Fare Policy Regarding Regular and/or Inflation-related ("Programmed") Price Increases

Linda M. Spock

November 2007
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Executive Summary

Historically, transit agencies have implemented fare increases largely on an “as needed” basis. In practice, this has resulted in relatively infrequent changes in fares which are often large in magnitude by virtue of the need to “catch up” on expenses since the previous fare change. This study examines an alternative approach to fare policy – planned or scheduled fare increases programmed to “keep up” with expenses on a pre-determined regular basis. In practice, this approach, referred to in this report as “programmed fare increases,” appears to offer benefits to both transit agencies and their customers. Customers experience smaller fare increases which, though more frequent, are more predictable and therefore more acceptable. Agencies appear to experience less of an impact on ridership and the predictability of these regular increases facilitates capital programs, service improvements, and financial planning.

This report documents and synthesizes the experience of a dozen transit agencies with programmed fare increases:

- Bay Area Rapid Transit District, San Francisco Bay Area
- Golden Gate Transit and Golden Gate Ferries, San Francisco Bay Area
- Lane Transit District, Eugene/Springfield, Oregon area
- Metrolink, Southern California
- Regional Transportation Commission, Northern Nevada
- Regional Transportation District, Denver, Colorado
- TriMet in Portland, Oregon
- Washington State Ferries, Seattle area
- MTA Metro-North, New York City metropolitan region
- New Jersey Transit, New Jersey
- Triangle Transit Authority, North Carolina

(The final three agencies do not currently have programmed fare increases in place, but their experiences illustrate the political and institutional challenges of implementing such increases in the complex environment in which transit agencies often operate.)

Interestingly, many of these agencies did not know of each other’s experience with similar fare policies prior to this study. While still the exception rather than the rule, the research shows that programmed fare increases can be viable across a range of transit agency sizes, organization types, and funding structures. It appears that programmed fare increases are easiest to implement where there is clear public acceptance of fare revenues’ relative contribution to overall costs.

There have been a variety of reasons for instituting programmed fare increases, including:

- The need to provide for greater financial stability;
- The need to limit subsidies from other funding sources;
- The need to keep up with the costs of providing service and/or to maintain existing service levels; and/or,
- The need to comply with mandated or targeted fare recovery levels.

Similarly, agencies differ in the exact methodology for applying programmed fare increases. While most case study agencies have annual increases, one (BART) has biennial increases and one (Regional Transportation District) has programmed fare increases every three years. Some agencies favor a CPI-based approach while others are more tied to actual cost increases.

Whatever their individual differences in policy and practice, the experiences of the agencies studied suggest the importance of clearly communicating the need for regular fare increases to transit customers in the context of agencies’ efforts to maintain service, constrain costs, and address customer needs and concerns. In short, customers appear to be willing to pay increasingly higher fares on a regular basis if
they feel they clearly benefit from reliable transit service; the agency does its “fair share” in contributing to the most efficient and cost effective operation possible; and the fare increases are small and predictable.

Collectively, the limited but nonetheless significant experience of the case study agencies represented in this report sets a precedent for the practice of programmed fare increases. This report provides a resource for transit agencies’ consideration of adopting programmed fare increases by documenting the actual experience and lessons learned by peer agencies to date.
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Introduction

Transit agencies vary significantly in the operating and political environments in which they function and in terms of the funding mechanisms they use, all of which can affect fare increases. In addition, agencies appear to have somewhat conflicting philosophies about fare increases. Historically, many agencies have had relatively infrequent increases, characterizing their periodic fare changes as "catch up" increases. Even today, some agencies feel that "Fare increases are always an option of last resort."¹ In contrast, this report focuses on an alternative approach. As a matter of convenience, this report uses the term "programmed fare increases" to describe that approach. Programmed fare increases are defined as those that are planned or scheduled on some regular basis (e.g. every one or two years); they may or may not be related or indexed to inflation. This report presents the findings of a study undertaken by the NYU Wagner Rudin Center for Transportation Policy and Management to document current practice with such fare increases in the public transit arena. The study was not undertaken to advocate any particular approach to programmed fare increases; however, the report is meant to serve as a resource for transit officials grappling with these issues.

Historical Background and Context

A number of previous reports on the topic of fare policy provide a historical perspective and some important context for addressing programmed fare increases. For example, a 1996 Transit Cooperative Research Program (TCRP) study found that "the process for developing fare policy and making changes to the fare structure varies widely from one transit agency to the next." Further, "although some agencies maintain ongoing fare policies that guide fare-related changes, most agencies make fare decisions on an ad hoc basis." More specifically, the TCRP 1996 study notes that:

The American Public Transit Association (APTA) 1994 Annual Fare Summary…revealed that of the more than 300 transit systems that responded, 97 percent made fare changes "as necessary"…[and] only 3 percent report making changes on a scheduled (annual or multi-year) basis or in response to the cost of living or another indicator.²

In a 1998 survey of fare policies and structures, 53 percent of the participating transit agencies reported that they had a regular review process for fare structures, but the results of those review processes rarely led to substantial changes.³ Further, though inflation is an important factor with respect to the value of revenues collected over time, programmed fare increases remain rare. According to a 2003 TCRP report, the result is that "while some agencies establish formal fare policies that govern fare-related decisions, most agencies’ fare system changes are made in response to a particular issue or problem."⁴

Although it represents only a snapshot in time, analysis of APTA’s 2005 Transit Fare Database confirms how rare it is for agencies to have planned future fare increases. Of 338 survey respondents, 286 (or 85 percent) reported an “unknown” date for the next change to adult base fares. Of the remaining 52 agencies, 47 agencies reported a precise effective date (day, month and year) for the next known fare increase. Among those 47 agencies, the average length of time between the fare currently in effect and the date of the next known fare increases was 3.2 years, and the length of time between fare increases varied significantly, from less than half a year to almost 20 years (Figures 1 and 2). It should be noted of the 47 agencies with known dates for fare increases, a smaller subset represents agencies with programmed fare increases. Some undetermined number simply happened to know of a pending fare increase at the time of the survey, but those increases may not have been programmed.

⁴ Ibid., p. 13.
Based on the literature review and transit industry outreach undertaken for this study, it appears that interest in programmed fare increases is rising, even though actual usage remains low. For example, as of May 2003, APTA’s Financial Management Committee Meeting Minutes indicated that “the majority of transit systems were implementing some type of fare increase to cope with reduced revenue caused by diminishing sales tax receipts or reduced ridership” and that “[s]ome agencies are trying to institute some...
type of indexing system that would increase fares each year automatically based on inflation." Follow up contacts with APTA, however, indicate that there has been "a lot of talk, but little actual activity."5

Massive increases in fuel costs in recent years may have begun to change the industry mentality from being mostly reactive to becoming more proactive. In 2001 and 2004, APTA surveys on the impact of motor fuel increases on transit services have shown consistent results in raising fares in response to fuel increases – in both years, approximately 8 percent of the survey had already raised fares with another 28 percent expecting or considering them for the future.6 Though a matter of conjecture, the increasing application of fuel cost surcharges in other industries (e.g. express mail, airlines, utilities) may help make fare increases based on rising fuel costs more palatable and easier to "sell" to transit customers as well. Furthermore, as fuel prices increase and the cost of driving a personal vehicle becomes more expensive, programmed fare increases that are designed, in part, to cover rising fuel costs may become more acceptable.

In the longer term, another factor that may encourage transit agencies to become more proactive in raising fares more regularly is the ongoing debate on the inadequacy of current funding mechanisms to meet the needs of the overall national transportation system. There is a growing shortfall in the funding levels needed to maintain the current infrastructure in a state of good repair, even as increasing demand necessitates additional capacity. At the federal level, “the major reason…is that federal motor fuel tax rates are not indexed to inflation and have lost one-third of their purchasing power since the last adjustment in 1993.”7 In addition, construction costs have also rapidly grown. Although transit and highway funding are different, the fundamental importance of having funding sources keep pace with increases in costs is equally applicable across all transport modes. Thus, it may be timely for transit agencies to reexamine their fare policies in the context of providing an adequate funding mechanism for their ongoing operations and future needs.

**Benefits of Programmed Fare Increases**

For transit properties, the lack of a formal policy that allows for fare increases on a regular basis has several repercussions. Without a formal fare policy in place that allows for programmed fare increases, it becomes difficult for agencies to increase fares in a politically charged public arena, and justifying the need for such increases can become a burdensome task. The result is often long time delays in fare increases, compounding the problem further by requiring larger “catch up” increases once fare changes are finally approved and implemented.

Fare increase trends over the past decade indicate that fares have not kept pace with inflation. Between 1995 and 2005, the average passenger fare rose by 16 percent, while the Consumer Price Index (CPI) increased by 28 percent. By way of contrast, during the previous decade (from 1985 through 1995), the average fare increased by more than CPI, with fares increasing by 65 percent on average, while CPI rose by 42 percent.8 The financial repercussions of fares that fail to keep pace with inflation are important both for customers and for agencies. For customers, the larger increases that are necessitated by longer time periods between such increases can be more difficult to budget. For agencies, not keeping pace with inflation reduces the real value or purchasing power of the fares that are collected, making it more difficult to meet their operational and capital programming needs.

The concept of programmed fare increases appears to have merit, with clear benefits to transit agencies and their customers. Multi-year capital programs can be implemented more effectively and service levels can be maintained when coupled with predictable and growing sources of funds. Numerous studies have emphasized the need for stable funding sources to enable successful capital programs. For example, a recent NYU Wagner Rudin Center report which examined the New York MTA’s capital program more

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5 Samuel Kerns, APTA Vice President and Staff Advisor to the APTA Financial Management Committee, personal communication, November 13, 2006.
6 2001 survey data reflect responses from 120 U.S. and Canadian transit agencies; 2004 data reflect survey responses from 97 U.S. transit agencies.
8 Fare vs. CPI comparisons are drawn from three sources: 1985 average fare is drawn from “Renaissance of Public Transport in the United States?” The Transportation Quarterly, 56, 1 (Winter 2002), p. 37, Table 4; 1995 and 2005 fares are “passenger fares received per unlinked trip” from APTA 2007 Public Transportation Fact Book, Table 51; and CPI is for All Urban Consumers, U.S. City Average, Annual Average, as published by the Bureau of Labor Statistics.
broadly pointed out that, “The existence of stable funding sources has allowed the MTA to make long-term commitments, such as multi-year car purchases, and plan long-term projects that would otherwise have been impossible to carry out.”

Customers also benefit from programmed increases since they are typically smaller in magnitude. With improvements in fare collection technologies (e.g., increased use of fare cards vs. cash and tokens), implementation of such increases is also operationally simpler, and can be made more customer-friendly as a result.

**Study Purpose and Methodology**

The basic purpose of this study was two-fold: (1) to assess the extent to which programmed fare increases are a transit industry practice; and, (2) to gather information on the limited experience which does exist with such fare increases. Initially, it was assumed that a literature review of transit industry websites, publications, and policy documents would suffice to identify transit agencies which had attempted or implemented programmed fare increases. However, when the literature review produced insufficient information, the approach was expanded to include information-gathering from transit agency contacts and other transit industry professionals, including consultants and industry associations, most notably the American Public Transit Association (APTA).

