



Alameda-Contra Costa Transit District

STAFF REPORT

TO: Finance Committee
 AC Transit Board of Directors

FROM: David J. Armijo, General Manager

SUBJECT: Fare Policy

ACTION ITEM

RECOMMENDED ACTION(S):

Consider the adoption of Resolution 13-022 deferring the scheduled implementation of the July 1, 2013 fare increase pending further analysis of district staff’s fare policy recommendations.

EXECUTIVE SUMMARY:

In the AC Transit Board Policy No. 328, Fare Policy, adopted June 22, 2011, a fare increase was scheduled to automatically occur on July 1, 2013 in conjunction with the beginning of the fiscal year. In the March 13 retreat, staff presented to the Board of Directors a proposal to revise the fare structure. At the retreat, the Board agreed that a revised fare structure should be further evaluated. Due to MTC requirements in programming Clipper and other fare media products, 60 days notice is required to implement the scheduled fare increase (May 1, 2013). Additionally, requirements for an overall fare policy restructuring would require from 6 to 9 months. In order to allow adequate time to address all of the scheduling issues, staff is recommending deferring the scheduled fare increase. This action will allow continued service with no negative impact to the riders, no potential loss of ridership due to an increased fare, and a complete analysis of the staff’s fare policy recommendations can be concluded and brought to the Board for its consideration.

BUDGETARY/FISCAL IMPACT:

The following table summarizes current farebox revenue trends as measured in FY 11/12, adjusted for FY 12/13, and the proposed budget for FY 13/14. (Dollars in thousands)

<u>FY 11/12 (Actual)</u>	<u>FY 12/13 (Adjusted Mid-Year)</u>	<u>FY 13/14 (Proposed, No Fare Increase)</u>	<u>Change – FY12/13 to FY 13/14</u>	
\$50,158	\$50,910	\$52,438	+ \$1,527	+ 3%

As displayed in the table, the projected revenue without a fare increase is up 3%. The proposed FY13/14 revenue projection without the policy scheduled fare increase is considered sustainable within the overall District budget.

As noted at the Board Retreat on March 13, 2013, if the projected revenue is adversely impacted by not increasing the fare, that impact can be mitigated through MTC reserve funding (BART transfers).

BACKGROUND/RATIONALE:

Beginning in late summer of 2012, AC Transit staff embarked on an analysis of the fare structure with the following objectives:

- Determine ability of existing fare policy to increase ridership & revenue
- Identify risks and benefits of changes
- Estimate capital and operating impacts
- Evaluate the impact of the Clipper System
- Assuring the equity of AC Transit's Fare Policy in compliance with Title VI
- Assess new Fare strategies
 - Charging a Fare per Boarding
 - Eliminating Transfers
 - Increasing Clipper Use
 - Introducing a Day and a 7 Day Pass
 - Expanding the Retail Sales Network
 - Reducing the Cost of the 31 Day Pass

The analysis included contacting peer agencies both in the Bay Area and of similar size throughout the nation, determining potential schedules for implementation of any recommended changes, financial impacts, ridership impacts, and potential Title VI implications. The AC Transit Board was briefed on the present analysis at its retreat on March 13, 2013 (see attachment 1). That presentation was utilized to gain input from the Board on whether or not to proceed with the current direction of the analysis and recommendations. At that time it appeared as though the Board was in favor of the continued analysis.

Another factor that plays heavily into the overall fare "restructuring" as well as modifications to the current fare structure is the MTC schedule to implement changes to the Clipper system. First, with regard to the current fare structure, the MTC requests that they be notified of changes 60 days in advance, May 1 for a July 1 implementation. If the Board directs the staff that the scheduled fare increase is to go into effect, MTC will be notified immediately to accommodate their schedule.

With regard to the overall fare "restructuring", MTC has advised that they may require from 6 to 9 months to implement changes. The General Manager is scheduled to meet with the

Executive Director of MTC on May 6, 2013 to discuss the schedule as well as review the potential changes that may be requested. With some uncertainty remaining in the schedule as well as the need to introduce other schedule requirements such as calling and holding a public hearing, securing stock for day pass production, increasing the Clipper vendor network in the East Bay, and public information and notification, the following basic schedule is proposed:

April 24, 2013 – Deferral of policy scheduled fare increase (TODAY's ACTION)

May – August, 2013 – Refine and finalize analysis and new fare structure including any new media (day pass) and any eliminated media (transfers); incorporate Title VI issues and impacts.

