



**TAXPAYERS**  
PROTECTION  
**ALLIANCE**

# Subsidizing Decline

**Why U.S. Transit and  
Passenger Rail Need Competition**

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**Vladlena Klymova**

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# About Us

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The Taxpayers Protection Alliance (TPA) is a rapid response taxpayer group dedicated to analyzing and researching the consequences of government intervention in the economy. TPA examines public policy proposals through a non-partisan focus, identifying how government waste and overreach impact taxpayers and consumers regardless of the political party responsible. TPA holds government officials in the United States, and around the world, accountable through editorials, statements, coalition letters, public interest comments, and radio and television interviews. TPA recognizes the importance of reaching out to concerned citizens through traditional and new media, and utilizes blogs, videos, and social media to connect with taxpayers and government officials. While TPA regularly publishes exposés and criticisms of politicians of all political stripes, TPA also provides constructive criticism and reform proposals based on market principles and a federalist philosophy. TPA empowers taxpayers and consumers to make their opinions known to their elected and non-elected officials and embraces bold solutions to hold an ever-growing government in check.



# Introduction

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The nineteenth century saw unprecedented gains in human mobility across the vast lands of America. For a young republic both expanding and solidifying its national identity, the rise of mechanized transportation<sup>1</sup> was especially consequential: it connected a dispersed, continent-spanning nation, shaped urban development, and accelerated economic growth. As transportation evolved, Americans overcame the constraints of physical distance, traveling with speed and convenience inconceivable in the era of pre-mechanized travel.

Steamboats and trains first, motor vehicles later, and eventually airplanes enabled the American people to traverse the sprawling country with relative ease. Urban transit—from streetcars and commuter rail to cable cars, metros, and buses—allowed them to pursue opportunities beyond their neighborhoods; automobiles later extended that freedom to suburbia. Insofar as transportation determines how fast, how far, and how often travel is feasible, the sector shapes the lives of everyday Americans.

Such an astonishing transformation of American mobility would not have been possible without remarkable advances made possible by competition within and across types of transportation. By directing travelers toward options that serve them best and encouraging providers to compete for customers, market forces help to lower costs and to refine the travel experience.

Air travel, particularly through low-cost carriers, has become so accessible—with frequent and varied routes—that it now dominates long-distance travel. The automobile has evolved beyond a popular means of mobility to something ubiquitous: owning a personal vehicle—or two—has become integral to the American dream, a symbol of freedom and independence.

Airlines and automakers are largely permitted to compete vigorously—within their respective modes and against each other—to earn travelers’ business. By contrast, public transit and passenger rail—largely brought under public ownership and stripped of competitive forces—have largely stagnated.

U.S. public transit—once the circulatory system of urban America—has experienced a steady decline in ridership per resident. Car ownership and moderate gas prices have rendered public transit irrelevant in many areas. Urban per-capita transit ridership has steadily declined since its 1920 peak of 287 trips per urban resident, falling to 38 trips in 2017.<sup>2</sup> Having plummeted in the COVID era, public transit ridership has not returned to pre-pandemic levels, despite massive influxes of emergency aid and ever-growing subsidies. The prevalence of automobiles, ride-hailing services, and micromobility—in addition to mass transit’s poor quality in many regions—has gradually eroded its traditional customer base.

Intercity passenger rail traffic has likewise declined from its 1916 peak of 42 billion passenger-miles per year.<sup>3</sup> By the time Amtrak began operating in 1971, U.S. intercity annual passenger-miles had fallen to 4.4 billion.<sup>4</sup> This persistent downward trend has not been reversed under government ownership, even

as costs to both riders and taxpayers have trended upward. By 2025, Amtrak passenger-miles had risen to 6.9 billion in absolute terms—but declined relative to population growth, remaining only a fraction of the historic peak.<sup>5</sup> While alternatives—mainly automobiles and airlines—have displaced trains for most long-distance travel, Amtrak continues to underdeliver, and the costs fall upon American taxpayers.

Clinging to the long-obsolete view of public transportation as a dominant means of American mobility, policymakers have defended the government ownership model—but to little avail. Transit and passenger rail ridership have declined, productivity has fallen, and operating losses have grown—all while taxpayers are repeatedly “asked” to contribute more to sustain the decline.

As early as the 1980s, research showed that increased subsidies and government ownership of transit led to wasteful cost increases rather than efficiency gains<sup>6</sup> and that growing government funding was a response to rising operating expenses.<sup>7</sup> Likewise, federal support for Amtrak has grown steadily alongside its operating losses. Despite Amtrak’s deteriorating financial performance, Congress is advancing the BUILD America 250 Act, which would authorize more than \$31 billion in Amtrak grants over fiscal years 2027 through 2031, with annual funding levels rising each year.<sup>8</sup>

Shielding the transportation sector from market forces insulates it from the market discipline necessary for improvements and innovation that would help maintain mass transit and passenger rail as modes of choice in modernity.

Although government watchdogs and independent auditors have identified the core dysfunctions of current public transportation systems, they have resisted the most obvious solution: reducing government patronage and introducing market discipline. This report examines how government ownership has entrenched counterproductive goals and incentives that insulate public transportation from the need to modernize. Further, the report makes the case that dismantling the public monopoly would help repair the systemic failures of government-owned transit and passenger rail. As the analysis makes clear, the only viable remedy for the sector is the introduction of market incentives and genuine competition.

Forced to compete for riders and denied the cushion of subsidies, transit agencies and intercity rail operators would have every incentive to awaken demand where it is dormant, adjust operations where they are misaligned with evolving rider needs, and right-size service where it can sustainably serve travelers. By following market incentives, public transportation providers could, at last, reclaim both relevance and ridership. After all, America has ample demand for rapid, reliable, and responsive transportation modes. As they once did, mass transit and intercity rail could again prove crucial to the American economy.



# Public Transit

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U.S. public transit remains a service provided predominantly by state and local authorities. Transit agencies—such as New York City’s Metropolitan Transportation Authority (MTA) and the Massachusetts Bay Transportation Authority (MBTA)—oversee the day-to-day operations of urban rail, bus, commuter rail, and light rail systems. Likewise, government largely orchestrates the construction and maintenance of transit infrastructure.

