



## Board Report

**File #:** 2021-0336, **File Type:** Informational Report

**Agenda Number:** 39.

### EXECUTIVE MANAGEMENT COMMITTEE MAY 20, 2021

**SUBJECT: FARELESS SYSTEM INITIATIVE**

**ACTION: APPROVE RECOMMENDATIONS**

#### **RECOMMENDATION**

Adopt the Fareless System Initiative Pilot Program.

- A. Approve a twenty-three (23) month Fareless System Initiative Pilot; cost-sharing negotiations are underway
- B. Authorization of three Full Time Employee (FTE) positions: one Deputy Executive Officer and two support FTE; staff will be housed in the Office of the CEO; additional staffing needs to be assessed going forward.

#### **ISSUE**

Metro staff seeks approval of a proposed 23-month Fareless System Initiative Pilot. The proposed pilot would 1) offer fareless transit to students grades K-12 as well Community College students starting in August 2021, (cost-sharing negotiations are underway), and 2) would expand to include qualified low-income riders starting on January 1, 2022, for which additional funding will be sought and a final funding plan will be developed. The pilot would conclude on June 30, 2023 for all participants. At the conclusion of the pilot, the Board may consider extending, modifying, or discontinuing fareless service.

#### **BACKGROUND**

In September 2020, the Metro CEO initiated the Fareless System Initiative (FSI) Task Force to embark on an intensive process of studying and identifying facts, challenges, opportunities, and recommendations related to eliminating fares on Metro buses and trains. The FSI Task Force has collected internal and external feedback through fact-finding and coordination to:

- Evaluate internal processes related to ridership projections, data collection, fare collection, financial considerations, funding opportunities, cost savings and potential labor impacts
- Assess the overall impact to the customer experience, including security, homelessness, operational capacity, and readiness
- Evaluate connections and ensure alignment with other agency-wide initiatives such as Metro's

Vision 2028, Traffic Reduction Study, NextGen Bus Improvements, Better Bus Initiative, Equity Platform Framework, and Customer Experience Plan

- Assess how a fareless system could operationalize equity in LA County and benefit both low-income and student riders
- Convene internal working groups with members of Metro's senior leadership team and designated staff to evaluate findings

The FSI Task Force also engaged in extensive external stakeholder coordination, including:

- Conducting a county-wide survey where over 46,000 responses were received - 86% of current Metro riders surveyed support free transit and 80% of non-riders support free transit
- Convening an Ad Hoc Committee to collect direct feedback and insight from the county's municipal operators that share Metro's fare collection system, as well as Access Services (paratransit) which also serves LA County
- Providing updates and incorporating feedback from regional partners, stakeholders, Metro's Faith Leaders Roundtable, and advisory sub-committees
- Conducted at Telephone Town Hall, a live forum to discuss the exploration of FSI

### Why Fareless?

A fareless transit system in Los Angeles is both an investment in social mobility and an important tool to assist in the fight against income inequality. In 2019, almost 70% of Metro ridership were low-income (defined by the U.S. Department of Housing and Urban Development as approximately 70% of annual median area income). 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, increases transit ridership, adds social and environmental benefits to the LA region, and possibly offset loss in transit ridership due Transportation Network Companies (TNCs). A fareless system makes Metro more accessible while providing some financial relief from the ever-rising cost of living on the working poor in Los Angeles County. Transportation is a basic need for the Los Angeles region. Access to reliable transportation is crucial to maintaining stable employment, reaching educational opportunities, caring for family, and staying healthy.

Fares account for an estimated thirteen percent (13%) of Metro's operating costs, and approximately 1/3 of those costs are spent paying for the fare collection system (i.e., fare collection, fare enforcement, accounting, administration, fare box repair and maintenance). A fareless system has the potential to substantially reduce these fixed costs and redirect these resources to the benefit of the traveling public and the agency.

Currently, Metro requires on-board fare payment on all bus routes. Eliminating fare collection will also lead to faster and more efficient boarding of buses, by eliminating dwell time delays due to fare loading, cash collection issues, and fare disputes. This will help address a frequently heard complaint about transit: it's not as fast as driving. Speeding up transit trips will make transit more appealing, which is important in a county where most people drive. Lastly, the customer experience for Metro riders is a priority that will be improved with a more reliable transit system.

Metro Bus Operators play a critical role in the safety of the traveling public, navigating challenging road conditions in the urban environment, while serving in hard-to-fill positions. In an analysis of

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National Transit Database information, the FTA found that the most likely causes of assaults on bus operator is fare disputes (44%). Removing fare payment requirements removes this source of conflict.

Fareless transit can also advance equity and improve life outcomes by removing the financial barrier to access to opportunity. Metro's Board of Directors has adopted the Equity Platform Framework to prioritize funding, planning and policy decision-making to address equity disparities across Los Angeles County and the region. "Increased prosperity for all by removing mobility barriers" is one of the three elements of Metro's Board-adopted Vision 2028 Strategic Plan. Implementation of a fareless system operationalizes equity.

Implementation of a fareless transit system, in the largest county in America, is unprecedented in scale and would be the largest fareless effort in the world. The proposed pilot is a broad, yet controlled effort that can provide economic relief to those who need it most. With up to 70% of Metro ridership low-income and eligible to participate in the pilot, the pilot provides an opportunity for a detailed and empirical assessment of ridership forecasts; financial, operating, and security assumptions; and the uncovering of unanticipated issues and testing of solutions. A Fareless System Initiative at this scale provides the opportunity to assess demand, and to identify adequate response and assign adequate resources.

## **Context**

As Los Angeles County and the nation begin to emerge from the COVID-19 pandemic staff consider the following:

- The pandemic has delivered a huge economic hit, especially to low-income residents of Los Angeles County.
- County unemployment remains high, at nearly 11%, and disproportionately affects people of color and low-income residents.
- Students return in August 2021 to in-class instruction, after over a year of distance learning
- Daily ridership is about half of the 1.2 million daily boarding Metro served in 2019.
- Metro's Board of Directors recently directed that bus and rail service return to pre-pandemic levels by this September 2021, thus providing ample capacity for returning and new riders.
- Vaccinations are now available to all adults, so a safe return to transit is possible.
- Congress is considering new legislation to support fareless transit initiatives around the country.

Recognition that transit is a critical contributor to environmental solutions has never been higher. Through FSI, Metro can connect all these factors in a bold and visionary way by providing a timely economic boost to those who need it most; by moving aggressively to fill up buses and trains that have adequate capacity and to do so safely; and by being first in the nation with a carefully developed fareless pilot program, thus putting Metro at the top of the list for possible and permanent Federal financial assistance. This is the right time to carry out a fareless pilot at Metro.]

## **DISCUSSION**

### **Findings**

### **Pilot Initiative Development**

Over the last eight months, the FSI Task Force has worked to identify how Metro could feasibly adopt a fully fareless system. Challenges related to funding, operations, infrastructure, and regional impacts to transit providers were identified. Several unknown factors, including how and when customers would return to mass transit, create uncertainty, and underscore the need for a pilot.

To test the feasibility of a fareless system, the FSI Task Force proposes beginning with a gradual implementation pilot. The scope of the pilot was based on supporting equity, customer experience, financial stability, operations, security, and data collection. From this research, a clear leading concept emerged - an 18-month pilot - which allows for a more detailed and empirical assessment of our forecasted assumptions. In consideration of the return to in-class learning in August 2021, and to offset the disproportionate economic impacts of the COVID-19 pandemic on low-income residents, members of the Metro Board of Directors requested that the scope of the pilot be expanded to a 23-month pilot to accommodate an earlier start for students.

This proposed 23-month pilot employs an incremental approach, beginning with K-12 and Community College in August 2021, and offering/extending the scope to include low-income riders on January 1, 2022. The pilot would conclude on June 30, 2023. This approach allows Metro to observe increases in ridership and gauge resource demands to more accurately forecast the true cost of a fully fareless system.

The pilot program would allow Metro to assess a fareless system in the unique context of Los Angeles County. During the pilot, equity, customer experience, impacts to local transit providers, ridership surges and agency resource demands will be assessed while financial partnerships and adequate long-term funding will be sought, while providing immediate economic relief to student and low-income riders. The assessment of the pilot concept viability is summarized later in this report.

### **Stakeholder Outreach**

Throughout the course of the initiative, the FSI Task Force implemented a comprehensive communications and outreach plan that included:

- A countywide survey generated 46,300 responses, with 86% of current Metro customers supporting fareless transit and 80% of non-Metro customers also supporting fareless transit
- An Employee Survey with over 1,900 responses
- A series of presentations at Metro Service Councils and several Advisory Committees
- A Telephone Town Hall with over 5,000 participants
- Digital and earned media
- Meeting with the leadership teams of all five of Metro's Labor Unions (SMART, ATU, AFSCME, TCU and the Teamsters)
- Convening the FSI Ad Hoc Committee comprised of representatives from municipal and local transit operators

Through this engagement, the Task Force has listened to and learned from a variety of stakeholders. The most common comments include:

- Concerns about people experiencing homelessness increasing their use of riding the system if

- no fares are enforced, a greater lack of security, and potential increases in crime
- Concerns about service capacity, cleanliness, and taxes/paying for other people's fares
- Support for the program due to equity, economic recovery, and easing traffic
- Support for a fully fareless system
- Requests for college students, seniors, and people experiencing disabilities to be included in the potential pilot

Members of the FSI task force, the offices of the Metro Chair and Vice Chair, and Metro staff also met with more than 70 representatives of governmental and non-profit Community Based Organizations (CBOs) that participate in the Low-Income Fare is Easy (LIFE) program, with a focus on those that assist refugees and undocumented families and individuals. The meeting provided the opportunity for the CBOs to learn more about potential FSI options and Metro's work to streamline registration for LIFE and Reduced Fare program participants and discuss opportunities to avoid multiple registration processes.

