

ALAMEDA-CONTRA COSTA TRANSIT DISTRICT



STAFF REPORT

MEETING DATE: 6/10/2020

Staff Report No. 20-134

TO: AC Transit Board of Directors
FROM: Michael A. Hursh, General Manager
SUBJECT: Possible Effects of Free Fares

BRIEFING ITEM

RECOMMENDED ACTION(S):

Consider receiving a report on the possible effects of “free” fares on AC Transit and a review of how it is implemented at other agencies.

STRATEGIC IMPORTANCE:

Goal - Financial Stability and Resiliency

Initiative - Financial Efficiency and Revenue Maximization

Reductions in farebox revenue and the possible offsetting increases in ridership would impact the District’s financial position and outlook and the expense of free fares for the riding public.

BUDGETARY/FISCAL IMPACT:

There are no budgetary impacts from this report.

BACKGROUND/RATIONALE:

There have been a few transit agencies and/or cities in the news recently over deliberations or decisions to remove fares (i.e. “free” fare) for most or all of their service. The reasons for this vary, with the most common being economic fairness and environmental benefit. It is important to note that there have long been systems with free routes or specific areas within their service. AC Transit, for instance, provides free Broadway Shuttle service under contract from the City of Oakland.

This report was prepared before the shelter-in-place and other significant effects of the coronavirus pandemic. The District is currently not collecting fares as are many other transit agencies throughout the country, but this situation is temporary and so the overall discussion about “free” fares is still relevant. The farebox revenue amounts in the report are also pre-pandemic and should all be scaled down when thinking about the impacts of “free” fares over the next few years, but are still useful for discussion purposes. One unknown outcome of the current pandemic is if any agencies are more likely to consider or implement “free” fares after we emerge from the pandemic period.

AC Transit

For FY 2018-19 the District recorded \$57.0 million in fare revenue, \$5.1 million in EasyPass revenue, and \$3.5 million in other contract services revenue, for a total of \$65.7 million in operating revenue, which makes up 16.7% of the total revenue. This is the most straightforward measure of farebox recovery for the District. A breakdown of just the farebox revenue into major types is as follows:

	FY 2018-19 Farebox Revenue	% of total Farebox	% of total Revenue
Adult	38,623,199	67.7%	8.3%
Youth	10,905,606	19.1%	2.3%
Sr./Disabled	7,494,186	13.1%	1.6%
Total Farebox	\$57,022,991	100.0%	12.3%

This shows that if AC Transit were to provide “free” fares to, for example, youth riders (18 years and younger) it would lose around \$10.9 million (2.3%) of total revenue. It is important to note that this fare category revenue grew nearly 60% (from \$6.8 million) in the three years from FY 2016-17 to FY 2018-19 due mainly to the Alameda County Transportation Commission’s Student Pass Program.

While the 2.3% for youth fares and 1.6% of total revenue for senior and disabled fares seem small relative to total revenue, all operating revenues are “precious” to the District and their loss will come with a resulting need to cut expenses elsewhere. The \$10.9 million in youth fares is equal to about 10% of non-labor expenses. Reducing non-labor expenses by 10% would significantly impact the District. Reducing labor expenses by any meaningful amount necessarily means shrinking the District’s approved headcount. If the District were to look at “free” fares for any part of its ridership, new revenue to offset the loss would be necessary.

If the District were to make its entire system completely free, revenue loss would be nearly the entire \$65.7 million in operating revenue. A free system would negate the need for EasyPass and most other contract service arrangements, excepting where third parties are paying for additional service to be provided. A free system would have partial offsetting reductions in operating costs due to the lack of fare collection processes. There would also be longer-term offsetting capital expense reductions as the District wouldn’t need fareboxes or Clipper card readers, for example. A report to the Board in March 2019 estimated the total annual operating cost of fare collection for the District to be approximately \$5.0 million.

The District also gathers important ridership information through both Clipper and cash fare payments. Replicating this information would likely require more frequent surveys of ridership.