Having peaked in 2014 at 10.8 billion trips, national ridership fell thereafter. Even before that peak, subsidies had been growing far faster than either service or ridership. Then came the pandemic, which pushed U.S. mass transit into fiscal distress. From 2019 to 2020, COVID-related disruptions led to a roughly 50 percent drop in transit ridership.<sup>9</sup> Federal pandemic aid to public transit reached \$69.5 billion in 2020–2021—about five times the level of normal annual federal support and more than triple the typical annual operating revenue.<sup>10</sup> Meanwhile, state and local subsidies remained stable. Ultimately, the Cato Institute estimates that, in fiscal year 2023, governments at all levels spent \$92.4 billion on public transit but recovered only \$16.5 billion in revenue, leaving taxpayers to cover the remaining \$75.9 billion—a subsidy rate of 82 percent.<sup>11</sup>



# Failures of Government-Funded Transit Infrastructure

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Much of federal public-transit capital funding still flows through the Highway Trust Fund's (HTF) Mass Transit Account. But as federal transit outlays have grown, general-fund support has made up an increasingly large share. The Federal Transit Administration (FTA) distributes those funds through formulas and competitive grants to state and local recipients, which use them alongside their own funds and as borrowing instruments to finance infrastructure projects in their jurisdictions.

In 2021, President Biden signed the Bipartisan Infrastructure Law, enacted in the Infrastructure Investment and Jobs Act. The law designated up to \$108 billion for federal public transportation programs, including \$91 billion in guaranteed funding over the following five years—marking record-high federal spending on public transit.<sup>12</sup> However, neither falling ridership nor rising operating losses changed course under this flawed system, which has been guided more by politics than economic practicality. Moreover, the HTF is projected to be exhausted by 2028,<sup>13</sup> which renders federal reform of infrastructure financing more urgent than ever.

At present, the outcomes of publicly managed capital-project selection, delivery, and construction are—to put it mildly—suboptimal. The established system does not set the right capital-project priorities—ones that would reflect actual demand. It does not base decisions on a realistic cost-benefit analysis for transit projects, and has erected legal barriers that raise costs and impede innovation.<sup>14</sup>

## Capital Spending Detached From Demand

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Capital-project selection tends to be loosely tied to real demand and cost-benefit analysis—to say nothing of return on investment. At the federal level, some of the largest grant programs—such as Urbanized Area Formula Grants<sup>15</sup>—distribute funds through statutory formulas that channel money according to predetermined factors and administrative criteria, rather than projects' capacity to generate revenue or deliver the best returns relative to cost.<sup>16</sup> According to economists Nathaniel Baum-Snow and Matthew E. Kahn, “The nature of federal funding formulas is such that they fund capital intensive transit projects like fixed rail over other types of projects that might actually draw more new riders. The heavy subsidy from the federal government no doubt sufficiently shifts the local funding calculus.”<sup>17</sup> Consequently, while some studies suggest that investing in bus infrastructure would prove effective in increasing transit ridership, local governments—guided by federal money—may prioritize capital investments in ineffective rail systems. Likewise, because new construction is politically more attractive, “multibillion-dollar signature mega projects” often take priority over maintaining existing infrastructure.<sup>18</sup>

# Forecasting Gamesmanship

Transit infrastructure does not deviate from the pattern familiar to all public works: operating and capital cost estimates are unrealistically conservative, while ridership and future revenue projections are overly optimistic. Not only are cost overruns common in government-funded transit infrastructure projects, but delays are a routine occurrence. The expected economic gains from such projects are often little more than wishful thinking, and projects' returns are routinely overestimated.

Because the FTA relies heavily on projected construction costs and expected ridership in deciding which local transit projects receive grants, states and localities have an incentive to present embellished forecasts that make weak projects appear worthwhile on paper. The Perris Valley Commuter Rail Extension in Southern California illustrates the problem clearly. The 24-mile project was projected to cost \$168.3 million and serve 3,430 weekday riders, but it ultimately cost \$248.3 million, opened five years late, and drew only about 550 riders per day. That gap made the project's capital cost per passenger more than nine times higher than originally projected. Similarly, the \$2.3 billion Bay Area Rapid Transit (BART) extension to Berryessa in San Jose projected a daily ridership of 23,000 that failed to materialize; actual ridership was about 2,340.<sup>19</sup>

Habitual optimism about ridership, revenue, cost, and demand steers funding toward capital-heavy projects that deliver less mobility than lower-cost alternatives. Honolulu's Skyline is a quintessential example. Conceived as an elevated rail transit project on Oahu, Skyline was supposed to provide a long east-west connection across Honolulu. The scope of the project was later curtailed to contain increasing costs. Ridership also came in far below forecasts: it peaked at 18,108 during the fare-free period. Then, after fares were introduced, the city reported only 3,276 riders—in stark contrast to the hoped-for 121,600 per day in 2030. Rather than committing to a multibillion-dollar elevated rail project, the city could have invested in a bus rapid transit (BRT) system.<sup>20</sup>

## BART Extension

Projected Daily Ridership

**23,000**

Actual Daily Ridership

**2,340**

**10.2%**

of projected ridership

## Honolulu Skyline

Projected Daily Ridership (2030)

**121,600**

Actual Daily Ridership

**3,276**

**2.7%**

of projected ridership

Moreover, overly ambitious policymakers often advance multibillion-dollar transit proposals that do not survive serious cost-benefit scrutiny—that carry an enormous opportunity cost, since money tied up in prestige projects cannot be used for improvements that would deliver greater practical value. Proposals like a \$4 trillion national high-speed rail buildout reflect this problem.<sup>21</sup> In the American context, high-speed rail would serve a relatively small number of people spread out over an exceptionally large landmass. It would struggle to compete with air and highway alternatives on a cost basis, and would be prohibitively expensive to construct, potentially taking decades. California’s high-speed rail project provides a case in point. In 2008, voters approved a high-speed system intended to link the state’s major population centers, with Phase 1 running from San Francisco to Los Angeles and Anaheim. California originally planned to complete the project by 2020. Yet the Golden State is now focused on delivering only a 171-mile Merced-to-Bakersfield segment—with operations planned to commence between 2030 and 2033. At the same time, official Phase 1 cost estimates rose from roughly \$33 billion to an astounding \$128 billion.<sup>22</sup>