The CBOs suggestions included: reducing language and literacy barriers; conducting more extensive outreach efforts and updated marketing literature; providing more widespread access to applications; and educating the public of the availability of the programs and methods of access. Although the LIFE program has a wide list of options available for means testing, they requested even an even wider range of options and the potential for self-attestation. Also discussed was the continuation of current LIFE family enrollment procedure that once a head of household qualifies, then all members of that household can and/or will be automatically enrolled.

Should the Board approve the inclusion of low-income individuals within the FSI pilot, staff will form a LIFE/Social Services Task Force to address specific recommendations, procedures, and enrollment training for participating CBO's. Many of the agencies that participated in the meeting are willing to assist with pilot enrollment.

### **Ridership - Who Will Ride**

To better approximate the potential increase in ridership for Metro and municipal and local operators in LA County, Metro's travel demand model was used to develop projections and to test scenarios. Based on the model projections for a fareless pilot, limited to low-income riders and students, over the course of the 23-month pilot, system-wide ridership could increase by up to seventeen percent (17%) above the baseline average daily ridership estimated for that period, depending how widely utilized the program is. Similar increases would be expected for municipal and local operators, should they decide to participate in the pilot.

### **Considerations**

#### **Operational Considerations**

Implementation of a fareless system supports Metro's vision of providing world class service that is safe, customer-focused, equitable and efficient. Metro's current operations plan already mandates the reinstatement of service hours that were reduced at the start of the County's Safe at Home Order, including the hiring of additional bus operators and support staff to ensure that the newly reinstated service levels remain intact. In February 2021, the Metro Board directed staff to restore service to pre-pandemic levels, i.e., 7 million Revenue Service Hours (RSH) by September 2021. With current

ridership estimates remaining substantially below pre-pandemic levels (in March 2021 weekday boardings were 50% lower than pre-pandemic boardings in March 2019), the agency can accommodate potential ridership increases generated by implementation of a fareless pilot without the need for additional increases to service hours or staffing beyond the current operations plan. Throughout the pilot, ridership and the customer experience will be closely monitored to determine if additional resources are needed.

### **Local and Municipal Transit Operators and Access Services Concerns**

As part of the FSI initiative, Metro CEO Phillip A. Washington convened the Fareless System Initiative Ad Hoc Committee. The committee is comprised of thirteen self-selected transit agencies, representing local and municipal transit operators from within Los Angeles County. Representatives from the Los Angeles County Municipal Operators Association (LACMOA), the Local Transit Systems operators (LTS), and Access Services met on a weekly basis throughout fall 2020 and resumed meetings in the spring of 2021. The goal of the committee was to uncover challenges and seek solutions that could inform decision-making by local transit agencies and operators regarding FSI. Committee discussions centered on the merits and challenges of a fareless system including equity, funding, ridership projections, concerns regarding PEH, public safety, Title VI considerations, and implications to paratransit.

The concerns expressed by the FSI Ad Hoc Committee are summarized as follows:

*Funding* - Many of the other operators are concerned about launching a pilot without knowing the source of long-term funding. Without a commitment of long-term state and/or federal funding assistance, the Metro Board may need to halt the Initiative at the conclusion of the pilot.

*Existing Community College Programs* - Unwinding existing college funded cost-sharing fare programs is a major risk - many agencies receive a portion of total fare revenue from agreements with academic institutions. Agencies were most open to a pilot for K-12 riders only, as it would not unravel existing funding agreements with colleges. These agencies believe that having replacement funding for these programs should be a pre-condition for operators to participate in the pilot. Per the Transit Operator Survey issued in April 2021 and detailed below (and further detailed in Attachment A), nine (9) agencies of the nineteen (19) agencies that responded, reported annual Community College agreements ranging from \$15,242 to \$1,258,000. The combined, annual value of contracts for all nine agencies is \$3,568,373.

*Measuring Success* - Goals of the program should be clearly reflected in the pilot evaluation criteria. Recovering from COVID-19 has required a special funding increase to get people back on transit; equity is a longer-term goal compared to pandemic recovery alone and requires long-term funding. There's interest in better understanding the potential unintended consequences of Metro's pilot on all other operators in the region and incorporating some into the program's evaluation. To that end, Municipal and Local Operators would like to be involved in measuring the success of the program. Staff welcomes this involvement and will continue to have these discussions with the FSI Ad Hoc Committee and other operators.

*Scope of Pilot* - Low-income riders may be too large of a group for a pilot. Impacts of a student pilot would be easier to track (e.g., through school attendance records).

**Access Services** - Access Services has distinct regulatory considerations. Based on existing federal regulations, Access Services cannot charge more than double of Metro's base fare. For the proposed FSI Pilot, given that Metro will maintain a base fare of \$1.75 for non-low-income riders, a change in Access Services fare structure is not legally required. If Metro were to implement a fully fareless system, Access Services would be required to go fareless. It should also be noted that Access customers, as part of the Free Fare program, have long been able to ride for free on most Los Angeles County fixed-route systems. This program has been successful at offering mobility options to our customers while substantially reducing demand on the paratransit system. In FY19, Access customers took 26.6 million free fare trips on the fixed-route system.

#### *Local and Municipal Transit Operator Surveys*

In addition to the FSI Ad Hoc Committee, which has convened over 15 meetings since October 2020, in April 2021 the FSI Task Force invited all transit operators within Los Angeles County to comment on FSI via survey. The survey was distributed through the Los Angeles County Municipal Operators Association (LACMOA), the Bus Operations Subcommittee (BOS), the Local Transit Systems Subcommittee (LTSS), and the FSI Ad Hoc Committee, and reminder emails were also sent. The survey was open for ten business days, and nineteen responses were received (41% response rate). There are approximately 46 fixed route bus operators in Los Angeles County.

Of the nineteen (19) survey results received, three (3) agencies expressed willingness to participate; two (2) agencies did not wish to participate; and fourteen (14) agencies responded 'other' and indicated that participation was subject to the decision of their governing body and expressed concern for long-term funding. Nine agencies reported having existing cost-sharing agreements with educational institutions that may be impacted due to the pilot. These agreements range in annual value from \$15,242 to \$1,258,00 and totaled \$3,568,373 annually for all nine agencies. Also revealed through the survey is the average FY19 farebox recovery for agencies was 12.3%, slightly lower than Metro's FY19 farebox recovery of 12.9%. Additional survey results are available in Attachment A. Discussions are ongoing with municipal and local transit operators regarding pilot participation, pilot costs, and cost-sharing.

#### **Students**

Metro staff has been working with school districts to create a detailed implementation plan that can be rolled out countywide. In preliminary discussions with other transit operators in the county through the Ad Hoc Committee, they have expressed support of implementing a K-12 pilot, if lost fare revenue can be replaced. However, regional transit operators did express concerns about implementing a pilot for Community Colleges, because it could have a negative effect on long-standing cost-sharing agreements that provide needed operating revenue to the agencies.

In FY19, there were approximately 64,000 K-12 Student riders, generating approximately \$27 million in fare revenue, and 30,000 college student riders generating approximately \$4.9 million in fare revenue. Based on California Department of Education statistics, 69% of total 1.4 million total K-12 Students in LA County are low-income. Based on surveys Metro's Regional Universal Student Pass (U-Pass) Program, 75% of Community College Students in LA County who ride transit are low-income.

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### Pilot Costs & Financial Impacts

The Task Force evaluated the financial impacts to Metro's annual budget and fiscal feasibility of implementing the pilot. An estimate of region-wide budget impacts was also prepared using a set of assumptions and by working with local and municipal operators to understand their unique financial situation. The percentage of operating costs covered by annual fare revenues is called "farebox recovery." Any portion of fare revenues lost due to implementing a pilot would need to be replaced to maintain Metro's ability to operate quality service.

