

# **Board Report**

Los Angeles County
Metropolitan Transportation
Authority
One Gateway Plaza
3rd Floor Board Room
Los Angeles, CA

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REVISION #2
EXECUTIVE MANAGEMENT COMMITTEE
SEPTEMBER 16, 2021

SUBJECT: FARELESS SYSTEM INITIATIVE (FSI)

ACTION: APPROVE RECOMMENDATIONS

#### RECOMMENDATION

#### CONSIDER:

- A. RECEIVING AND FILING the FSI funding plan for Phase 1 (K-14) and Phase 2 (low-income riders) pilots (Attachment A) and status report;
- B. APPROVING implementation of Phase 1 (K-14); and
- C. APPROVING Low Income Fare is Easy (LIFE) improvements (Attachment G).

# <u>ISSUE</u>

On May 27, 2021, the Board passed Motion 45 (Garcetti, Mitchell, Krekorian, Hahn, Bonin, and Solis) on implementation strategies for the Fareless Systems Initiative (FSI). The motion directed the Chief Executive Officer to implement the Fareless System Initiative, subject to a final funding plan and while pursuing cost-sharing agreements, and report to the Board monthly on the development, launch, and performance of FSI. This report requests Board approval of the funding plan for FSI Phase 1 (K-14) and Phase 2 (low-income riders), as well as provides an update on the administrative coordination and financial viability of both phases, including the participation of municipal and local operators, impact to Access Services, the cost of fare collection, changes to the existing fare subsidy program, and the feasibility of using the Federal American Rescue Plan Act (ARPA) funding for the pilot.

#### **BACKGROUND**

A fareless transit system in Los Angeles County is both an investment in social mobility and an important tool to assist in the fight against income and health inequality. A fareless system makes

Metro more accessible, while providing financial relief from the ever-rising cost of living for the working poor. The cost barrier to transit disproportionately impacts low-income households. High transportation costs limit mobility and access to employment, education, medical care, and social services.

FSI will allow the State and Federal government to more quickly reach its aggressive climate goals through increasing transit ridership, and improving air quality in one of the state's largest concentration of disadvantaged communities. As a result, a funding plan for FSI that identifies expected costs and sources of potential funding must assume state and federal funding, similar to most Metro programs, projects, and initiatives.

Motion 45 requests a report back on the administrative feasibility and financial viability of implementing FSI for K-12 students, community college students, and low-income riders. Over the last 90 days, staff has met with various school districts, community college districts, Access Services, municipal and local operators, as well as researching best practices for implementation. From this outreach, it is clear that FSI provides one element of universal basic mobility for LA County residents, but it is not a substitute for providing better service.

FSI poses the following policy questions:

- Is there a way to make transit more affordable for low-income residents?
- How can the region best move towards a more consistent regional standard for fare discount policies? and
- Is there a transit affordability solution that is financially viable and administratively feasible?

### **DISCUSSION**

The FSI Funding Plan (Attachment A) is categorized by two phases. Phase 1 has identified one-time ARPA funding and the opportunity for cost-sharing with school districts. Phase 2 continues to identify potential funding, but is still contingent on securing new federal, state and local funding.

#### Phase 1 - Fareless for K-14 Students Funding Plan

#### **Estimated Revenue Losses**

The scope of Phase 1 covers K-12 and community college students. Additional operational costs are assumed to be absorbed in the existing Metro Transit Operations budget. As shown in the table below, fare revenue losses for Metro are estimated at \$33.5 million for Metro and \$16.4 million for municipal and local operators, for a total estimated Phase 1 financial impact of \$49.9 million for FY22 and FY23.

#### Funding Plan

For the Phase 1 pilot period through FY23, Metro can fund K-12 revenue losses with ARPA funds. Per Attachments B and C, participating municipal operators will also use their ARPA allocations to fund Phase 1. NOTE: Per Motion 45, the Phase 1 funding plan reserves existing funding agreements between school districts and transit operators.

Revenues from school agreements will be shared among participating FSI operators based on ridership will also support Phase 1. See the full list of school districts that have expressed interest in joining the program to date in Attachment D. Staff is currently working with these school districts to finalize agreements for implementation.

