



PlatteChat

AN ONGOING CONVERSATION ABOUT HOW TO BEST PRESERVE FREE ENTERPRISE,
PERSONAL RESPONSIBILITY AND LIMITED GOVERNMENT IN NEBRASKA.

Platte
INSTITUTE
for economic research



Omaha Mass Transit

Today, the Platte Institute for Economic Research released a study on Omaha's Mass Transit system and concluded that the city must focus on making its public transit system sustainable before it begins to consider expanding it, as has been suggested by local officials.

Omaha's current system, while quite similar to cities of similar size, is only used by approximately 2 percent of Omaha's workforce. This small number results from the transit system being unable to attain choice ridership-those who have other methods of transportation but choose to ride public transit. Choice ridership typically increases when a city is overwhelmed by traffic congestion, high parking costs, and high costs to own a car. Choice ridership is a necessity in order to pursue a mass transit project, and without choice ridership, it is likely the mass transit system will not be able to continue functioning, much less expand.

The system is funded by three primary sources: local property taxes, Federal Transit Administration (FTA) funds, and user fees. User fees only cover 11.1 percent of operational costs, far below the national average of 35 percent. The user fees paid by customers are far below what it actually costs to transport them, and Omaha's fees are far below the rates collected by comparable cities. In 2011, the cost of riding the Metro was approximately \$7.41 per rider, but the average rider fee collected was \$1.07. The difference is then paid by the Transit Authority through taxes and government grants. Over the past two years, the Transit Authority reported net cash operating losses of \$21.5 and 21.3 million, while operating cash inflows were \$4.4 and 4.3 million, respectively. This indicates that if the Transit Agency wants to break even it needs to increase fares, decrease services provided, or both.

On the farebox recovery ratio-one of the key statistics for measuring cost efficiency that compares passenger revenues to operating expenses-Omaha falls far behind its comparable cities. The national average for the farebox ratio is approximately 35 percent, with the remaining 65 percent of funding coming from taxes and federal and state grant; Omaha's transit system has a farebox rate of only 11.4 percent. Of comparable cities, Omaha has the lowest one way cash fare at \$1.25. To even begin to be comparable with other cities, Omaha would have to raise its fares to at least \$1.75, the same rate used by Lincoln's public transit. A 40 percent increase in the current fare would result in a farebox recovery rate of approximately 16 percent. However, even this farebox rate would be below the national average, suggesting that the transit system is

running inefficiently compared to its peers. If Omaha's transit system is to be successful, it must reduce operating expenditures and create a lean cost structure eliminating non-value added activities, only then can the city benefit from increased ridership, which is needed for economies of scale to take place.

Because Omaha's public transportation has less than two percent ridership, there does not appear to be a need for expansion of public transportation in Omaha. Instead of building a system where services exceed demand, one option for the City and Transit Agency to focus on would be to concentrate services on the niche market of those who have no alternative means of transportation. Such a shift of focus would allow those who cannot drive access to transportation while decreasing the financial burden on taxpayers. This makes much more sense than artificially increasing demand by eliminating parking spots in the Metro, increasing the parking costs, or increasing various fees/taxes for drivers in Omaha.

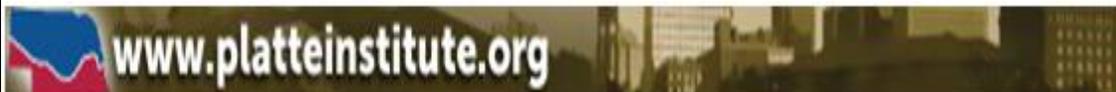
Another option would be to reduce the number of unique routes. In Omaha, 500 miles of bus routes are unique and nearly every route intersects or runs parallel with other routes. This results in raising costs with little actual benefit. To bring down costs, the Metro should begin closing routes that see little or no traffic and divert focus only to its most used routes.

Further, the Transit Agency currently has a large unfunded pension problem, with 37.29 percent of salaried workers pensions and 38.34 percent of hourly workers pensions currently unfunded, with an unfunded actuarial accrued liability of \$2,771,618 for salaried workers and \$10,296,146 for hourly employees. Therefore, it only makes sense for the Transit Agency to shift from a defined benefit to a defined contribution plan in order to avoid this fiscal disaster. Indeed, most private companies are finding that such a switch is one of the ways to keep a positive operating cash flow, an example that would help the Transit Agency immensely.

A final option that would help make the Transit Agency fiscally sustainable would be privatization. Privatizing the system would reintroduce innovation as companies have profit incentives that the government-run system currently does not have.

It is important for Omaha's public transportation to be more cost-efficient for taxpayers and more accessible and productive for consumers. Reforms such as focusing on the most used routes and shifting from defined benefit to defined contribution pension plans may provide this fiscal stability. Privatization may also be a possibility for Omaha's transit problems. The current path is unsustainable, and instead of building more in the hopes of change, Omaha must consider reforming the system so that it serves the best interests of taxpayers, operators, and consumers.

The full study may be downloaded [here](#).



If you do not wish to receive this newsletter or if you wish to be removed from all

future newsletters, please [click here](#) to manage your subscriptions.