Metro continues to demonstrate strong commitment to preserve all assets in a state of good repair. This is reflected in the following fiscal commitments:

- State of Good Repair commitments
- \$452 million in FY22
- \$463 million in FY23
- Better Bus Initiative commitment
- \$208m in FY22

### *Assumptions for Metro's Costs*

- Revenue Loss - a gradual return to pre-pandemic ridership is assumed in FY22: \$73 million, i.e., 30% of FY19 fare revenue; a more robust return to pre-pandemic ridership is assumed in FY23: \$236 million, i.e., 95.5% of FY19 fare revenue
- Eligibility: all K-12 and community college students, as well as low-income riders (70% of Metro's ridership)
- Length of Pilot: 23 months for K-12 students and community colleges starting in August 2021; 18 months for low-income riders starting in January 2022.
- Program Participation: FY22=60% of low-income riders, FY23=75% of low-income riders
- Operating costs: already covered in FY22 and FY23 budget, per Metro's return to FY19 7 million Revenue Service Hours (RSH)

### *Assumptions for Municipal/Local Operators*

- Revenue Loss - a gradual return to pre-pandemic ridership is assumed in FY22: 50% of FY19 fare revenue; a full return to pre-pandemic ridership is assumed in FY23: 100% of FY19 fare revenue
- Eligibility: same as Metro's
- Length of Pilot: same as Metro's
- Program Participation: same as Metro's
- Students - a loss of all fare revenue generated by students (approximately 8% for K-12 students and an additional 8% for community college students, based on median average from Transit Operator Survey)
- Operational costs: already covered in FY22 and FY23 budget

Considering the assumptions outlined above and additional expenses related to implementing the 23-month fareless pilot, the total estimated funding gap is \$246.4 million for Metro and \$74.7 million additional for municipal and local operators, totaling \$321.1 million.

The costs are summarized below.



Estimated Funding Gap (\$ in millions)	Proposed Pilot Program		
	FY22	FY23	Total
<b>Metro</b>			
Metro - K-12 Students (August 2021 - June 2023)	26.5	26.5	\$53.00
Metro Passenger Fares - Low Income (January 2022 - June 2023)	\$14.30	\$107.10	\$121.40
Metro- Community College Students (August 2021 - June 2023)	4.7	4.7	\$9.40
<b>Additional Expenses</b>			
Transit Service Increase	-	-	-
Administrative Costs for New Low-Income Program	2.4	1	3.4
New Data Infrastructure / Operating Costs	0.2	-	0.2
Public Outreach Costs for Pilot Period	1	2	3
<b>Metro Pilot Subtotal</b>	<b>\$49.10</b>	<b>\$141.30</b>	<b>\$190.40</b>
Defeasance for General Revenue Bonds Secured by Fares (one-time payoff of outstanding Bond balance; Metro would have paid this amount regardless of the pilot, but the pilot would require paying earlier.)	80	-	80
Bond Savings from Defeasance	-12	-12	-24
<b>Metro Total Including Bond Defeasement</b>	<b>\$117.10</b>	<b>\$129.30</b>	<b>\$246.40</b>
<b>LA County Operators</b>			
Regional - K-12 Students (August 2021 - June 2023) <sup>assumes 8% K-12 ridership</sup>	6.3	6.3	\$12.60
Regional- Community College Students (August 2021 - June 2023) <sup>assumes 8% Community College ridership</sup>	6.3	6.3	12.6
Regional Passenger Fares - Low Income (January 2022 - June 2023)	\$8.30	\$41.20	\$49.50
<b>LA County Operators Total</b>	<b>\$20.90</b>	<b>\$53.80</b>	<b>\$74.70</b>
<b>Grand Total Estimated Funding Gap</b>	<b>\$138.00</b>	<b>\$183.10</b>	<b>\$321.10</b>

**Potential Offsets and Savings**

(B) Budget Prioritization Opportunities	Preliminary Budget		Potential Savings		Notes
	FY22	FY23	FY22	FY23	
Efficiency Savings on Bus Rail Operating and Maintenance (O&M)	\$ 2,038.9	\$ 2,230.8	\$ (40.3)	\$ (44.5)	Recommend start with 2% reduction per year in internal efficiencies; will not impact capital projects. Will not degrade the quality of service, nor State of Good Repair*
MicroTransit Pilot Evaluation	39.6	40.7	(7.3)	(7.4)	Slowing down expansion to 9 zone until asset pilot
Assessment of SGR Program Modernization Need beyond Asset Condition Replacement	452.3	462.7	(37.6)	(37.0)	Align cashflow requirement based on actual rate of SGR after removing one-time purchases in past such as bus buy, New Blue and etc.
**5% Agency Overhead, Administration and Support Department Cost Reduction	131.9	134.9	(6.6)	(6.7)	
Reallocate LIFE to Metro Fare Pass	13.0	13.3	(8.4)	(8.4)	Metro portion only
<b>***Potential Savings</b>			<b>\$ (101)</b>	<b>\$ (104)</b>	
<b>Notes:</b>					
*Will not impact capital projects and will not degrade the quality of service, nor State of Good Repair					
**Ongoing discussions between Operations, FSI Task Force, OMB, and OCEO					
***Ongoing pursuit of cost-sharing with Transit Operators, Community Colleges, K-12 partners, and State and Federal					
***Other funding possibilities for Board Consideration: Electrification program, advertisement revenue					
***Budget to be amended upon Board approval and will reflect cost sharing agreements					
***Reconsider allowing Metro to conform to California Air Resources Board (CARB) timeline for electrification of Metro					

Staff will amend the FY22 budget pending approval of the FSI pilot by the Metro Board of Directors. During the pilot, Metro will closely monitor pilot costs, and revenue sources, during the mid-year budget review process.

**FSI Pilot Evaluation Methodology**

Metro is committed to collaborating with its many stakeholders in evaluating this fareless pilot. Assisting Metro and local and municipal operators in this ongoing evaluation process will be the Eno Center for Transportation, the nation's leading transportation policy think tank. Eno, which celebrates its 100th anniversary this year, has a well-earned reputation for independent policy analysis and possesses particular strength in public transportation issues.

By any measure Metro's proposed Fareless Systems Initiative (FSI) pilot is an enormous undertaking. It is one that requires an unprecedented level of coordination between transit agencies in the Los Angeles region as well as between sectors such as education and social services. If successful, its impact would be significant. However, it is impossible to understand the effectiveness of any program without the right metrics: those qualitative and quantitative variables that need to be considered. All transit agencies are well accustomed to collecting data to measure performance, especially ridership and funding.

Given its reach and complexity, understanding the effectiveness of the FSI demands a broader approach. At the same time, the COVID pandemic upended transit services around the world and revealed that ridership is an imperfect measure of transit performance. This is because even though ridership has fallen steeply, few would argue that transit's societal value has dropped at a similar rate. Many of those reliant on transit before the pandemic continue to ride, including essential workers

without the ability to work-from-home.

As Metro's Board recognized, a framework for these metrics to evaluate FSI is needed. These metrics not only need to determine the success of an endeavor once it is over, but also to help determine if changes are needed as it progresses. These potential triggers need to be developed collaboratively with the key stakeholders in the region. An added consideration is the baseline we chose to measure FSI, such as whether we examine service prior to the pandemic, during the related downturn, or now in recovery. We propose a three-part framework for the board to consider:

*Metrics relevant to riders.* The primary impact of the FSI is on those who patronize the service. Traditional mobility measurements such as ridership, service quality, and safety remain paramount. We also need to understand who is using the service and whether they used it before. It is also important to investigate the effects that increased accessibility has on riders, particularly low income, or disadvantaged residents. Did school attendance increase because of the FSI? Were residents able to access jobs and economic opportunity they could not before or were they able to hold on to employment better?

*Metrics relevant to operators.* In addition to the benefits that accrue to riders, we also need to ensure we fully understand the effects on the transit operators in the region, including any unintended consequences. We need details about ridership levels on specific routes to understand if riders are shifting between modes and/or providers. Financial costs-such as forgone revenue-and how those costs are being shared clearly need to be measured to determine whether the program is sustainable both during the pilot period and beyond. Just as important is the impact on the safety of the workforce, especially workers in physical contact with riders such as drivers. Other metrics need to inform whether service needs to change, due to overcrowding, for example.

*Metrics relevant to the region.* Such a large undertaking will have effects well beyond transit providers. Since transportation is the backbone of the regional economy, the FSI is likely to have a large impact on the transportation network. For example, if FSI increases ridership there may well be service quality benefits to the roadway network. Businesses near rail stations may see increased patronage. Since vehicle tailpipes are the number one emitter of greenhouse gas emissions in the region, there is likely to be an air quality benefit. Regional institutions such as schools, medical centers, and other employment and entertainment nodes may benefit from higher transit ridership.

Staff will work with municipal and local transit operators, and with the Eno Center for Transportation, to refine evaluation metrics. These metrics will form the basis for quarterly analytic reports to the Board that evaluate trends, issues and questions that arise in the execution of the pilot.

