

Fare-Free Service at Lane Transit District: An Overview of Financial and Operational Impacts

Prepared by
Andy Vobora, Director of Service Planning, Accessibility, and Marketing
Lane Transit District
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Issue

Lane Transit District's success in achieving increased ridership through group transit pass programs has created an interest by some public officials and community members in providing a system-wide, fare-free policy. Increasing ridership is not the only motivation for creating a fare-free system. Other motivations may include: decreasing traffic congestion and reducing the community's carbon footprint; recognizing that farebox revenue is sometimes relatively minimal and not worth the effort to collect; a desire to fill "empty buses"; a strategy to introduce young riders in an effort to cultivate future riders; encouraging development or redevelopment of a particular area; and attaining other public policy goals.

All operational policy changes have impacts, and many factors influence whether a fare-free system would be a negative or positive experience; therefore, it is important for decision makers to be aware of these possible effects. The financial and operational factors will have the most immediate impacts. Much research exists that examines various factors, such as the size of the community and transit system, the degree of commitment to a fare-free service by the community and transit system personnel, and the age and establishment of the transit service. This overview does not attempt to address these factors; however, the *References* section at the end of this document provides resources for those who may be interested in learning more about these factors.

Objectives

Through an internal analysis of key factors, the following information reviews the immediate impacts of fare-free service in an effort to answer these fundamental questions:

- How much would it cost to implement a fare-free policy at Lane Transit District?
- How would a fare-free policy impact existing transit services?

Through a brief amount of secondary research, an appendix is included to provide a glimpse into the broader issues of fare-free systems.

1. How much would it cost to implement a fare-free policy at Lane Transit District?

Fare Revenue Loss. The most immediate financial impact would be the loss of fare revenue. Fare revenue is comprised of cash in the farebox, prepaid fare

sales, and group pass contract payments. Some community members may be confused by group pass marketing messages that encourage potential riders to use their "free" bus pass. What some may not understand is that the pass may be free to the potential rider, but the cost of the pass has been paid for by the employer or other contracting body. The combination of farebox cash, prepaid token and pass sales, and revenues from group pass contracts currently totals more than \$5 million annually.

While the institution of a fare-free system would result in a loss of fare revenue, there would be some savings since the cost of fare collection would be eliminated. Fare collection costs include coin room equipment and maintenance, printing and distribution of fare media, farebox equipment and maintenance, and the Finance Department and other department labor costs.

These costs can be quite high for districts that employ more advanced fare collection technologies or that have honor systems that require fare enforcement personnel. For small districts the cost of fare collection can be an incentive to stay or become fare-free. As a percentage of total revenue collected, fare collection costs become greater for small systems; therefore, the institution of a fare-free system may be feasible.

If LTD discontinued fare collection, the annual savings would not be as great as it would be at like-sized or larger districts because LTD employs a very simple fare collection system that uses very basic farebox technology. Costs also are lower because of LTD's success in transitioning customers to prepaid fare media, which includes monthly passes and group passes. Cash fare customers represent between 20 and 30 percent of total ridership, which is approximately one-half of the percentage of cash fare customers in other districts. The less cash that is handled, the lower the fare collection costs. LTD only empties fareboxes three days per week, as compared to large districts that empty fareboxes everyday and have entire groups of employees that process cash from the farebox.

LTD estimates that an annual savings of \$100,000 to \$500,000 may result by offering a fare-free system. (This range exists because the savings depends upon assumptions made about the need for advertising, the level of staffing of certain functions, and the fact that many employee responsibilities include multiple tasks.) The difficulty in realizing greater savings is that much of the work represents a portion of what an employee does, and no one position is completely dedicated to work associated with fare collection. For example, a customer service representative sells fare instruments, but also conducts trip planning over the telephone and for walk-in customers. If the sales function were eliminated, it may be possible that a position would be cut; however it also is possible that the same number of positions would be necessary to cover the operation during the span of hours and days the Customer Service Center is open to the public. The same is true for a general service worker who currently removes the fareboxes and empties the money into a vault. These employees fuel the buses, take the buses through the bus wash, and do other light maintenance work. Eliminating the collection of cash fares, which requires emptying the fareboxes three nights per week, is not likely to result in enough

time savings to reduce staffing. This also is true for staffing in the coin room, where cash is counted and prepared for delivery to the bank.

The net cost of creating a fare-free system would be approximately \$4.5 to \$5 million annually.

2. How would a fare-free policy impact existing transit services?

Facing a net loss in revenue of nearly \$5 million annually, the District would be faced with cutting costs to balance the operating budget or replacing these funds through additional subsidies.

A \$5 million loss in revenue would likely result in budget cuts across the District. The majority of costs are associated with the delivery of bus service, which includes bus operators, maintenance staff, and customer service staff. If we assume that \$1 million could be found in administrative cost reductions, the remaining \$4 million would be eliminated from operations; \$4 million equates to 20 percent of bus service hours currently operating.

