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INSIGHT

Biden Administration Again Proposes Temporary Operating Assistance Authority for Larger Transit Agencies

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In the FY2025 budget, the Biden Administration again has proposed allowing larger public transportation agencies greater flexibility in the use of Urbanized Area Formula funds to cope with the larger operating deficits caused by the Coronavirus Disease 2019 (COVID-19) pandemic. (This policy proposal was included in the FY2024 budget but was not taken up by Congress in the FY2024 appropriations bill or in other legislation.) Currently, agencies in urbanized areas with populations of 200,000 or more can use federal funds for capital expenses or maintenance only, unless they operate 100 buses or fewer. This excludes the main operating expenses of labor and fuel. Small bus agencies along with public transportation providers in small urbanized areas and rural areas are already permitted to use federal funding for all types of operating expenses.

The Administration's proposal includes a few other elements: it would exempt operating expenses from inclusion in transportation plans; it would allow federal highway program funding transferred ("flexed") to the public transportation program to be used for operating expenses; and it would require a "maintenance-of-effort" for state and local funding. Maintenance-of-effort requirements typically attempt to address the possibility that federal dollars would replace state and local dollars. The budget proposal does not propose changing the minimum nonfederal matching share for operating costs, which, at 50%, is higher than the 20% nonfederal minimum for capital costs. Current law generally allows flexed highway funds to be used with a nonfederal matching share of 20%.

Background

COVID-19 had an unprecedented effect on public transportation ridership, operating revenues, and public transportation agency budgets. Taxes and tolls dedicated to public transportation agencies recovered relatively quickly from the disruptions, but ridership and fare revenue have been slower to bounce back. For example, ridership in 2022 was about 62% of what it had been pre-pandemic. Consequently, fares collected in 2022 amounted to $9 billion, down from $16 billion in 2019. Subway and commuter rail

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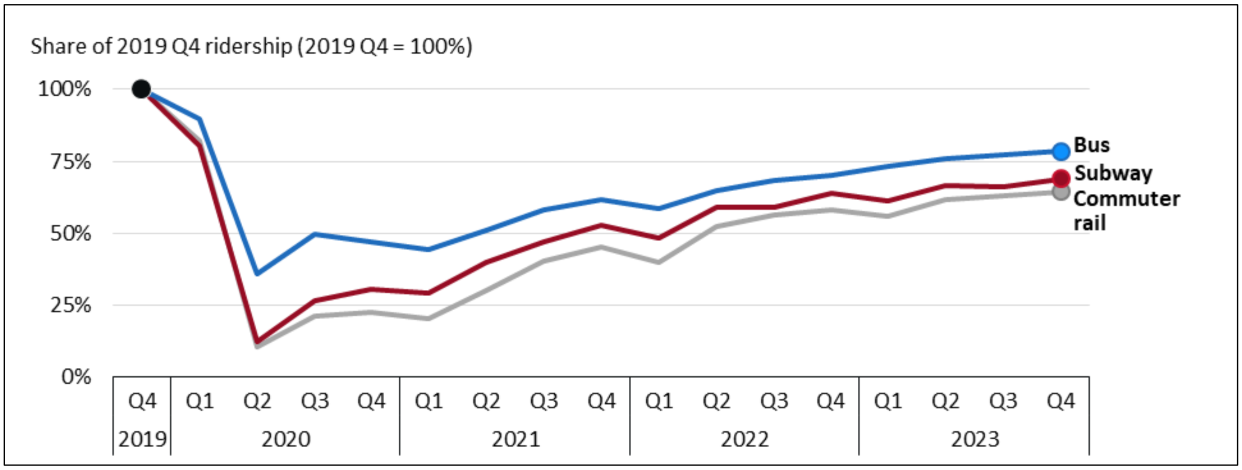
ridership declined more than bus ridership due to COVID-19, particularly early in the pandemic (**Figure 1**).

Figure 1. Quarterly Public Transportation Ridership by Mode



Source: American Public Transportation Association, *Public Transportation Ridership Report*.

To maintain services and jobs, public transportation agency budgets were supported by federal supplemental appropriations in FY2020 and FY2021 totaling $69.5 billion, about five times the pre-pandemic $12 billion in annual federal public transportation support and more than three times the $19 billion from fares and other operating revenue annually. Most of the emergency operating support had been committed by the middle of FY2023.

Federal Funding for Operations

Without new sources of support, keeping transit operations ongoing in the face of larger sustained operating deficits may require fare increases, service cuts, fewer employees, or a combination of these measures. Some transit agencies are struggling with staff shortages, a situation that complicates their financial outlook. Reduced or more expensive service could lead to falling ridership, requiring further fare hikes and service cuts. These difficulties are likely to fall most heavily on public transportation agencies that operate rail systems because rail ridership has suffered more than bus ridership, and rail systems have traditionally had a greater share of their expenses covered by fares.

Federal operating support has been of concern since the creation of the federal public transportation program in the 1960s. Issues include its effects on service, productivity (i.e., service provided per dollar of input), and asset condition. Research on the rapid expansion of operating support in the 1970s generally concluded that it allowed transit agencies to maintain a higher level of transit service and lower fares than would have prevailed without it, but such support also caused supply-side productivity (e.g., the operating cost per vehicle mile) to worsen. With growth in vehicle miles traveled of about 50% since the late 1990s, the operating cost *per vehicle mile* has remained relatively constant over the same period. Demand, measured by ridership, however, grew much less over the same period, about 14%, resulting in substantial growth in the operating cost *per trip*.

The effects of federal operating assistance on transit infrastructure condition are difficult to establish in any conclusive way. Greater flexibility in the use of federal funding for operating expenses may be associated with a more rapid decline in the condition of capital assets as some transit agencies focus on day-to-day needs rather than asset maintenance and renewal. However, existing flexibility to use capital funds for maintenance may help agencies preserve equipment and facilities. Estimates of spending needed to renew and expand public transportation infrastructure by the Department of Transportation suggest that more of the funding provided in the Infrastructure Investment and Jobs Act (P.L. 117-58) could be used for operating expenses. Doing so might slow the reduction of the so-called "state of good repair backlog" and reduce the amount of funding available for expansion projects.

Maintenance-of-Effort Requirements

The Administration's maintenance-of-effort proposal raises several possible issues. A transit agency would have to certify that it is continuing nonfederal spending at a comparable level under the Urbanized Area Formula program. It is unclear whether a maintenance-of-effort requirement would be necessary when the minimum nonfederal match of 50% for operational expenditures is higher than the 20% for capital expenditures. Nevertheless, the provision might also allow transit agencies to transfer state and local funds under other transit programs to meet the requirement.

A maintenance-of-effort requirement in the American Recovery and Reinvestment Act (ARRA; P.L. 111-5) was linked to $48 billion in additional support provided for transportation programs and because the federal share of transportation projects using ARRA funds was generally 100%. Governors were required to certify that their states would spend amounts already planned. In a study of transportation ARRA funding, the Government Accountability Office found that although maintenance-of-effort requirements might keep nonfederal spending from falling, they were challenging to comply with and to administer.

Author Information

William J. Mallett
Specialist in Transportation Policy

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