### *Pilot Implementation*

Pilot implementation development is underway. A full pilot implementation plan is being developed pending Board approval of the proposed FSI Pilot. An implementation team, led by a 3-person team out of the Office of the CEO and assisted by departments across the organization, will carry out the following activities, with the objective of starting the first phase of the pilot in August 2021. The following key steps will be required:

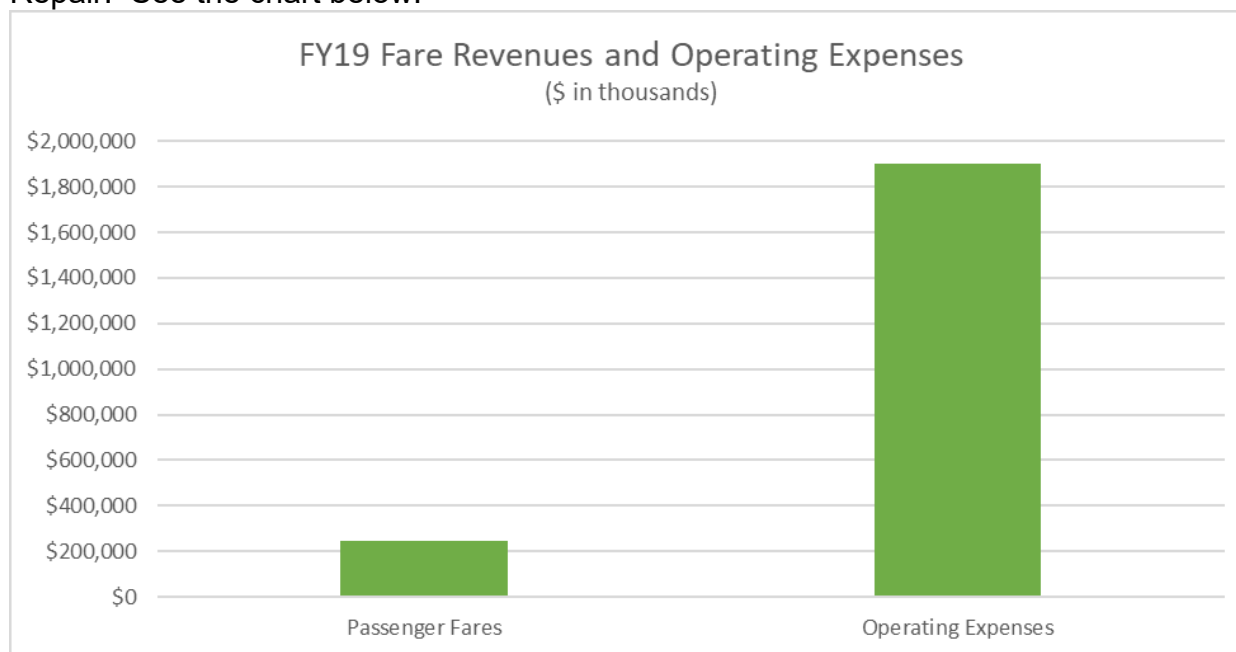
- Formation of FSI Implementation Team
- Preparation of Implementation Plan

- Online registration practices and application development
- Development of robust Outreach and Communications plan to notify riders and stakeholders
- TAP card Acquisition and Distribution Plan
- Development of detailed pilot evaluation metrics

### *Long-term Fareless System Considerations*

#### *Funding*

Perhaps the most important long-term consideration is sustainable source(s) of funding. To ensure the financial stability, prior to implementation of a fully fareless system, reliable Federal and/or State long-term funding source must be secured. Metro is funded through a variety of sources including local and state sales and fuel taxes, federal assistance, grants, bond proceeds from debt issuance, advertising income, ExpressLanes tolls, and passenger fare revenue. These fund sources support Metro's Capital and Operating costs year over year, as well as the Subsidy Funding Program, which distributes regional transportation funding to local jurisdictions and other transit operators throughout LA County. Passenger fares directly fund Metro's Transit Operations, paying for approximately thirteen percent (13%) of annual costs. Annually, Metro's fare revenue is approximately \$246 million; in contrast - fiscal year 2019 - Metro's Operating Budget was \$1.9 billion, not including State of Good Repair. See the chart below.



A long-term, fareless transit system would reduce Metro's fare revenues and directly impact Metro's Operating budget. A future transition to a fareless transit system would result in some cost savings (i.e., from not having to collect fares) but also increased costs. Staff anticipates that there would be an increase in transit services to meet increased demand. A substantial increase in ridership due to free fares, and a loss of the associated fare revenue, would result in larger long-term financial impacts to Metro's Operations budget. Without a sustainable source of additional funding to off-set the loss of fare revenues and potential increases in operational costs, a transition to a fareless system could compromise Metro's ability to sustain good levels of service. To ensure the financial

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stability, prior to implementation of a fully fareless system, reliable Federal and/or State long-term funding source must be secured.

The FSI Task Force has identified several potential long-term funding sources. Among the more salient potential sources are fees that could be generated from a future traffic reduction program. Metro is currently conducting a Traffic Reduction Study (TRS) to determine if a traffic reduction program could be feasible and successful in LA County. TRS will identify a pilot concept during summer 2021. The completion of the study is anticipated in Spring 2022 and a pilot program concept and implementation plan will be brought to the Metro Board for consideration. Utilizing TRS generated revenue to offset the cost of fareless transit can be considered by the Board at that time.

#### *Existing Fare Collection Contracts*

As of September 2020, there were approximately 24 active contracts for system maintenance and equipment contracts relating to fare collection, with a total contract value of \$647 million. Of this, there is a remaining contract value \$295 million through and including Fiscal Year 2024 for the Cubic Transportation Systems vendor contract. There is a potential for cost savings if these contracts are eliminated. The decision to eliminate or maintain fare collection contracts is dependent on how a fareless system would be implemented and the associated impacts, including any reallocation of remaining contract value or cost savings.

There are also significant costs to maintaining a fare collection system - staff estimates approximately \$75 million in Fiscal Year 2019 and approximately the same amount annually. In a fully fareless system, some of these costs would translate to direct savings for the agency. If these costs were eliminated, some of these funds would be available for other purposes. Metro administers and funds the TAP fare collection system. However, the TAP system is used by 25 municipal and local transit operators in LA County and eliminating the contracts would require an alternative fare collection system for any operators that maintain fares.

#### *Access Services*

Most aspects of Americans with Disabilities Act (ADA) paratransit, including fares, are governed by the ADA, its regulations and guidance provided by the Department of Transportation (DOT) and the Federal Transit Administration (FTA). Section 37.131(c) of the Code of Federal Regulations addresses fares as follows:

The fare for a trip charged to an ADA paratransit eligible user of the complementary paratransit service shall not exceed twice the fare that would be charged to an individual paying full fare (i.e., without regard to discounts) for a trip of similar length, at a similar time of day, on the entity's fixed route system.

Based on existing federal regulations, Access Services cannot charge more than double of Metro's base fare. Therefore, if Metro implements a fully fareless system, Access Services is required to go fareless. Access Services projects ridership increases with a fully fareless system and an estimated annual cost ranging from \$180 million to \$301 million for a fully fareless system.

#### *Formula Allocation Procedure (FAP)*

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. The FAP includes

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distribution of funds from federal section 5307, STA, TDA, Prop A (40% discretionary), City of Commerce's Zero-fare compensation (funded by Prop A interest), and Prop C programs. The formula is fifty percent (50%) of the weight is based on in-service revenue vehicle mileage and fifty percent (50%) of the weight is based on fare units (defined as total fare box revenue divided by the base cash fare). Currently, Fare Units continue to be frozen at 2006 levels per Board motion.

Because fare revenues are a major part of existing allocation methods, these formulas must be reassessed by the region if Metro eliminates fares for any group. It is important to note that any changes to FAP or the Measure R Methodology would be a regional decision requiring consensus among all LA County transit operators who receive formula-based funding. Once regional consensus is achieved, amendments to the FAP would 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.

#### *Title VI*

Recipients of federal funds from the Federal Transit Administration (FTA) must follow requirements under Title VI of the Civil Rights Act of 1964. Any proposed changes to fare or fare media, must be analyzed for potential impacts to minority and low-income customers compared to overall customers. The Fare Equity Analysis must be conducted and approved by the Metro Board of Directors prior to formal adoption and implementation of a change lasting more than six months. If an agency seeks to extend a pilot for longer than six months, prior to the completion of a Title VI analysis, the agency will need to obtain FTA approval. Metro's request to extend a pilot more than six months was approved by the FTA in April 2021.

Access Services has distinct regulatory considerations. Based on existing federal regulations, Access Services cannot charge more than double of Metro's base fare for the proposed FSI Pilot, given that Metro will maintain a base fare of \$1.75 for non-low-income riders, a change in Access Services fare structure is not anticipated. If Metro implements a fully fareless system, Access Services is required to go fareless. It should also be noted that Access customers, as part of the Free Fare program, have long been able to ride for free on most Los Angeles County fixed-route systems. This program has been successful at offering mobility options to our customers while substantially reducing demand on the paratransit system. In FY 19, Access customers took 26.6 million free fare trips on the fixed-route system.

#### *Environmental Considerations*

Transportation is considered the leading cause of environmental pollutants. Direct local, state, and federal investment in fareless transit will likely incentivize transit use in LA County and while bringing environmental benefits to the region. LA County is home to the state's largest concentration of CalEnviro-Screen designated disadvantaged communities. These communities are impacted by poor air quality and historical socio-economic disenfranchisement.