August, 2013 – Obtain Board approval of new fare structure and call public hearing

October, 2013 – Hold public hearing

October/November, 2013 – Adopt new fare structure

November, 2013 – Notify MTC of new fare structure to be included into Clipper system

Second Quarter of Calendar 2014 – Implement new fare structure along with all public notification, public relations, and printed information

Ongoing activity throughout this process is working with MTC to increase Clipper vendor coverage in the East Bay.

ADVANTAGES/DISADVANTAGES:

The advantage to deferral of the scheduled fare increase is that it gives staff the ability to refine its analysis and return to the Board with final recommendations without impacting the public with regard to the current fare structure. It allows AC Transit to easily notify the public of its intent without unduly impacting the public in the future if fare structure modifications actually reduce the fare. It eliminates unnecessary and potentially duplicative expenses. A short term fare increase would require increased staff time and materials and printing costs associated with that increase.

Another advantage is sustaining current ridership levels and promoting ridership growth over potential loss of ridership. The policy scheduled fare increase from \$2.10 to \$2.25 represents a 7% increase. Fare elasticity studies indicate that the 7% increase in fares could result in a 3.5% decrease in ridership. With the sustainable financial projections noted above, staff believes it to be prudent to defer the scheduled fare increase.

A potential disadvantage is a slightly reduced revenue projection. Included in the impact would be lower revenue from the UC Berkeley Class Pass and two other EasyPass programs, all of which come up for renewal later this year and would have fee increases if the July 1, 2013, fare increase went into effect as currently scheduled.

ALTERNATIVES ANALYSIS:

One alternative that the Board could adopt is moving ahead with the scheduled fare increase, effective July 1, 2013. This alternative could have a slightly favorable impact on the revenue equation noted in the “Budgetary/Fiscal Impact” section of this staff report. This alternative would, however, have a negative impact on riders and the public and would require increased staff time and additional materials and printing costs for public notification.

Additional alternatives analysis will be ongoing as the final fare structure recommendation is developed.

The Board will be briefed, as necessary, as the development of the fare policy progresses.

PRIOR RELEVANT BOARD ACTIONS/POLICIES:

Board Policy No. 328 – Fare Policy: Fares, Fare Structure, and Fare Increases: Adopted 6/11/12

ATTACHMENTS:

1: Board Retreat Briefing – March 13, 2013

2: Resolution 13-022

Department Head Approval: Thomas Prescott, Chief Performance Officer

Reviewed by: Kenneth C. Scheidig, Interim General Counsel
Lewis Clinton, Chief Financial Officer

Prepared by: John Haenftling, Director of Project Controls & Systems Analysis

AC Transit Fare Policy Recommendations

*Strategies to Improve Service Quality, Ensure Equity,
Increase Ridership and Revenue*

March 13, 2013



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Fare Comparison

- Adult Cash Fare
 - Cash fare is high in relation to national average
 - Average of large West Coast Systems is \$2.00
- Paid Transfers- Many agencies have eliminated the use of paper transfers: Seattle, Long Beach, Riverside, UTA, Houston, etc.
- Day Passes
 - Help reduce cash fare payment and serve to move riders to monthly passes
 - CTA highest ridership in 22 years with most popular fare product being its Day Pass
- Local Monthly Pass
 - Priced higher than peer Bay Area agencies
 - SFMTA \$64, Samtrans \$64 & VTA \$70
- Regularly Scheduled Fare Increases- Few agencies are making scheduled fare increases

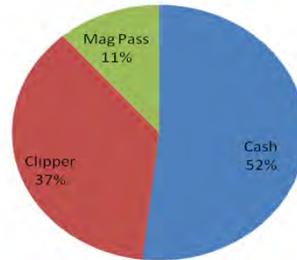


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Fare Comparison

- Cash 52%
 - 42% Adult Single Rides
 - 4% Senior Single Rides
 - 6% Youth Single Rides
- Clipper 37%
 - 27% Adult Stored Value and Monthly
 - 5% Transbay
 - 1 % Senior Stored Value and Monthly
 - 4% Youth Stored Value and Monthly
- Magnetic Passes 11%
 - 11% 10-Ride Adult, Youth & Senior Passes, and Other Fare Products

