



Board Report

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Agenda Number: 42.

REVISED
EXECUTIVE MANAGEMENT COMMITTEE
APRIL 15, 2021

SUBJECT: FARELESS SYSTEM INITIATIVE UPDATE

ACTION: RECEIVE AND FILE

RECOMMENDATION

RECEIVE AND FILE Report on Fareless System Initiative.

ISSUE

At the March 25, 2021 meeting Metro's Board of Directors unanimously passed Motion 43.1, relating to the Fareless System Initiative (FSI). Motion 43.1 recognized that the time is right for Metro to consider fareless transit and recommended a report back to the Board at the April 2021 meeting with information on a number of questions regarding a possible fareless system. Included in this report are responses to each of the points raised in the Motion.

BACKGROUND

The purpose of the Fareless System Initiative is to determine how Metro can provide financial relief to riders and bring back ridership on the LA Metro system. On September 1, 2020, Metro initiated the Fareless System Initiative (FSI) Task Force to study and identify facts, challenges, opportunities, and recommendations related to eliminating fares on Metro buses and trains. As a result of the past seven months of study and extensive discussions, the Task Force has identified an 18-month pilot, beginning with low-income LA County residents in January 2022, and expanding to include grades K through 12 in August 2022 and subsequently expanded to low-income LA County residents, with additional consideration given to expanding to Community Colleges, as the preferred approach. The pilot would conclude June 30, 2023. Additional consideration to include Community College students is also being explored.

A primary reason for this pilot approach is to learn how customers of Metro respond to this equity-based initiative. The pilot allows Metro to observe increases in ridership and gauge resource demands to more accurately forecast the cost and benefits of a fully fareless system. The scope and scale of FSI remain unprecedented in Los Angeles County and the nation, and the impacts of COVID-19 pandemic on future travel patterns remain unknown. Following in-depth research by the Task Force and assumptions derived from the expertise of a broad range of transportation professionals, a pilot offers the opportunity for a detailed and empirical assessment of our forecasted assumptions. Only through implementation of a pilot program can definitive answers be generated.

At the Federal level, new legislation has been introduced to provide funding for fareless initiatives (see Attachment B). It will take time and legislative debate before there is clarity on whether and how much money might be available for a permanent program through this potential new source of Federal assistance. Similarly, funds generated through a future congestion pricing program could be available to permanently invest in a fareless system, per the direction of the Metro Board of Directors. At this point in time, it is clear that a fareless program pilot in the nation's most diverse County will ideally position LA Metro to seek and justify additional funding from federal and other competitive and formula funding programs. It is the intent of the pilot to examine the feasibility of a fareless system, including the financial viability of moving towards a fully fareless system.

In responding to the questions outlined in Motion 43.1, (see Attachment A) focus is directed to the pilot initiative, with additional information of a long-term fareless initiative provided as the pilot moves forward.

DISCUSSION

1. Report back at the April 2021 Board Meeting on the following regarding a possible FSI:

- a. How Metro is including municipal operators in the planning process, including what it would cost to fully include them and how many of their riders would qualify;

In October 2020, the FSI Ad Hoc Committee was convened. The committee is comprised of thirteen self-selected agencies representing the Los Angeles County Municipal Operators Association and the Local Transit Systems Subcommittee as well as Access Services. The FSI Task Force recognizes that the FSI Ad Hoc Committee’s expertise, perspectives, and collaboration are vital to this initiative. To date, the FSI Ad Hoc Committee has held eleven meetings and will continue to convene indefinitely. As a result of Motion 43.1, the FSI Task Force and the the FSI Ad Hoc Committee are working to develop the pilot participation cost estimation methodology. The Task Force will collect and present the findings to the Metro Board of Directors at the May 2021 meeting.