APTA’s 2005 Transit Fare Database proved to be particularly valuable for the study. To identify agencies which might have policies of programmed fare increases, the APTA survey data were sorted to produce a list of U.S. transit agencies with two years or less between the effective date of the agency’s adult base fare and the next known fare increase date. Those agencies were then contacted by email to identify the subset of those agencies which do, in fact, have policies for programmed fare increases. This list was supplemented by suggestions from transit industry professionals. While not purported to be a complete list of agencies with programmed fare increases, it does provide a representative sample of transit community experience with such an approach to fare policy.

Background data on each agency were largely obtained from public information sources such as agency websites and publicly available literature. Telephone interviews were conducted between November 2006 and June 2007. To ensure accuracy, after the report was drafted, each agency representative was asked to review a draft of the section(s) of the report relevant to his/her agency and comment as appropriate.

**Framework for the Report**

The balance of the report is divided into three sections. First, the cases are described in more detail, with particular attention to the various policy issues that both served as a backdrop for the decisions and/or had an impact on the decisions that were made. Second, a synthesis and assessment of the findings are provided to explore the similarities and differences among the cases. Finally, the report concludes with a discussion of several factors that were associated with more successful outcomes and some concluding observations.

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10 Agencies which had fare increases over consecutive years that were not planned in advance, and agencies where a planned multi-year increase was placed in effect for a short and limited period of time are excluded here.
Case Studies

The case studies included in this report represent a range of sizes, a variety of modes, and a number of organization/board structures. Most operate bus or rail; some operate multiple transit modes. All are heavily oriented to commuters. Table 1 presents background data for each major case study agency.

Table 1. Background Information on Transit Agencies Interviewed

<table>
<thead>
<tr>
<th>Agency Name &amp; Location</th>
<th>Transit mode(s)</th>
<th>Average Weekday Ridership</th>
<th>Year Established</th>
<th>Farebox Recovery</th>
<th>Other Major Funding Sources</th>
</tr>
</thead>
<tbody>
<tr>
<td>BART – Bay Area Rapid Transit District San Francisco Bay Area, CA</td>
<td>Heavy rail</td>
<td>338,897</td>
<td>1957 (began operations in 1972)</td>
<td>Fare Policy requires an Operating Ratio of at least 62%; FY08 Adopted Budget Operating Ratio is 64.3%</td>
<td>Transaction and use sales tax</td>
</tr>
<tr>
<td>Golden Gate Transit and Golden Gate Ferries (two operating divisions of Golden Gate Bridge, Highway, &amp; Transportation District) San Francisco Bay Area, CA</td>
<td>Bus, ferries, &amp; paratransit</td>
<td>Bus: 24,986 Ferries: 6,099</td>
<td>Bus in 1973; Ferries in 1970</td>
<td>Targeted at 25% for bus/paratransit &amp; 40% for ferries</td>
<td>Golden Gate Bridge tolls</td>
</tr>
<tr>
<td>LTD – Lane Transit District Eugene/Springfield, OR</td>
<td>Bus &amp; paratransit</td>
<td>33,000</td>
<td>1970</td>
<td>Currently approximately 17%</td>
<td>Employer payroll &amp; self-employment taxes; state payroll assessment</td>
</tr>
<tr>
<td>Metrolink Southern California</td>
<td>Commuter rail</td>
<td>42,363 (average, Oct-Dec 2006)</td>
<td>1991</td>
<td>40% goal, but 44% projected 2006-07 annual budget</td>
<td>Member agency subsidies (predominantly local sales taxes)</td>
</tr>
<tr>
<td>RTC – Regional Transportation Commission Northern Nevada*</td>
<td>Bus &amp; paratransit</td>
<td>27,191</td>
<td>1979</td>
<td>28% in 2006</td>
<td>Transit sales tax &amp; state DOT</td>
</tr>
<tr>
<td>RTD – Regional Transportation District Denver, CO</td>
<td>Bus &amp; light rail</td>
<td>292,483</td>
<td>1969</td>
<td>30% non-sales tax recovery ratio (required by state law)</td>
<td>Sales tax</td>
</tr>
<tr>
<td>TfL – Transport for London London, England</td>
<td>Bus, subway, rail, and light rail</td>
<td>10,850,000 (as TfL)</td>
<td>2000</td>
<td>No stated ratio or goal, but fares were 41% of revenue as of 2006*</td>
<td>Funding from National Government until March 2010 under Spending Review agreement reached in July 2004</td>
</tr>
<tr>
<td>TriMet Portland, OR</td>
<td>Bus, streetcar, &amp; commuter rail</td>
<td>307,200</td>
<td>1969</td>
<td>Approximately 25% of system cost</td>
<td>Payroll &amp; self-employment taxes</td>
</tr>
<tr>
<td>WSF – Washington State Ferries Seattle, WA</td>
<td>Ferries</td>
<td>~ 65,000</td>
<td>1951</td>
<td>Currently 73%; has been as high as 78%</td>
<td>Tax support from state, including gas sales tax &amp; motor vehicle registration fees</td>
</tr>
</tbody>
</table>

*Source: FitchRatings, March 2006
Because there did not seem to be an obvious way to subcategorize their experience with programmed fare increases, detailed case studies are presented in alphabetical order throughout the following pages, as follows:

- Bay Area Rapid Transit District (BART) in the San Francisco Bay Area
- Golden Gate Transit and Golden Gate Ferries in the San Francisco Bay Area, California
- Lane Transit District (LTD) in the Eugene/Springfield, Oregon area
- Metrolink in Southern California
- Regional Transportation Commission (RTC) in Northern Nevada
- Regional Transportation District (RTD) in Denver, Colorado
- Transport for London (TfL) in London, England
- TriMet in Portland, Oregon
- Washington State Ferries (WSF) in the Seattle area, Washington

Additional insights are included on the experience of three other transit agencies with programmed fare increases because they demonstrate the political and institutional challenges of implementing such increases in the complex environment in which transit agencies often operate:

- MTA Metro-North, New York
- New Jersey Transit, New Jersey
- Triangle Transit Authority, North Carolina

### Key Issues
The interview process addressed the following key issues for each case study agency:

- Why programmed fare increases were adopted
- How programmed fare increases were instituted
- Challenges faced in introducing programmed fare increases
- How and where support was obtained

Agencies use different terms to describe their programmed fare increases; some have a formal written policy or procedures while others have only established practices, incorporated in the annual budget or business planning process. The frequency of programmed fare increases varies from one to three years. Likewise the length of experience varies; three agencies have had programmed fare increases for two decades; several have had them for more than ten years; and others have introduced regular fare increases more recently.

Despite these differences, however, all agencies appear to share a basic philosophy that a reasonable objective of transit fares is to “keep up” with the cost of service, whether measured by inflation or on some other basis. Similarly, the agencies report that their customers are generally accepting of programmed fare increases as more palatable than larger, more random fare hikes often associated with transit agencies’ attempts to “catch up” after longer periods of time without fare increases.

### BART – Bay Area Rapid Transit District
**San Francisco, California**

The San Francisco Bay Area Rapid Transit District (BART) is an independent agency created in 1957 by the legislature of the State of California. BART’s stated mission is to provide safe, clean, reliable, and customer-friendly regional public transit service that enhances the livability of the Bay Area. BART began revenue operation of heavy rail service in 1972 and serves the four Bay Area counties of Alameda, Contra Costa, San Francisco, and San Mateo. BART is governed by a Board of Directors comprised of nine elected officials from the nine BART districts, each of whom serves a four-year term.

### Farebox Recovery and Other Funding Sources
For Fiscal Year 2008, BART expects to receive nearly 60 percent of its operational funds from rail passenger fares, approximately another quarter (27%) from transaction and use sales tax collected in the
BART district, 5 percent from property tax, and the balance (15%) from a combination of investment income, parking fees, other operating revenues, and local and state financial assistance. BART’s operating ratio (total operating revenue/total operating expense) is expected to be 64.3 percent.

Fare Increase History and Development of Fare Increase Policy

The BART Board approved as a package three fare increases between 1995 and 1997 in order to address revenue needs, including funding major system rehabilitation projects, which had accrued since the last fare increase nine years earlier in 1986. BART’s fares remained unchanged for the next six years, even though costs increased. Fare hikes were avoided mainly because of significant gains in ridership and sales tax revenue between 1997 and 2000. Beginning in 2001, however, BART began to record substantial reductions in these areas in response to the economic downturn after the dot com bust and 9/11. In 2003 and 2004, fare increases, along with expense reductions, were implemented to help balance BART’s budget. Thus, from 1990 to 2005, BART raised fares five times, as follows:

- By 15% in 1995
- By 13% in 1996
- By 11.4% in 1997
- By 5% in 2003
- By 10% in 2004

At the same time the Board addressed the District’s immediate revenue needs with fare increases in 2003 and 2004, it was also looking at BART’s fare structure. In 2002, the Board directed staff to undertake a review of the fare structure and examine fare policy goals, prompted by interest in possibly simplifying the fare structure and the continued need to address revenue shortfalls in current and outlying fiscal years due to the impact of fares not keeping pace with inflation and dramatic drops since 2001 in ridership and sales tax revenue.

In light of the economic uncertainty at that time, Board members expressed interest in having an overarching financial management policy that addressed the District’s structural budget imbalance through a combination of strategies involving revenues, operating expenses, capital investments, and prudent reserves. That led, in March 2003, to the Board’s adopting a Financial Stability Policy (see Appendix A for a complete copy of the policy). One of the policy’s six goals was to “preserve and maximize BART’s fare revenue base, through a predictable pattern of adjustments, while retaining ridership.” The policy also established strategies in four key areas: operating expenses, capital investment, fares and other revenues, and reserve for economic uncertainty. The policy articulated a specific fare increase strategy to tie passenger revenue increases to service costs and system needs with particular consideration to:

- Aligning fares with CPI-based cost growth; and,
- Small regular fare increases tied to CPI-based cost increases or other major cost factors and to factors such as significant change in other revenues and productivity.11

Building on this foundation, BART developed a very detailed methodology for calculating fare increases on a biennial basis (every two years), tied to inflation. The first step of the calculation process uses a weighted average of two published price indices reported by the U.S. Department of Labor’s Bureau of Labor Statistics:

- The U.S. city average consumer price index for all urban consumers for all items (National CPI-U Annual Average); and,
- The San Francisco-Oakland-San Jose, California consumer price index for urban wage earners and clerical workers for all items (Bay Area CPI-W Annual Average).