FY2012 Revenue by Payment Method



Source - AC Transit Finance Department



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Proposed Fare Strategy

- Fare Per Boarding
 - Reduce single ride fare
 - Adopt Pay per Boarding
 - Eliminate paper transfers- Still necessary to account for transfers but change policy to reduce abuse
 - Introduce a Day Pass using Clipper, sell magnetic strip pass on-board buses until Clipper network is expanded
 - Introduce 7-Day Pass available on Clipper only
 - Expand Clipper sales network



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Proposed Fare Strategy

- Abuse of the Paper Transfer
 - Transfers are misused-riders use them beyond the time limits or they are sold by riders
 - Transfers are a major source of rider/operator conflicts
 - Abuse as high as 50% of the number of transfers distributed

Source: TRB Passenger Transfer System Review



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Benefits of the Proposed Fare Strategy

- Improve service performance
- Reduce cash as the dominant fare payment method
- Reduce dwell time
- Reduce abuse of paper transfer and resulting revenue loss
- Offer equitable fare options-those paying cash pay the highest fares
- Use of Pre-paid products promotes rider loyalty
- Increased use of Pre-paid fare products will increase farebox ratio



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Proposed Fare Strategy Price Model

- **Adult (Youth/Senior)**
 - Boarding fare: \$2.00 (\$1.00)
 - Day Pass: \$5.00 (\$2.50)
 - 7-Day Pass: \$20.00 (\$10.00)
 - 31-Day Pass: \$72.00
 - 31-Day Youth Pass: TBD
 - Monthly Senior/Disabled: TBD
 - Paper Transfers Eliminated



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Ridership & Revenue Forecast

- **Factors That Impact Fare Elasticities**
 - Rider Profiles– Transit dependents are less price sensitive
 - Trip Purpose-Work trips are less sensitive
 - Geography- Large urban areas are less sensitive to incremental changes in fares
 - Fare Change- This proposal includes reductions and introductions of new fare products



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Ridership & Revenue Forecast

- Fare Elasticity Values

- Old Industry Standard: 3% increase in fare yields a 1% ridership loss
- New Industry Standard: 1% increase in fare yields a 0.5% reduction in ridership; a 1% decrease in fare yields from 0.5% to 2% increase in ridership
- Recent Industry Experience
 - Incremental increases in fares result in small or no ridership losses, almost *inelastic*
 - Ridership losses are even lower when a significant number of riders receive transit benefits or have Easy Passes
- Impact of Cross Elasticities- The impact of the price of gasoline, parking and tolls; most directly the increase in the price of gasoline

Sources – Transit Elasticity and Price Elasticities, Victoria Transport Policy Institute; APTA Spring 2012 Fare Collection Workshop, Various Presentations; County of Milwaukee Fare Collection Feasibility Study 2013



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Ridership & Revenue Forecast

- Scenario One – Do Nothing

- The proposed increase in base fare from \$2.10 to \$2.25 goes as scheduled
- 7% increase in cash fare will yield 3.5% decrease in ridership
- Continued transfer abuse
- Continued high level of cash fare payment
- Those paying cash will continue to pay high fares



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Ridership & Revenue Forecast

- Scenario Two – Introduce the Day Pass, Reduce the Monthly pass from \$81 to \$72, Eliminate paper transfers
 - Elimination of transfers has led to a 1% loss in ridership, when accompanied by a Day Pass the ridership loss is neutralized
 - Reduction in the price of the monthly pass will yield a 4.5% increase in ridership
 - Elimination of transfers to Pay for Boarding must be supported by a thorough public education effort to mitigate the impact on those using transfers today approximately 1,427,000 annual rides



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Ridership & Revenue Forecast

- Scenario Three – Introduce the Day and 7-Day Pass, Reduce the Monthly Pass from \$81 to \$72, Eliminate paper transfers, Expand the Clipper Network
 - Wide availability of the Day and 7-Day Pass will boost ridership and revenue
 - Transfers available on Clipper will increase smart card use
 - Expanded use of Clipper will result in higher rider loyalty (ridership)



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Ridership & Revenue Forecast

