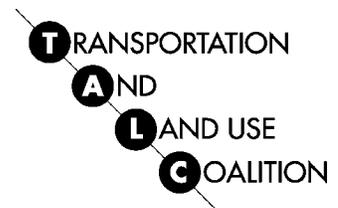


Cutting Transit, Terminating the Economy

Quantifying the economic and social impacts of Governor
Schwarzenegger's transit cuts on the Bay Area

June 3, 2004

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Transportation and Land Use Coalition



Working together for a sustainable
and socially just Bay Area

The Transportation and Land Use Coalition

TALC is a partnership of over 90 groups working for a sustainable and socially just Bay Area. We envision a region with healthy, walkable communities that provide all residents with transportation choices and affordable housing. The coalition analyzes county and regional policies, works with community groups to develop alternatives, and coordinates grassroots campaigns.

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Executive Summary

Governor Schwarzenegger's May Revise of his 2004-05 Budget included a \$350 million, two-year property tax shift for from the state's special districts. Historically, the transit operators in California were exempt from property tax shifts since they were considered "essential services" that could not easily pass on their fare increases without a significant loss of ridership. The May Revise, however, abruptly ends this exemption and instead categorizes them as "enterprise districts," the same category as water and sewer districts, requiring them to now return approximately 40% of their property tax revenues back to the state for two years.

Over 96% of the cuts to transit districts fall on the Bay Area, with AC Transit standing to lose \$20 million a year, and BART standing to lose \$9 million a year, for two years. If the Governor's budget is not revised, BART will have to cut the equivalent of all of its Sunday service, and AC Transit will have to cut the equivalent of all of its weekend service. Both agencies have already significantly pared down their budgets over the last three years and can no longer make cuts that do not directly impact service and reduce the mobility of their riders.

In the governor's budget, the top criterion for spending the newly reinstated Traffic Congestion Relief Program funds is "economic impact, including job creation". If, in fact, that is the key criterion for the state's overall transportation investment, then the governor needs to reverse the course of his proposed 2004-05 budget, since it is likely to result in losses of approximately 200 jobs from AC Transit and 30 from BART.

The most devastating result of the potential service cuts may be to AC Transit riders. TALC staff used the methodology and passenger surveys of a 1997 study to calculate the potential cost to AC Transit riders in terms of additional travel expenses, lost income, and additional travel time. We estimate that AC Transit riders alone stand to lose **\$155.8 million** over two years, in addition to the one-time loss to riders of **\$3.6 million** that occurs immediately when service is cut. So for every dollar that the governor proposes to cut from the AC Transit's operating budget, it will cost their riders nearly four times that amount.

In addition to the losses experienced directly by AC Transit riders, the Bay Area economy will lose money as well. As stated previously, investments in transit operations are extremely economically efficient because the investment primarily goes to pay local transit workers, who pump their salaries back into the local economy. Since every \$10 million expenditure on transit operations and maintenance triggers a \$32 million increase in local business sales, Bay Area businesses can expect to lose **\$186 million** over two years unless the proposed \$58 million property tax shift from transit operators to the state is reversed.¹

Finally, Governor Schwarzenegger recently launched his "Flex Your Power at the Pump" initiative aimed at slowing the State's consumption of gasoline. How can he expect such initiatives to succeed when at the same time his budget chokes off funding to essential public transit services?

We urge Governor Schwarzenegger and the State Legislature to recognize the devastating consequences the May Revise budget proposal would have on Bay Area children, seniors, workers, and the economy. The FY 2004-05 budget must recognize public transit as an "essential public service" and absolve transit districts' liability for the property tax shift.

¹ Cambridge Systematics, Inc., *Public Transportation and the Nation's Economy: A Quantitative Analysis of Public Transportation's Economic Impact*, a study for the American Public Transit Association (APTA). October 1999.

Governor Schwarzenegger's Budget Digs Deep Into the Pockets of Bay Area Transit

The governor's May Revise of his 2004-05 Budget included a \$350 million two-year ERAF (Education Revenue Augmentation Fund) property tax shift from the state's special districts. However, the property tax shifts are not applied equally to all special districts in the state—in the May Revise, police, hospital, and fire districts are only required to return a small percentage of their property tax revenues to the state because of their classification as "essential services." Last week libraries were added to this list of essential services and a deal seems imminent that these essential services will not face any cut at all.

Historically, the five transit operators in California that rely on property taxes (AC Transit, BART, Marin, Santa Barbara, and San Joaquin Transit Districts) were also exempt from property tax shifts, since they are unable to pass on the losses to their customers as water or sewer districts can. Water and sewer districts have a much larger customer base (meaning smaller per-customer price hikes) and have essentially no potential loss of customers. While price increases in water and sewer districts will result in environmentally positive behavior through conservation, transit fare increases inevitably lead to a loss of ridership and a shift to less sustainable modes of transportation.