Taiwan pursued a different approach to allocating national funds to transit agencies. Though transit systems are also publicly owned, its government uses a self-liquidation ratio (SLR) to screen projects for central funding. SLR is the estimated share of a project’s cost that can be repaid from the project’s own future revenue—such as fares, land development, or related income. A 10 percent SLR means the project is expected to repay 10 cents of every dollar in cost. Higher SLRs can improve subsidy treatment, giving local governments an incentive to submit projects with stronger projected financial returns. By increasing the share of costs a project can cover on its own, the government aims to improve construction-stage financial performance and reduce the overall taxpayer funding burden.<sup>23</sup> In the United States, transit projects are not structured around any rule that requires a meaningful share of capital cost to be repaid from project-generated revenue. Most transit systems come nowhere close to covering basic operating expenses through their own revenue—which amounts to roughly two-thirds of total costs<sup>24</sup>—let alone the costs of capital projects. Based on the national average from 2015 to 2019, fares covered only a modest share of combined capital and operating costs: 20 percent for buses, 34 percent for subways, and 32 percent for commuter rail.<sup>25</sup>

## Regulation as a Cost Multiplier

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State and local anti-competitive rules inflate public-transit infrastructure costs. In New York, the state’s prevailing-wage law requiring union-scale wages and benefits adds an estimated 13 to 25 percent to project costs, while onerous contracting preferences for minority- and female-owned firms restrict bidder choice. The Manhattan Institute found that New York subway construction costs are far higher than those in the rest of the developed world.<sup>26</sup>

Federal funding comes with heavy-handed regulations, mandates, and conditions that compound inefficiency across transit agencies nationwide. Federal rules increase the cost of capital projects, impose overly burdensome requirements on project contractors, and promote unionization in public transit.

Buy America rules, which apply to federally funded procurement, including in the transportation sector, are a primary example of anti-competitive federal regulation. This entrenched protectionism leaves local transit agencies with a narrower supplier base and fewer low-cost options, while also contributing to project delays.<sup>27</sup> Owing to this domestic-content restriction, American metro systems spend more than 25 percent on their metro cars than their foreign counterparts. In 2017, Washington Metropolitan Area Transit Authority (WMATA) metro cars cost 34 percent more than foreign cars, resulting in a \$700,000 cost difference per car on average.<sup>28</sup>



By limiting foreign entry, Buy America has contributed to the reduction of domestic competition. Today, U.S. transit agencies purchase buses in a highly concentrated market: about 75 percent of large transit buses are produced by just two U.S. manufacturers, and procurement reflects that reality.<sup>29</sup> An American Enterprise Institute analysis notes the unusually high cost of electric buses in the United States.<sup>30</sup> In South Korea, Hyundai Motor's Elec City bus is reportedly priced at about 350 million won (roughly \$235,000).<sup>31</sup> Singapore has purchased 300 BYD electric buses at roughly \$333,000 each. Yet the median price that U.S. transit agencies paid for an electric bus in 2024 was about \$1.1 million.<sup>32</sup>

The Davis-Bacon Act, enacted in 1931, is another federal law hampering competition.<sup>33</sup> Whatever its original purpose, the law now raises costs and limits bidder participation by requiring contractors on federally funded construction projects to pay government-set “prevailing wages,” exceeding market levels. For public transit, the outdated law raises the cost of building and repairing transit infrastructure. And by increasing labor and compliance costs, Davis-Bacon makes it harder for smaller and nonunion contractors to compete, reducing the bidder pool.<sup>34</sup>

Section 13(c) of the Urban Mass Transportation Act of 1964 is tied to federal transit funding and is detrimental to public transit operations. As major U.S. transit projects depend on federal grants, and some agencies also receive federal operating assistance, most public transit agencies are subject to Section 13(c), which requires them to preserve the “rights, privileges, and benefits (including continuation of pension rights and benefits) under existing collective bargaining agreements or otherwise.”<sup>35</sup> This law epitomizes federal favoritism toward labor unions, protects “the interests of employees” at the expense of innovation, and helps perpetuate out-of-control labor costs. One study finds that Section 13(c) and similar labor protections give transit unions unusual bargaining power and constrain agencies’ ability to organize work efficiently. The study also reports evidence of a wage premium for transit drivers and argues that labor protections likely are responsible for the fact that transit costs have risen faster than inflation.<sup>36</sup>

Overall, the law undercuts transit agencies’ ability to make service operations more competitive and cost-efficient—whether through the use of more nonunion labor, the negotiation of more competitive labor contracts, or automation.<sup>37</sup>

# Failure of Government-Operated Transit

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## Labor Costs

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Spiraling employee compensation—wages, benefits, pensions, and overtime—is an immediate driver of the chronic operational losses that have plagued heavily unionized transit agencies.

Roughly 74 percent of transit workers are represented by North America’s two largest transit unions. Unions contribute to an aging workforce—43 percent of transit workers are over 55, compared with just 24 percent of the broader transportation workforce<sup>38</sup>—and inflate labor costs by locking in contracts above market levels.

Meanwhile, public transit governance—with its generous labor protections and pension structures—has given labor unions room to exploit agencies’ lack of cost discipline, causing labor costs to balloon. In 2023, pay and fringe benefits of public transit employees constituted 59 percent of total operating expenses,<sup>39</sup> while during the COVID years, labor’s share ranged from 61 percent of operations in New York to 77 percent in Atlanta.<sup>40</sup> Average operating employee compensation (pay and benefits) was \$83,180.<sup>41</sup>

These national averages mask much higher compensation provided by major transit systems. A 2021 analysis estimated average compensation per transit employee at \$90,115 in Atlanta, \$144,241 in Washington, D.C., and \$187,140 in San Francisco. In major metro areas, transit employees also earned a sizable premium over both economy-wide and transportation-sector regional averages—about 12 percent to 61 percent above overall metro-area compensation and 59 percent to 148 percent above transportation-sector compensation in the same region.<sup>42</sup>

Runaway overtime costs, fueled by rule-laden contracts and systemic abuse, further contribute to excessive compensation levels. Rampant overtime outlays burden nearly every major transit agency. For example, MBTA’s overtime costs grew by more than 48 percent between 2021 and 2024,<sup>43</sup> while the MTA’s overtime bill hit a record \$1.5 billion in 2025.<sup>44</sup> Little has changed after repeated findings exposed the structural problems behind surging labor costs: work rules that guarantee pay for hours not actually worked, provisions that double, triple, or quadruple earnings from a single shift, seniority-based overtime assignments that funnel extra hours to the highest-paid workers, and oversight systems too weak to contain abuse in real time.