Metro's transit system is one of the cleanest in the nation, with Clean Natural Gas buses - over 1,000 times cleaner than a diesel engine and electric-powered trains. Increased transit ridership contributes to reductions in vehicle miles traveled (VMT) and reductions in greenhouse gas emissions. Investments in transit infrastructure are important to continue these improvements. With funding to support a fareless pilot or fully fareless system - Metro would be able to leverage existing transit

infrastructure investments to meet the state's aggressive clean air goals. Generally, investments that improve transit service result in ridership increases, fewer vehicles on the road and a corresponding reduction in greenhouse gas emissions and smog. Implementing a fareless system policy and increasing transit ridership could help realize the environmental benefits of improved transit service.

### *Equity*

Equity is both an outcome and a process to address racial, socioeconomic, and gender disparities to ensure fair and just access to jobs, housing, education, mobility options, and healthier communities. Equity means that Metro's service delivery, project delivery, policymaking, and distribution of resources account for the different histories, challenges, and needs of communities across Los Angeles County. The FSI Task Force conducted a Rapid Equity Assessment to evaluate the impacts of a fareless system on several groups. This assessment concluded that the cost barrier to transit disproportionately impacts low-income households, people of color, women, students, older adults, and people with disabilities. The cost of fares for many customers limits their mobility to access employment, education, medical care, and social services. These are basic needs and are considered essential to an individual's well-being and quality of life. Eliminating fares for low-income riders in the long-term would lead to equitable outcomes.

Thirty percent (30%) of Metro's bus customers still pay with cash, and an additional twenty-two percent (22%) of bus customers pay with stored value on Transit Access Pass (TAP) cards (Metro's fare collection system) - which is more expensive per ride than a pass. Customers paying cash do not benefit from free Metro transfers, which increases their overall trip cost - and about half of the trips made on Metro require a transfer. All this often adds up to the cost of riding Metro being higher for low-income riders. In the end, the cost burden is more significant for low-income customers compared to other income groups. A low-income fareless program would benefit our cash paying customers as they would save money and benefit from free transfers.

Metro's onboard Customer Survey in Fall 2019 showed that seventy-five percent (75%) of Metro customers were Latino or Black, with approximately seventy percent (70%) of customers having an annual household income less than \$35,000. Furthermore, fifty-one percent (51%) of Metro customers lived below the poverty level, with a median household income of \$19,325 systemwide and only \$17,975 for bus riders. Survey findings also indicated that seventy-nine percent (79%) of customers did not have access to a car when they took their trip and only thirty-seven 37 percent (37%) were utilizing a fare discount.

### *Ridership and Operational Constraints*

Another critical long-term consideration to a fareless system is estimating ridership increase and operational readiness to meet increased ridership. Research of other transportation agencies that have adopted fareless policies (all prior to the pandemic) showed ridership increases ranging from 20 -60 percent. Given the unique historical moment and conditions under which this policy is being considered, the best way to approximate the potential increase in ridership for Metro and municipal operators in LA County because of the elimination of fares is to carefully monitor ridership during the pilot. This will allow Metro staff to better forecast ridership increases and to evaluate the need for additional operational resources. As indicated above, a limited fareless pilot would not trigger the need for additional service hours, new buses, or rail vehicles. In the long-term, if a fareless policy is adopted for all customers, ridership increases could eventually trigger the need for more operators,

new buses, and new rail vehicles.

#### *Additional Considerations - Fare Capping*

If fare capping was implemented on Metro, a TAP customer would not pay more than \$7 a day, \$25 a week, or \$100 in a month, and customers would still receive the same free transfers that they receive today. To make fare capping possible, TAP cards would require a fare capping configuration written onto them.

Fare capping provides an equitable fare payment option by ensuring customers do not overpay for the rides they are taking. This feature would allow everyone to benefit from traveling on Metro (and later other transit operators) with the knowledge that they are always paying the lowest price possible for travel.

Fare capping could be beneficial; however, it probably would not lower the cost of transit for as many low-income workers as simply going fareless. Fare-capping is moving forward as a stand-alone initiative separate from FSI that may be implemented for riders who do not qualify for the initial FSI pilot program.

### **DETERMINATION OF SAFETY IMPACT**

Metro is committed to ensuring the safety and security of its employees and customers. Based on feedback from internal and external surveys, Metro understands that safety on the Metro system is a top priority. Through the implementation of a fareless system, Metro's System Security and Law Enforcement team will be tasked with evaluating the needs of riders and operators to adequately address all concerns. In the summer of 2020, staff initiated efforts to convene a Public Safety Advisory Committee (PSAC) to seek community feedback on how Metro can reimagine its approach to public safety on the bus and rail system. Most recently, the Metro Board of Directors issued a call for investing at least \$40 million on alternatives to policing, including establishing a transit ambassador program that provides staffed presence at Metro facilities and on Metro vehicles, and offers riders assistance and connections to resources.

### **FINANCIAL IMPACT**

Financial impacts to budget stemming from the participation of local and municipal transit operators in the pilot are subject to ongoing participation and cost-sharing agreements. Staff will amend budget pending approval by the Metro Board of Directors.

### **IMPLEMENTATION OF STRATEGIC PLAN GOALS**

Recommendation supports the Vision 2028 Strategic Plan Goal #3 "Enhance communities and lives through mobility and access to opportunity."

### **ALTERNATIVES CONSIDERED**



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The Board may choose not to approve the recommended action. This alternative would preclude Metro and the region from developing a data-driven, qualitative, and quantitative empirical analysis and understanding of a fareless transit system in Los Angeles.

### **NEXT STEPS**

With approval of this item, FSI leadership team will be housed in the Office of the CEO. Immediate work activities include finalizing the FSI implementation work plan; establishing an implementation team from throughout the agency; spelling out a timeline for startup in the coming months; coordinating with all relevant parties essential to pilot implementation; convening a Task Force of social service agencies for pilot outreach and registration; finalizing FSI pilot evaluation methodology and assembling inter-agency pilot evaluation team; revising the FY22 budget to reflect Board approval of the FSI pilot; pursuing cost-sharing agreements with educational institutions and interested transit agencies; aggressively pursuing funding for both the pilot and for a potential long-term fareless system; and completing and issuing the FSI final study report.

### **ATTACHMENTS**

Attachment A - Operator Survey Results

Attachment B - FTA Fare Equity Analysis Waiver

Prepared by: doreen Morrissey, Principal Transportation Planner, Co-lead Fareless System Initiative (213) 418-3421  
Dennis Tucker, Director, Human Resources (Interim)/Veterans Programs, Co-lead Fareless System Initiative (213) 418-3160

#### *Fareless System Initiative Task Force*

Shawn Atlow, Executive Officer, Countywide Planning & Development, Planning & Development

Shonda Breland, Manager, Transportation Operations, Operations (Bus)

Bahram Chaudhry, Senior Director, Information Technology Information, Technology

Ernesto Chaves, Deputy Executive Officer, Project Management, Program Management

Koreyne Clarke, Senior Manager, Budget, Finance & Budget

Devon Deming, Director, Metro Commute Services, Communications

Michael Flores, Director, Diversity & Economic Opportunity (Interim), Vendor-Contract Management

Samuel Harper, Senior Talent Development Specialist, Human Capital & Development

Imelda Hernandez, Manager, Transportation Planning, System Security & Law Enforcement

Elba Higueros, Acting Chief of Staff, Office of the CEO

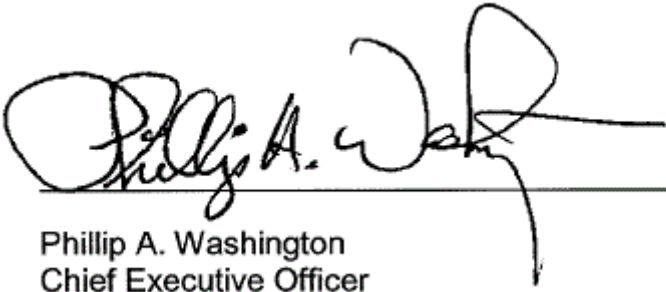
Roderick Hodge, Director, Transportation Operations (Interim), Operations (Rail)

Desarae Jones, Senior Manager, Government Relations, Communications

Mark Linsenmayer, DEO, Congestion Reduction, Congestion Reduction

Rafael Martinez, Project Manager, Enterprise Transit Asset Management, Risk-Safety & Asset Management  
Ayda Safaei, Director, Community Relations, Communications  
Teyanna Williams, Executive Officer, Labor & Employee Services, Human Capital & Development  
Jonaura Wisdom, Chief Civil Rights Programs Officer, Office of Civil Rights & Inclusion

Reviewed by: Phillip A. Washington, Chief Executive Officer (213) 922-7555



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Phillip A. Washington  
Chief Executive Officer

## Los Angeles Transit Operator Survey Results

### *Participating Agencies:*

1. Anonymous
2. AVTA
3. City of Commerce
4. City of Gardena's GTrans
5. City of Glendale
6. City of Norwalk - Norwalk Transit System
7. City of Redondo Beach- Beach Cities Transit
8. City of Santa Clarita - Transit
9. City of Santa Monica Dept. of Transportation
10. City of South Pasadena
11. Culver City Transportation Department
12. Foothill Transit
13. LADOT
14. Long Beach Transit
15. Montebello Bus Lines
16. Palos Verdes Peninsula Transit Authority
17. Pasadena Transit
18. Pomona Valley Transportation Authority
19. Torrance Transit System