The May Revise abruptly ends this exemption for transit districts, leaving transit operators struggling to close large deficits in what is already a tough fiscal year. 96% of the cuts to transit districts fall on the Bay Area, with AC Transit standing to lose \$20 million a year (8% of its operating budget) and BART standing to lose \$9 million a year. In Marin County, the transit district stands to lose \$500,000, representing a large portion of their funds for paratransit service for the senior and disabled community.

The consequences of these potential cuts to AC Transit and BART riders will be drastic. BART has stated that their loss from the property tax shift would be the equivalent of cutting all Sunday service. AC Transit's cuts would be the equivalent of one of these scenarios: providing no service for 8 weeks; eliminating service on all Mondays; eliminating all weekend and late-night service; or eliminating all welfare-to-work, late night, and school service. These cuts would come hard on the heels of large service reductions in 2003, when a steep decline in sales tax revenue forced AC Transit to cut service by 12% and eliminate 44 lines entirely.²

The Governor's Job Policy: Creating One Job with the Left Hand, Terminating Two With the Right

On the one hand, the May Revise drastically cuts Bay Area transit's operating funds, limiting their ability to keep buses and trains running. On the other hand, it restores partial funding for the Traffic Congestion Relief Program (TCRP) -- Governor Davis' program to expand transit and highways -- citing the need to stimulate the economy with new transportation projects. For the Bay Area, that means that TCRP projects already underway will continue to receive the funding they were expecting for FY 2003-4 and FY 2004-5, most likely including \$18 million to pay Valley Transportation Authority for conceptual

"The Governor has said he is all about jobs, strengthening the economy and education. This proposal is a job killer and an opportunity buster."

Assemblywoman Loni Hancock
Fourteenth District

² AC Transit staff.

engineering studies for the BART extension to San Jose (coincidentally exactly the same amount that is being cut from BART's operating budget).

In the budget the top criterion for spending TCRP funds is "economic impact, including job creation".³ If, in fact, that is the key criterion for transportation investment, then the Governor needs to reverse the course of his proposed budget, since it will likely result in losses of up to 200 jobs from AC Transit⁴ and up to 92 jobs from BART.⁵

"Affordable, accessible, day and night transit is the life blood of poor and working class people."

Boona Cheema

Executive Director, Building Opportunities for Self-sufficiency (BOSS)

Many studies have shown that funding transit operations creates many more jobs than funding for expansion projects. For example, the California Transit Association has presented evidence that a \$10 million investment in public transportation infrastructure creates approximately 314 jobs, while the same investment in transit operations creates over 570 jobs, 82% more.⁶

Investment in transit operations is such an efficient job creator because the vast amount of funding goes directly toward salaries for local workers. Transit operations are also very efficient for stimulating the economy, because those salaries are then used primarily within the local economy and generate additional economic activity. Most expansion projects, on the other hand, spend a massive amount of money on material purchases and products from outside the region, creating no jobs and only a small multiplier for the Bay Area's economy.

These new cuts will hit both agencies hard after the bare-bones budgets of the last three years. Just last week, BART adopted a FY 2005 budget that eliminated 143 positions. While 101 of them were lost through attrition, 42 people will receive pink slips. Clearly, any additional cuts cannot be through attrition and would result in additional layoffs and further degradation of service.

AC Transit's cumulative budget deficit for the past three years has been \$144 million. They have reduced administrative expenses by 20%, eliminated over 200 positions, and laid off 190 employees. Voters in the district showed how much they value AC Transit service when, in 2002, they approved a new parcel tax which generates \$7 million annually. Still, to balance the books, AC Transit has raised fares twice in the last two years and plans to increase them yet again. With the possibility of raising fares four times in three years out of the question, AC Transit will have no choice but to make drastic job and service cuts if the budget eliminates another \$20 million a year from their operating budget.

Economic Impact to AC Transit Riders and the Bay Area Economy

While it is easy to estimate the number of direct job losses that will accrue from these cuts, it is more difficult to predict the economic impact to the riders of the systems. A 1997 report by Crain and Associates Inc. quantified the economic impact of AC Transit's service cuts in 1995 and 1996. The report concludes that "urban bus service is enormously productive, and its

³ Governor's Budget, May Revision 2004-05, p76.

⁴ AC Transit Rider Alert, www.actransit.org

⁵ Rough estimate of job losses from BART staff.