NOTE: Per Motion 45, the Phase 1 funding plan does not reduce existing transit operations or state of good repair expenditures or use regional funding typically committed to bus and rail transit operations or intended for the capital program. As ARPA is a new, one-time funding source that will not extend beyond FY23, other new sustainable federal, state, or local funds must be secured to maintain the program beyond the pilot period.

# Phase 2 - Fareless for Low-Income Riders Funding Plan

# Estimated Revenue Losses and Program Costs

As shown in Attachment A, the total financial impact is estimated at \$229 million for Metro and \$210 million for municipal and local operators, for a total estimated Phase 2 financial impact of \$439 million for Year 1 and Year 2.

The bond defeasance amount includes a one-time payment of \$80 million to defease bonds for Pilot Year 1 prior to implementation and a savings of \$12 million annually on related debt service payments. Administrative costs of a new low-income verification program are estimated based on the current costs of LIFE program administration. Additional costs for municipal and local operators equal the estimates included in an April 2021 letter from LACMOA to the Metro Board Chair (Attachment B).

## **Funding Status**

NOTE: Per Motion 45, the Phase 2 funding plan does not reduce existing transit operations or state of good repair expenditures or use regional funding typically committed to bus and rail transit operations or intended for the capital program. There is not enough capacity in Metro's current Transit Operations budget for Phase 2 of the pilot. Therefore, implementation is contingent on identifying new sustainable federal, state, local, or other funding sources.

As a result, staff has pursued federal and state opportunities and legislation to fund FSI in partnership with implementation partners and key stakeholders. The infrastructure bill passed by the U.S. Senate last month includes funding increases for transit. However, it does not include dedicated funding for FSI or a pilot program for fareless transit. Nevertheless, staff will continue to advocate at the State and Federal level for funding as their participation is a critical element of the funding plan for Phase 2.

Staff will continue to seek additional potential revenue generating opportunities, such as discretionary programs, philanthropic sources, business partnerships, and opportunities created by new legislation. Staff is actively working to enhance resources to maximize new revenue and maintain return on

resource investment.

#### **Cost of Fare Collection**

The regional TAP fare collection system used in Los Angeles County is administered by Metro on behalf of the region. Currently, TAP is used by 26 transit agencies county-wide, plus Metro Micro, Metro Bike Share, and the Metro parking program. In addition to serving as the regional fare collection system, TAP also provides valuable ridership and demographic information used to plan routes and inform policy decisions based on how real riders use transit.

As shown in the table below, the annual cost to Metro for the administration of the TAP system is \$74 million. Metro's annual estimated fare revenue is \$250 million. For FY22 Metro's budgeted fare revenues are \$73.2 million per the FY22 adopted budget, including reduced fare revenue projections due to the ongoing pandemic. In FY23, fare revenues are expected to return to 95.5% of prepandemic levels, or approximately \$239 million. Across all 26 transit agencies in the region, annual TAP fare revenues are about \$335M annually. Therefore, the cost of fare collection represents approximately 30% of Metro's average annual revenue and 22% of the regional revenues collected via TAP.

Annual Fare Collection Costs by Department	Labor	Non-Labor	Total	%
TAP - Operations and Regional Payment Processing	\$ 9.5	\$ 20.9	\$ 30.4	41%
Security - Fare Enforcement and Cash Collections Support	13.1	-	13.1	18%
Revenue Collections - Cash Collection and Cash Counting	11.6	0.5	12.1	16%
Communications - Customer Information and Reduced Fare Admin	11.2	-	11.2	15%
Operations - Farebox Repair and Installation	2.5	0.2	2.7	4%
Other (Transit Court, ITS, Legal, Audit)	0.2	4.7	4.9	7%
Total Annual Fare Collection Costs by Department	\$ 48.1	\$ 26.3	\$ 74.4	100%

Less than half of total fare collection costs reside in the TAP department, with the remaining 59% in Security, Revenue Collections, Communications, Operations, Transit Court, ITS, Legal, and Audit. Non-labor costs are \$26.3 million, or 35% of total fare collection costs. This non-labor amount includes the Cubic contract at \$13.4 million, or 18% of total fare collection costs. Labor costs are \$48.1 million, or 65%, with 282 total FTEs across 4 labor unions as shown in the table below.