### **Would your agency be interested in participating in a Fareless Pilot Program?**

- *Depends on if the fare revenue loss could be recovered from new or different revenue sources. Need to be made whole.*
- *If funds are provided.*
- *If the Fareless Initiative is available and funded for the whole region with funding identified for post-pilot, we would be interested in participating. The fareless program should be a countywide regional program funded with county-wide funds. The ultimate decision regarding our participation will be a board action.*
- *LADOT is already demonstrating free fares on its DASH routes for students K-Community College with its DASH to Class program. Please note however, that loss in farebox revenues is made whole by our LCTOP grants.*
- *Maybe*
- *Support FSI being introduced in stages; 1st stage (i.e. K-12) and the 2nd stage (i.e. Community Colleges and Low Income) only being implemented when funds are identified to replenish loss in fare revenue.*
- *TBD*
- *The City of Pasadena and Pasadena Transit is supportive of the Fareless System Initiative (FSI) and interested in participating if funding is included in order to keep the agency financially whole and provide support to prevent deterioration of the system. Pasadena Transit is a "Local Transit" provider funded by Local Return funds. Despite using all the Local Return funds the City receives for public transit, the system operates*

*at capacity, pre-COVID, during COVID, and anticipated to be post-COVID. In order to carry more passengers, additional capacity is required to avoid deteriorating the system. FSI and regional fare policies must be coordinated in order to avoid disrupting the mobility ecosystem in Pasadena that requires multiple transit agencies to fully serve the Pasadena community. Developing an FSI program that precludes or would make it unsustainable for Pasadena Transit to participate, would leave a service gap in the FSI program. It would also not be equitable to exclude Pasadena Transit for not experiencing significant ridership decline like so many other agencies. We are also concerned how this will impact our long-term contracts established with the colleges and Universities in Pasadena.*

- *Undecided - requires City Council approval*
- *We cannot commit without Council Approval*
- *Would most likely be a lot of pushback from residents as we are para-transit and senior population.*
- *Yes to assist with bringing ridership back*
- *Yes, if long-term funding can be identified.*

**Do you currently have a fare free or reduced fare service agreement or MOU with a community college or school district?**

- No=10
- Yes= 9

**What is the estimated annual revenue loss to your system if the agreement with this school, college or district is terminated as a result of FSI?**

- N/A = 7
- unknown - we do not track separately
- \$15,242
- \$37,173
- \$70,000
- \$84,528
- \$109,742
- \$350,000
- \$370,000
- \$620,000
- \$653,688
- \$1,258,000
- **Annual Total = \$3,568,373**

**Please indicate the % share of your transit system's ridership in FY19. If you are unsure, you may use the Metro's percentage included below.**

Low-Income (70% Metro)	K-12 Students (7% Metro)	College Students (11% Metro)
70%	7%	11%
85%	5%	5%
66% (This is an estimate from a survey done in 2018)	10% (this is based off Hummingbird)	11% (We are using Metro's)
70%	20%	11%
74%	5%	4%
Unsure - 30%	50%	1%
50%	18%	2%
78%	8%	16%
0%	0%	0%
70%	7%	11%
70%	8%	11%
87%	20%	2%
70%	8%	11%
80%	5%	7%
15%	80%	0%
86%	17%	1%
75%	.5%	5%

#### What reduced fares and subsidies do you currently offer?

- Senior and disabled individuals ride our fixed route service for \$1 compared to the regular \$2.50 fare. We provide a 50% discount on passes for low-income households. We issue less than 10 of these passes annually. We do not have any student fares.
- low income, students, seniors, and disabled.
- Free fixed-route Fare collected for fixed peak-hour routes
- We operate a fareless system for all passengers.
- Fares are located here: <https://www.culvercitybus.com/Fares>. Culver City also participates in UPass, ITAP S, and BruinGo.
- We participate in the LIFE Program and UPass. We also offer half price (\$0.50) for Seniors and Disabled Customers.
- Discounted bus passes and senior/disabled half-fare as required by FTA.
- Military & Veterans, Senior Pass to cover the 50% fare, LIFE
- Reduced fare for Seniors/Disabled, Student passes, and free for blind/wheelchair;
- Student Free Fares on DASH; Cityride (paratransit services) clients free on DASH
- Student Fare (K-12) \$1; Two children under 5 ride free when accompanied by an adult paying one full fare; Senior (Age 62 & Older) / Disabled / Medicare Card Holder \$0.60

- Pasadena Dial-A-Ride (DAR) members may use Pasadena Transit at no cost. DAR members took 70,714 annual rides in 2019. We have pass agreements with ArtCenter and Caltech that provide subsidies because of their large passenger base.
- PVRTA has a (4) city demand response services that provide door to door transportation to people with disabilities and Elderly for \$1 each way within our service area.
- Provide BCT bus pass subsidies to Redondo Beach residents for student, and S/D bus monthly passes. We do not subsidize based on income.
- Seniors 60 and over or disabled with required identification ride FREE on our local transit service.
- Senior / Disabled / Youth / Medicare
- Senior Subsidy bus pass.
- Students - \$0.50; Seniors - \$0.25; Disabled - \$0.25; Medicare - \$0.25; Children under 4 – Free; Blind and Access Card Holder – Free
- Half fare for senior/disabled/Medicare cardholders and our participation in the LIFE program

What was your NTD reported 2019 Fare Revenue?	What was your NTD reported 2019 Operations cost?	FY19 Farebox Recovery
\$ 23,353	\$ 616,180	3.8%
\$ 192,298	\$ 1,310,612	14.7%
\$ 316,000	\$ 3,247,000	9.7%
\$ 687,525	\$ 5,678,993	12.1%
\$ 963,486	\$ 7,095,203	13.6%
\$ 1,246,966	\$ 14,706,784	8.5%
\$ 2,500,000	\$ 33,000,000	7.6%
\$ 3,285,644	\$ 26,339,176	12.5%
\$ 3,500,000	\$ 37,061,215	9.4%
\$ 4,213,812	\$ 23,879,063	17.6%
\$ 4,810,505	\$ 25,356,955	19.0%
\$ 10,861,961	\$ 98,801,789	11.0%
\$ 11,413,768	\$ 81,169,730	14.1%
\$ 13,790,289	\$ 92,540,008	14.9%
\$ 16,079,586	\$ 95,928,313	16.8%
\$ -	\$ 4,524	-
<b>Total: \$73,885,193</b>	<b>Total: \$ 546,735,545</b>	<b>Average: 12.3%</b>

What is the FY22 estimated additional costs your agency would incur if the FSI pilot was implemented countywide? K-12 + Community College students (August 1, 2021 to June 30, 2022) + Low-income riders (January 1, 2022 to June 30, 2022)	What is the FY23 estimated additional costs your agency would incur as a result of implementation of the FSI pilot? K-12 + Community College students + Low-income riders (July 1, 2022 to June 30, 2023)
unknown - we do not track separately	unknown - we do not track separately
\$140,712	\$250,000
\$533,180	\$1,414,087
\$250,000	\$250,000
\$150,000	\$159,000
\$0	\$30,000
\$160,000	\$163,200
\$1.9m RSH + \$4m security costs systemwide	\$13,000,000
\$522,476	\$1,385,698
\$1,822,600 to \$2,206,400	\$4,604,600 to \$5,851,600
\$1,185,621	\$1,185,621
\$4,370,000	\$4,370,000
\$330,000	\$770,000
\$126,000	\$126,000
\$1,070,000 in additional RSH + \$5,240,000 for 8 additional vehicles to meet the anticipated ridership demand in FY23	\$3,060,000
\$140,000	\$260,000
\$852,408	\$2,260,734
<b>\$24,090,689.00</b>	<b>\$34,535,940.00</b>



U.S. Department  
of Transportation  
**Federal Transit  
Administration**

Headquarters

East Building, 5th Floor – TCR  
1200 New Jersey Avenue, SE  
Washington, DC 20590

May 11, 2021

Mr. Philip A. Washington  
Chief Executive Officer  
Los Angeles County Metropolitan Transportation Authority  
One Gateway Plaza  
Los Angeles, CA 90012-2952

Dear Mr. Washington,

This correspondence is to confirm receipt and approval of Los Angeles County Metropolitan Transportation Authority's (Metro) request for a waiver from the requirement to conduct a fare equity analysis after implementing a promotional fare for six months as outlined in Federal Transit Administration (FTA) Circular 4702.1B, Chapter 4, Section 7(b). This waiver grants Metro an additional 12 months (18 months total) after implementing its Fareless System Initiative (FSI) pilot program to gather data. This waiver is not date specific; however, it only applies to the pilot program and activities identified in the request.