BART determined that the regular fare increases should be every two years. The sentiment among agency staff was that this frequency seemed “just right all around;” once a year would have been too

11 “Financial Stability Policy,” Adopted by the Board of Directors March 27, 2003, as provided by Charlotte Barham, BART Financial Planning.
frequent, but waiting more than two years would have required larger increases. BART included a second step in the process to reduce the fare increase resulting from the straight two-year inflation calculation by a .005 (half of one percent) productivity factor to represent “BART’s contribution to the cause of financial stability” to parallel customers’ contributions to the same cause in the form of higher fares.

In May 2003, following a public hearing at a special meeting of the Board, the Board adopted a resolution authorizing BART’s General Manager to calculate and implement “productivity-adjusted CPI-based increases...for each even numbered fiscal year from 2006 through 2012.” (Appendix B includes the BART Board resolution.) The increases are applied across the board to all BART fares, although the resulting station-to-station fares are rounded to the nearest nickel. Although the Board-adopted resolution required no further public hearings for the fare increases programmed for 2006, 2008, 2010, and 2012, it did require that “Prior to the implementation date for the productivity-adjusted CPI-based increases to rates and charges for BART service, the Board will review and consider the fare structure. This review will include issues of distribution and equity.”

In September 2005, a Board workshop was held that reviewed BART’s fare structure, including issues of distribution and equity. Discussions at the workshop indicated the District could benefit from having a policy that dealt specifically with fares, to complement the Financial Stability Policy. In November 2005, the BART Board adopted a Fare Policy. (See Appendix C for a complete copy of the Fare Policy.) The Fare Policy is “to serve as a framework for decision-making that reflects the interconnected areas that fares can influence: customer satisfaction, ridership growth, financial health, seamless interagency travel, and optimal system usage.”

Outcomes

BART reports that the January 2006 implementation of the first biennial CPI-based fare increase of 3.7 percent went very smoothly, with few customer complaints. Indeed, BART will be implementing the second biennial CPI-based fare increase of 5.4 percent in January 2008.

BART staff attribute acceptance of the policy to the following main factors:

- The relatively small magnitude of planned regular increases instead of larger increases implemented only when the agency has substantial revenue shortfalls;
- Using a widely known and understood measure, inflation, and expressing in very clear and understandable terms to the customer exactly how the increases will be calculated and implemented;
- The Board’s clear and concrete course of action which balanced the agency’s financial needs with what is palatable to the customer; and,
- Having high levels of customer satisfaction prior to the change taking place.

Golden Gate Transit and Golden Gate Ferries
San Francisco, California

Golden Gate Transit and Golden Gate Ferries represent two of the three operating divisions of the Golden Gate Bridge, Highway & Transportation District in the San Francisco Bay area. These divisions of the District were added in response to state legislative mandates in 1969 and 1971 to develop mass transit alternatives to automobile travel in the Golden Gate corridor. The legislative action came as the Golden Gate Bridge neared a saturation point after experiencing a 70 percent annual average rate of growth in traffic over the thirty-year period between 1937 and 1967.

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13 Resolution No. 4885 Before the Board of Directors of the San Francisco Bay Area Rapid Transit District In the Matter of Adopting New Fare Rates and Charges: Productivity-Adjusted CPI-Based Fare Increases, Adopted May 22, 2003.
14 Ibid.
15 “San Francisco Bay Area Rapid Transit District Fare Policy,” Adopted by the BART Board of Directors November 17, 2005.
16 Barham, personal communication, February 13, 2007 and June 5, 2007. With regard to customer satisfaction, according to the 2006 BART Customer Satisfaction Study as accessed from the website www.bart.gov, 85% are very satisfied or somewhat satisfied with the services provided by BART, 93% would definitely or probably recommend BART to a friend or out-of-town guest, and 67% strongly or somewhat agree that “BART is a good value for the money.”
Golden Gate Ferries began operating ferry service in 1970 and currently operates two ferry routes between San Francisco and Marin County: the Sausalito and the Larkspur. The Sausalito route serves both commuters and tourists; the Larkspur route is more heavily oriented to commuter service.

Golden Gate Transit began operating bus service in 1973 and currently operates regional fixed-route bus service in San Francisco and Marin and Sonoma counties; the agency also operates local service within Marin County under a contract with the Marin County Transit District and paratransit service. In 2006, Golden Gate ferries and buses carried 11 million customers.

A nineteen-member Board of Directors sets policy for the Golden Gate Bridge, Highway and Transportation District (District). The Board of Directors includes a combination of appointed and elected officials representing six different counties as follows:

- City and County of San Francisco (9 Directors)
- Marin County (4 Directors)
- Sonoma County (3 Directors)
- Napa County (1 Director)
- Mendocino County (1 Director)
- Del Norte County (1 Director)

The District provides transit services without support from local sales taxes or dedicated general funds. As the District does not have the authority to levy taxes, the use of surplus Bridge toll revenue is the only available local means (other than transit fares) that the District has to support the District's transbay transit services. Historically, approximately 50 percent of Golden Gate Transit bus and ferry operations have been funded by surplus Golden Gate Bridge tolls, and 30 percent by transit fares. The remainder is met by federal, state and local subsidies along with advertising and property equipment rental revenues.

**Farebox Recovery and Fare Increase History**

Until very recently, the District had an overall systemwide fare recovery target of 30 percent. As part of a comprehensive evaluation of fare policy, it found that while ferry service easily met the 30 percent target, it was a difficult target for bus service to achieve. Accordingly, it has now set separate targets for the two types of service: 25 percent of regional bus and paratransit operating costs, and 40 percent of ferry operating costs.

The District has implemented two separate five-year transit fare programs; the first one covered 1999 through 2003 and a second one has been adopted for 2006 through 2011. These programs are described in more detail in the following section. In between the two five-year programs, the agency implemented interim fare increases, raising fares across the board by 5 percent in 2004 and by 10 percent in 2005. Prior to the first five-year program, fare increases were much less frequent; previous system-wide fare increases had been imposed in 1993 and sometime prior to 1987. Although toll increases follow a separate process and the District has no parallel multi-year program for toll increases, toll increases have become more frequent in recent years, with tolls raised in 1989, 1991, and 2002.

**Five-Year Transit Fare Programs**

Like BART, a sister transit agency in the Bay Area, Golden Gate Transit and Golden Gate Ferries have experienced a period of financial instability in recent years. Over the last two decades, the area served by the District has experienced slow growth in population and changes in travel patterns, with increased suburb-to-suburb commuting versus suburb-to-CBD travel. Together, these economic and demographic factors have contributed to declining ridership, particularly on bus services. In recent years, ridership has been declining on buses but growing on ferries. Between Fiscal Year 2000 and the end of Fiscal Year 2005, average daily bus ridership fell by over 20 percent. The District has addressed this loss of ridership with a broad program of cost reductions, service adjustments, and higher fares. With regard to fares, the District determined that it required revenue adjustments every year to avoid having to impose larger

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18 Prior to the opening of the Golden Gate Bridge in 1937, privately operated ferry service flourished in the San Francisco Bay area, but declined thereafter and eventually was discontinued in 1941. The Golden Gate Bridge was the only way to travel directly between Marin County and San Francisco for the next 29 years.
increases to “catch up” on costs, which were increasing at a greater rate than revenue generation. Accordingly, it proposed a five-year program of fare increases in 1998. The program was approved after public hearings, required under the District’s business rules, and the first increase was implemented in July 1998 (the beginning of the 1999 Fiscal Year). That increase, and four annual increases which followed, were pegged to the change in the Bay Area CPI over the previous one-year period. The District chose that basis as “the simplest thing to explain to the Board and the public”.19 In response to vocal opposition by disabled riders, the Board chose to limit paratransit fare increases to half the percentage increase on all other fares. Under District rules, a public hearing was held on the five-year program and no further hearings were required for the duration of the program.

By the conclusion of the first five-year fare program, other fare policy issues had emerged, and staff elected to address those issues before proceeding with another five-year package of increases. In particular, they focused on three areas: the overall fare structure; fare recovery rates; and the use of CPI as a basis for increases. With respect to overall fare structure, customers had historically complained that the District’s fare system was too complicated. In an effort to simplify the fare structure and make it more rational and understandable from a customer perspective, the District reduced its previous 10-zone pricing system to six zones during 2004 and 2005. Regarding fare recovery goals, the District concluded that it should change its approach to fare recovery to reflect different targets for bus and ferry service. Finally, the District concluded that “using CPI as a basis for fare increases was not working” in terms of meeting the needed revenue generation since actual service costs had been rising at a greater rate than inflation.20 Throughout the early part of the decade, the District had reduced expenses, including making service reductions. “By the end of FY04/05, the District had reduced expenses by about $13.5 million, or over 16%.”21

In 2006, a second five-year transit fare program, described as a successor to the 1999-2003 program despite the two-year gap, was proposed and adopted. It differs from the first program in several ways:

- Annual fare increases are based on actual cost escalation, projected to be 5 percent each year. (Transit expenses have been escalating at a rate of about 8 percent annually in recent years, but the District assumes future cost increases will be managed to rise at a lower rate.)22
- The District is required to perform a review of its cost escalation each year; if it has been less than 5 percent, the Board has the flexibility by Board action alone to modify the annual cost increases downward without public hearings. If cost escalation exceeds 5 percent and the Board determines that fare increases should be adjusted upward, a public hearing will be conducted.
- Paratransit fare increases are the same magnitude as all other increases.

Appendix D provides a summary of the current Five-Year Transit Fare Program, including the customer comments received from the public hearing and outreach in advance of the program’s approval by the Board.

**Outcomes**

The District reports that the keys to general acceptance of annual fare increases are:

- Ensuring that customers believe they continue to receive adequate service; and,
- Demonstrating a willingness by the District to cut costs (including administrative costs) as part of an overall strategy to meet its fiscal challenges.

Ridership changes have been within the expected ranges of price elasticity and it has been difficult to separate ridership responses to fare increases versus service degradation. Modal shares have been maintained between automobiles and transit, and the District plans to conduct a survey to determine

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19 Alan Zahradnik, Planning Director, Golden Gate Bridge, Highway & Transportation District, personal communication, June 14, 2007.
20 Ibid.
21 Agenda Item No. 4, Memorandum for Golden Gate Bridge Highway & Transportation District Finance-Auditing Committee Meeting of March 23, 2006, p. 3.
22 Ibid.
whether this means that some of its bus customers have shifted to ferries. At the same time, the District notes that customer response to pricing is complicated. For example, customers have not supported the concept of premium pricing for premium express bus service.

On the financial side, annual fare increases have not increased revenue significantly. While the District’s objective has been revenue generation, it has managed to only “hold its own to offset declining ridership”. The District’s financial strategy has been to balance revenues and expenses23, while ensuring that transit customers pay “their fair share” of transit costs.

