expenses. If operating expenses go up by a certain percentage, then fares should go up by the same percentage. This is the type of change that automobile drivers experience; when gasoline goes up or down by a certain percentage, the driver's expenses are directly influenced by this change. The same should be true for transit riders.

Last June, I also proposed that the amount of the operating budget that comes from fare receipts should be fixed, so as to provide a cap on fares. As I pointed out, the MBTA generates substantially less of its operating budget from fare receipts as compared to other peer transit systems. For example, New York generates roughly 50 percent of its operating budget from fare revenue. Washington, D.C. generates roughly 46 percent of its operating budget from fares. Chicago generates roughly 45 percent of its operating revenues from fares. In stark contrast, the MBTA generates only 40 percent of its operating revenue from fares.

I still believe that the MBTA should fix its fare revenues as a percentage of the overall budget and the fares should be indexed to that percentage. For instance, if the MBTA determined that it would fix its fare revenue to be 45 percent of operating expenses (still very low compared to some peer transit systems), then fares would be adjusted annually when the budget was established to target 45 percent of operating expenses. Unfortunately, my recommendation on this issue did not prevail.

Instead, we are faced with a choice of bad and worse. In keeping with the law limiting fare increases to no more than 5 percent annually every two years, the MBTA has floated two options for fare increases for fiscal year 2017. Option 1 is a 6.71 percent fare increase. Option 2 is a 9.77 percent increase. By law, whichever they choose precludes an increase the following fiscal year. Taken in context, Option 1 would reduce the structural deficit in operating expenses by $9.8 million out of a forecasted $242 million in fiscal year 2017. Option 2, while better, would decrease the structural deficit in operating expenses by $26 million out of a forecasted $242 million in fiscal year 2017. Certainly not enough to right the ship that is the MBTA.

Before you call me heartless because I want to raise transit fares on the Boston residents most in need of viable mobility options, I recommend that you reread my June 2015 column and all of my previous columns. I am very sympathetic to this issue. But here is the truth: if we don't start paying for the system we have, it is going to fail – catastrophically. And our riders have been underpaying for the operating costs of the MBTA for so long that it is on the brink of a catastrophic failure. What will these transit riders do then?

The MBTA should adopt Option 2. And the Legislature should adopt a policy that ties fare revenues to operating expenses. Once an appropriate balance between fares and operating expenses is realized, we can revisit the equity issues surrounding transit fares. Until then, we are just kicking the can down the road.

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