A 20 percent reduction of service hours would require a restructuring of how service is delivered, and it is likely that neighborhood coverage would be significantly reduced. If fare revenues were replaced through a new subsidy, then service could continue in the current configuration. With the current system configuration and free fares, it isn't difficult to predict that ridership demand would increase, as current customers paying cash would ride more frequently, and a percentage of the population of potential riders would begin using the system. Considering that LTD ridership is setting records and experiencing overloads during peak travel periods, it seems that increasing demand by offering free fares would only exacerbate current operational challenges. With no identified capital funds for fleet expansion and no additional operational funds to run service to meet increased demand, riders would become frustrated as more overcrowding and overloads occurred. The system would experience increased travel time, causing greater difficulty for bus operators trying to meet scheduled arrivals and departures, and resulting in customers missing transfer connections.

Creating a fare-free system also will have a direct impact on paratransit (**RideSource**) services offered by LTD. The Americans with Disabilities Act (ADA) mandates that complementary paratransit services be provided to the elderly and people with disabilities or conditions that prevent them from using fixed-route public transportation. This curb-to-curb service is partially funded through a state cigarette tax. However, these state resources have been flat or declining for many years and do not provide adequate funding to address the increasing need for the service. LTD is required to provide these services, which has resulted in a transfer of nearly \$2 million in LTD general funds in the current fiscal year. Fares on paratransit service are prescribed in the ADA and may be set at a maximum of two times the fixed-route cash fare. While the current \$2.50 one-way fare may seem high, it should be noted that the cost per ride for a one-way RideSource trip is approximately \$23.50. The law also requires districts to maintain a non-denial policy, which means that LTD must meet demand.

In fiscal year 2008 LTD will be provide an estimated 51 percent more RideSource trips under ADA than in 2005. A significant growth rate for each of the last three years.

On the fixed-route system, a policy of leaving customers behind is considered acceptable if the wait time for the next departure is reasonable. LTD's service policy defines a wait time of 30 minutes to be reasonable. This is not an option for paratransit services that offer curb-to-curb service for individuals. Costs for paratransit service have grown by double-digits in recent years due the aging population, longer trips, and increasing dwell (waiting) time. Giving up the small amount of farebox revenue (\$140,000 annually) is not as significant an issue as the increased demand for service would be. One additional paratransit customer riding three times per week generates an added cost of over \$7,000 annually. The operating cost for 100 additional riders with similar riding characteristics would add \$700,000 annually.

Transit districts are finding it difficult to manage paratransit service cost growth due to lengthening trip times and the influx of new riders. Therefore, the ability to charge a fare is one small factor that gives districts some ability to manage the growing demand. If LTD provided a fare-free, fixed-route system, it would be required to provide a fare-free paratransit system, as well.

The immediate impact of a free paratransit service is \$140,000 in fare revenue, but as explained in the introduction, even a small number of new frequent riders could have a significant impact. These significant paratransit costs were not factored into the \$5 million gap described earlier; however, it is obvious that they would need to be addressed as part of any fare-free system implementation.

Conclusions

Lane Transit District currently cannot absorb or replace a loss in fare revenue, or respond to any significant increase in demand. With a low cost for fare collection and considering that current operations would be severely impacted, LTD staff do not recommend the implementation of a fare-free system. Should subsidies become available to maintain and expand bus service hours, and to provide the necessary personnel to maintain system security, the implementation of a fare-free system should be re-examined.

While there appear to be a number of attractive aspects to a fare-free system, these aspects appear to be attainable for newly developing systems or smaller systems, where the cost of fare collection outweighs fare recovery potential, and where available subsidies fully cover the costs of operation. Current overcrowding during peak travel periods and routes struggling to meet transfer connections make recommending a fare-free system inappropriate at this time. While every transit provider would like to carry more customers, an increase in ridership, coupled with a reduction in operating revenues, would severely hamper LTD's ability to provide effective bus service throughout the community.

Lane Transit District provides a high level of service hours per capita and this service is well-used as evidenced by overall ridership of more than 10 million annual

boardings and by system-wide productivity that approaches systems 5 to 10 times its size.

It should be noted that LTD's Group Pass programs provide free bus access to more than 70,000 area residents, children under six years of age ride for free, and LTD's Honored Rider program provides free bus access to anyone age 70 and over. In a sense, an individual who is provided a bus pass by their employer or through their school is being given a "free" ride. It is estimated that this large number of "free" riders represents nearly 50 percent of the traveling public within LTD's metro area. In 2008, the LTD Board of Directors will consider a proposal to lower the age for Honored Rider status to age 65 and over, thereby increasing the number of free riders.

Appendix

Are additional subsidies available?

One of the commonalities of fare-free systems is the availability of subsidies to cover all operational costs. For medium and large transit systems, this appears to be out of reach. The federal government supports transportation capitalization and sees operations as a local decision. This has led to the elimination of nearly all federal operational support; therefore, if LTD were to pursue a fare-free system, it would look to local and state resources for additional funding. With local units of government trying to meet increasing budget needs, it seems unlikely there would be any current funding sources available to cover the loss of \$5 million in transit revenues.

At the state level, the 2003 legislature increased the payroll tax cap from \$6 per thousand of gross payroll to \$7 per thousand of gross payroll (.006 to .007) in an effort to provide Tri-Met and LTD with the ability to meet growing needs.

