STAFF REPORT

MEETING DATE: 10/8/2025 **Staff Report No.** 25-363

TO: AC Transit Board of Directors

FROM: Salvador Llamas, General Manager/Chief Executive Officer

SUBJECT: Fare Planning Update

BRIEFING ITEM

AGENDA PLANNING REQUEST: ☐

RECOMMENDED ACTION(S):

Consider receiving a report on a plan for determining future fare increases.

Staff Contact:
Chris Andrichak, Chief Financial Officer

STRATEGIC IMPORTANCE:

Goal - Financial Stability and Resiliency
Initiative - Financial Efficiency and Revenue Maximization

Fare revenue is the largest revenue source within the District's control. Ensuring the District has a clear plan for determining future fare increases is key to the District's future financial stability.

BUDGETARY/FISCAL IMPACT:

While fares are an integral part of the District's revenues, there is no fiscal impact from this report.

BACKGROUND/RATIONALE:

With the successful implementation of a fare increase on July 1, 2025 and the planned increase of local fare for July 1, 2026, the District will complete all the previously approved fare increases. The Board requested that staff develop and present a plan for future fare changes. Board Policy 333 - Fare Policy Goals and Methodology lays out seven goals that apply to "fares, the fare structure, and fare payment methods". Staff must balance these goals when planning for fare increases.

Having a multi-year plan for fare increases has many advantages. It allows staff to incorporate any revenue increases into financial projections, and it allows riders to understand what their future costs will be. The process of approving a fare increase, which requires a fare equity analysis and a public hearing, requires significant staff resources thus repeating the process every couple years is not ideal.

Having a multi-year fare increase plan also goes along with the District's multi-year financial planning. The primary purpose of charging fares is to raise revenue to provide service. The District is now spending reserves to fill the budget deficit, therefore, all strategies to increase revenue must be considered. Ideally as expenses increase, the District's revenue sources also increase to match. If fare revenues do not increase, that requires a greater increase of the District's other revenue sources.

The District has two different base fares for its two primary service types: local and Transbay. While many of the considerations and characteristics of the fares are similar, the ridership is different. Prior demographic data showed stark differences in income levels between the riders, with Transbay ridership having much higher income levels. The District has also prioritized local service post-pandemic.

Fare Increase Methodology

The current and nearly complete schedule of local fare changes approved in Resolution 19-008 were created in an attempt to bring fare increases back in line with inflation as measured by the Urban Consumer Price Index (U-CPI) for the District's service area. When that fare change schedule was adopted in 2019, the District had raised fares only three times in the prior decade. Despite relatively low inflation in the latter half of the 2010s, in 2019 the District's base fare was about 13% behind inflation (using 2009 as a starting point). The schedule approved in Resolution 19-008 planned to bring the base fare to $3.00 by 2025, which was slightly lower than what staff projected the purely inflation adjusted level to be (see Attachment 1).

Increasing fares to keep up with inflation means that fare revenue will grow at the same pace as many District costs. Inflation adjustments are a common method of increasing fares and are simpler to justify and explain to riders. To reduce coinage and simplify fare payment, the prior adult cash fare increases were rounded to the nearest 25 cents. Increasing adult cash fare by a quarter (at current fare costs) is closer to a 10% increase, so the increases were planned every other year to better match actual inflation. Continuing to use this modified inflation-based method is preferred by staff as the approach for future fare increases.

An alternate method the District could employ is to increase fares to keep fare revenue at a specific proportion of revenue. For example, fare revenue is 6.6% of the FY 25-26 operating budget. Increases could be calculated to keep fare revenue at that level. A rationale for this method could be that riders should always be contributing a certain percentage of revenues (and by extension, costs). There are several disadvantages to this method. At 6.6% of total revenue the District's fare revenue is similar to other agencies in this post-pandemic environment, but there is no special significance to that percentage. The most difficult issue is that unrelated changes in other revenues could throw off the balance of total revenues. This would possibly mean fare changes for reasons unrelated to ridership or costs. It would be difficult to predict if those moves would be up or down, and further to explain why they are happening to riders. That revenue balancing dynamic would make a multi-year fare increase plan extremely difficult to create and manage.

One consideration, if not quite a full method for determining fares, is measuring District fares compared to other transit agencies in the region. The primary comparison is with the other larger bus operators in the region (Muni, SamTrans, VTA). AC Transit fares have generally been less than Muni and at or more than SamTrans and VTA, as is currently the case.
There are ultimately many methods that could be used to base future fare increases. The District has used an inflation measure in the past because it makes the most sense to staff and is understandable to riders.

