

ALAMEDA-CONTRA COSTA TRANSIT DISTRICT



STAFF REPORT

MEETING DATE: 2/24/2021

Staff Report No. 21-106

TO: AC Transit Board of Directors
FROM: Michael A. Hursh, General Manager
SUBJECT: Best Practices for Unbanked and Underbanked Customers

BRIEFING ITEM

RECOMMENDED ACTION(S):

Consider receiving a report on the best practices for accommodating unbanked and underbanked customers under electronic fare payment systems. [Requested by Director Shaw - 10/9/19]

STRATEGIC IMPORTANCE:

Goal - Convenient and Reliable Service
Initiative - Service Quality

This report is designed to help the District explore how to make fare collection more efficient through cashless fares while at the same time ensuring unbanked and underbanked riders have full access to all fare types.

BUDGETARY/FISCAL IMPACT:

There is no immediate financial impact associated with this briefing report.

BACKGROUND/RATIONALE:

Exploring Cashless Transit Fares and Serving the Unbanked

Staff has prepared this report at the request of the Board to consider an issue which is becoming more important to transit agencies. This report explores the possibility of AC Transit moving to a cashless fare system, and the impact this would have on unbanked and underbanked riders. AC Transit, like many (American and international) transit agencies, has sought to reduce the proportion of fares paid in cash, and to provide non-cash fare payment options.

Like most American transit systems, AC Transit has not sought to completely eliminate cash fares on local buses. The New York City Transit Authority has an intermediate rule-accepting coins but not bills in bus fareboxes. American heavy rail systems (such as BART), and some light rail and Bus Rapid Transit lines (such as Tempo) do not accept cash payments on the vehicle. An estimated 70% of fare payments on AC Transit were made with a Clipper card pre-COVID.

The one large American transit agency which is seeking to go cashless within the next five years on all modes

is the Massachusetts Bay Transportation Authority (MBTA), which serves Boston and the surrounding area. For small agencies, the Roaring Fork Transit Authority, serving Aspen and Vail, Colorado, is cashless. American systems have typically sought to institute and improve smart cards and mobile payments, while some European, East Asian, and Australian transit systems have become cashless.

Definition of Unbanked or Underbanked: In the household of an unbanked person, no one has a bank account or a credit card. The underbanked have a bank account of some sort but also utilize “alternative” financial services, such as check cashing. Nationally, the unbanked are estimated to represent 5% of households and the underbanked represent 17%. Unbanked or underbanked persons are generally low-income and disproportionately Black and Latino.

Definition of Cashless Fares: AC Transit has the two major types of cashless fares. Most riders use the Clipper Card, a contactless smart card. The District has also contracted with Token Transit to provide a mobile fare payment platform to be used on mobile devices. Some transit agencies, especially internationally, accept tickets in their bus fareboxes. Tickets raise some of the same issues as cash and should not be regarded as cashless. In general, smart cards are replacing tickets.

There is an important distinction between the terms “cashless” and “fare-free.” With cashless fares, the District would require fare payments, made in a form other than bills and coins. Cashless buses would accept payments on Clipper Cards, mobile payments loaded on mobile devices, and possibly other fare media. Fare-free service would not require any fare payments at all.

Advantages of Cashless Fares: Eliminating cash fares could have both operational and administrative benefits for the District. For the vast majority of transactions, it takes longer to pay fares in cash than by other means, increasing dwell time, slowing bus operations and increasing operating costs. A national study by Kittelson consultants estimated that cash payments averaged 4.50 seconds, smart card payments 2.75 seconds, and mobile payment systems 1.75 seconds. Cash payments can also jam fareboxes, further exacerbating delays. Riders might find a faster and smoother payment system attractive. In Boston, instituting cashless fares are part of a suite of travel time improvements on that transit system. AC Transit has also implemented a number of other measures to reduce bus dwell time.

Administratively, eliminating cash fares should reduce cash handling costs. A 2019 report to the Board estimated that cash handling cost the District an estimated \$5 million per year. This is roughly 10% of the District’s pre-COVID fare revenue and the percentage could increase if recovery ridership growth is slow. Reducing cash handling should also reduce security concerns. Cashless fares would not eliminate cash handling completely, as passengers could presumably pay cash at Ticket Vending Machines or ticket offices. There are also fees required for companies which manage electronic fare payments.