However, even with the increased tax rate, the growth in these resources is not keeping pace with growing costs for fuel and personnel services, let alone allowing TriMet and LTD to meet growing demand for new service. Because the increase from .006 to .007 is phased over a 10-year period, the payroll tax cap will not be reached until 2014, making it unlikely the legislature would make further changes anytime soon.

The 2009 legislative session may offer opportunities to better fund elderly and disabled transportation services. This would give LTD some opportunity to replace general fund transfers of resources to the rapidly growing paratransit (*RideSource*) program, but these funds would not begin to close a new \$5 million gap created by moving to a fare-free system.

Does fare-free result in unintended consequences?

A number of negative impacts have been noted by larger systems that have implemented fare-free systems. These include:

- An increase in disorderly behavior by riders

- The use of the buses as a shelter by people who are homeless
- Driver morale issues as schedule adherence becomes more difficult and overcrowding creates tension
- An increase in maintenance costs associated with more vandalism
- A decrease in choice riders who react negatively to overcrowding

Research indicates that aggressive zero-tolerance policies aid in maintaining a positive environment on buses and trains. LTD has been successful using its Ordinance 36 to manage disruptive behavior, but even with a zero-tolerance policy and strict enforcement, there have been and will continue to be complaints related to these poor behaviors. As seen recently in Portland, Oregon, the ability to adequately provide security and manage negative behaviors is becoming a bigger challenge for large systems. For TriMet these challenges are leading to serious discussions around elimination of their long-standing “fareless square,” and an evaluation of ways to enclose MAX train platforms that would eliminate the honor system of fare payment currently in use. Some in Portland have suggested that the fareless square and honor payment system on MAX are not the issue; however, law enforcement personnel disagree and the dialogue continues.

Research does indicate that the few smaller systems currently offering a fare-free system have not seen these same negative impacts. In some cases, this may be a reflection of ridership levels that afford adequate space for customers. In a discussion with staff from Island Transit in Coupeville, WA, the comment was made that there are few, if any, homeless in their area, and that the community culture values transit service. The staff member did state that there had been some vandalism issues that were frustrating staff. Aggressive security policies also have aided the smaller systems in handling negative behavior.

On the positive side, a fare-free system does:

- Speed the boarding process
- Increase ridership
- Reduce administrative overhead costs

A number of districts continue to offer fare-free systems. These systems appear to be similar with respect to subsidies covering the full cost of operations and that they operate in smaller urban or rural areas. The following information provides a brief overview of these systems.

1. Coupeville, Washington – Island Transit is a small rural provider offering service on Whidbey Island and Camano Island in northern Washington. A sales tax of six-tenths of one percent generates enough revenue to meet service demands. The system carries 1.1 million annual boardings and has an annual operating budget of \$9.2 million.
2. Hasselt, Belgium – A city of about 70,000 people, Hasselt is approximately an hour away from Brussels and is Belgium’s fourth largest city. Hasselt draws riders from the approximately 300,000 people in the surrounding area. Funding

for free transit comes from an allocation of one percent of municipal taxes. This system operates 11 bus routes.

3. Wilsonville, Oregon – South Metro Area Regional Transit (SMART) was formed in 1988 when the City of Wilsonville withdrew from the TriMet service area. SMART is funded by a payroll tax of three-tenths of one percent. SMART offers free service within the City of Wilsonville, but charges for commuter services that connect to Portland, Canby, and Salem. The fare charged for commuter service began in Fall 2006 in response to pressure from the business community who felt it was unfair that riders did not pay for a share of the cost to provide bus service. Ridership initially dropped 17 percent following the institution of fare payment, but currently is down approximately 7 to 10 percent. The current operating budget is \$2,500,000 million, and there are 286,000 annual boardings.
4. Logan, Utah – Cache Valley Transit District (CVTD) is a small urban and rural provider in northern Utah. CVTD is funded through a one-quarter percent sales tax and has an operating budget of \$3.6 million and annual ridership of 1.7 million boardings.

Is charging a fare a barrier to ridership growth?

Charging a fare is a barrier for some low income individuals, but research indicates other factors are more commonly cited as barriers by potential riders and by a majority of current riders. While a number of large transit districts have conducted testing of fare-free systems, the last large system test took place at Capital Metro in Austin, Texas, and ended in 1990. Following the conclusion of the fare-free demonstration at Capital Metro, a survey of riders and the general public found that the five most important factors in determining whether to ride the bus were:

- On-board safety
- On-time performance
- Convenience of routes
- Cleanliness inside the buses
- Frequency of service

The three least important factors were:

- Cost of service
- Outside appearance of the bus
- Courtesy of bus operators

Consistent with the Capital Metro survey results, LTD data gathered from Group Pass participants found that a free ride is not the most important factor for potential riders who are considering riding public transportation. If the free ride was the key factor, mode split within LTD's Group Pass companies would be much higher. Operating characteristics, such as travel time, frequency of service, convenience, and comfort, are often more important for potential riders who have another mode choice available for their trip.

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