Union	FTE	% of total FTE
TCU	119	42%
TEAMSTER	98	35%
NC	42	15%
ATU	14	5%
AFSCME	9	3%
Total	282	100%

# Estimated Savings from Elimination of Fare Collection

If TAP were eliminated county-wide, total savings would be approximately \$26.3M, the total non-labor amount for annual fare collection costs. This assumes no change in staffing, with all 282 FTEs reallocated to other functions within the agency. (NOTE: Fare enforcement and Cash Collections Support is provided by in-house Transit Security staff.) If Metro eliminates fares, but other TAP operators continue to collect fares, Metro would continue to administer TAP on behalf of the region. In this scenario, approximately 55% of non-labor costs would remain for a potential savings of \$14.5 million, as shown in the table below.

Non-Labor Costs of Fare Collection	<b>Universal Free</b>	M	etro Free
TAP - Operations and Regional Payment Processing	\$ 20.9	\$	11.5
Security - Fare Enforcement and Cash Collections Support	-		-
Revenue Collections - Cash Collection and Cash Counting	0.5		0.3
Communications - Customer Information and Reduced Fare Admin	-		-
Operations - Farebox Repair and Installation	0.2		0.1
Other (Transit Court, ITS, Legal, Audit)	4.7		2.6
Potential Savings	\$ 26.3	\$	14.5

#### One-Time Costs to Eliminate Fare Collection

If fares are eliminated county-wide, Metro would incur an estimated \$151.4 million in one-time costs to discontinue the TAP system. This amount includes penalties for early termination of contracts, refunds of stored value currently loaded to customer TAP cards, and removal of fare collection infrastructure, as shown in the table below.

One-Time Costs to Eliminate Fare Collection	Nor	n-Labor	%
Early Termination - Remaining Value of Current Contracts	\$	96.3	64%
Refunds of Unused Fare Products		42.8	28%
Removal of Gates, TVMs, and SAVs		12.3	8%
Total One-Time Costs to Eliminate Fare Collection	\$	151.4	100%

File #: 2021-0574, File Type: Program Agenda Number: 35.

# FSI Phase 1 (K-14) Status

On July 22, 2021, staff presented to the Board an update on the FSI Phase 1 program that identified a group of districts/schools for mobilization. Early mobilization efforts with these districts allowed staff to test the administrative processes of distributing and registering student cards on the new student portal for a smaller group of students and schools prior to a countywide FSI Phase 1 launch. A total of 17,397 students from 28 participating schools had access to the FSI K-12 program during the test period.

#### Schools/districts in testing phase:

- California School of the Arts San Gabriel Valley (Duarte), 1,130 Students
- Centinela Valley Union High School District, 8 Schools, 6,657 Students
- Culver City Unified 9 schools, 7,076 students, partnership with Culver City Bus
- Los Angeles Academy of Arts and Enterprise (LAAAE Downtown Los Angeles), 275 Students
- North Valley Military Institute Sun Valley, 759 Students
- Youth Build Charter Schools 10 Schools, 1,500 Students (Compton, East LA, El Monte, Hollywood, Lennox, Norwalk, Palmdale, South LA, Whittier

#### As of September 7, 2021:

- 5,400 test cards have been distributed
- 1,149 cards have been registered in the portal (86% are 13 years or older vs. 14% Under 13)
- Cards have been tapped 7,046 times by 613 unique users

See detailed test group data in Attachment E.

The registration portal designed by TAP staff showed a very low error rate of less than 1%. Feedback from students and parents showed that the portal was very easy to use and accomplished our goal of streamlining the application process.

# Los Angeles Unified School District (LAUSD)

LAUSD, the second-largest school district in the nation, has verbally committed to participate in the FSI K-12 program at the \$3 per student cost-sharing rate, and the agreement is being finalized. This will provide all 450,000 LAUSD students access to participate in the FSI K-12 program. LAUSD represents close to one-third of the 1.4 million public students in the county. This partnership is a significant step to meeting our goal through this program to eliminate mobility barriers from a student's ability to succeed.

See the complete list of school districts that have expressed interest in joining the program to date in Attachment D.