Overall, the District is satisfied with the results of its two five-year transit fare programs, attributing the success to “knowing your customer base and tailoring the increases to be as acceptable as possible to your customers.” While staff believes that the program could generate greater financial benefit if the District were able to consider a business strategy of market-segmentation for fare increases, the complex issue of equity argues for simple across-the-board increases for all customers.24

LTD – Lane Transit District
Eugene/Springfield Metropolitan Area, Oregon
Lane Transit District (LTD) is a Special Purpose District created in 1970 and overseen by the State of Oregon. In its role as a transit agency, LTD operates fixed-route bus and demand-response paratransit services in the Eugene/Springfield metropolitan area. LTD’s Board of Directors is a seven-member group of volunteers; application and selection of LTD board members is handled by the Governor’s office, subject to confirmation by the Oregon Senate. Once confirmed, a board member serves a four-year term. Each board member represents a distinct geographic part of LTD’s service area.

Farebox Recovery and Other Funding Sources
Although the agency has no formal policy or goal for farebox recovery, the current farebox recovery ratio is approximately 17 percent.25 The primary sources of LTD’s funding are employer payroll and self-employment taxes and a state payroll assessment. The District imposes an excise tax on every employer and on individuals’ net earnings from self employment. Until 2003, the maximum rate was 0.6 (six-tenths of one percent). During the 2003 State Legislative Session, Oregon Revised Statutes 267 (under which LTD was initially empowered to impose taxes and set fares) were amended to allow for the gradual increase in the maximum tax rate allowed to seven-tenths of one percent over a ten-year period if the Board of Directors adopts a finding of local economic recovery. LTD delayed a tax rate increase until Spring 2005, at which time the Board or Directors decided to implement a progressive rate increase on January 1, 2007, with the goal of attaining the new seven tenths of one percent maximum rate on January 1, 2014.

Fare Increase History and Fare Policy Development
LTD’s experience with programmed fare increases dates back to the early 1980s. As Andy Vobora, LTD’s Director of Service Planning, Accessibility, and Marketing, recalls:

The Board reacted to the rapid drop in ridership following the recession and oil embargo in the late 1970s and early 1980s. When the embargo was over and folks went back to driving, ridership began dropping and the Board felt pressured to increase revenues to sustain operations. They doubled all fares. Staff felt this knee-jerk reaction resulted in further declines in ridership.26

As a result, the agency set forth some basic principles for its fare policy going forward. First, fare adjustments would include small incremental increases. Second, these increases would generally rotate among fare types. With only one fare type affected in any given year, LTD’s practice would allow customers to move to a less expensive fare. Feeling that people expect the cost of living to go up annually, LTD determined it could increase fares over time without causing negative effects on ridership.

24 Ibid.
25 Andy Vobora, LTD Director of Service Planning, Accessibility, and Marketing; personal communication, May 2, 2007.
26 Ibid.
As explained in the Fare Policy document included in Appendix E which has been in place at LTD since 1985 (with some minor revisions from time to time):

> [c]hanges in the [fixed-route] fare [shall] be incremental in nature to avoid large ‘catch up’ increases. The District’s experience has been that large fare increases (even though occurring less often) have a substantially more negative impact on ridership than smaller, more frequent fare increases. Additionally, rotating fare increases by fare type allows customers to choose a fare type that is not increasing in cost that year.  

While there is no guarantee that fares will go up each year, there is a schedule of changes which displays the Board’s intent so that customers are not surprised.

**Factors in Fare Increase Decisions**
LTD’s Fare Policy document highlights the most important factors to be considered by the Board in making recommendations for changes to the fare structure, specifically:

- The inflation rate
- Ridership and revenue trends
- Local economic trends
- Trends in automobile-related costs such as gas
- Service changes
- Economic impact on customers
- Market conditions and opportunities
- The District’s financial situation
- The District’s goals and objectives

**Fare Increase Methodology**
LTD currently uses a three-year rolling average of district costs as a basis for calculating the planned annual rate change. Under extenuating circumstances, the Board may deviate away from the plan, as it did in 2002-2003 in increasing fares by 25 percent when it felt the larger increases were warranted by the effects of the recession and diminishing tax receipts. Table 2 shows the history of fare increases for each of the different fare types (cash, token, and monthly pass) from 1981 through 2007 under LTD’s Fare Policy. Cumulatively, between 1981 and 2007, adult cash prices increased by 99.5 percent and adult token prices increased by 108.2 percent. During this same period, adult passes increased at a deliberately lower rate of 70.8 percent, reflecting LTD’s strategy of encouraging customer use of prepaid fares. Over this same time period, the CPI cumulatively increased by 76.8 percent. Thus, with the exception of adult pass fares, LTD fares have increased by more than the rate of inflation.

For RideSource (paratransit) services, LTD’s Fare Policy calls for LTD to charge the ADA maximum fare of twice the fixed-route adult cash fare. LTD’s Fare Policy also addresses fares for group passes. Group passes accounted for 30 percent of passenger revenues for the fiscal year ending June 30, 2006, representing 62 area businesses and colleges benefiting 42,000 area employees and students, including the University of Oregon students, staff, and faculty. Group passes allow unlimited rides for all participants, with LTD setting a per capita charge for each group priced at 100 percent participation within the organization served. Per capita charges are higher for groups which do not already contribute to the LTD payroll tax; for example, the 2007-2008 pricing proposal calls for a quarterly per capita rate of $11.94 for taxpayers and $13.89 for non-taxpayers, representing a fare increase of 8.1 percent over the 2006-2007 fare levels. LTD’s Fare Policy calls for annual renewal of contracts for group passes with qualified organizations and annual increases in per capita rates “not to exceed the three-year rolling average of LTD cost increases.” LTD is currently considering changing to a CPI-based factor as “something Group Pass organizations can relate to more.” Table 2 includes the history of increases in rates for Group Passes since LTD changed its Group Pass policy in 2002 to require a minimum amount for all groups.

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27 LTD Fare Policy document as provided by Vobora.
28 There was also a 25% increase in 1997-98 implemented as a matter of convenience when the adult cash fare increased from 80 cents to $1.00 and an intermediate price would not have been customer-friendly.
29 Pricing History provided by Vobora, personal communication, May 2, 2007.
Opportunities for Public Input
For all fares other than Group Passes, actual implementation of any increase in fares requires an amendment to LTD’s fare ordinance, following a legislatively mandated process which includes:

- A public hearing for changes in fares of more than 25 percent;\(^{31}\) and,
- Decisions over the course of three Board meetings, with the first meeting including an informational presentation and public hearing, the second meeting the first reading of the ordinance, and the second reading and approval of the ordinance at the third meeting.

The Accessible Transportation Committee, an advisory group representing fixed-route and paratransit riders, has additional input on RideSource (paratransit) fares. This committee agreed to the LTD policy to charge the ADA maximum fare of twice the fixed-route adult cash fare. This committee also reviews RideSource fare increases and makes a recommendation to the Board each time the fixed-route adult cash fare is increased.

### Table 2. LTD Fare Increase History, % Change in Adult Fares

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Cash</th>
<th>Token</th>
<th>Individual Pass</th>
<th>Group Pass*</th>
</tr>
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<tbody>
<tr>
<td>1981-82</td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>1982-83</td>
<td>10.00%</td>
<td>12.50%</td>
<td>11.11%</td>
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<tr>
<td>1983-84</td>
<td>11.11%</td>
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<td>1984-85</td>
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<tr>
<td>1985-86</td>
<td>9.09%</td>
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<tr>
<td>1986-87</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>1987-88</td>
<td>8.33%</td>
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<tr>
<td>1988-89</td>
<td>10.00%</td>
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<td>1989-90</td>
<td>5.00%</td>
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<td>1990-91</td>
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<tr>
<td>1991-92</td>
<td>15.38%</td>
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<tr>
<td>1992-93</td>
<td>18.18%</td>
<td>4.76%</td>
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<td>1993-94</td>
<td>4.55%</td>
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<td>1996-97</td>
<td>8.33%</td>
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<td>1997-98</td>
<td>25.00%</td>
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<td>1998-99</td>
<td>15.38%</td>
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<td>1999-00</td>
<td>7.69%</td>
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<td>2000-01</td>
<td>13.33%</td>
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<td>2001-02</td>
<td>25.00%</td>
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<td>2002-03</td>
<td>17.65%</td>
<td>25.00%</td>
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<td>6.00%</td>
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<td>2003-04</td>
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<tr>
<td>2004-05</td>
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<tr>
<td>2005-06</td>
<td>2.90%</td>
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<tr>
<td>2006-07</td>
<td>10.00%</td>
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<tr>
<td>2007-08(^{†})</td>
<td>8.57%</td>
<td>8.10%</td>
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</tr>
<tr>
<td>2008-09(^{†})</td>
<td>8.00%</td>
<td></td>
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</tr>
</tbody>
</table>

\(^{*}\)Group Pass rate history is not available prior to fiscal year 2001-2002

\(^{†}\)Note that the increases for 2007-08 have been approved and the increase for 2008-09 is planned.

Source: LTD Pricing History spreadsheet from Annual Pricing Plan Master, as provided by Andy Vobora

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**Metrolink Southern California**

Metrolink is the name of the regional rail service operated by the Southern California Regional Rail Authority (SCRRA) in the Southern California area serving Los Angeles, Orange, Riverside, San Bernardino, Ventura, and Northern San Diego Counties. Following the June 1990 enactment of California Senate Bill 1402, Chapter 4 of Division 12 of the Public Utilities Code, four local government entities jointly developed a plan for regional transit services. SCRRA was formed in August 1991 as a Joint Powers Authority comprised of the five following member agencies:

- Los Angeles County Metropolitan Transportation Authority
- Orange County Transportation Authority
- Riverside County Transportation Commission
- San Bernardino Associated Governments
- Ventura County Transportation Commission

\(^{31}\) As a matter of practice, even where not required by statute, LTD holds public hearings for any fare increase proposal.
Farebox Recovery and Other Funding Sources

SCRRRA receives its primary funding from fare revenues and subsidies provided by its five member agencies. The joint powers authority is governed by a Board with 11 members (and 9 alternates) drawn from the member agencies. Funding contributions are based on a cost sharing formula adopted (and periodically revised) by the member agencies. The agency has a farebox recovery goal of 40 percent. Actual farebox recovery has ranged from 37-44 percent in the 1999-2006 timeframe.

Fare Increase History through 2002

Metrolink began operations in October 1992 with a zone-based fare structure. In 1998, the agency proposed the first fare increase in the system’s history. At that time, the Board approved a fare adjustment program to increase fares by 4 percent every other year (i.e. 1998, 2000, and 2002), to “catch up” on expenses associated with a larger system, which had doubled in the number of stations since Metrolink operations began. This proposed fare adjustment program emerged after four alternative fare options were developed and presented to the public in a series of ten public workshops and a formal public hearing. The final proposal was based on “extensive discussion with member agencies and the Technical Advisory Committee.” The proposal considered “the future financial constraints of each member agency” and a finding that “[p]assengers preferred incremental fare increases over several years instead of a larger one-time fare increase.” Ultimately, the fare adjustment program was approved over the opposition of one of its member agencies (Ventura County Transportation Commission). The Board agenda item for the final proposal indicated, “It is fair to note that many of those commenting initially vented legitimate frustrations and that subsequent discussion lessened their concerns about the proposed fare adjustment” and “It is clear… that Metrolink has a core group for loyal riders who will pay a reasonable fare to ride the train and preserve their stress-free commute.”