Other Factors

There are other factors to consider as the District plans out future fare increases. The District's base fare is modified with discounts and multipliers to make the various discounted or pass amounts that apply to different groups of riders. Staff needs to consider the interplay between the base fare and these amounts and how they accomplish the goals outlined in the fare policy. The region is getting ready to transition to the Next Generation Clipper® (NGC) system which will bring about a common inter-agency transfer discount, as well as allow the District to implement free local transfers. NGC will also bring universal fare capping, making advance -purchase passes less relevant, and an increase in retail outlets, which will increase access to NGC and allow more riders to transition from cash payments to take advantage of the growing number of discount programs. NGC will also allow for "open payments" directly from credit and debit cards (BART is currently piloting this functionality for the region).

The District also has to consider existing fare payment compliance, and what effect any increases will have on that. Staff have not seen much lasting elasticity or drop in ridership when fares have increased. Having a plan for incremental and reasonable fare increases over time should have the least effect on ridership when fares change.

Staff has done some work to measure and understand fare payment compliance levels on specific lines, but it is not enough to make general statements about compliance levels. Staff can say that compliance on Tempo service is much worse than other lines, which is likely related to the unique off-board fare payment system on Tempo. Staff received feedback through a peer review process and continues to look at ways to try and increase compliance. A full fare enforcement program would likely cost as much or more than what could be recouped, so the primary recommendations to increase compliance are to promote the Clipper START program through outreach and education with external stakeholders and to continue to look for sponsorship and advertisement opportunities.

The District is currently working to support the Clipper START outreach and promotional efforts being led by the Metropolitan Transportation Commission (MTC). MTC is launching a Clipper START promotional campaign this Fall which will run on AC Transit bus exterior ads. Additionally, MTC is launching new partnerships with community-based organizations to increase Clipper START applications. Staff are currently developing a public awareness campaign focused on encouraging riders to pay their fares while promoting the various discount fares available and reminding riders that fares help keep our service running.

Finally, the District still has a remaining planned and approved local fare increase for July 1, 2026. A new schedule of fare changes would not need to begin until 2027 or after. Additionally, some time will be needed after the NGC and fare integration changes take effect to see how ridership and revenue are affected. Staff anticipates beginning the analysis as NGC rolls out and into mid-2026. A new proposed fare schedule could then be brought to the Board during the second half of 2026. This timing will also allow for use of updated rider profile demographic survey data, which should be finalized later this fiscal year.

Other Agencies

BART first approved a program in 2003 to implement inflation-based fare increases. The program was re-affirmed in 2013 and 2019. The increases are currently calculated using an average of local and national inflation of a two-year period, minus ½% to account for improvements in productivity. Since the increases are calculated after each two-year period, BART staff must perform a fare equity analysis for each increase. A fare equity analysis cannot be done with a formula, it requires the actual fare amount to be known.

Muni has an Automatic Indexing Implementation Plan (AIIP) that plans for fare increases with every two-year budget cycle. The formula for the increases uses the average of local inflation over a two-year period plus the average of operating labor cost changes over that same period to determine the increase. The result is rounded to a multiple of 5 cents. As with BART, each fare increase must have a fare equity analysis since the increase cannot be known in advance. Muni includes planned fare increases in its budget approval process.

SamTrans does not have a specific methodology for raising fares and has not raised fares in 10 years. They have a policy with five principles that are used to guide fare-related decisions. VTA also does not have a specific methodology for fare increases. Their last fare increase in 2019 considered various financial factors.

Process

As indicated above, the modified inflation-based method is preferred by staff as the approach for future fare increases. Once the Board has agreed to move forward with a proposed fare schedule, staff will need to prepare a fare equity analysis, an outreach plan, and then hold the required public hearings. A fare equity analysis can take up to a month, with an outreach plan being developed in parallel. The public hearing process will take from two to three months and can be scheduled as the fare equity analysis completes.

ADVANTAGES/DISADVANTAGES:

There are no significant advantages or disadvantages to the plan outlined in this report.

ALTERNATIVES ANALYSIS:

This report discusses potential planning alternatives.

PRIOR RELEVANT BOARD ACTION/POLICIES:

Board Policy 333 - Fare Policy Goals and Methodology

ATTACHMENTS:

1. Fare increases vs CPI from SR 19-078

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