# Community Colleges

Staff is working with Community Colleges that have existing agreements with municipal transit agencies to transition their students from a single-agency pass to the FSI regional pass. The colleges in transition are Santa Monica College (agreement with Santa Monica Big Blue Bus), Citrus College and Mount San Antonio College (agreements with Foothill Transit).

Cerritos College has agreed to join FSI as a new participant and Rio Hondo College and Pasadena City College will be transitioning from U-Pass to FSI. Agreements are being finalized with these three schools at \$7 per student for Year 1.

NOTE: Per Motion 45, the Phase 1 funding plan reserves existing funding agreements between school districts and transit operators.

# FSI Phase 2 (Low Income) Administration Status

Concurrent with seeking funding for Phase2, staff is exploring several strategies to streamline and simplify the eligibility process for participants, that can be implemented once funding is secured. Striving to remove as many barriers to entry as possible, a number of strategies are under review, including evaluating a self-attestation process for low-income riders similar to the process used by Southern California Edison. Details of strategies and registration methodologies under consideration are included in Attachment F.

# Access Services Impact

Access Services provides ADA paratransit on behalf of Metro and other fixed route bus operators throughout LA County. Federal ADA law requires that Access fares be no more than two times Metro's regular base fare. Therefore, with Phase 1, there is no impact on Access fares because Metro's regular base fare would not change. With the implementation of Phase 2, the regular Metro base fare would remain, but there are potential equity concerns if low-income fixed route transit riders are able to ride free while low-income Access Services customers still pay a fare.

If Metro eliminates fares completely, Access must also eliminate fares in accordance with the federal law that indexes Access' fares to Metro's base fare. Access Services has provided an estimated range of \$180 million to \$302 million for the increased costs of providing additional service to meet increased demand in the scenario where Access does not charge a fare. This represents up to an additional \$302 million in annual costs for Metro, which funds annual operations of Access Services on behalf of the region.

# **Adjustments to Existing Fare Subsidy Programs**

As staff continues to pursue sustainable funding sources to support a low-income, fareless pilot program for Phase 2, it is recognized that it is essential to help low-income riders. As a result, staff has recently made changes to the existing Low-Income Fare is Easy (LIFE) program and identified opportunities for improvement surrounding three core areas: Easier Access, Easier Sign-Up, and Greater Affordability. Attachment G provides details on the LIFE Program and the modification now

File #: 2021-0574, File Type: Program Agenda Number: 35.

available, currently underway, and planned for the future.

The most significant immediate improvement will be applying the Metro Board approved 50% price reduction on Metro passes that will go into effect once Metro resumes collecting fares. This will allow LIFE riders to continue receiving their full LIFE subsidy and purchase a monthly pass for \$26, a substantial discount from the \$76 they are paying now. As we emerge from this pandemic, this promotional period will allow Metro to assess the impacts of the LIFE improvements, identify additional opportunities, and consider sustainable alternatives to continue assisting our low-income riders.

#### **DETERMINATION OF SAFETY IMPACT**

This program does not affect the incidence of injuries or healthful conditions for patrons or employees. Therefore, approval of this request will have no impact on safety.

#### FINANCIAL IMPACT

The estimated revenue loss of Phase 1 of the Fareless System Initiative is \$49.9 million dollars. Funds from the school district cost-sharing and the Federal American Recovery Plan Act (ARPA) will be used to cover the program's revenue loss.

## Impact to Budget

The funding source for the FSI Phase 1 is Enterprise Fund operating revenues from district costsharing and ARPA. The source of funds for this action, operating revenues, is eligible to fund bus and rail operating expenditures.

#### **EQUITY PLATFORM**

The FSI Task Force worked with the Equity and Race Team to use the Rapid Equity Assessment Tool to analyze the impacts of the proposed FSI Pilot Program. At its core, the goal of the FSI Pilot Program is to achieve greater equity by reducing barriers and improving access to transit for all communities.

For students, access to transit increases the probability of students becoming long-term transit riders, improves school attendance and academic performance, increases participation in extracurricular activities and employment. Increased transit ridership adds social and environmental benefits to the LA region. Transportation is a basic need for the Los Angeles region, phase 1 of the FSI pilot will make Metro more accessible while providing some financial relief from transportation costs on students.