As described to FTA, the FSI pilot program is a potential first step in determining the viability of a fareless system for all who ride Metro. This pilot program will eliminate fares for low-income individuals and K-12 students on Metro rail and bus services. The 12-month extension will provide Metro the necessary time to collect more accurate data from its large service area—more detailed data will help to more accurately identify challenges and concerns of the stakeholders in the region. If Metro decides to keep the pilot program permanently, the agency will conduct a fare equity analysis as required by FTA Circular 4702.1B and submit to FTA within three months of the end of the data-gathering period.

The FTA Office of Civil Rights is available to offer technical assistance throughout the data collection and equity analysis periods upon request. If you have any questions or concerns, please contact Nicholas Sun directly at (312) 705-1267 or via email at [Nicholas.Sun@dot.gov](mailto:Nicholas.Sun@dot.gov).

Sincerely,

Selene Faer Dalton-Kumins  
Associate Administrator  
Office of Civil Rights



cc: Ray Tellis, Regional Administrator, FTA Region 9

Monica McCallum, Acting Deputy Associate Administrator, FTA Office of Civil Rights

# Fareless System Initiative

Executive Management Committee  
May 20, 2021



# Recommendation

- Approve an 18-month Fareless System Initiative Pilot in accordance with FTA Waiver Approval (with future additional request to extend 5 more months) for a total of 23 months
- Authorize three Full Time Employee (FTE) positions
  - One Deputy Executive Officer, two support FTE
  - Staff will be housed in the Office of the CEO
  - Additional staffing needs to be assessed going forward

# Pilot Recommendation

- Aug 2021: K-12 + Community Colleges, cost-sharing negotiations pending
- Jan 2022: Low Income, cost-sharing negotiations pending
- Munis included in all pilot phases, cost-sharing negotiations pending
- Pilot through June 30th, 2023
- Board has the discretion to terminate the program at the conclusion of the pilot if long-term Federal/State funding commitments are not secured.

# Independent Pilot Evaluation Criteria (Eno)

- Eno Center for Transportation - finalizing participation in evaluating pilot
- Framework
  - Metrics relevant to riders
  - Metrics relevant to operators
  - Metrics relevant to the region
- Qualitative and quantitative metrics are being identified
  - Ridership
  - Reducing Carbon Footprint
  - Customer Experience
  - Equity
  - Operational Costs
  - Safety & Security Impacts
  - Efficiency
  - Regional Impacts

# Municipal Operators & Local Transit System Subcommittee (LTSS) concerns

- Funding Concerns – short term benefits do not outweigh long term funding issues
  - Program has high likelihood of success in terms of rider approval, but uncertain permanent funding
  - Difficulty of reversing the program
  - Unwinding existing college funded fare programs is a major risk – many agencies have a large proportion of funding from agreements with institutions
- Goals of Program
  - Should clearly be reflected in evaluation metrics of success
  - Equity is a longer-term goal that requires long-term funding
- Scope of Pilot
  - Low-income ridership is too high of a ridership share for a pilot
  - Agencies were *most open* to a pilot for K-12 riders only, as it would not unravel existing funding agreements with colleges
  - Impacts of a K-12 pilot would be easier to track, i.e., school attendance records
- Inclusion of the Perspective from Other Operators
  - Ongoing
  - Will be addressed during the pilot evaluation process (includes unintended consequences)

# Transit Operator Survey Results

- Open 10 days, sent to all operators via LACMOA, Bus Operations Subcommittee, LTSS, and FSI Ad Hoc Committee
- 19 of 46 (41%) fixed route operators responded
  - Anonymous, AVTA, City of Commerce, Gardena's GTrans, Glendale, Norwalk Transit System, City of Redondo Beach- Beach Cities Transit, City of Santa Clarita, Big Blue Bus, South Pasadena, Culver City Transportation Department, Foothill Transit, LADOT, Long Beach Transit, Montebello Bus Lines, Palos Verdes Peninsula Transit Authority, Pasadena Transit, Pomona Valley Transportation Authority, Torrance Transit System

# Transit Operator Survey Results (cont.)

- Three (3) agencies "yes" to participate (Culver City, Torrance, Commerce)
- Two (2) agencies "no" to participate (Palos Verdes, Montebello Bus Lines)
- Fourteen (14) agencies 'other'
  - Subject to the decision of their governing body
  - Concern for long-term funding
  - Nine (9) agencies, existing cost-sharing agreements w/educational institutions
  - Annual Community College agreements range from \$15,242 to \$1,258,000
  - Annual Community College agreements combined value \$3,568,373 for all nine agencies
- Farebox recovery average for 19 agencies response
  - 12.9%



# Community College & K-12 Agreements

- Cost-sharing strategy and approach ongoing
  - Finalized prior to August 2021 start date
- Munis/LTSS concern regarding existing Community College agreements (ongoing discussions)

# Proposed Cost-Sharing Discussion w/Transit Operators

- FSI Ad Hoc Committee Members (15+ meetings since October)
  - Access Services, LA County Public Works, City of Glendale, Long Beach Transit (LBT), City of Glendora, Norwalk Transit (LACMOA Chair), Commerce Bus Lines, Pomona Valley Transit Authority, Culver CityBus, Santa Monica Big Blue Bus (BBB), Foothill Transit, Torrance Transit, Gardena Transit (GTrans)
- Metro proposing that participating Transit Operators use Metro's pilot cost assumptions
- Cost-sharing negotiations continue
- Discussion with CEO and Ad Hoc Committee 5-11-21
  - Ad Hoc Committee will caucus and return to discussion

# Low Income Enrollment, Early Steps

- Convened multi-agency discussion, 5/7/21
  - Eighty-one (81) attendees; 30+ Social Service Agencies & Community Based Organizations
  - FSI will be great incentive to participation, 80K currently enrolled in LIFE program
  - Literacy/language challenges
  - Enrollment Work Group to be formed; Provide enrollment training to agencies & CBOs
- Explore Low-income eligibility Self-Attestation (self-certification)
  - Policy Decision
  - Precedence already established during COVID-19
- Takeaway: many agencies & CBOs are willing to assist with pilot enrollment

# FTA approval

- The FSI pilot extension has been approved by the FTA
- Fare changes (increases or decreases) longer than 6 months are considered permanent
  - Fare equity analysis required for disparate impact on Title VI-protected populations
  - Metro's request to extend pilot beyond six months - approved by FTA for 18 months, with additional request for (5 more months) for a total of 23 months.

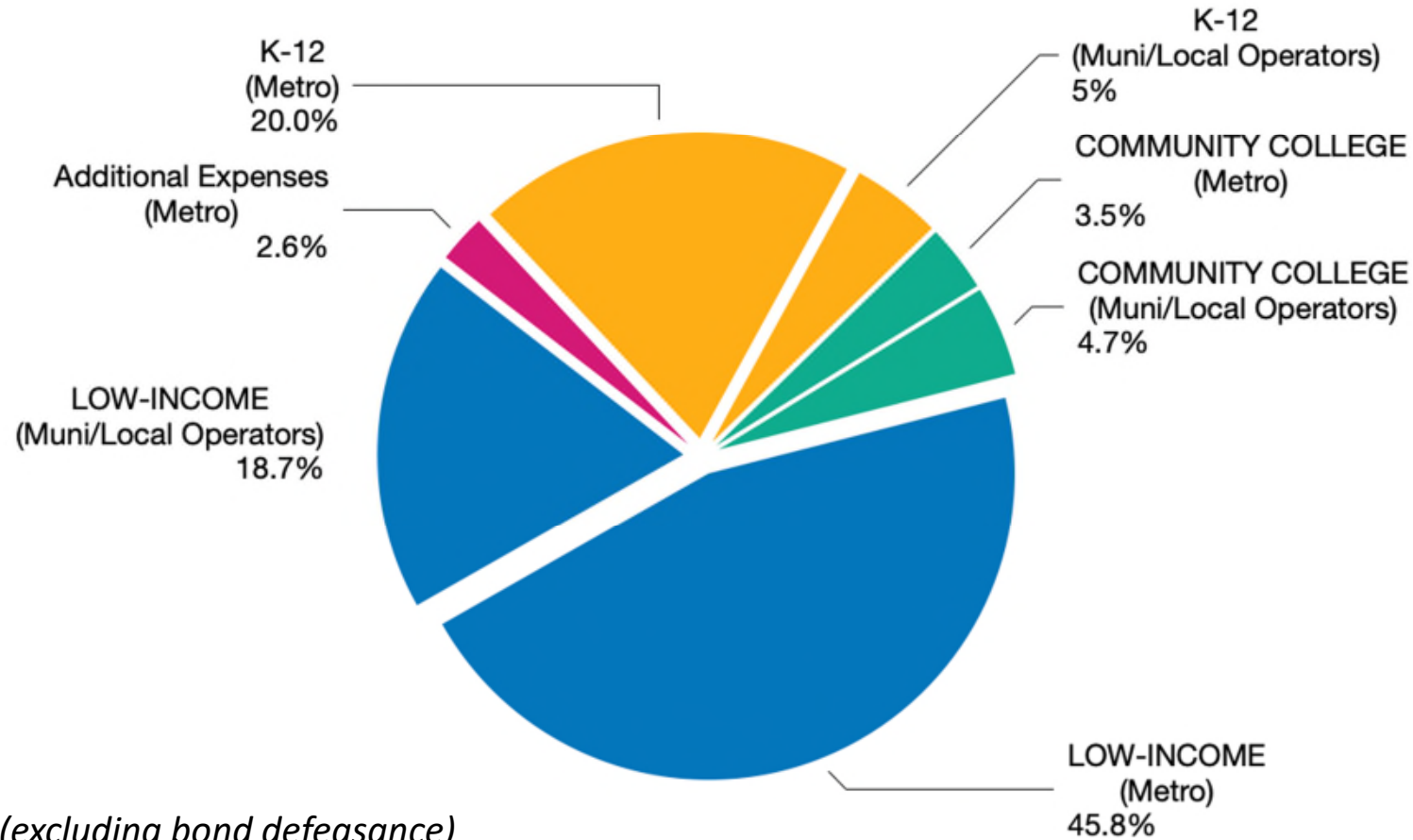
# Budget Update (In Progress)