- b. All the subsidies Metro, Municipal Operators, and Cities already offer, including LIFE and U-Pass, and how those programs play a role in and inform a fareless initiative;

Metro’s Existing Reduced Fare Programs

Metro currently offers reduced fare rates to the rider groups listed below:

Pass Type	Qualifier	Cost /Discount	Participants
Low-Income (LIFE)*	\$39,450 or less/yr.	Countywide Discounts ranging from \$8-\$24/mo.	79,000
Seniors	62+ years of age	Cost is \$20/mo.	241,858
Disabled/Veteran	Proof of disability	Cost is \$20/mo.	239,075

K-12 Student	Proof of enrollment	Cost is \$24/mo. or \$1 per boarding	57,224
College/Vocational	Proof of enrollment	Cost is \$43/mo.	10,289

*Complete listing of Countywide LIFE discounts here: <https://www.metro.net/projects/life/> (under Transit Agencies +Discounts)

Metro also offers the following discounted Marketing Program, which are partnerships with schools and businesses designed to increase ridership:

Pass Type	Qualifier	Cost /Discount	Participants
U-Pass	Partner School	Cost ranges from \$16-\$43/mo.*	19,653
E-Pass	Partner Business	Cost ranges from* \$34-\$80/mo.	4,826
Small Employer Pass	Partner Business (less than 250 employees)	\$34/mo. with 50% of employees participating	10,199

*Equivalent monthly costs of U-Pass and E-Pass based on actual boardings used by participants at partner organization each term/business quarter.

Metro has requested the information on discounts offered by all other transit agencies and cities in LA County and is compiling a complete list of Countywide discounts.

Existing discount programs that meet the qualifying factors of the FSI pilot program will be used to streamline distribution of the FSI pilot passes by autoloading passes to existing TAP cards without the need for an additional application process.

c. How fareless will impact the Formula Allocation Procedure (FAP), state and federal grants, and ACCESS Services;

The pilot will not change existing policy or legislation and will provide both a basis and opportunities to reevaluate current approaches to policies and statutes.

Metro’s Subsidy Funding Programs use established formulas to distribute regional transit operations funds to Metro and to Eligible and Included Operators in Los Angeles County. Through the FAP and Measure R Methodology, regional transit operations funding is allocated based on 50 percent Vehicle Service Miles and 50 percent Fare Units (total fare revenue collected, divided by the base fare). Since 2007, Fare Units have been frozen at 2006 levels per Metro’s current Funding Stability Policy (adopted in 2007). Pursuant to the 2007 Board motion, there should not be a reduction in Part 2 of the Formula should Metro go fareless. The policy states

- *If an Operator lowers their base fare anytime from July 1, 2006 forward, their fare units will be frozen at that Operator's fare unit level during the last full fiscal year*

of the old higher fare.

Because fare revenues are a major part of existing allocation methods, these formulas can be reassessed by the region if Metro permanently eliminates fares. Regional consensus is desired. Proposed amendments to the FAP require three-fourths approval by the Metro Board of Directors. Although the FAP was decided upon locally, the formula is also codified in state law. Thus, any changes to the FAP would also need to be reflected in state law.

At this time, there is one agency in LA County that has a specific FAP formula exception that addresses the fact that they do not collect fares (the City of Commerce). Since the agency does not collect fares, a zero base for Fare Units is used for City of Commerce in annual transit fund allocations.

Since Metro will maintain its \$1.75 base fare for non-pilot participants, Access Services' fare structure would remain. Based on current regulations, Access Services cannot charge more than double of Metro's base fare. As such, if Metro were to go fully fareless, a legal review would be required to determine the direction of Access Services' fares.

d. What Metro's customer surveys tell us about fareless and other priorities.

The FSI Task Force distributed an external, county-wide survey in October 2020 to current and future Metro customers to uncover the public's feedback and potential concerns, and to determine the level of support of a fully fareless system. Input was evaluated from 46,308 completed surveys. The audience was the general public with targeted advertising to Metro customers and non-customers, including the seven Los Angeles County sub-regions, and speakers of the following eight languages: English, Spanish, Armenian, Chinese, Japanese, Korean, Russian, and Vietnamese.

Across all demographic groups, the survey responses indicated that 86 percent of Metro riders and 80 percent of non-Metro customers support Metro going fareless. Survey respondents expressed concerns, with the top concern relating to service, quality, and frequency:

- i. Impacts to the quality of service, including adequate service, crowding, safety and security, cleanliness, and the presence of persons experiencing homelessness (PEH).
- ii. Cuts to system expansion, service levels, salaries, system upkeep, security, and cleaning.

e. Potential cost savings and implications for what can be realized through a fareless program for all residents through elimination of TAP infrastructure, administration of pass and subsidy programs, etc.

The current estimate of long-term fare collection function savings is \$74.4m annually and is identified in the table below.

