

Example 9.1

The Huge U.S. Rail Transit Deficits

The financial condition of the U.S. subway systems really is grim. The following table lists annual capital expenses, operating expenses, and fare revenues in Fiscal Year 2002 for the fourteen rail transit systems that operate in eleven U.S. cities.

Table E9.1: Heavy Rail Transit Agency Revenues and Expenses, FY2002

City	Capital Expenses (\$millions)	Operating Expenses (\$millions)	Fare revenues (\$millions)
Atlanta, GA	189	122	48
Baltimore, MD	37	39	10
Boston, MA	93	206	90
Chicago, IL	381	359	159
Cleveland, OH	13	23	5
Los Angeles, CA	4	62	12
Miami, FL	21	62	10
New York, NY (New York City Transit)	2,391	2,556	1,518
New York, NY (MTA Staten Island Railway)	1	25	4
New York, NY (Port Authority Trans Hudson)	242	171	70
Philadelphia, PA (Port Authority Transit)	14	31	19
Philadelphia, PA (Southeastern Pennsylvania)	186	119	70
San Francisco, CA	537	331	193
Washington, DC	448	461	284
Total	4,564	4,267	2,492

Source: American Public Transportation Association, August 02, 2004, Table 135, www.apta.com/research/stats/rail/hrfinance.cfm

The textbook average cost curves that are used to analyze the investment decision for the decreasing cost industries are the long-run curves. They include both the annual operating and capital expenses. The data in the table indicate that the U.S. subway systems do not come close to covering their full costs. The fare revenues for all the systems combined are only 28% of total costs. Worse yet, not one subway system raises enough fare revenue to cover even its operating costs, much less to defray some of its capital costs. The average revenue-operating expense shortfall is 42%.¹

The cities do not want to run such huge transit deficits. They have all raised fares repeatedly in the past to try to reduce their deficits, but obviously to no avail. The subway systems certainly appear to be examples of the hard case decreasing cost services, whether large (New York City Transit, San Francisco, Washington, D.C., Chicago) or small (Cleveland, Los Angeles, Miami). The great unanswered question is whether any one – or all – of these systems passes the all-or-none test: does the consumer surplus obtained by the riders exceed these large deficits?

¹ The American Public Transportation Association and the Federal Transit Administration no longer routinely publish revenue and expense data for each heavy rail system, only the aggregate data for all systems combined. Nonetheless, the aggregate data indicate that the transit deficits have hardly improved since 2002. In FY2009, fare revenues for all systems were \$3.8 billion, operating expenses \$6.3 billion, and capital expenses \$6.2 billion. Fare revenues were still only 30.6% of total expenses, and 60.3% of operating expenses, for a revenue-operating expense shortfall of 39.7%. *2009 National Transit Profile*, National Transit Database, Federal Transit Administration, available at www.ntdprogram.gov/ntdprogram/data.htm.