On a broader level, some countries, such as Norway and Sweden, see themselves as consciously evolving towards a “cashless society.” They see this as a technological and social advancement. The percentage of all payments made in cash in these countries is very low. Minimal use of cash for transit results from minimal use of cash overall. Some Americans also see functioning without cash as a personal convenience and an efficient method for payments.

Drawbacks of Cashless Fares: The principal drawback of cashless fares is that they could be inconvenient or impossible for cash paying riders. Clipper Card and mobile pay options are less available to unbanked or

underbanked riders.

Unbanked and underbanked AC Transit riders would have to purchase Clipper Cards at Ticket Vending Machines (TVMs) at BART stations, at retail vendors, or at ticket offices. Purchasing a Clipper Card in person can be difficult in some parts of the AC Transit service area. For example, at this time there are only four Clipper vendors (including BART) in Richmond and only six in Hayward. MTC hopes to expand the vendor network under Clipper 2.

Cash payments currently remain important to a segment of AC Transit ridership. According to the most recent on-board survey (2017-18) 26% of AC Transit fares are paid in cash. Riders were asked in that survey how they would pay their fare if cash was not option. Many riders said they'd use a debit or Clipper card. However, 50% said that they would not ride AC Transit if they could not pay cash. This would constitute 13% of AC Transit riders, who would take some 20,000 (pre-COVID) daily trips.

Surveys in other cities show that some people are concerned about use of their data in cashless fare systems. Some fear that their electronic profile could be hacked into. Others simply do not wish to make their spending data available.

Approaches to overcoming these drawbacks are discussed in the following sections of this report.

Examples of Cashless Transit Fares

Although they are not the norm, there are examples of cashless transit that AC Transit could look to for guidance, particularly outside the United States. In general, other developed countries have a lower level of unbanked (or "financially excluded") people. One analysis found higher rates of formal bank accounts in twenty countries, including Canada, France, Germany, Australia, New Zealand, South Korea, Japan, and Spain. The lower rates of unbanked people in these countries simplifies the process of establishing cashless transit. The Obama administration began to explore how to lower the number of unbanked people but was not able to pursue this.

Below are examples in North America that could be more relevant to exploration into cashless fares for AC Transit:

Metrolinx/GO Transit-Toronto region-Metrolinx operates regional rail and bus transit in suburban Toronto. It has 72,000,000 passenger trips per year or about one-third more than AC Transit. The agency decided to implement cashless fares during the COVID pandemic. The initial roll-out was on rail followed by bus services. Fares are paid on a PRESTO smart card, which the agency had already established, or a PRESTO mobile app. PRESTO cards can be bought at GO rail stations, ticket vending machines, and Shoppers' Drug Market.

The Central Ohio Transit Authority-COTA, a relatively small transit agency in the Columbus, Ohio area intends to switch from fare free to cashless. In 2019, COTA had 19,000,000 trips in a region with a population of 1.4 million. Like AC Transit and many transit agencies, COTA ceased collecting fares during the pandemic. When it resumes, it plans to do so on a 100 percent cashless basis. Passengers will be able to use a smart card, a mobile app, or possibly a social service benefits card. Passengers will be able to purchase fare at one of five TVMs, the COTA Customer Experience Center, or at two major grocery chains. The agency's material does not

report what Title VI analysis it has conducted on these changes.

Massachusetts Bay Transportation Authority (“The T”)-The MBTA in the Boston region is the fourth largest US transit system by ridership, with 372,000,000 annual passengers (pre-COVID). Approximately one-third of MBTA trips were by bus. The MBTA began a \$700 million fare reconstruction program that proved infeasible and an additional \$200 million investment was required. The agency seeks to have smart cards available in all stations, and to go cashless by 2024. Only 7% of fares on MBTA buses are paid in cash, making a transition to cashless more feasible than on some systems. (e.g. on LA Metro over 30% of fares are paid in cash).

Regional Transportation Commission of Southern Nevada (RTC) - RTC is the regional transit system for the Las Vegas region. In terms of ridership, it is similar in size to AC Transit with 66 million annual trips in 2019. In December of 2020, RTC launched a contactless cash payment option for transit customers via smartphone app. The agency also instituted a “Cash for Tap” program through its fare vendor network. This means passengers are able to use cash to add fare to their smartphone app at network locations.