Regional Fare Collection Operating and Maintenance Cost (Amount in Million)	FY21 Budget - for Metro & 25 transit operators	Labor ⁽¹⁾	Non Labor
Ongoing Fare Collection Activities in Finance and Budget Dept			
Cash Collection and Cash Counting	\$ 12.0	\$ 11.6	\$ 0.5
Cubic TVM Machine Maintenance	13.4	-	13.4
Credit/Debit Card Fee	2.2	-	2.2
TAP Operation, including TAP card, Card reader and database	14.9	9.5	5.3
Subtotal Fare Collection Activities in Finance and Budget Dept	\$ 42.5	\$ 21.1	\$ 21.4
SSLE Fare Enforcement and Collection Security Chaperon	13.1	13.1	-
Transit Court for Fare Dispute and Recovery	0.9	0.2	0.7
Operations Farebox Unit Repair and Installation	2.7	2.5	0.2
Communications Customer Information and TAP card fulfillment	11.3	11.2	0.0
ITS Hosting of Servers	3.9	0.0	3.9
Legal, Audit	0.1	0.0	0.1
Total Agencywide Fare Collection Cost	\$ 74.4	\$ 48.2	\$ 26.3
Operating Cost Savings from Fare Collection by Scenarios			

The elimination of fare collection infrastructure involves several variables: removal of fare collection property assets (fare boxes, ticket vending machines, etc.); elimination of fare collection-related vendor contracts; labor; and identification of viable alternatives to fare collection where necessary to maintain revenue collection for other TAP-reliant clients, products, and services (regional transit operators using the fare collection system, Metro Micro, Metro Parking and Metro Bike Share). During the FSI pilot period alternatives to TAP for these services would need to be identified, studied and implemented prior to the full elimination of fare collection infrastructure.

Fare Collection Property Assets (fare boxes, ticket vending machines, etc.)

The removal of fare collection property assets will result in costs to Metro of approximately \$2.2 million. Once removed, these assets have no resale value. Minimal labor costs savings resulting from removal of these assets is anticipated because personnel that maintain these assets can be reassigned to perform other maintenance related work that is already in their current job descriptions. There is no intention to layoff affected employees.

Fare Collection-related Vendor Contracts

As of September 2020 there are approximately 24 active contracts that were identified as related to revenue collection, with a total contract value of \$647 million and a remaining commitment of \$294 million. Metro’s contract with Cubic Transportation System Inc., the revenue management platform that drives Metro’s fare collection system, is the largest

active contract with a total remaining contract value of \$268 million. The Cubic contract expires in 2024. The leading concept identified for a proposed FSI pilot relies on the existing TAP system and the existing TAP related vendor contracts would remain in effect throughout the proposed pilot. The proposed pilot extends through June 2023.

Fare Collection Personnel

There are approximately 409 positions identified as working directly with providing fare collection support services and maintaining fare collection infrastructure for a total of approximately \$49 million in annual costs. Metro's needs would be evaluated during the FSI pilot.

Other TAP Reliant products and services

Metro's TAP system provides fare media for Municipal Operators, Access Services, Metro Micro, Metro Bike Share, and Metro Parking. Alternatives to TAP for these services would need to be identified and studied during the FSI pilot period and implemented prior to the full elimination of TAP infrastructure.

Boarding Data (unlinked passenger trips) is required for federal and state reporting purposes. In 2019, TAP supplied 51% of all boarding data information, while the remaining 49% of boardings was collected through a combination of manual reporting by bus operators, field observations, and APC data. Since TAP data does not capture 49% of all boardings, manual and APC data collection practices will continue to be utilized to provide comprehensive boarding data. Demographic data reporting is required by the FTA in order to determine the extent to which members of minority groups are beneficiaries of programs receiving Federal financial assistance. Since cash boardings do not yield demographic data, and 88% of TAP cards are purchased anonymously from vendors and vending machines and therefore lack demographic data, Metro will continue to conduct passenger surveys to fulfill FTA demographic data reporting requirements. Linked and Unlinked Trip Data collected via TAP supports trip planning and travel demand modeling.

2. As part of any recommendation to implement a fareless initiative, provide the following:

- a. *Funding Source detail, including what those funds could go to if not fareless transit;*

The anticipated cost of the 18-month pilot is \$213million : \$88million during the 6-months of FY22 and another \$125 million for FY23. Included in the FY22 number is a net amount of \$68M to front-end/fully defease the General Purpose Bonds; County Counsel directed that this payment be included during the year in which the pilot begins, namely FY22. Please refer to Attachment C, which includes explanatory notes relating to funding.