Subsequently, in 2000 and 2001, the agency introduced a series of customer service initiatives to address this issue, including temporary fare policy changes to offer one-time discounts on monthly passes and 10-trips on several lines due to service related issues and approval of a formal Rider Compensation Policy and Quality Service Pledge.

Annual Fare Increase Procedure

In April 2004, following additional expansion of Metrolink operations, SCRRRA’s Board adopted a new fare pricing structure, based on driving mileage distances between stations to provide “consistent and equitable pricing so that customers traveling the same distances pay the same price, and short trips cost more per mile than long trips.” Although the zones were initially set at 11 mile increments, due to a longstanding practice of placing stations in closer zones to attract ridership to new stations, the restructuring resulted in significant increases in nearly half of the station-pair fares. To avoid onerous increases in fares on individual customers in any given year, the agency introduced a procedure to increase fares annually, phasing in the new distance-based fare structure to replace the initial zone-based fares over a period of ten years so that the annual increase of any station pair would not exceed 8 percent. The magnitude of each year’s annual increase is based on Metrolink’s growth in expenses, tempered by a sensitivity to what customers can afford. In transitioning from increasing fares every other

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32 As noted in Section 9.5 of SCRRRA Strategic Assessment, January 26, 2007, SCRRRA has used more than 11 different formulae over its history to allocate expenses and revenues in order to provide for equitable subsidy shares for its member agencies.
33 Joanna Capelle, SCRRRA Grants and Strategic Development Manager, personal communication, April 27, 2007.
35 Metrolink Board Item 4, May 6, 1998, as provided by Capelle.
36 Ibid.
37 “Fare Policies and Procedures Board Actions Chronology,” as provided by Capelle.
38 “SCRRA Metrolink Fare Policies and Procedures,” Revision 2, July 1, 2005.
year to annual fare increases, the agency felt that “from a customer perspective, a 3.5 to 4 percent increase each year is better than a 7 to 8 percent increase every two years”.

The restructuring program is designed to be revenue neutral systems-wide (with some station pairs receiving significant increases and some benefiting from reduced fares). The 10-year restructuring began with the July 2005 fare increase and is programmed to be complete in July 2014. Hence, annual fare increases include the annual restructuring component plus a system-wide increase, if necessary, to fund increased costs. The annual fare increases apply to all Metrolink fares and fare products, but the actual magnitude of the increase varies because of the agency’s commitment to limit the individual customer increase in any given year as the new distance-based fare structure is phased in (and the rounding of fare increases down to the nearest quarter). For example, for the 2006 fare increase (which represented a system-wide average fare increase of 5.5 percent):

- 16% experienced fare increases up to 2.5%;
- 62% experienced fare increases between 2.5 and 4.5%;
- 20.8% experienced fare increases between 4.5 and 6.5%; and,
- 0.9% experienced fare increases above 6.5%.

Outcomes
The transition to annual fare increases has been smooth and generally accepted by the public, based in part on Metrolink’s outreach showing that the distance-based fares were more equitable and “a better deal to customers.”

Customer acceptance may also have been facilitated by several noteworthy characteristics of Metrolink’s customer base:

- Metrolink experiences a 35 percent turnover in ridership every year, which means that fewer riders are experiencing fare increases year after year.
- The average rider is expected to ride Metrolink for 4.3 years, which means that many riders will not experience the currently planned ten straight years of increases.
- Although the percentage of subsidized riders has declined in recent years, it remains at 53 percent of riders receiving an average monthly subsidy of $81.78.

Given these factors, Metrolink believes, in retrospect, that it might have been able to phase in the restructuring even more rapidly. Otherwise, Metrolink is very satisfied with its experience using regular fare increases, having found them an effective means of “keep[ing] the member agency subsidies at their available funding levels and avoid[ing] reducing service to meet their subsidy levels.” Although the fare restructuring is scheduled to be complete with the annual increase programmed for July 2014, the procedure for annual fare increases is likely to remain in place beyond that timeframe to support continued expansion of the Metrolink system in the context of expected continuation of funding limitations of SCCRRA’s member agencies, for whom commuter rail transportation is only one of many priorities. In fact, Metrolink’s Draft Strategic Assessment presented to its Board in October, 2006 assumes an annual fare increase of 3 percent through 2030. Beyond 2014 (i.e., once the fare restructuring is complete), Metrolink expects that the annual increases will be uniform, with the same magnitude of increase in percentage terms applied for all riders.

40 “Fare Policies and Procedures Board Actions Chronology,” indicates the average annual fare increase cap (maximum fare increase between any station pair) was 8% in 2004, 9% in 2005, and 10% in 2006.
42 “Metrolink Ridership Retention” undated presentation, provided by Capelle.
43 In 2002, the percentage was 56%, with an average subsidy of $81.47 per month.
45 Capelle, personal communication, April 27, 2007.
RTC – Regional Transportation Commission
Northern Nevada
The Regional Transportation Commission (RTC) is located in Northern Nevada, and includes the cities of Reno and Sparks, as well as Washoe County. RTC was formed in July 1979 as a result of legislation approved by the Nevada Legislature, which consolidated the Regional Street and Highway Commission, the Regional Transit Commission and the Washoe County Area Transportation Study Policy Committee. RTC operates intra-city and intercity buses; paratransit; and vanpool information services, as well as streets and highways. It also serves as the metropolitan planning organization (MPO) for Washoe County. Functioning as a cooperative regional board, RTC is comprised of five representatives appointed from three government jurisdictions:

- Two from the Reno City Council;
- One from the Sparks City Council; and,
- Two from the Washoe County Board of Commissioners.

RTC establishes administrative and operational policies for the agency which are carried out by a professional/technical staff of approximately 100 people, supervised by an executive director.

Farebox Recovery and Other Funding Sources
Overall RTC operations are funded by a combination of sources; transit services are funded in large part by a dedicated local transit sales tax totaling 5/16 percent. The state legislature has granted RTC the right to set fares. As a matter of policy, the farebox recovery ratio should be 35 percent or more, but Roger Hanson, Senior Planner at RTC indicates the agency is starting to view this more as a goal or guideline, with actual farebox recovery at 28.4 percent in fiscal year 2006.\(^\text{48}\)

Fare Increase History and Introduction of Annual Fare Adjustments
Prior to 1990, there had been no fare increase for transit service since RTC’s inception. Between 1990 and 2003, the agency raised fares four times:

- January 1990: Cash fares increased to $.75 (25%), and monthly passes increased from $24 to $27 (12.5%)
- August 1993: Cash fares increased to $1.00 (33%), and monthly passes increased from $27 to $32 (18.5%)
- August 1997: Cash fares increased to $1.25 (25%), and monthly passes increased from $32 to $40 (25%)
- February 2003: Cash fares increased to $1.50 (20%), and monthly passes increased from $40 to $60 (50%)\(^\text{49}\)

After the 2003 fare increases, a survey assessed customer preferences as to the tradeoffs between the magnitude and frequency of fare increases. The results, particularly among monthly pass-holders, indicated a preference for smaller, more regular fare increases over larger, less frequent increases.\(^\text{50}\)

Based on this customer feedback, RTC introduced annual fare adjustments, beginning in August 2005, to increase fares annually to keep pace with inflation. The effective date was scheduled to coincide with the date of annual service changes each year.

RTC’s fare policy articulates four goals for the fare structure:

- Ensure the availability of affordable public transportation;
- Provide for equity among public transportation services and passenger categories;
- Provide a strong incentive for transit use to combat region-wide congestion, air pollution, and fuel consumption; and,
• Achieve the RTC performance standards for farebox recovery to offset system operating costs.\textsuperscript{51}

The RTC Board has provided the following guidance for the annual fare adjustments:

• Ensure passenger fares rise with operating costs;
• Maintain equity between fare categories and services;
• Develop future ridership;
• Decrease boarding time; and,
• Simplify the fare structure. \textsuperscript{52}

As formalized in “RTC Public Transportation Fare Policy P-12” which is included as Appendix F, the policy requires RTC to conduct an annual review of the fare structure and make adjustments, as necessary, to ensure fare revenues keep pace with increases to operating costs.\textsuperscript{53} RTC utilizes the Western Urban CPI rolling five-year averages as a point of reference in developing proposed annual increases each year. This is the same index used to adjust the RTC fuel tax rates, a choice that helps ensure that members of the traveling public experience the same rate of increase in transportation costs across all modes.

In August 2005, the result of this analysis was a recommendation to raise fares by 5.56 percent. In August 2006, the result was a recommendation to raise fares by 2.62 percent. Ideally, the rate of adjustment would be the same between all categories of fares. However, changes in ridership patterns, fare rounding requirements (i.e., nearest nickel, dime, or quarter), and overall fare objectives have resulted in varying rates of actual adjustment. For example, since one of the guiding principles is to encourage prepaid fares, typically pass fare prices have increased by slightly less than inflation, while cash fare prices have increased more than inflation. In addition, another important RTC fare objective is to simplify the fixed-route fare structure from three categories – Adult, Youth, and Senior/Disabled – into two broad categories: full fare (Adult) and reduced fare (for Youths and Senior/Disabled). As a result, fare structure proposals have included reducing or freezing youth fares at 2005 levels, as Senior/Disabled fares are gradually brought on par with the Youth fare.

\textbf{Outcomes}

For the 2007-2008 fiscal year (July 1, 2007 through June 30, 2008), RTC adopted cash fares at its May 2007 Board meeting for implementation in August 2007 which reflect a 2.94 percent increase, with lower increases proposed in fares for passes.\textsuperscript{54} The most recent annual Fare Adjustment Open House, held on April 27, 2007 as a public forum for customer information and comments, indicates continued strong customer support for RTC’s policy of increasing fares annually. When asked questions about how fares should be adjusted in the future, 56 percent agreed with adjusting fares to keep pace with inflation (compared with 21 percent who disagreed) and 62 percent agreed with adjusting fares to keep pace with increasing transportation costs (compared with 16 percent who disagreed) even though the survey question made clear that increases based on transportation costs would be greater than increases based on inflation.

\textbf{RTD – Regional Transportation District}

\textbf{Denver, Colorado}

The Regional Transportation District (RTD) has been in existence since July 1969. The Colorado State Assembly created RTD as a political subdivision of the State “to develop, maintain, and operate a public mass transportation system for the benefit of the inhabitants of the District,” with the District roughly corresponding to the Denver-Boulder metropolitan area. Since 1983, RTD has been governed by a fifteen-member District Board of directors, elected to serve four-year terms by the constituents of each district (which all have roughly the same number of voters). The District Board is responsible for setting District Policy, overseeing the agency’s annual budget, and establishing short- and long-range transit goals and plans in concert with local, state, and federal agencies.