- Fare Policy recommendations will boost ridership but revenue will drop slightly in the short term from not implementing scheduled fare increase
- Introduction of the Day Pass will help reduce cash fare payments and reduce transfer abuse
- Elimination of paper transfers will be mitigated by the Day Pass and the lower-priced monthly pass
- More equity from discounts in pre-paid products



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Title VI Review

- Changes in fares will have Title VI requirements
- MTC On board Survey will provide data for more accurate analysis of the impact
- Day Pass will mitigate negative potential Title VI impacts
- AC Transit will be required to support fare changes with a strong public education effort



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Proposed Fare Strategy Implementation Schedule

- Maintain current fares-NO July 2013 increase
- 2014 (Month TBD) Target - First calendar quarter
 - Implement Day and 7-Day Clipper passes; eliminate paper transfers; other fare changes
 - Estimated time for Clipper development: 9 months for Day Pass & 7-Day Pass: AC Transit meeting with MTC
 - Estimated implementation of new fare boxes: After July 1, 2013
 - Expanded Clipper Network: AC Transit/MTC



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Impacts of Not Implementing July 1 Scheduled Fare Increase

- Increasing base fare would have increased fare revenue by \$4,500,000
- Educating riders and non-riders to better fare options will increase ridership and loyalty
- MTC reserve funding available to mitigate the impact of the revenue loss
- Increase in the use of pre-paid fare products will have a positive impact on service quality



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Next Steps

- AC Transit/MTC Meeting
- Bus Operator Committee
- Expand the Clipper Network
- Address Transbay service viability and fares
- Strong marketing and public relations support to educate riders and the community



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**ALAMEDA-CONTRA COSTA TRANSIT DISTRICT
RESOLUTION NO. 13-022**

**A RESOLUTION DEFERRING THE SCHEDULED IMPLEMENTATION OF THE JULY 1, 2013 FARE
INCREASE PENDING FURTHER ANALYSIS OF DISTRICT STAFF'S FARE POLICY
RECOMMENDATIONS**

WHEREAS, on May 11, 2011 the AC Transit Board of Directors (the Board) adopted Resolution No. 11-017 (A Resolution Approving An Adjustment In Various Fares To Be Effective On August 1, 2011 And Determining That The Fare Adjustment Is Exempt From The California Environmental Quality Act) and Exhibit A, attached thereto and incorporated into it by reference; and

WHEREAS, Exhibit A identified in "AC Transit Table of Fares" proposed fare increases scheduled to occur on July 1 of the following years – 2011, 2013, 2016, and 2018, as well as various fare instruments that could be used on the District's buses; and

WHEREAS, the fare policies and fare structures of Exhibit A were included in a revised Board Policy No. 328 adopted on June 22, 2011; and

WHEREAS, District staff has been analyzing the overall fare structure since late summer 2012, as more particularly set forth in Staff Report No. 13-099, and briefed the Board of Directors at the March 13, 2013 Board Retreat regarding the proposed fare strategy and fare policy recommendations, including potential scheduling issues in implementing changes, as well as follow up processes and analysis; and

WHEREAS, District staff recommends a deferral in instituting the scheduled July 1, 2013 fare increase until the aforementioned analysis has been completed and public hearings on the new fare structure have been held;

NOW THEREFORE, the Board of Directors of the Alameda-Contra Costa Transit District does resolve as follows:

Section 1. Approves a deferral in the institution of the fare increase(s) scheduled for implementation on July 1, 2013, under Resolution No. 11-017 and Board Policy No. 328, until District staff completes its fare structure analysis and the Board acts on staff's recommendations, after complying with all applicable public notice and public hearing requirements.

Section 2. This resolution shall become effective immediately upon its passage by four affirmative votes of the Board of Directors.

PASSED AND ADOPTED this 24th day of April 2013

Greg Harper, President

Attest:

Linda A. Nemeroff, District Secretary

I, Linda A. Nemeroff, District Secretary for the Alameda-Contra Costa Transit District, do hereby certify that the foregoing Resolution was passed and adopted at a regular meeting of the Board of Directors held on the 24th day of April 2013 by the following roll call vote:

AYES:

NOES:

ABSENT:

ABSTAIN:

Linda A. Nemeroff, District Secretary

Approved as to Form and Content:

Kenneth C. Scheidig, Interim General Counsel