Metro's Traffic Reduction Study is currently studying how to traffic can be reduced by managing roadway demand through congestion pricing and providing more high-quality transportation options. Upon completion of the study, which is anticipated in Spring 2022,

the Metro Board of Directors will decide whether to implement a traffic reduction pilot program in partnership with one or more cities. Should the Metro Board of Directors so choose, funds generated through a future congestion pricing program could be available to invest in a fareless system to make it easier for everyone to travel. The current anticipated program pilot launch is 2025.

- b. *A plan to decide how to evaluate the success of the program, including permanent funding sources and what would trigger an end to or continuation of the program;*

Upon approval of an FSI Pilot, an evaluation plan will be developed and brought back to the Metro Board of Directors for consideration. The FSI Ad Hoc Committee has expressed deep interest in this topic and has volunteered to co-create evaluation metrics. This evaluation plan shall be adopted before commencement of the FSI Pilot and shall include performance criteria as well as thresholds for continuation or discontinuation of the FSI Program. Potential performance criteria will include financial sustainability, program participation, ridership increases, successful reallocation and training of Metro staff in support of the FSI pilot, and an acceptable level of service and safety on system. Performance criteria will be further detailed with the development of the evaluation plan.

FSI Pilot performance monitoring will enable Metro to generate qualitative and quantitative data and understanding. Successful performance indications will be instrumental in justifying and seeking permanent funding. A lack of permanent funding will trigger the discontinuation of the program.

Sample Draft Pilot Performance Criteria Metrics (currently in Development)

Criteria	Effectiveness	Sustainability	Efficiency	Impact
financial sustainability				
pilot program participation				
increased boarding by pilot participants				
level of service				
quality of service				
increased trip by low-income riders				
employee safety				
rider safety				
system security				
additional criteria				
additional criteria				

- c. *A commitment to not cut service, state of good repair, or customer experience priorities;*

Metro recognizes that the quality of public transit affects people’s economic and social

opportunities and the FSI pilot is intended to complement other Metro programs and initiatives which seek to provide quality transit. As Metro returns to pre-pandemic ridership and moves to enhance service and the customer experience, the FSI pilot will ensure our most vulnerable riders have access to free transportation. Any necessary adjustments to service or change in the agency's priorities would require Board approval. There is a strong staff commitment to preserve and maintain the Board approved 7 million Revenue Service Hours standard and maintain all assets in a state of good repair. In addition to advancing the 7 million RSH, during the pilot Metro staff is planning for annual State of Good Repair commitments of \$452 million in FY22 and \$463 million in FY23, and an additional commitment of \$208 million in FY22 for the Better Bus Initiative.

- d. *If a FSI pilot is approved, regular reports back to the Board on how the initiative is impacting ridership, equity, Metro's finances, and the customer experience.*

If a FSI pilot is approved, Metro staff will provide regular reports to the Metro Board including updates on how the pilot initiative is impacting ridership, equity, Metro's finances, operations, security, and the customer experience.

FINANCIAL IMPACT

There is no financial impact as a result of this receive and file report at this time.

IMPLEMENTATION OF STRATEGIC PLAN GOALS

This recommendation supports the following strategic plan goals identified in Vision 2028. Goal 3 - Enhance communities and lives through mobility and access to opportunity; Goal 4 - Metro will work with partners to build trust and make decisions that support the goals of the Vision 2028 Plan; and Goal 5 - Provide responsive, accountable, and trustworthy governance within the Metro organization.

NEXT STEPS

Staff will bring final recommendations to the Metro Board of Directors for consideration in May 2021.

ATTACHMENTS

Attachment A - Motion 43.1

Attachment B - Pressley Markey Legislation News Clip

Attachment C - Funding Source Details

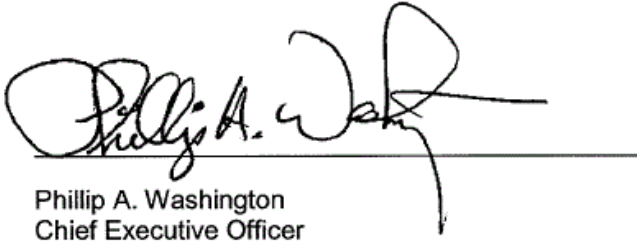
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