⁶ Cambridge Systematics, Inc., *Public Transportation and the Nation's Economy: A Quantitative Analysis of Public Transportation's Economic Impact*, a study for the American Public Transit Association (APTA). October 1999.

curtailment even in low-patronage, off-peak hours can create added travel costs and income losses that exceed by several times the dollar savings to transit agencies from the service reductions.”⁷

While much has changed since 1997, the cuts that will have to take place if Governor Schwarzenegger’s budget is adopted would be similar to those made in the mid-nineties. Between December 1995 and June 1996, AC Transit was forced to cut 12% of their service hours by eliminating all owl services, by eliminating most night and weekend services (except for trunk lines), and by reducing frequency on other routes. To balance the proposed \$20 million cut proposed by Governor Schwarzenegger, AC Transit estimates having to eliminate 15% of its service hours -- this is after a particularly rough 12% service cut in 2003. Most likely, these cuts would again disproportionately affect night and weekend service.

TALC staff used the methodology and passenger surveys of the 1997 study to calculate the economic impact of the proposed 2004 cuts, updating the data to correlate to 2004 service information and adjusting for inflation since 1996. The analysis predicts that AC Transit riders stand to lose **\$155.8 million** over two years, in addition to the one-time loss to riders of **\$3.6 million** that occurs immediately when service is cut. In other words, for every dollar that the Governor proposes to cut from the AC Transit’s operating budget, AC Transit riders will pay nearly four times that amount in additional travel expenses, lost income, and additional travel time. (See the Methodology section on page 9 more details.)

In addition to the losses experienced directly by AC Transit riders, the Bay Area economy will lose money as well. As stated previously, investments in transit operations are extremely economically efficient because the investment primarily goes to pay local transit workers, who pump their salaries back into the local economy. Since every \$10 million expenditure on transit operations and maintenance triggers a \$32 million increase in local business sales,⁸ Bay Area businesses can expect to lose **\$186 million** over two years unless the proposed \$58 million property tax shift from transit operators to the state is reversed.

The Cuts Hurt Those Most in Need

What is so disheartening about the proposed budget cuts is how they fall disproportionately on low-income riders and those with few or no alternatives for making their daily trips. The demographic of AC Transit ridership includes:

- **Low-Income and Transit-Dependent Residents.** More than 65% of AC Transit’s customers use public transit as their only source of transportation. Most are also from low income households: 56% report an annual household income below \$30,000, and 28% report an annual household income below \$10,000.⁹

"A lot of people in Contra Costa County are sicker than they need to be because they have a hard time accessing community clinics and county health centers. We are in no position to cut transportation services in Contra Costa if we want to keep students in school, adults at work, and the community healthy and thriving."

Aimee Chitayat
Executive Director, Community Clinic
Consortium of Contra Costa

⁷ TCRP Report 49, “Using Public Transportation to Reduce the Economic, Social, and Human Costs of Personal Immobility.” Technical Memorandum #3, AC Transit Service Area Case Study. May 7, 1997.

⁸ Cambridge Systematics, Inc., *Public Transportation and the Nation’s Economy: A Quantitative Analysis of Public Transportation’s Economic Impact*, a study for the American Public Transit Association (APTA). October 1999.

⁹ AC Transit’s ridership statistics, www.actransit.org.

- **People of Color.** 79% of AC Transit riders are people of color.¹⁰
- **Students.** AC Transit provides and subsidizes essential transportation to middle and high school students every day without state reimbursement. 21% of AC Transit riders are between ages 13 and 17, and 33% of riders going to or from home are going to school (elementary, middle, high school and college).¹¹
- **The Elderly and Disabled Community.** AC Transit serve 575,000 paratransit riders a year, most of whom have few other transportation options.¹²

Is placing a **\$159.4 million** burden on the backs of low-income families, communities of color, students, elderly, and disabled people an equitable way to shave \$40 million from a \$76 billion state budget?

What trips are most likely to be affected if AC Transit cuts service?

In descending order:

1. recreation trips
2. health care trips
3. senior center trips
4. shopping trips
5. job related trips
6. school trips

Based on rider survey 1997 service cuts (Craine and Associates)

The 1997 AC Transit study also addressed the changes in travel behavior riders experienced because of the cuts. Survey respondents who were affected by the 1996 AC Transit service cuts reported taking far fewer trips than they did before the cuts. The greatest percentage decrease was for recreation trips, and the smallest decrease was for school trips. The table to the right shows in descending order what type of trips were most affected. All told, the AC Transit 1996 cuts resulted in an estimated 11% loss of ridership.

Unfortunately, we did not have enough information to replicate the above economic analysis for BART riders.

Recommendation

In contrast to the Governor's stated priorities for the expenditure of valuable state resources, the losses to Bay Area transit operators from the ERAF property tax shift will harm the Bay Area economy, will inequitably impact the least advantaged community members, and will limit the communities' ability to work toward sustainability and livability.