The conclusion from a 2019 report:

**“Overtime has become the rule rather than the exception for many of the MTA’s employees, and the MTA’s already high overtime costs have continued to escalate.”<sup>45</sup>**

Many transit employees consistently earn more in overtime than in base salary. In 2024, more than 100 MBTA employees made over \$100,000 in overtime alone.<sup>46</sup> At the Chicago Transit Authority (CTA), more than 100 employees earned twice their base salaries in overtime.<sup>47</sup> At the MTA, 629 employees received six figures in overtime pay, including 23 who collected more than \$200,000.<sup>48</sup> In the same year, overtime accounted for roughly 14 percent of total payroll at the MBTA<sup>49</sup> and 17 percent of total pay at the MTA.<sup>50</sup>

Pension and retiree-benefit obligations are perhaps the most acute instance of fiscal incontinence. Transit monopolies, together with state and local legacy pension plans, have allowed these liabilities to balloon. Even before COVID, the Reason Foundation found that

**30 large transit agencies carried more than \$49 billion in unfunded retirement liabilities.<sup>51</sup>**

And many structural features make the problem worse. For example, some public pension formulas increase future payouts by allowing overtime earnings to count toward final average salary, increasing the size of pensions.<sup>52</sup>

Research has linked collective bargaining rights to substantially higher public-employee compensation and unsustainable pension guarantees. Retirement benefits substantially increased over the decades in states that passed laws raising collective bargaining relative to other states—leaving little doubt about where out-of-control labor costs stem from.<sup>53</sup>

Year after year, different accountability offices audit and issue reports on the unsustainable model of transit agencies’ budgets, recommending changes and warning of the looming “fiscal cliff.” But the situation has little prospect of improving under the status quo. Many transit agencies continue to add employees, while ridership declines.<sup>54</sup> They continue to raise wages and benefits even as fare revenue covers an ever smaller share of operating costs and debt obligations grow more burdensome.

In 2023, WMATA’s metro workers received an uncapped cost-of-living adjustment written into their collective bargaining agreement and tied to inflation, resulting in a pay increase of more than 10 percent.<sup>55</sup> In 2025 alone, MBTA’s year-over-year total wages grew 17.5 percent, pensions increased

37 percent, and fringe benefits rose 25 percent. Unsurprisingly, the MBTA's generosity is simply unsustainable: costs are rising mainly because the agency continues to add more staff. As a result, the system's budget deficit is expected to grow quickly: the 2026 gap is projected to be about 4.9 times larger than in 2021.<sup>56</sup>

Transit workers' generous compensation rises while the metrics that would ordinarily justify pay growth—namely, worker productivity or ridership—fall.

## Declining Transit Efficiency

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Although subsidization can preserve service, it perpetuates inefficient operations. Therefore, it is hardly surprising that operating efficiency in public transit has deteriorated considerably. Inflation-adjusted operating cost per vehicle mile more than doubled between 1960 and the early 1980s. Between 1960 and 2018, transit agencies provided nearly three times as much service—while ridership barely changed. As a result, the operating cost per passenger trip rose more than fivefold.<sup>57</sup> Service levels also never kept pace with soaring operating costs, pointing to an inherently inefficient service model. From 1997 to 2014, total U.S. bus and rail operating expenditures rose 49 percent in constant dollars, while services provided rose only 16 percent.<sup>58</sup> This trend has never been reversed. Measured by ridership per hour worked, transit labor productivity fell by about 20 percent from 2013 to 2019, while labor productivity for the overall economy rose by 8 percent.<sup>59</sup>

Although farebox recovery—the share of operating costs covered by passenger fares—is not a direct measure of operating efficiency, its decline is revealing when operating costs rise out of proportion to fare revenue. In 2022, for each dollar spent on operating costs per trip, public transit agencies across all types of transit recovered only 16.6 cents through fares. Even before the pandemic, the fare recovery ratio was hardly impressive—just 33.4 cents per dollar spent. The persistent fall in farebox recovery due to soaring operating expenses perfectly mirrors the surge in federal funds directed toward operating expenditures—an increase of 564 percent from 2013 to 2022 (in constant dollars).<sup>60</sup>

One study described this phenomenon as “worse than Baumol's cost disease,” which is to say that U.S. transit has done even worse than “what economic theory predicts for industries with low productivity growth.” The study links transit's above-inflation cost growth, and the even faster growth in subsidization, in part to labor rules and union bargaining power.<sup>61</sup>

Proponents of higher levels of taxpayer subsidies warn of transit's so-called death spiral: deficits lead to service cuts, service cuts drive riders away, and shrinking fare revenue further widens the budget gap.<sup>62</sup> But this account gets the causation backwards. In reality, transit appears trapped in a subsidy spiral instead. As subsidies rise, operating costs tend to rise with them, as agencies are shielded from price signals and demand. More money is absorbed just to sustain operations—not to deliver meaningful improvements in service. As a result, ridership keeps falling, today's subsidies become tomorrow's baseline, and agencies return to taxpayers for still more public funding.

## Monopoly Systems Don't Adjust

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By all indications, public transit produces inefficiency because continuous taxpayer aid permits it to operate without real market discipline. When crisis arrives, subsidization becomes life support.

Transit agencies—like all state-administered enterprises—are ill-positioned to adapt to evolving technologies and changing preferences among the people they serve. They also respond slowly to shifts in demand or sudden shocks, because fares are set politically rather than by the market, and service levels and network coverage are often designed more to achieve ill-defined goals of “equity” than to increase reliability or convenience.