An additional U.S. transit agency planning to implement cashless fares is the Dayton Regional Transit Authority in Dayton, Ohio. Outside the U.S., cashless fares have been implemented by Halifax Transit in Halifax, Nova Scotia, and by transit agencies in Amsterdam, Berlin, London, Valencia, Auckland and Wellington. Melbourne, Australia was suggested as an example of cashless transit-at this point it is low cash (11% of bus fares) but not cashless.

Examples of Cashless Transit Fare Deferrals

Implementing cashless fares has not always been successful. In some instances, agencies have begun to implement cashless fares only to retreat from the implementation.

WMATA in the Washington D.C. region slowed the implementation of cashless fares. The agency held hearings on making a number of limited stop lines cashless. However, the agency did not implement this proposal. Instead it tested cashless fares on a single express route. That test has now been terminated.

The Toronto Transit Commission (TTC)-one of Canada’s largest transit agencies-- had also planned to implement cashless fares. However, this has now been deferred indefinitely due to the pandemic.

Considerations for Equitably Converting to Cashless Fares

Though the District has made no commitments to convert to a cashless fare system, below are some of the key steps to consider based on experiences of other transit agencies:

Long Transition and Implementation Schedules: Based on the experience of most other transit agencies, conversion to cashless fares would be a long process. London, with its ubiquitous Oyster Card, spent 22 years converting to cashless fare payment, at which point, only 1% of bus passengers were paying cash, easing the changeover. MBTA expected a three-year conversion process but is now in the midst of a seven-year process.

District or Regional? A key initial decision for the District would be whether a conversion to cashless fare payment would be done as part of a regional changeover, or by AC Transit alone. AC Transit has the lowest

income ridership of any major Bay Area transit agency; therefore, the District would need to be particularly sensitive to their concerns, especially in a regional conversion.

Understanding the Unbanked and Underbanked: Whether on our own or in a multi-agency effort, the District would need to clearly know the needs and concerns of unbanked and underbanked riders, both by analysis and through extensive outreach. Geography, demography, customer attitudes and methods of payment and financial transactions would all be important. Outreach could include but not be limited to focus groups, surveys, public meetings, and corresponding data analysis to understand behavior and how to change and accommodate it.

Title VI Analysis and Mitigations: The changeover would ultimately require a districtwide Title VI analysis. Mitigations might be required. One mitigation done at other transit systems, such as LA Metro and Tri-Met in Portland, was to distribute free smart cards.

Means-based Fares: Means-based fares, such as Clipper START in the Bay Area, provide an important benefit to low-income passengers. However, they do not solve the problem of access to cash-free fares.

Robust Vendor Network: Expanding the Clipper vendor network would be a key element of conversion to cashless fare payment. The vendors are one type of Clipper outlet that can be expanded. Some transit agencies have added TVMs at major bus transit centers, this could be explored for hubs and transit centers like the Richmond Parkway Transit Center, Eastmont Center, Contra Costa College, Ardenwood Transit Center and Union Landing to name a few.

Currently there are roughly 300 Clipper retail locations; part of Next-Generation Clipper 2 rollout, System Integrator is committed to develop a recruitment plan to supplement the network with new retailers, to meet the requirement of a minimum of 400 sites within two (2) years of the system being ready for use by the public.

A core element of the Next-Generation Clipper 2 project is a concerted effort to expand the Clipper retail network in communities of concern and underserved areas, including a requirement that at least 25% of total retail locations serve areas with high concentrations of minority and low-income households. Additionally, the contract provides for an incentive bonus of \$5,000 per site for any new retail sites, beyond the base 400, established in areas considered by Transit Operators to be underserved.

Subsidized Mobile Payments: Tri-Met in Portland is investigating the possibility of subsidizing mobile payment apps on smartphones. If this proves feasible and attractive to unbanked passengers, it could be another viable fare media option for all passengers.

Marketing, Communications & Outreach: There would need to be an extensive, long-term marketing and communication effort to existing and potential riders as well as elected officials and community-based organizations on both a district-level program and/or a regional effort.

ADVANTAGES/DISADVANTAGES:

Advantages-Cashless fare payment would speed up boarding and would reduce the cost of cash handling for

the District as a whole.

Disadvantages-Cashless fare payment would be more difficult for cash paying passengers, especially unbanked and underbanked passengers; it could therefore cause equity issues.

ALTERNATIVES ANALYSIS:

The are no alternatives associated with this report since the District is not considering a full cashless fare policy at this time.

PRIOR RELEVANT BOARD ACTION/POLICIES:

None.

ATTACHMENTS:

None.

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