Estimated Funding Gap (\$ in millions)	Proposed Pilot Program		
	FY22	FY23	Total
<b>Metro</b>			
Metro - K-12 Students (August 2021 - June 2023)	26.5	26.5	\$ 53.0
Metro - Community College Students (August 2021 - June 2023)	4.7	4.7	\$ 9.4
Metro Passenger Fares - Low Income (January 2022 - June 2023)	\$ 14.3	\$ 107.1	\$ 121.4
<b><u>Additional Expenses</u></b>			
Transit Service Increase	-	-	-
Administrative Costs for New Low-Income Program	2.4	1.0	3.4
New Data Infrastructure / Operating Costs	0.2	-	0.2
Public Outreach Costs for Pilot Period	1.0	2.0	3.0
<b><i>Metro Pilot Subtotal</i></b>	<b>\$ 49.1</b>	<b>\$ 141.3</b>	<b>\$ 190.4</b>
Defeasance for General Revenue Bonds Secured by Fares (one-time payoff of outstanding Bond balance. Metro would have paid this amount regardless of the pilot, but the pilot would require paying earlier.)	80.0	-	80.0
Bond Savings from Defeasance	(12.0)	(12.0)	(24.0)
<b><i>Metro Total Including Bond Defeasement</i></b>	<b>\$ 117.1</b>	<b>\$ 129.3</b>	<b>\$ 246.4</b>
<b>LA County Operators</b>			
Regional - K-12 Students (August 2021 - June 2023) <i>*assumes 8% K-12 ridership</i>	6.3	6.3	\$ 12.6
Regional- Community College Students (August 2021 - June 2023) <i>*assumes 8% Community College ridership</i>	6.3	6.3	12.6
Regional Passenger Fares - Low Income (January 2022 - June 2023)	\$ 8.3	\$ 41.2	\$ 49.5
<b><i>LA County Operators Total</i></b>	<b>\$ 20.9</b>	<b>\$ 53.8</b>	<b>\$ 74.7</b>
<b>Grand Total Estimated Funding Gap</b>	<b>\$ 138.0</b>	<b>\$ 183.1</b>	<b>\$ 321.1</b>

# Budget Update (alternate view-by phase)

Estimated Funding Gap (\$ in millions)	Proposed Pilot Program		
	FY22	FY23	Total
<b>Pilot</b>			
Metro - K-12 Students (August 2021 - June 2023)	26.5	26.5	\$ 53.0
Regional - K-12 Students (August 2021 - June 2023) <i>*assumes 8% K-12 ridership</i>	6.3	6.3	\$ 12.6
<i>K-12 Pilot</i>	\$ 32.8	\$ 32.8	\$ 65.6
Metro- Community College Students (August 2021 - June 2023)	4.7	4.7	\$ 9.4
Regional- Community College Students (August 2021 - June 2023) <i>*assumes 8% Community College ridership</i>	6.3	6.3	12.6
<i>Community College Pilot</i>	\$ 11.0	\$ 11.0	\$ 22.0
Metro Passenger Fares - Low Income (January 2022 - June 2023)	\$ 14.3	\$ 107.1	\$ 121.4
Regional Passenger Fares - Low Income (January 2022 - June 2023)	\$ 8.3	\$ 41.2	\$ 49.5
<i>Low-income Pilot</i>	\$ 22.6	\$ 148.3	\$ 170.9
<b><u>Additional Expenses (Metro only)</u></b>			
Transit Service Increase	-	-	-
Administrative Costs for New Low-Income Program <i>(Metro only)</i>	2.4	1.0	3.4
New Data Infrastructure / Operating Costs <i>(Metro only)</i>	0.2	-	0.2
Public Outreach Costs for Pilot Period	1.0	2.0	3.0
Defeasance for General Revenue Bonds Secured by Fares (one-time payoff of outstanding Bond balance; Metro would have paid this amount regardless of the pilot, but the pilot would require paying earlier.)	80.0	-	80.0
Bond Savings from Defeasance	(12.0)	(12.0)	(24.0)
<i>Metro Expenses, including Bond Defeasement</i>	\$ 71.6	\$ (9.0)	\$ 62.6
<b>Grand Total Estimated Funding Gap</b>	<b>\$ 138.0</b>	<b>\$ 183.1</b>	<b>\$ 321.1</b>

# Budget Update (alternate view-by phase)



*Direct pilot costs (excluding bond defeasance)*

# Budget Update (cont.)

(B) Budget Prioritization Opportunities	Preliminary Budget	
	FY22	FY23
Efficiency Savings on Bus and Rail Operating and Maintenance (O&M)	\$ 2,038.9	\$ 2,230.8
MicroTransit Pilot Evaluation	39.6	40.7
Assessment of SGR Program Modernization Need beyond Asset Condition Replacement	452.3	462.7
**5% Agency Overhead, Adm and Support Department Cost Reduction	131.9	134.9
Reallocate LIFE to Metro Pilot Pass	13.0	13.3
***Potential Savings		

Potential Savings		Notes
FY22	FY23	
\$ (40.8)	\$ (44.6)	Recommend start with 2% reduction per year through internal efficiencies; will not impact capital projects and will not degrade the quality of service, nor State of Good Repair*
(7.3)	(7.4)	Evaluate more thoroughly Micro-Transit Pilot zone by zone prior to full implementation
(37.6)	(37.0)	Align cashflow requirement based on actual expenditure rate of SGR after removing one time purchase in the past such as bus buy, New Blue and etc.
(6.6)	(6.7)	
(8.4)	(8.4)	Metro portion only
\$ (101)	\$ (104)	

**Notes:**  
*\*Will not impact capital projects and will not degrade the quality of service, nor State of Good Repair*

*\*\*Ongoing discussions between Operations, FSI Task Force, OMB, and OCEO*

*\*\*\*Ongoing pursuit of cost-sharing with Transit Operators, Community Colleges, K-12 partners, and State and Federal funding assistance*

*\*\*\*Other funding possibilities for Board Consideration: Electrification program, advertisement revenue*

*\*\*\* Reconsider allowing Metro to conform to California Air Resources Board (CARB) timeline for electrification of Metro buses*

*\*\*\*Budget to be amended upon Board approval and will reflect cost-sharing agreements*



# Sample Internal Cost Efficiencies

Options for Budget Reductions	Examples for Departments' consideration
Efficiency Savings on Bus and Rail Operating and Maintenance (O&M)	<ol style="list-style-type: none"> <li>1. Condition of buses (acquisition of new buses, reduced mileage during the pandemic) should generate less maintenance costs</li> <li>2. With aggressive Operator hiring, potential savings in less Operator call-backs</li> <li>3. PPE costs should be less than prior year (due to completion of one-time installation of PPE equipment, plastic shields/barriers, social distancing signage)</li> </ol>
5% Agency Overhead, Admin, and Support Department Cost Reduction	<p>Support departments: CEO Office (Customer Experience, Equity), Chief Policy Office, OEI, General Services, HC&amp;D, Finance &amp; Budget, VCM, IT, Risk Management, MASD, Office of Civil Rights, Communications, System Security</p> <ul style="list-style-type: none"> <li>• Professional Services charges to General Overhead should reduce</li> <li>• Miscellaneous Accounts (Travel/Training/Professional Associations)</li> </ul> <p>Total reductions to equate to 5% of General OH</p>

***Process for budget adjustments to take place after Board adoption of FSI and to be implemented by August 2021.***

# Work Plan Development (post Board action)

- Stand up office of FSI
- Communications Plan;
- Outreach Plan
- Cost-sharing & Enrollment Coordination
  - K-12; Community Colleges; Low-Income
- Evaluation Methodology
- TAP media – distribution items
- Amending the Budget
- Pursue pilot, and potential, long-term funding
- Back-end tech development in conjunction with school/low-income partners

# Next Steps

- Stand up the FSI office within the Office of the CEO
- Continue collaboration with Munis/Local Transit Operators
- Negotiations with schools/community colleges
- Ease of enrollment/registration
- Secure FTA approval for an additional five (5) months

Q&A