Additionally, last week Governor Schwarzenegger launched his "Flex Your Power at the Pump" initiative, aimed at slowing the State's consumption of gasoline. How can he expect such initiatives to succeed when at the same time his budget chokes off funding to essential public transit services?

We urge Governor Schwarzenegger and the State Legislature to consider the devastating consequences the May Revise budget proposal will place on Bay Area children, seniors, workers, and the economy. California's FY 2004-05 budget should recognize public transit as an "essential public service" and limit transit districts' liability for the ERAF (Education Revenue Augmentation Fund) property tax shift.

¹⁰ *ibid.*

¹¹ *ibid.*

¹² *ibid.*

Methodology

Economic Impact to AC Transit Riders -- calculation based on methodology in Crain and Associates Inc study

Using the methodology and passengers surveys of the 1997 study (updating the data to correlate to 2004 service information and adjusting for inflation since 1996), we will show that the proposed service cuts will result in an economic loss to AC Transit riders that amounts to many times more than the dollars saved in the operating budget.

Economic costs were calculated based on the 524 survey respondents for four types of losses: onetime loss of income, added travel costs, continuing income losses, and added travel time. All dollar amounts from the 1997 report have been increased by 27.2% to adjust for the inflation that occurred in the study area between July, 1996 and May, 2004.

- *Added travel expenses:* 43% of survey respondents reported an average increase in weekly transportation costs that averaged \$39.88 because of the service cuts. This may seem high, but it appears more reasonable when the survey also showed the majority of these costs came from the necessity of taking taxis when no transit was available.
Total annual loss for survey respondents: \$0.47 million
- *Continuing income losses:* Survey respondents who were unable to replace employment that was lost due to the service cuts (4.2%) indicated an average monthly income loss of \$500 a month.
Total annual loss for survey respondents: \$0.13 million
- *Added travel time:* 43% of survey respondents reported an average increase of one hour and 47 minutes a week in travel time as a result of the service cuts. Assuming time valued at a modest \$6.36 an hour, impacted riders lost \$11.34 a week in time.
Total annual loss for survey respondents: \$0.13 million
- *One-time loss of income:* Survey respondents reported a onetime loss of income due to the service cuts that added up to \$34,132.
Total loss for survey respondents: \$0.034 million

Next, the annual losses for survey respondents must be translated into the losses experienced by all AC Transit riders. This can be done by estimating the number of riders from the number of weekly trips, and from that number to riding a survey expansion factor to convert the survey results to system wide results.

Using the methodology in the 1997 report, we:

- Converted AC Transit's average weekday boardings (230,000) to a simple estimate of the number of passengers correcting for round trips by dividing the number of boardings in half.
- Corrected this for the average number of transfers from one AC Transit vehicle to another, which, according to a 2002 AC Transit onboard passenger survey, is around 22%.

- Corrected this downwards by 10% for uncertainty to two unknown variables, such as one-way trips, inconsistency of weekend travel, and riders who took more than one round-trip per day.

This resulted in an average number of 103,500 riders per weekday. Since the survey determined that 43% of riders were impacted by the 12% cutbacks in 1995-96, and since the cutbacks being considered today, in 2004, are slightly higher (approximately 15%) but similar in scope, we proportionately scaled up the percentage of impacted riders.

If a 12% service cut impacted 43% of riders, then proportionately a 15% service cut would impact approximately 54% of riders. Using this logic, of the 103,500 riders on AC Transit per weekday, 55,890 riders would suffer from the proposed service cuts. Dividing that number by the total number of surveys (524) results in a survey expansion factor that can be used to translate the economic costs of survey respondents to economic costs system wide. For the proposed 2004 service cuts, the survey expansion factor is 106.7.

- *Added travel expenses:*
Total annual loss for survey respondents: \$0.47 million
Annual system wide loss: \$50.1 million
- *Continuing income losses:*
Total annual loss for survey respondents: \$0.13 million
Annual system wide loss: \$13.9 million
- *Added travel time:*
Total annual loss for survey respondents: \$0.13 million
Annual system wide loss: \$13.9 million
- *Onetime loss of income:*
Total loss for survey respondents: \$0.034 million
One-time system wide loss: \$3.6 million

Therefore, the proposed 15% cut in AC Transit service will take \$77.9 million per year for a total of **\$155.8 million** over two years, directly out of riders' pockets, in addition to the one-time loss to riders of **\$3.6 million** that occurs immediately when service is cut. So for every dollar that the Governor proposes to cut from AC Transit's operating budget, it will cost the riders of AC Transit between three and four times that amount in additional travel expenses, lost income, and additional travel time.