

ALAMEDA-CONTRA COSTA TRANSIT DISTRICT



STAFF REPORT

MEETING DATE: 4/28/2021

Staff Report No. 20-134a

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

BRIEFING ITEM

RECOMMENDED ACTION(S):

Consider receiving an updated 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 fareless operation.

BUDGETARY/FISCAL IMPACT:

There are no budgetary impacts from this report.

BACKGROUND/RATIONALE:

This report provides an update to a report that was presented to the Board in June 2020 but was prepared before the shelter-in-place and other significant effects of the pandemic. Staff has continued to monitor the topic and is providing this update. The District, like many transit agencies, had a temporary period in 2020 when it did not collect transit fares but has since resumed collection, so the overall discussion about “free” fares - or “fareless” systems - is still relevant.

The farebox revenue that the District is receiving has been significantly reduced during the pandemic. While ridership is expected to pick up as businesses and the state reopen, it is far from clear what the trajectory of the District’s ridership levels will be over the coming months and years. In the prior report, the District showed \$57 million in farebox revenue for FY 2018-19 and was on track to approach \$62 million for FY 2019-20 before the pandemic. The total fare collection over the past 12 months, which is effectively only six months of collections, was only \$8.6 million. Staff currently expects about \$29.8 million in fare revenue for FY 2021-22.

Attachment 1 shows an illustrative scenario of farebox revenue return through FY 22-23. This scenario assumes that the District permanently loses 10% of pre-pandemic farebox revenue, at least in the near term.

What this scenario shows is that while farebox revenues are low in the near term, they could still be over \$50 million per year as soon as FY 22-23.

Fare collection also has a cost which would result in savings to the District if it went fareless. Attachment 2 is a small set of slides that summarizes the costs of fare collection. This analysis was originally presented to the Board in March of 2019 and so the costs are based on FY 2017-18 but are meant to be representative for comparison to fare revenue levels. The analysis shows that the District incurs operating costs of at least \$5.0 million per year, which would roughly be \$5.5 million in the current fiscal year with inflation. In addition, the District makes a capital investment of around \$15-\$20 million over a roughly 15-year period to equip all buses with fareboxes and Clipper readers.

Combining the expected near-term revenues from fares and the offsetting savings that would be realized if service was “fareless”, an additional roughly \$45 million per year in other operating subsidy would need to be identified for the District to have “fareless” operation without cutting any service. Operating funding is often described as “precious” as the loss of even small amounts can impact service levels. The Federal Transit Administration (FTA) has generously provided supplemental operating funds, most recently from the American Rescue Plan (ARP) Act. These supplemental funds are one-time allocations and the FTA does not normally provide regular fixed-route bus operating subsidies.

Another significant concern that would come with having a “fareless” system is how to handle riders experiencing homelessness. When the District stopped collecting fares during the pandemic, staff noted an uptick in people using buses as shelter, particularly on the All-Nighter 800 series buses. This is further shown in the 21% drop in ridership when fare collection was re-started in September.

Particularly with the social distancing capacity restrictions in place, people using the bus as shelter can fill up capacity and cause pass-ups and inconvenience those needing to ride the bus for transportation. For operators and supervision this can also cause significant problems at terminals and layovers when these individuals refuse to leave the bus. Staff has anecdotally heard the same issues repeated from peers at other agencies that eliminated fares during the pandemic. The District can certainly do its part to assist those experiencing homelessness, but the more effort and resources required to deal with a larger homeless population on the bus will only reduce the resources available for regular service.

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. As mentioned in the beginning of the report, many systems (such as AC Transit) stopped collecting fares during the pandemic, but most systems have restarted fare collection after instituting safety measures such as operator shields.

On a number of systems, certain lines are free. Downtown shuttles like the Broadway Shuttle are often free. In the small city of Lawrence, Massachusetts, the transit agency designated three lines in low-income communities for free service for several years. 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 or the elderly.

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.

The Fresno Area Express (FAX) has temporarily eliminated fares as of March 1, 2021, based on a bill passed by the Fresno City Council in response to the ongoing pandemic and air pollution concerns, among other reasons. The bill requires funding plans be submitted to the Council for continuing "fareless" operation for a year and five years. FAX receives \$5-\$6 million per year in farebox revenue, which are expected to be backfilled by either the City of Fresno's Measure C sales tax or grants.

Congresswoman Ayanna Presley and Senator Edward Markey, both from Massachusetts, have introduced federal legislation that would help transit agencies become fareless. The bill would create a \$5 billion, multi-year competitive grant program for transit agencies. However, pre-pandemic, American transit agencies collectively received some \$16 billion per year in fare revenue. This bill would only support a small fraction of that.

The largest transit agency to consider going fareless for most passengers is the Los Angeles County Metropolitan Transportation Authority (LA Metro). LA Metro is considering its "Fareless System Initiative," led by General Manager Phil Washington. LA Metro has a farebox recovery rate of approximately 13%. Under the current proposal, Metro would be free for low-income riders to start, with students added next year. Since approximately 70% of Metro's passengers are low-income, this proposal would remove fares for most passengers. The agency is studying how it could obtain funds to cover lost revenue. In its pre-COVID FY 2019-20 budget, LA Metro collected \$284 million in passenger fares. The LA Metro Board is expected to vote on the proposal in May.

LA Metro is also concerned about the issue of homelessness on its buses and trains if it goes "fareless". The first question, in a question and answer document posted to Metro's "The Source" blog in September 2020, is about whether a "fareless" system will lead to a larger homeless population on buses and trains.

There is also a plan for free fares in Kansas City, Missouri, which has a metro population of almost 800,000. The Kansas City council budgeted \$4.8 million from the City's general funds of the \$8 million needed, leaving the remaining \$3.2 million for the transit agency to find. The agency is looking for private funding partners, such as are used to help fund fareless transit in Missoula, Montana. No date has been announced for the initiation of free fares in Kansas City.

Another proposal to make transit free for Washington, D.C. residents was introduced in the City Council. The Washington D.C. 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. This would make transit free to the passenger but paid to the transit agency. Proposals for fareless transit have also been made by elected officials and candidates in Boston/Eastern Massachusetts, and Richmond, Virginia.

In discussions of fareless operation, some critics argue that any surplus transit agency revenues should be

devoted to improving service rather than eliminating fares.

Both internationally and in the U.S., systems that are or are becoming fareless all have low farebox recovery ratios. Both Kansas City and Luxembourg, for example 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.

Further description of “fareless” transit systems can be found in the previous staff report on the topic, SR 20-134.

ADVANTAGES/DISADVANTAGES:

There are no advantages or disadvantages to receiving this report.

ALTERNATIVES ANALYSIS:

The report analyzes fareless issues but does not present any alternatives for action.

PRIOR RELEVANT BOARD ACTION/POLICIES:

SR 20-134 Possible Effects of Free Fares

SR 19-078 Fare Revenue and Collection Analysis

Board Policy 333 - Fare Policy Goals and Methodology

ATTACHMENTS:

1. Farebox revenue scenario
2. Cost of fare collection slides

Prepared by:

Chris Andrichak, Chief Financial Officer

In Collaboration with:

Nathan Landau, Senior Transportation Planner

Approved/Reviewed by:

Chris Andrichak, Chief Financial Officer

Robert del Rosario, Director of Services Development and Planning

Jill A. Sprague, General Counsel