\textsuperscript{51} Attachment A to RTC Board Agenda Item 6(b), June 15, 2007 as provided by Roger Hanson.
\textsuperscript{52} Agenda Item 5 (b), August 27, 2006, Public Transportation Fare Adjustments, April 21, 2006.
\textsuperscript{53} Attachment A to RTC Board Agenda Item 6(b).
\textsuperscript{54} Roger Hanson, RTC, personal communication, June 15, 2007.
RTD operates local, regional, and airport bus service; a free downtown Mall shuttle; light rail; and vanpools and access-a-Ride programs which collectively represented 294,791 boardings on an average weekday in 2006.

**Farebox Recovery and Other Funding Sources**

The Board of Directors is depicted in RTD’s organization chart as reporting to “Taxpayers and Customers,” symbolizing RTD’s two primary funding sources: sales tax collected by the State of Colorado and fare revenue.55

RTD’s ability to raise fares and collect revenues is constrained by several statutory provisions, most notably:

- Senate Bill 154 which requires that the District fund 30 percent of all expenditures through non-sales tax revenues;56
- A 1992 amendment to the state constitution providing a Taxpayer Bill of Rights (TABOR) which limits the revenue raising and spending abilities of state and local governments, stipulating allowable annual increases tied to inflation and local growth in construction valuation. If revenue growth exceeds the allowable amount, it has to be rebated to the public.57

RTD measures and reports two different operating cost ratios; the SB 154 Cost Recovery ratio and an internal Operating Cost Recovery Ratio, which uses a more restrictive definition of revenues and is targeted to be 20 percent each year.58

**Fare Increase History and Experience with Regular Increases**

Fare-setting is handled by RTD as part of the annual budget process. A public hearing is required on each year’s proposed budget, but there is also a separate fare increase hearing based on agency policy and FTA requirements. In addition, RTD’s Marketing Department has two customer service panels (one for bus and one for light rail) that the agency uses as sounding boards for service and fare changes.

Prior to March 2002, fare increases were infrequent; July 1997 was the agency’s only fare increase since 1989. That fare increase was made possible, in part, by District constituents granting RTD a ten-year waiver (beginning in 1995) from revenue growth limitations imposed by TABOR. In 1999, the voters of the District further exempted the District from the TABOR revenue and spending limitations for the purpose of paying any debt incurred to finance the agency’s Southeast Corridor light rail project or to operate such project for as long as any debt remains outstanding, but in no event beyond December 31, 2026.59

In March 2002, in order to counteract shrinking sales tax receipts resulting from the region’s recessionary conditions, RTD implemented a fare increase and restructuring, aimed at simplifying fare structures. Planned as the first phase of a four-year series of fare increases, RTD sought to avoid having to impose onerous increases in a single year. However, in 2004, RTD accelerated the final phase of the four-year series of fare increases and restructured its Eco Pass fare program (providing annual passes purchased by employers),60 so the planned four-year series of increases was actually implemented in three years, as shown in Table 3.

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55 RTD’s “2006 Adopted Budget” notes that the “Base Sales Tax” collected by the State of Colorado increased from 0.6 percent to 1.0 percent on January 1, 2005, with all resulting incremental sales tax revenue used for funding the FasTracks transit expansion program.
56 Per personal communication with Joe Smith, RTD Director of Finance, on March 28, 2007, all expenditures include depreciation, and exclude ADA costs and anything associated with development of mass transit or infrastructure depreciation.
60 Eco Pass is an annual employee pass purchased by employers, valid for one year of unlimited service on buses, Light Rail, and Call n’Ride service. This annual program was introduced in the early 1990s to encourage transit use. Employers purchase these annual transit passes for all employees at a fixed price based on the workplace location and number of employees.
Table 3. RTD Fares and % Change, 2002-2004

<table>
<thead>
<tr>
<th>Type of Service</th>
<th>One Way Adult Cash Fares (% Change from Previous Fare)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Aug 01</td>
</tr>
<tr>
<td>Local off peak</td>
<td>$0.75</td>
</tr>
<tr>
<td></td>
<td>(46.7%)</td>
</tr>
<tr>
<td>Local peak</td>
<td>$1.25</td>
</tr>
<tr>
<td></td>
<td>(-12%)</td>
</tr>
<tr>
<td>Express</td>
<td>$2.00</td>
</tr>
<tr>
<td></td>
<td>(25%)</td>
</tr>
<tr>
<td>Regional</td>
<td>$3.00</td>
</tr>
<tr>
<td></td>
<td>(16.7%)</td>
</tr>
</tbody>
</table>

The District’s annual farebox revenues increased from $46.77 million in 2001 to $55.44 million in 2004. Annual revenue boardings decreased from 65.52 million in 2001 to 64.72 million in 2004. The District however attributes the decrease in boardings to the erosion of the local economy rather than to the fare increase.

In January 2006, RTD implemented a fare increase of 20 percent on its local, express, and regional services and 10 percent on its Eco Pass program, to cover the cost increase in diesel fuel. Currently, RTD has a 6-year Transit Development Plan which programs a fare increase every three years. The magnitude of the increase is based on the change in CPI in the Denver-Boulder metro area. Typically, RTD tries to keep fares user-friendly by making increases in 25-cent increments, which corresponds to the value of tokens used as one method of payment. RTD plans an increase every three years because the agency believes that more frequent but smaller (less than 25 cents) increases would not be cost effective or desirable given the cost of outreach and “political pushback.” However, should an annually-conducted internal review or extraordinary events indicate the need for additional fare increases, the Board has the flexibility to propose non-programmed increases more often.

RTD anticipates no fare increase before the January 2009 programmed increase. At that time, it may also change the pricing of its Eco Pass program, based on an upcoming effort to obtain better data on usage so that the program can be priced more appropriately.

Transport for London (TfL)
London, United Kingdom
Transport for London (TfL) was created by the United Kingdom’s National Government in 2000, as part of the devolution of power over London transport to the local level, designating the newly created position of Mayor of London as the key figure. TfL is a functional body of the Greater London Authority and includes 12 different operating or holding companies. TfL operates the Underground (subway) and Light Railway. TfL sets fares for but does not actually operate buses, Croydon Tramlink, and London River Services. It jointly sets fares on TravelCard with seven to eight private railway companies (negotiating through an association to do so) but service is provided by those private companies. TfL also operates Victoria Coach Station and London’s Transport Museum, and is responsible for London’s roads, traffic lights, the central London Congestion Charging scheme (“a courageous Mayoral policy”), taxis, private hire trade, promotion of walking and cycling initiatives, and coordination of transport schemes for users with impaired mobility. Thus, TfL is the integrated body responsible for managing London’s transport system and for

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implementing the Mayor of London’s Transport Strategy. As articulated in TfL’s 2007 Business Plan, that strategy has included stimulating modal shifts from private car usage to public transport; combating decades of under-investment with substantial improvements in London’s transport infrastructure; advancing major capital projects to increase network capacity; improving security and accessibility; and making London “cleaner, greener and safer.”

Farebox Recovery and Other Funding Sources
In July 2004, TfL reached a “groundbreaking” five-year funding settlement with the National Government, enabling 10 billion pounds to be invested in London’s transport infrastructure over time until March 2010. This same agreement allowed TfL (for the first time) to borrow from financial markets to provide support for its five-year plan. Although there is no formal policy or requirement for farebox recovery, recent financial ratings reports indicate that fares provide 41 percent of all revenues and that “about one-half of TfL’s funding comes from the U.K. government.” The five-year Business Plan includes a general target for fare levels to continue to reflect “modest increases in real fares.” Such increases are seen as an essential element of the agency’s ability to deliver its ambitious Business Plan for capital investment and service improvements.

Although TfL’s broad transportation mission provides important context for its ongoing program of regular fare increases, it should be noted that regular increases on both the Underground and buses actually pre-dated TfL by almost two decades. Since the mid-1980s, fares have been raised “annually and generally a little over the inflation rate” in order to keep pace with rising costs. This practice has continued for bus and Underground fares under TfL at the Mayor’s direction, and on commuter rail operations in accordance with longstanding agreements with private national railway companies which provide for annual increases on peak period fares. The annual fare increases are implemented on the first Sunday of each calendar year.

TfL’s fare increase strategy has also included changing relative prices between modes of public transport. The Mayor was elected on a platform of improving bus service, so for several years after 2000 some bus fares were frozen or reduced as service improvements were being made. As a result, the deficit widened and there were three years of higher fare increases on buses to narrow the budget gap and restore relative prices between bus and subway. Specifically, bus fares increased on the basis of the Retail Price Index (RPI) plus 10 percent for two years, and by RPI plus 3.85 percent in 2007, as compared to Underground fare increases of RPI plus 1 percent for Underground in 2005-2007.

Decisions regarding actual increases have also included ensuring that relative prices of bus and Underground fares vis a vis driving (and congestion charge) do not create disincentives to use public transit. Finally, the fare increases are designed to promote increased use of the Oyster Card, a smart card which offers daily price capping and the lowest travel price available.

Outcomes
It is clear that the Mayor of London sets TfL’s agenda. He has the power to set the budget, appoint and chair the 12-member Board, direct actions of TfL, and set fares. Fare increases are included in the Budget submitted annually by the Mayor, but only reviewed afterwards by the London’s General Assembly so there is always “some tension there.” Observations made in the report of London’s General Assembly Budget Committee hearings on Tube and bus fares conducted in September 2006 include the following:

- Decisions on fares are the Mayor’s alone.

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67 This timeframe coincides with the time at which London Transport began reporting to the National Government rather than to London’s political body, based on personal communication, Malcolm Fairhurst, May 3, 2007.
69 Malcolm Fairhurst, TfL, personal communication, May 3, 2007
Since 2004 Tube and bus fares have increased year-on-year in real terms and they are set to increase further. For Londoners on low incomes higher cash fares could mean public transport becomes unaffordable.71

There is no annual consultation on fare changes…. The Mayor does consult on his budget, of which fares income is an important element, but the consultation takes place in December, after the Mayor has announced his fare changes. There should be an opportunity to comment on fare changes with the Mayor undertaking proper annual consultation that includes setting out the reasons for proposed fare changes and the anticipated outcomes. There could be an annual public meeting of the TfL Board about fares at which stakeholders can give views. There should also be greater clarity on the objectives that guide annual fare changes with the Mayor publishing an up-to-date long-term fares strategy. In the future external funding pressures may require the Mayor to increase fares beyond the levels so far announced. Londoners should be able to have a say on such developments.72

No changes in process have been made as a result of these 2006 hearings, but TfL indicates the following opportunities for public input:

- The Mayor holds Question Time approximately every six months for public to meet and air concerns about any issues. Transport is certainly one topic and within transport, fares are sometimes raised as an area of concern.
- Informally, TfL consults with London TravelWatch which functions as a Consumer's Council on proposed fare changes, as well as on service-related issues.