## Previous Ridership Levels Aren't Coming Back

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A 2018 Cato Institute analysis notes that transit carried 13 percent of commuters in 1960 but only about 5 percent today, and the share keeps falling. In half of the nation's 50 largest urban areas, fewer than 3 percent of workers commute by public transit.<sup>63</sup> Work patterns have also shifted. About 25 percent of paid full workdays in the U.S. were worked from home in February 2026, up from roughly 7 percent before COVID.<sup>64</sup> In addition, micromobility—such as e-scooters, bicycles, and e-bikes used for short trips—has expanded dramatically. In 2023, Americans took 133 million trips on shared scooters and bikes.<sup>65</sup> And the number of bikeshare trips in cities has continued to climb alongside the number of docked stations. E-scooter systems now serve 133 cities and dockless bikeshare systems serve 63 cities.<sup>66</sup> Alongside shared micromobility and the conventional rideshare services Uber and Lyft, emerging driverless ridesharing—which is expanding in a number of U.S. cities—could become an alternative to public transit for a growing number of Americans.<sup>67</sup>

## Modernization Is Not Optional

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Even as private transportation alternatives keep getting cheaper, faster, and more convenient, entrenched regulation and powerful labor unions have resisted disruption to legacy transit systems for decades. Yet transit is in dire need of modernization.

The U.S. Department of Transportation has identified transportation applications for emerging quantum tools—including optimization, machine learning, and related planning uses—that could help improve route design, scheduling, and maintenance. These tools remain early-stage, but they could shape the future of public transit—if transit is allowed to move beyond rigid public monopolies.<sup>68</sup>

Meanwhile, automation is already here. In a sector where labor costs consume roughly two-thirds of operating budgets, automation is the obvious cost lever. Research on automation generally finds that autonomous rail systems lower operating costs, including for light rail<sup>69</sup> and metros. In the 2000s, Paris reported that fully automated operation reduced operating costs by roughly 30 percent<sup>70</sup> and improved reliability and punctuality. Dubai's fully automated metro reported a 99.69 percent punctuality rate in its first six months of operation.<sup>71</sup>

Metro automation is nothing new. It dates back to the 1960s<sup>72</sup> and is becoming increasingly standard in newer systems around the world.<sup>73</sup> Meanwhile, in the U.S., it remains the exception, largely limited to airport systems. Federally backed pilot projects continue to stall under a regulatory framework that preserves labor unions' power and makes automation much harder to implement.

## The Need For Reform

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Public transit agencies' inability to improve is evident from decades of inaction. That inertia became even more apparent during COVID. In 2020, ridership collapsed—down 41.6 percent from 2019—yet staffing barely changed. Across U.S. public transit agencies reporting to the FTA, full-time-equivalent (FTE) staffing—which measures total labor hours in full-time terms—fell only about 4.1 percent, while total headcount—which measures the number of employees on payroll—declined by roughly 2 percent.<sup>74</sup> Even with years to adapt, the pattern held.

**By 2024, ridership was still only about 78 percent of its 2019 level, but staffing had not shrunk—it expanded.**

Compared to 2019, FTE staffing rose about 4.0 percent, and the number of employees grew even more—rising about 5.7 percent.<sup>75</sup>

Remote and hybrid work weakened the old five-day downtown commute model. And if transit’s current model persists, continued improvements in micromobility, shared mobility, and automobiles will only accelerate the decline in demand for public transit, unless the cost, quality, and convenience of public transit improve. By now, there is little doubt that adding more labor-heavy service is not the key to raising demand. A higher-efficiency, more competitive value proposition is—and reform must begin with labor costs.

Labor is a much larger share of operating expenses for major U.S. transit agencies than for leading—and mostly unsubsidized—Asian operators: labor costs comprise 72.5 percent of operating expenses at MTA and CTA, and 69.5 percent at WMATA. Meanwhile, Singapore’s SBS Transit spends roughly 50.9 percent of operating expenses on labor, and Hong Kong’s MTR devotes about 49.8 percent.<sup>76</sup>

Untamed labor costs are a major reason public transit efficiency has trended downward. And even though government agencies, auditors, and comptrollers have all identified labor costs as a major problem, weak accountability and subsidies provide little incentive to confront the labor force issue or the unions behind it.

To remain competitive, public transit must undergo reforms aimed at improving operating efficiency—a crucial step toward better service that could help restore demand. And there is no better way to achieve that goal than forcing public transit providers to focus on the bottom line—something the private sector has always done well.

Furthermore, rising fares are not the main reason public transit fell out of favor with many Americans. Rather, Americans have grown increasingly dissatisfied with inadequate speed and reliability that have left many routes with D and F grades.<sup>77</sup> If allowed to enter public transit at scale, the private sector could likewise shift transit away from subsidy-driven expansion and toward customer-driven service. The Cato Institute argues that privatizing public transit would help reorient it around users and price signals by tying it to user fees and the need to please riders.<sup>78</sup> Moreover, under the discipline of competition, the private sector adopts innovation more readily.



# Market Reforms

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## Removing Federal Barriers

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Federal regulatory hurdles complicate privatization and deter innovation, effectively blocking pathways to lowering public transit's dependence on government funding. As early as 1976, researchers warned that increased federal regulation could create barriers to innovation. They also noted that regulatory bodies are primarily concerned with safety, while “little attention is given to operational concerns, such as reliability, maintainability, level of service, efficiency, and economics.” Specifically, federal “protective arrangements” embedded in the 1964 Urban Mass Transportation Act impeded the adoption of train automation.<sup>79</sup> Decades later, the law remains a major barrier to transit modernization. By the same logic, the Davis-Bacon Act has long inflated construction costs. As early as 1979, the Government Accountability Office recommended repealing the law, finding that the federal prevailing wage frequently exceeded local market wages and increased the cost of federally funded construction projects.<sup>80</sup> Protectionist Buy America regulations have similarly done little more than raise costs and restrict competition in project delivery. Repealing these laws would clear the way for pro-market reforms and lower the barriers to privatization.