One of the considerations identified for Phase 1 is that low-income families will still need to pay fare when accompanying their minor students. The opportunity for students to participate in a fareless program may reduce the cost for the whole family to travel together.

# **IMPLEMENTATION OF STRATEGIC PLAN GOALS**

The recommendation supports strategic plan goal #3 Enhancing communities and lives through mobility and access to opportunity" by reducing the cost of riding transit for K-12 and Community College Students in Phase 1 and low-income riders in Phase 2.

#### **ALTERNATIVES CONSIDERED**

An alternative to phasing FSI is to focus on a universal fareless system. Staff does not recommend this alternative for the following reasons below:

In addition to the estimated financial impact of Phase 1 and Phase 2, the financial impact of a fully fareless system has been estimated as part of the FSI effort. As shown in the table below, the annual financial impacts of a fully fareless system are estimated at \$804.9 million for Metro, plus an additional \$263.0 million for municipal and local operators, for a total estimated annual cost of \$1.1 billion. Additional capital costs may be necessary to meet the demands of a fully fareless system.

Universal Fareless Financial Impact (\$ in millions)	Annı	ual Estimate
Metro		
Fare Revenue Loss	\$	250.0
Increase in Transit Service to Meet Projected Demand		252.9
Annual Funding Gap Projected by Access Services		302.0
Metro Subtotal		804.9
Countywide Municipal & Local Operators		
Fare Revenue Loss	\$	77.7
Additional Costs		185.3
Municipal and Local Operators Subtotal	\$	263.0
Annual Impacts of Universal Fareless Program	\$	1,067.9

Metro fare revenue losses are based on pre-covid fare revenues of approximately \$250 million annually. The projected \$252.9 million increase in transit operations costs in a fully fareless system includes operational capacity for a 45% increase on the bus system and a 31% increase on rail. The estimated increase in ridership is based on the results of travel demand modeling at the launch of the FSI effort. Because Metro funds Access Services paratransit on behalf of the region, the additional annual costs of a fareless system on Access have been included as a cost to Metro. While it is not included here as an yearly cost, the one-time \$80 million payment to defease bonds prior to eliminating fares would also be required.

For municipal and local operators, fare revenue losses are based on National Transit Database agency profiles. Additional costs for municipal and local operators are estimated at 30% of total operating costs per National Transit Database data, as discussed in the FSI Ad Hoc Committee for coordination with operators throughout the County.

# Regional Transit Funding Policy Issues

Material changes to formulas could require a modification to the California State statutes in which they are codified. The amount of fare revenue collected by each transit agency is a key component for allocating transit funding across the region. Regional transit funding sources distributed via established formulas include TDA, STA, Prop A, Federal Section 5307, Measure R, Measure M, and SB1. Regional transit funds are allocated based on 50% of the transit service provided and 50% of the fare units, a measure of total fares collected in relation to the base fare. While fare units are currently frozen per Board policy, the methodology does not specify what happens if an operator does not collect fares. Therefore, in a completely fareless system, regional discussion and coordination would be required to change the current allocation methodology.

# **NEXT STEPS**

Staff will formally launch Phase 1 of FSI and continue outreach and planning with school districts, community colleges, and regional and local transit operators.

Staff will continue advocacy efforts to secure funding for the Phase 2 funding plan. In addition, staff will finalize the administrative strategies for ease of implementation of the Phase 2 pilot.

Staff will report back on a quarterly basis on the status of Phase 1 and 2. Metro will resume fare collection with 30 days notice.

Metro will resume fare collection <u>beginning January 10, 2022</u> with 30 90 days notice <u>and a robust public education campaign (Attachment I).</u>

#### **ATTACHMENTS**

Attachment A - Funding Plan

Attachment B - LACMOA Letter to the Metro Board Chair

Attachment C - Participating Transit Agencies

Attachment D - Participating K-12 School Districts

Attachment E - K-12 Test Group Data

Attachment F - FSI Phase 2 Registration Methodologies

Attachment G - Low Income Fare is Easy (LIFE) Program Improvements

Attachment H - File # 2021-0372 Approved Motion on Fareless System Initiative (FSI) May 2021

Attachment I - Fare Collection Public Education Campaign

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