TfL also notes that the recent larger increases in bus fares have been generally accepted by riders because they had gone down or been frozen while service improvements were made. The Mayor is a “full time politician” and has taken the lead in promoting his Transport Strategy, and communicating a strong, positive message, focusing on the investments and service improvements made possible by the fare increases, with the result being that the public accepts the increases albeit “with resignation.”73

On a related but separate issue, the Budget Committee hearings “sought to identify how Londoners on low incomes are taking up the cheapest fares available via Oyster cards” and to “look at what can be done to make Oyster both financially and practically a feasible option for them.”74 The hearings concluded that:

There is some evidence that the take up of pay-as-you go Oyster cards amongst Londoners on low incomes is less than amongst higher earners. There is not enough information to draw an immediate conclusion on the implications of this low take up. … [T]here should be more research into this area to obtain better data about which people…on low wages are not using Oyster cards, what this means for them financially and what might be the barriers to take up…. Whilst it might not be possible to differentiate fares on the basis of people’s incomes, more could be done to increase the take up of pay-as-you go Oyster cards. This could include removing the Oyster card deposit and giving free Oyster cards to socially excluded groups.”75

TfL acknowledges there is “an element of truth” with these concerns, but believes that these issues have been more a matter of political debate than views expressed by individual customers at the grassroots level.76

With a recent increase in the inflation rate in England, the agency acknowledges that the “climate of public opinion may change.” Further, with the significant growth in ridership in recent years (resulting from the service improvements and congestion charge), and associated increases in fare revenue, the agency is internally reconsidering whether above-inflation increases will continue to be needed in the future.

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72 Ibid., pp. 2-3.
75 Ibid., p. 2
However, TfL continues to be generally comfortable with the concept of annual increases in fares to parallel increases in earnings. In the words of one TfL representative: “It’s worked for us to have a framework of regular increases. It makes it easier to plan by removing one degree of uncertainty from the process.”

TriMet – Tri-County Metropolitan District of Oregon

The Tri-County Metropolitan Transportation District of Oregon (TriMet) is a municipal corporation of the State of Oregon, with broad powers to provide mass transportation on behalf of the 575-square mile district that encompasses the three-county Portland metropolitan area. It was created in 1969 by a Portland City Council resolution to take over the local bus systems previously run by Rose City Transit Company and to provide regional transit service. Since its creation, TriMet’s transit operations have grown to include bus, streetcar, and commuter/light rail. TriMet functions as a quasi-independent organization bound by Oregon law, and overseen by a seven-member Board of Directors appointed by the Governor. Board members must represent and live in certain geographical districts, and each member serves a four-year term.

Farebox Recovery and Other Funding Sources

Under TriMet’s enabling legislation (ORS 267), the agency has the legal authority to issue general obligation and revenue bonds, collect employer payroll tax, and set fares. Passenger/fare revenue provides approximately 25 percent of funding for the system cost and employer payroll and self-employment taxes provide most of the remaining 75 percent. Hearing requirements for fare increases are defined by Ordinance in the TriMet Legal Code. Before approving a fare increase, the Board must have two readings of the proposed Ordinance. The Board meetings also serve as public hearings.

Fare Increase History and Practices

Dating back to 1988, TriMet has had a practice of "small, frequent increases that generally keep pace with inflation and the cost of providing service." From 1988 to approximately 1998, nickel fare increases were implemented every two years. Around 1998, the increase of only five cents every two years was no longer sufficient to keep the agency “even with the increased cost of providing service” so shifting to increases every year was needed to “help keep up.” Whether fare increases have occurred every two years or annually, the agency’s practice of regular increases reflects a belief that there is less of an impact on ridership with smaller fare increases.

There is no standard formula or specific index used in setting fare increases each year. The size of the fare increase is pegged to the increase in total costs in TriMet’s annual budget proposal, though the agency does consider the CPI and its targeted 25 percent farebox recovery ratio in settling on proposed fare increases each year. Generally fare increases coincide with service/route changes in September of each year so that all customer materials can incorporate new information at the same time on an annual cycle. In practice, all fares have continued to rise by about a nickel (though on an annual basis now, rather than every two years); rounding to the nearest nickel results in differing percentage increases, but on average represents a two to three percent change.

Diesel Cost Impact on Fare Increases. From 1998 through the September 2004 fare increase, TriMet’s practice of annual increases was sufficient to keep pace with the cost of providing service. However, between 2002 and 2005, Tri Met saw “its price of diesel fuel increase by more than 200 percent.” Since diesel fuel is required to transport nearly three-quarters of the agency’s 300,000 average weekday trips, the agency reacted to the sharp increase in fuel increases by raising fares a second time within a year, by another 5 cents in April 2005. Thereafter, the agency approved a formal Diesel Cost Response Policy (see Appendix G) that linked the potential for fare increases to the actual cost of diesel exceeding TriMet’s budgeted diesel costs.

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75 Ibid.
81 Internal TriMet Memorandum to Board of Directors dated September 28, 2005, Subject: Resolution 05-09-71 of the Tri County Metropolitan Transportation District of Oregon (TRIMET) Adopting a Diesel Cost Response Policy.
In seeking Board Approval for the policy, an internal memo notes that:

The Diesel Cost Response Policy...provides a procedural framework for informing the Board about increasing costs of diesel fuel and developing a plan to address a budget shortfall caused by increasing costs, which would provide the Board with timely information it needs to take action to ensure that TriMet remains fiscally sound. The purpose of this...Policy is to outline a procedure for TriMet to follow when increasing diesel fuel costs create a material shortfall in TriMet’s operating budget. When a shortfall occurs related to diesel fuel costs, the General Manager shall both inform the Board of Directors and develop a corrective action plan to include fare increases that will address a budget shortfall caused by higher diesel fuel prices.  

Specifically, the policy requires that the agency report to the Board if diesel prices are or are expected to be more than ten percent over the budgeted price for two consecutive months. Although fare increases are not mandated or automatic in such an event, fare increases are one of the measures the Board can take to address the budget shortfall. Under this policy, TriMet raised fares by 15 cents in January 2006, exclusively to cover diesel price increases. Since that time, diesel price increases have moderated such that no further additional increases have been triggered. TriMet is optimistic that it can hold to just the annual 5-cent increase in the near term. The regular increase in September 2006 and the one proposed for September 2007 are related to the cost of service.

**Outcomes**

Ridership has been growing steadily, averaging 2.4 percent annual growth between 2001 and 2006. Results of the TriMet Attitude and Awareness Survey conducted in 2004 suggest that customer acceptance of TriMet’s regular fare increases is high:

- 86% of all riders rate the agency as good or excellent;
- 94% of all riders are somewhat or very satisfied with their overall transit experience; and,
- 92% of all riders will probably or definitely recommend TriMet to friends/family.

**WSF – Washington State Ferries**

Seattle, Washington

Washington State Ferries (WSF) has been in existence since 1951 when the state bought out privately held Puget Sound Navigation. In 1977, WSF became part of Washington State Department of Transportation (WSDOT), with WSF’s Director/CEO reporting directly to the state’s Secretary of Transportation. The Secretary of Transportation reports directly to the Governor. The change of WSDOT’s reporting structure as a Governor’s cabinet agency instead of reporting to the Washington State Transportation Commission (WSTC) took effect in 2005.

WSF operates ten ferry routes in the Seattle area, carrying both passenger and vehicle traffic. In fiscal year 2005, WSF had 23.9 million riders. Forty-five percent were vehicle drivers and 25 percent were walk-on passengers, the remaining 30 percent are passengers in vehicles. WSF ridership includes commuters, other local residents, and tourists. A number of routes serve island residents commuting to work in downtown Seattle, representing the only public transit option for these customers. Forty-two percent of WSF’s riders use some sort of commuter or monthly pass fare media; the tourist market share varies by season and route.

**Farebox Recovery and Other Funding Sources**

Throughout the 1990s, fares supported 60 percent of WSF’s operating costs, with the state of Washington funding the remaining 40 percent from a variety of state taxes and fees. With car and driver

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82 Internal TriMet Memorandum to Board of Directors dated September 28.
84 Tri Met Customer Profile as accessed June 18, 2007 at http://www.trimet.org/pdfs/publications/customer_profile_may05.pdf
fares generally 3.5 times higher than passenger-only ferry fares, the most significant source of farebox revenue is vehicle tariffs, accounting for 75 percent of all farebox revenues.87

Fare Increase and Financing History
Multiple entities play a role in WSF fare policies. The Washington State Transportation Commission (WSTC) has the authority for tolls on a statewide basis, and for raising or lowering fares (referred to as tariffs). WSF is legally mandated to review its need for tariff adjustments every year, and fares are then modified through the Code Reviser Process, which has requirements for pre-proposal and proposal filing sequences and dates, and requires at least one public hearing. The state legislature has also required that public involvement must be part of any major tariff or service change, which may include public meetings, consulting with the 14 Ferry Advisory Committees, or a survey. Finally, a Tariff Policy Committee has also been involved in the fare increase process through the 2007 tariff cycle. Historically, this 20-member group of ferry users, transit providers, and legislators (formed 16 years ago) assisted the WSTC in meeting its legislatively mandated obligations to consult with affected ferry users on substantive changes in service and revisions to fares by providing more detailed analysis of proposed tariff changes and policies. As the Tariff Policy Committee included elected officials, it was difficult to separate the legislature from independent tariff decisions by the WSTC.88 The net result has been a complex, highly dynamic, and often politically charged environment. In light of the changing relationship stemming from the overall WSDOT reporting directly to the Governor as a cabinet agency instead of to the Transportation Commission, the Commission decided to disband the Tariff Policy Committee subsequent to the 2007 tariff cycle.