# The Possibilities of Private Sector Involvement

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The menu of options for private-sector involvement is broad enough to make some degree of privatization suitable for virtually any U.S. transit agency.

In a fully private system, routes, frequencies, and fares would adjust to actual demand. Differentiated pricing could replace flat fares, while capital would flow only to where it can be sustained. Budgets would have to be balanced, because services that could not cover costs would either reprice or cease. Examples of fully privatized urban transit are limited—especially in hard rail—yet the existing cases show that privatization is not only feasible, but often superior.

Japan's transit system remains the gold standard worldwide: it moves enormous passenger volumes with exceptional punctuality and safety. Japanese private companies run an extensive network of trains, subways, and buses. Tokyo Metro, which has been publicly traded since 2024,<sup>81</sup> carries an average of 6.84 million passengers per day.<sup>82</sup> For comparison, the busiest U.S. metro system—New York City's subway—recently hit a post-pandemic record of only 4.6 million, and its daily average is lower.<sup>83</sup> In 2025, Tokyo Metro's operating income margin was 23.3 percent. The company is publicly traded and publishes detailed performance metrics for investors that prove that a major urban subway operator can function like a real business.

Transit agencies could follow that example through full privatization via a sale of assets. For bus transit, this option is even more feasible, since examples of private bus operators that own equipment and operate services are widespread. One study estimated that fully privatizing U.S. bus transit would save about \$5.7 billion (in 2012 dollars), or roughly 30 percent of nationwide bus operating expenses. It also found that bus operating costs in largely privatized San Diego were 56 percent lower than in San Jose, where only 1.3 percent of bus transit was private at the time of the analysis.<sup>84</sup>

This is admittedly a less likely scenario in the context of the U.S.' public transit sector. Nevertheless, more incremental ways exist to introduce competition through greater private-sector involvement.

Transit agencies could contract with—or franchise service to—private operators. In a contracting model, agencies retain control over routes, fares, and service levels, whereas franchising gives operators greater control and responsibility over a defined network or route. The latter is preferable because it imposes more market discipline and shifts risk from agencies to operators, incentivizing franchisees to better control costs and adjust service to demand. Several transit agencies have already contracted out some services—particularly bus routes and commuter rail. While they fall short of privatization, contracting models can introduce market competition into public transit operations through competitive tendering. Transit remains publicly owned and funded, while private companies bid to operate service under contracts written and enforced by the relevant agency. This incentivizes competition among private operators for the chance to run transit systems. TransitCenter argues that contracting with private transportation companies can “improve transit service quality for riders and better position transit agencies to succeed in today's dynamic transportation industry.” According to its report, the

key is “strongly align[ing] the private sector’s profit motive with the public sector’s goals in order to unlock this potential using financial incentives in contracts and market competition during the bidding process.” From examples in Europe and North America, the report concludes that a strong agency-contractor relationship is symbiotic and can foster innovation, while also helping to reform antiquated work rules and improve operations.<sup>85</sup>

Tokyo Metro recently joined the consortium selected to operate London’s Elizabeth line.<sup>86</sup> If contracting models—especially franchising—were seriously considered for U.S. subway systems, global transit operators like Tokyo Metro could, at least in principle, compete to operate systems in cities such as New York, Boston, or Chicago. Alongside better management practices, foreign operators could bring budget discipline, stronger punctuality, and an innovative operating culture to American public transit.

Beyond operations, private involvement is urgently needed in public transit’s capital infrastructure financing. Globally, among the largest transportation projects financed through public-private partnerships (P3s) in 2023, urban rail transit accounted for 33.7 percent of total funding. Private capital can be deployed at significant scale in transit infrastructure, not just in road projects.<sup>87</sup> By bringing in private finance, P3s shift more construction and financing risk to private partners, and that shift tends to improve project delivery on both cost and schedule.

Unfortunately, only a few long-term P3s in the U.S. have involved public transportation. In general, P3 deals in which a government agency works with a private company to build, finance, operate, or maintain a project are hard to implement as a stand-alone funding model because public transit’s farebox recovery has historically been too low.<sup>88</sup> Even where federal credit tools such as the Transportation Infrastructure Finance and Innovation Act program—which can help finance up to 49 percent of eligible project costs—and private activity bonds are available, private firms are unlikely to initiate transit projects when expected operating losses make it difficult to recover capital and operating costs without continuing public support.<sup>89</sup>

However, there is another way to bring more private capital into government-dominant transit infrastructure. Availability-payment structures offer a better fit for projects where user-fee revenue is too weak to sustain the investment. Under the traditional transit model, government assembles the financing itself—usually through federal grants, local taxes, and bonds—and then hires private contractors to design and build the project. Thus, private firms participate mainly as builders—not as long-term project financiers taking meaningful revenue risk. Under an availability-payment model, the government instead enters into one long-term agreement with a private capital provider that helps finance, build, and often maintain the transit asset in exchange for annual payments, so long as the system remains in good working order and meets the standards agreed to in the contract.<sup>90</sup> Especially suited to capital-intensive projects, this model can impose much-needed constraints on rail construction, which too often lacks basic budget discipline and realistic projections.

Denver’s Eagle Project shows that transit-oriented P3s can be viable in the U.S. Denver’s public transit agency retained ownership of the system and the fare revenue, while a private partner helped finance

and build the rail lines—and now operates and maintains the commuter rail system under a long-term contract.<sup>91</sup>

P3s are a promising instrument for financing public transit infrastructure, yet they require policy changes. The FTA itself acknowledges that federal requirements are an obstruction to more private participation.<sup>92</sup> For that to change, Congress would likely have to scrap or substantially rewrite some of the rules that effectively render private participation off-limits, especially transit labor-protection requirements that preserve existing workers' inflated bargaining power.