A fare-free system should reduce dwell time at bus stops since there would theoretically be no transaction made at the point of entry. Reduced dwell times should result in faster buses, improvements in on-time performance, and potentially a reduction in operating costs where less vehicles would be required to meet a schedule due to the increased speed of the bus. Other benefits of a fare-free system include: the removal of a barrier to transit access for all residents and commuters in the AC Transit service area, and the probable increase in ridership systemwide. The increase in ridership benefits routes that have available capacity but negatively impacts routes that are at or over capacity, including Transbay routes. As previously mentioned, free fares could be implemented to specific service types of populations to address capacity concerns.

Other Systems

In general, the transit systems that have instituted free fares have lower farebox recovery rates than the District and collect small absolute amounts of revenue. In the several cases reviewed, the governing jurisdiction had enough surplus revenue to absorb the loss of transit fares.

On a number of systems, certain lines are free. Downtown shuttles like the Broadway Shuttle are often free. Less commonly, some systems have free fare areas, such as Seattle did in its downtown area until 2012. There are also systems which are free for certain passengers, such as students.

Transit systems have removed fares for various reasons. Some sought to ease the burden of fares on low-income passengers. Others were seeking to boost ridership (which generally happened) and reduce congestion (which often didn't). Others sought to relieve the burden of handling (small amounts of) funds. Free fares have been discussed as supporting residents' "right to the city." Economists consulting for the Kansas City transit agency argued that free fares would boost retail sales, because the majority of low-income ridership is more likely to spend the funds they save on fares.

Most free fare systems in the United States are found in resort towns (e.g. Park City, Utah), college towns (e.g. Missoula, Montana), and other small communities (e.g. Canby, Oregon). To date, Olympia, Washington, (population 185,000) is the largest U.S. transit system with free fares. A survey of free fare systems in the U.S. found over 30, including Emery Go Round, the Mountain View Community Shuttle, Stanford's Marguerite Shuttle, and the Eastern Sierra Transit Authority in Mammoth Lakes.

Much of the recent discussion has been propelled by a proposal for free fares in Kansas City, Missouri, which has a metro population of almost 800,000. In Kansas City the city council budgeted \$4.8 million of the \$8 million needed, leaving the remaining \$3.2 million for the transit agency to find. The agency is looking for private partners. Another proposal to make transit free in Washington, D.C. residents was introduced in the City Council. The Washington proposal would rely on surplus funds held by the city government, and would provide passes that residents could use on the area's regional transit system (WMATA) as well as local operators. Thus transit would be free to the passenger but paid to the transit agency.

Two smaller transit systems in the U.S. that are completely free are Commerce Municipal Bus Lines, and the Corvallis Transit System in Oregon. Commerce Municipal Bus Lines is a small operator within metro Los Angeles and has been free for decades. Corvallis, Oregon, has a large campus of Oregon State University, and voted to go free almost a decade ago.

Worldwide, Tallinn, Estonia is the largest city (population 400,000) which has so far established free transit. Estonia is moving to provide free transit in most of the country. Luxembourg in Western Europe has recently become the only country to offer nationwide free transit. Luxembourg has a substantial in-commute to its financial center from neighboring countries; the country hopes to reduce congestion by offering free transit (though international commuters would still need to pay for transit in the home country portion of their trip).

Both Kansas City and Luxembourg have farebox recovery ratios of 8%, though for different reasons. In Kansas City, ridership and therefore, fare revenue is low. Luxembourg has strong transit ridership but was already providing many discounted and subsidized fares before it went completely free.

Each of the other three locations had different funding approaches. Corvallis voters approved a \$2-3 monthly fee. In Olympia, the system could also draw on a recently enacted .4% sales tax. Talinn used a funding source unavailable in American cities. They drew on the registration fees which residents are supposed to pay to live in the city. They believed that the availability of free transit encouraged more people to register as city residents.

AC Transit's approximately \$66 million in fare revenues represents a farebox recovery rate of 16.7%. If AC Transit instituted free fares, the District would be foregoing more fare revenue than any other system identified in this report.

ADVANTAGES/DISADVANTAGES:

There are no advantages or disadvantages to receiving this report.

ALTERNATIVES ANALYSIS:

There are no alternatives to receiving this report, and the information presented does not present any alternatives for Board decision.

PRIOR RELEVANT BOARD ACTION/POLICIES:

None

ATTACHMENTS:

None

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