## Cost to Taxpayers

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Throughout its 55-year history, Amtrak has never posted an annual profit and has depended on federal support to operate and maintain its system. Amtrak's public accounting presentation makes its losses appear smaller than they are by counting state subsidies as revenue and by downplaying depreciation. Without those accounting choices, the actual cost to taxpayers was closer to \$100 billion by 2020<sup>93</sup>—before the 2021 Infrastructure Investment and Jobs Act added \$22 billion in direct appropriations and billions of dollars more in federal competitive grants on top of regular annual support to the national passenger rail operator. That appropriation marked the largest federal spending commitment to passenger rail since Amtrak's creation—all while the government-owned corporation remains unprofitable. In fiscal year 2025, Amtrak generated \$3.5 billion in revenue from contracts with customers—but incurred \$6.1 billion in operating expenses and received about \$5.1 billion in taxpayer-backed support (including combined federal grants and state operating and capital assistance).<sup>94</sup>

Despite Amtrak's record ridership in fiscal year 2025—34.5 million passenger trips<sup>95</sup>—the railroad still reported a \$1.9 billion operating loss. Ridership growth does not merit celebration when it is accompanied by rising operating losses. Excluding state support, that operating gap translates into a subsidy of roughly \$64 per trip, besides what riders paid in fares. And if total federal grants and state operating and capital assistance are spread across ridership,

**Taxpayer-backed support comes to about \$148 per passenger trip in excess of fares.<sup>96</sup>**

The numbers are especially staggering given that many Amtrak fares are hardly affordable.

Even on its most popular corridors, Amtrak has no decisive advantage over buses: the ride from Washington, D.C. to New York takes about three hours by train, while buses take roughly four to four-and-a-half hours, are usually cheaper, and often offer more frequent service. Rail can still retain a price edge over flying—but that edge narrows sharply when flights are booked in advance. On long-distance routes, the math collapses the argument for rail entirely: the journey from New York to Chicago takes nearly 20 hours by train compared to about two hours in the air, while the journey from Chicago to Los Angeles takes more than 43 hours by train compared to less than 5 hours by air. Meanwhile, train tickets on these routes can cost hundreds of dollars—often well above typical airfares. In fact, low-cost airfare can come in below the average government subsidy per Amtrak trip.<sup>97</sup> If Amtrak struggles

to offer a tangible advantage over buses or planes on short routes—while taking multiple days on long routes and costing hundreds of dollars before subsidies—it becomes difficult to justify taxpayer subsidization at such a massive scale.

And yet, Congress is currently considering one of the largest authorization packages for the subsidy-dependent railroad, with no meaningful structural reforms included. To the contrary, the BUILD America 250 Act, if enacted, would authorize more than \$31 billion in Amtrak grants from fiscal years 2027 through 2031, with the authorization schedule rising annually. Moreover, of that amount, \$20.7 billion would go toward the National Network, which includes the aforementioned long-distance routes that account for some of Amtrak’s largest losses.<sup>98</sup>

## Losses by Design

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In fact, Amtrak’s startling unprofitability and misallocation of resources are congressional in origin. As a federally protected passenger-rail monopoly answerable only to Congress, and not to passengers, Amtrak confronts few competitive forces while devouring large recurring federally financed subsidies. Those two factors work symbiotically to erase market discipline from Amtrak’s business model.<sup>99</sup> In its fiscal year 2026 grant request, Amtrak says it aims to become “operationally profitable” in 2028, yet it continues to run a network that includes many low-ridership routes with persistent losses.<sup>100</sup>

Amtrak operates a rail network of more than 21,000 route miles in 46 states. Long before the pandemic arrived, 41 of those 44 routes lost money.<sup>101</sup> Since then, operating losses have roughly doubled from pre-pandemic levels and show no indication of returning to where they stood in 2019.<sup>102</sup> Amtrak’s 2018 assessment concluded that while long-distance trains generated only 20 percent of passenger revenues, they accounted for 86 percent of federally subsidized operating losses. Moreover, the average federal subsidy for each passenger on the Sunset Limited—running from New Orleans to Los Angeles—was \$362, excluding capital costs.<sup>103</sup> The largest losses come from long-distance lines.

The only operationally profitable service is the Boston–Washington Northeast Corridor, which covers less than 500 miles of Amtrak’s national footprint. In fiscal year 2025, Amtrak’s long-distance routes carried about 4.45 million riders<sup>104</sup> but still generated a \$621.8 million adjusted operating loss, more than erasing the Northeast Corridor’s \$352.5 million operating profit.<sup>105</sup>

Worse, union influence over the government helps to advance regulation that undercuts innovation, blocking productivity gains. After automation became a viable cost-saving option, the Federal Railroad Administration finalized a rule in 2024—backed by rail unions and presented as a safety measure—that generally requires at least two crewmembers on FRA-regulated trains, including intercity passenger rail operations.<sup>106</sup> If enacted, the BUILD America 250 Act would codify the two crewmember requirement, while also introducing costly hotbox detector regulations and notification requirements that have little demonstrated link with improved safety outcomes.

Given that Amtrak plays only a marginal role in the broader transportation system and has no critical advantage over other transport modes, continuing to subsidize the transportation expenses of a small number of Amtrak riders at the expense of all taxpayers makes little sense. Moreover, it prevents more efficient private providers from testing new models in passenger rail and trying to capture riders through better service and innovation.



## A Market-Oriented Alternative

Examples of intercity passenger rail outside Amtrak are scarce, but Brightline—a privately owned and operated intercity railroad in Florida running between Miami and Orlando—is one of them.<sup>107</sup> Its private nature does not mean that Brightline is subsidy-free; its projects have benefited from public financing tools, especially tax-exempt private activity bonds.<sup>108</sup> Yet it is subject to market discipline, unlike the permanently taxpayer-backed model Amtrak represents. Brightline has posted losses since it began operating, which nevertheless strengthens the case for privatization. It shows that losses do not have to be sustained through the kind of open-ended federal support that defenders of nationalized passenger rail often treat as unavoidable. When revenue failed to cover costs, Brightline responded the way private firms do: it refinanced debt and adjusted service. Brightline can continue running at a loss only so long as private creditors and investors are willing to bear that risk; if that support runs out, the business must restructure or potentially fold.<sup>109</sup> In February 2026, Kroll Bond Rating Agency downgraded Brightline Florida’s bonds to triple-C-plus and warned that Brightline’s financial condition could potentially lead to default by January 2027.<sup>110</sup> If Brightline defaults, it could continue operating only through negotiations and restructuring. Here, there is a key contrast with a nationalized rail model: if a private service provider fails to attract enough riders at prices high enough to cover its costs, the burden would fall first on its owners and creditors—not taxpayers.

Brightline also shows how difficult it is to make passenger rail succeed—difficulties which, if they can be solved, can be solved only by private businesses, subject to market forces. It is costly to build and operate, and it often loses riders to superior alternatives. Train corridors beyond 500 miles almost never withstand economic scrutiny. Jet travel renders train routes of that length—even high-speed rail—effectively outdated for most travelers, while driving is generally more convenient and flexible for many trips. Likewise, intercity buses are a passenger rail system’s immediate competitor and offer a flexible, low-cost alternative—especially where rail is slow and infrequent. The Reason Foundation evaluated eight Amtrak routes against comparable intercity bus services on price, speed, accessibility, subsidy reliance, profitability, and on-time performance, and concluded that buses outperform rail in direct mode-to-mode competition.<sup>111</sup> However, it does not follow that newer transport modes would cause the complete demise of passenger rail without government ownership. If privatized, passenger rail could survive in the right corridors: where there is sufficient demand, competitive trip times, and a business model that covers its operating costs with fares, perhaps supplemented by ancillary revenue.

The basic concept is simple: passenger rail should operate where—on its own—it can withstand competition from alternative modes of transportation.

If Amtrak privatized and opened corridors to competition, eliminating routes that cannot justify their costs, it would expose passenger rail to actual market discipline. To compete with buses, airlines, and automobiles—while remaining operational—private rail providers would have to raise fares, lower costs, redesign service, and collect enough revenue. They would operate where passenger rail can offer superior value—or have to exit.

In a government-run monopoly, rising subsidies tend to be absorbed into higher unit costs rather than better service because the structure of the enterprise weakens cost discipline. Subsidies dull the incentive to minimize labor and service costs, while market competition does the opposite. Privatizing passenger rail would likely reduce costs and spur innovation by pruning excess staffing and loosening inflexible union rules that cover around 83 percent of the Amtrak workforce.<sup>112</sup> Only 17 years after Amtrak was created, the 1988 President’s Commission on Privatization unanimously concluded that privatizing Amtrak was in the interest of taxpayers and the railroad’s future.<sup>113</sup>

Internationally, Japan once again serves as a model of privatization. Major Japanese rail operators were once a single, government-run entity called Japanese National Railways (JNR). In 1987, the government split the government-owned JNR into several regional, vertically integrated passenger rail companies, followed by a process of privatization. A World Bank study of the breakup and the privatization of Japanese National Railways concluded that, “by any realistic measure,” the restructuring was a success: traffic grew, deficits were converted into “solid profits,” the labor force was reduced, and labor productivity rose rapidly. The study specifically attributes the improvement to a profit motive, which “made indifference to customers a luxury the new companies cannot afford.”<sup>114</sup> Profit-driven operations also extended beyond rail service itself. The Japan Railways (JR) Group companies expanded into station-area real estate, retail, hotels, and other commercial activity, adding the profits from those businesses to their bottom lines.



Japan's three largest JR passenger rail companies have generally been profitable, outside the pandemic shock. For example, in fiscal year 2025, JR East's net income increased 14.2 percent from the prior year. Its net profit margin was 7.8 percent, while its operating margin was 13 percent.<sup>115</sup>

Other options short of full privatization—such as franchising and public-private partnerships—could still help infuse some competition into monopoly services such as Amtrak. The U.K. model—though it is now being phased out—shows a middle path between direct government operation and full privatization. Under that model, the government does not have to operate trains itself. Instead, it specifies the service and then invites private operators to compete for the right to operate it, which the U.K. has described as competition “for” the market rather than “in” the market.<sup>116</sup> The cost savings come only if the contracts are strictly performance-based and operators have real flexibility to eliminate unprofitable routes and adjust fares. This model, however, has its limits, because it still relies on subsidies to operate.

Alternatively, the Reason Foundation recommends greater use of P3s for rolling stock and station assets to bring private capital and operational expertise into the system. Under this model, private partners would assume responsibility for designing, financing, operating, maintaining, and upgrading key assets. That approach could shift some project and maintenance risk to the private sector while improving service quality and the speed of modernization.<sup>117</sup>

# Conclusion

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U.S. taxpayers are perpetually on the line for rising public transit and passenger rail costs. Perplexingly, this taxpayer funding continues to grow even as ridership falls, expenses surge, poor performance becomes the norm, and the pattern persists decade after decade. Public transit agencies are burdened by unsustainable labor costs as operational efficiency declines. Poorly-designed regulation has raised the cost of capital projects and locked in union power, helping entrench urban transit. A familiar cycle ensues: growing subsidies function as a vehicle for raising pay and benefits—even where public agencies can neither afford nor justify additional public funding. Innovation and cost savings are structurally disincentivized, and capital-planning processes remain detached from both demand and basic arithmetic.

In both cases, monopoly structure and open-ended public support dull the urgency to control costs and align operations with what travelers really want. Obtaining subsidies has become a substitute for better performance.

Reform should therefore begin from a simple premise: transportation services should be exposed to market discipline. Congress should remove federal barriers—first and foremost, labor-protection rules and protectionist procurement mandates. States, localities, and transit agencies should make wider use of privatization, competitive tendering, franchising, and P3 models to attract operators with stronger performance cultures and make greater use of private capital in infrastructure financing. Meanwhile, passenger rail should be narrowed to commercially feasible corridors and opened to competition. Whether it can survive competition from automobiles and airlines should be left to the market.

If the U.S. wants transit and passenger rail that can endure into the future, it must stop subsidizing decline.



# Endnotes

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FTA NTD: 7.7 billion unlinked passenger trips in 2024, about 78 percent of 2019 ridership (2024 National Transit Summaries and Trends, Exhibit 11.3). Staffing, agency-run full reporters: headcount rose 5.7 percent from 270,082 in 2019 to 285,588 in 2024; full-time- equivalent staffing rose 4.0 percent from 246,119 to 255,973 (Exhibit 1.4).
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