Through the 2007 tariff cycle, WSTC had the legislative mandate and broad direction to consider the following factors in reviewing tariffs on an annual basis, which guided the setting of WSF’s fares through May 2007:89

1. The amount of subsidy available to the ferry system for maintenance and operation.
2. The time and distance of ferry runs.
3. The maintenance and operation costs for ferry runs with a proper adjustment for higher costs of operating outmoded or less efficient equipment.
4. The efficient distribution of traffic between cross-sound routes.
5. The desirability of reasonable rates for persons using the ferry system to commute daily to work and other frequent users who live in ferry-dependent communities.
6. The effect of proposed fares in increasing walk-on and vehicular passage use.
7. The effect of proposed fares in promoting all types of ferry use during non-peak periods.
8. The estimated revenues that are projected to be earned by the ferry system from commercial advertisements, parking, contracts, leases, and other sources.
9. The pre-purchase of multiple fares, whether for a single rider or multiple riders.
10. Such other factors as prudent managers of a major system would consider (RCW 47.60.326)

Responses to Fiscal Crisis
WSF has experienced a series of financial crises in recent years, beginning in 1999 with the state voters’ approval of Initiative 695 which repealed the Motor Vehicle Excise Tax (MVET). Although this initiative was later declared unconstitutional by the state Supreme Court, the Legislature separately enacted and preserved its provisions, significantly reducing revenues available as a funding source for the ferry system.90 WSF estimated that “The cost to the ferry system [was] approximately 25 percent of the Operating budget ($31 million) and virtually all of the Capital budget ($120 million).”91

In response to the loss of dedicated state tax sources, the legislature commissioned a Joint Task Force on Ferries which recommended in 2001 that WSF increase its target for system-wide farebox recovery (pegged at the 60 percent level during the 1990s) to 80 percent. This recommendation, while not formally adopted by the whole legislature, provided some guidance to WSF and the Transportation Commission,

88 Ibid., p. 53.
89 The list of factors is included as documented in Washington State Ferries Financing Study Final Report, p. 47.
so fares were increased substantially in the early part of this decade. Annual increases on the base Central Puget Sound routes resulted in a cumulative fare increase of 75 percent over a five year period.92 The farebox recovery reached as high as 78 percent in FY 2004, but has since dropped to about 73-74 percent due to the high price of fuel.93

The annual increases have been implemented on May 1, the beginning of the peak season, when peak season surcharges apply to non-frequent users. Beginning in 2001, WSF also began to phase in distance-based Tariff Route Equity as part of the annual fare increase process. Under the concept of Tariff Route Equity, users should share equally in covering the fixed costs of ferry system operation and contribute proportionally for vessel space and time, and not based on the farebox recovery of any particular route. Rates are set for the Central Puget Sound routes, rounded to the nearest nickel, and then applied on a percentage basis to the other routes. However, given the differences in travel sheds served by WSF (including the fact that three of the travel sheds are heavily dependent on tourists with a limited or non-existent commuter base while commuters are the core of riders in the Central Puget Sound), Tariff Route Equity is adjusted for travel shed considerations. In practice, this is one of the reasons for rates being lower on some routes than what they would be if based on distance/length alone. Other factors include one-way/two-way traffic patterns on certain routes, utilization during off peak, multi-stop inefficiencies, and varying efficiencies of vessels assigned to different routes.94

The result is that actual farebox recovery rates range from a low of 23 percent on the Vashon-Seattle passenger-only ferry service to a high of 111 percent on the Seattle-Bainbridge route.95 The magnitude of proposed fare increases each year is based on a review of WSF’s operating costs, ridership, and revenues. With the phasing in of the distance-based formulas under Tariff Route Equity, fares on some routes have increased more than on others. For example, while the base Central Puget Sound route fares went up 75 percent, fares on some routes went up as little as 35 percent while some fares increased by over 100 percent.96

The transition to annual tariff adjustments has meant much more frequent increases in fares; in the 1990s, fares were increased only three times during the decade: in 1994 (by an average of 3 percent); in 1998 (by an average of 3 percent); and in 1999 (by an average of 2.3 percent). In an effort to minimize the magnitude of required fare increases, WSF did make some service reductions,97 reduce costs, and attempt to generate new revenues.98 However, ferry riders understood there was little WSF could do to avoid imposing the larger and more frequent increases begun in 2001 in the context of the recognized fiscal crisis and the clear need to generate more revenue. Although not necessarily related solely to the fare increases, ridership declined by 10 percent.99

The state of Washington has also made efforts to narrow the funding gap by increasing the gas tax by 5 cents in 2003 (authorizing part of the incremental funds to provide $300 million for vessel and terminal construction activities for the ferry system).100 Nevertheless, the ferry system remains at “an important financial crossroads,” with active ongoing debate about funding its operating and capital needs.101

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92 Ray Deardorf, WSF Planning Director, personal communication, June 7, 2007.
96 Ray Deardorf, WSF, personal communication, June 7, 2007.
97 According to WSF’s Two-Year Operations Report 1999-2001, after extensive deliberations the 2000 Legislature settled on an $11 million annual reduction to WSF’s operating program, including $6 million in annual, systemwide service reductions which were substantially less than the $16 million in annual service cuts included in the “Bare Bones” budget proposed by WSF. The Bare Bones budget was one element of the agency’s “Response to Financial Instability” in the report referenced herein.
98 According to page 21 of the WSF Progress Report for July 1, 2001 – June 30, 2003, to meet the agency’s new Strategic Plan unveiled in the fall of 2002, WSF developed the 5+5+5 Business Plan which made the ferry system responsible for reducing costs by 5%, capping ferry fare increases at 5%, and generating 5% in new revenues with a comprehensive retail, marketing, and advertising program.
Recent Developments, Current Status, and Outlook

As customers began to experience “fare fatigue” from the large cumulative increases, the annual increases have been less and less accepted and alternatives are being explored. The Washington State Legislature is treating the ferry funding situation as “a three-legged stool, with the legs being expenses (including service levels), state taxes, and fare revenues.” Overseen by a Ferry Finance Advisory Committee, the Legislature’s Joint Transportation Committee recently completed a Ferries Financing Study, undertaken to “respond in a concise and meaningful way to legislative direction for a review of the financial needs of the Washington State Ferries system.” The final report, released in January 2007, was intended to provide the basis for

...the Joint Transportation Committee to take the next steps leading to a viable, clearly understood and broadly acceptable funding plan for WSF. That will involve further examination of the study’s findings along with new thinking regarding a more robust combination of tax support and user fees (fares) to provide sufficient and more predictable source of financial support.”

The study recognized the stark fiscal challenges, including WSF management’s limited ability to control operating costs in the context of 80 percent of expenses being attributable to fuel and labor costs and the inherently high fixed costs of operations given Coast Guard and union staffing requirements which do not vary with passenger levels.

In the meantime, the report recommended “so as not to forego any added revenues that will result from a fare increase before the peak summer traffic season, the legislature should endorse an interim ‘business as usual’ process that would lead to a tariff adjustment to become effective on 01 May, 2007.” WSF conducted the usual fare adjustment process, with the 4 percent increase proposed on most fares for May 1, 2007 being scaled back to a 2.5 percent increase “based upon comments from ferry users, who were quite vocal over the effects rising ferry fares have on their communities.”

Beyond 2007, the Ferries Financing Study recommended that the legislative planning assumption of continued 2.5 percent across-the-board annual fare increases not be automatically adopted if that level of fare increase is found to result in further fiscal harm to WSF’s funding and reserves. It recommended “data-driven decision making” in evaluating “more fundamental structural changes to the tariff – such as altering the relationship between vehicle and passenger fares or introducing “value pricing” or demand-related fares” and advocated “a more thorough, clean-slate consideration of tariff structures and levels, focusing on long-term system revenue requirements and questions of ‘who plays what.’” Recognizing that such fundamental reconsideration of fare structures might run counter to the established policy of Tariff Route Equity if it is suggested that some user groups pay more relative to others, the study noted that “only with legislative support can WSF expect to successfully implement such changes.”

Based on the Ferries Financing Study findings, the Washington State Legislature passed a bill on April 20, 2007 requiring WSF to “adopt adaptive management practices in its operating and capital programs so as to keep the costs of the Washington state ferries system as low as possible while continuously improving the quality and timeliness of service.” (A copy of the complete bill is included as Appendix H.) Calling for a continuation of annually reviewing WSF fares and pricing policies, the bill requires a “survey to gather data on ferry users to help inform level of service, operational, pricing, planning, and investment decisions”, with such surveys being updated at least every two years to “support the development of

104 Ibid.
105 Ibid.
106 Ibid.
110 Engrossed Substitute House Bill 2358 As Amended by the Senate, passed 2007 Regular Session of the 60th Legislature of the State of Washington, April 20, 2007 Sec 1.
adaptive management of ferry services. Based on the initial survey, input from public hearings, and review with affected Ferry Advisory Committees, beginning in 2008, WSF is required by the bill to develop fare and pricing policy proposals for fare increases to be implemented no sooner than September 1, 2009. The bill requires that WSF fare and pricing proposals must

- Recognize that each travel shed is unique, and might not have the same farebox recovery rate and the same pricing policies
- Generate the amount of revenue required by the biennial transportation budget
- Consider the impacts on users, capacity, and local communities
- Keep fare schedules as simple as possible
- Consider options for using pricing to level vehicle peak demand
- Consider options for using pricing to increase off-peak ridership

The bill calls for WSF to report annually to the state’s Transportation Commission with a review of fares and pricing policies and recommendations for revised fares in the ensuing year. The bill provides that fares could be effective for more or less than one year for the purposes of transitioning to fare schedules being implemented in the future on September 1 versus May 1 of each year. Further, the bill explicitly allows for the commission to increase ferry fares “by a percentage that exceeds the fiscal growth factor.”

In addition to being governed by the revised legislative guidance, future fare increases will be implemented in the context of an electronic fare system, currently in the process of being installed, that will be integrated with a regional SmartCard fare collection program among seven transit providers in the Seattle area. Thus, fare policy will increasingly not be able to be considered on an agency-specific basis, further complicating the environment within which WSF operates.

MTA Metro-North Railroad
New York Metropolitan Region

MTA Metro-North runs three commuter rail lines in the New York City metropolitan area, through parts of Westchester County and into other New York counties (the Harlem and Hudson Lines) or through to New Haven, Connecticut (the New Haven Line). During the 1990s, there were regular annual increases for riders on the Metro-North New Haven Line boarding at Connecticut stations. However, after two or three of these increases, the cumulative increase resulted in those riders paying significantly higher fares than New York riders traveling the same distances on the other lines. Political pressure within Connecticut, combined with New York’s decision not to implement the same type of fare increases, resulted in Connecticut discontinuing this fare increase policy.

NJ Transit
New Jersey

NJ Transit proposed a multi-year fare policy initiative featuring an initial 10 percent fare increase in 2002, to be followed by proposed annual increases based on an inflation index over the following five fiscal years. At the time of its proposal, NJ Transit found a policy of regular increases to be appealing since it relies on the state of New Jersey for approximately half its funding, leaving the agency open to the uncertainties of political priorities in each year’s budget appropriations process. The fare policy initiative, approved by the Board on January 7, 2002, was developed as one of the steps to close a projected $3.1 billion operating and capital budget gap identified in the agency’s “Call to Action” five-year strategic plan. However, NJ Transit did not implement the initially proposed initiative for fare increases beyond 2002, continuing instead to rely on the state legislature to provide sufficient funding on an annual basis, compatible with the agency’s budget process. NJ Transit reports that this approach allows the agency to

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110 Engrossed Substitute House Bill 2358 As Amended by the Senate, Sec 4.
111 Ibid., Sec 5.
112 Ibid., Sec 6.
113 Howard Permut, MTA Metro-North, Senior Vice President of Planning, Development, and Procurement, personal communication, November 8, 2006 and June 6, 2007.
“continue a funding partnership between riders and taxpayers, build public trust, and make its case for funding needs” and “develop the basis for long term funding.” NJ Transit notes that it is important for the agency to have “continued, engaged public dialogue to assure the public that there is cost control, public accountability, fiscal responsibility, and shared funding burden.”

Since NJ Transit abandoned its effort to institute annual fare increases, it has increased fares three times: by 10 percent in April, 2002; by 11.5 percent in 2005, and by an average of 9.6 percent in 2007, in marked contrast to the eleven-year gap preceding the agency’s 2002 fare hike. As one means of maximizing public input in its most recent fare increase, the agency encouraged submission of comments electronically. Based on customer input received via website submission, letters, and written testimony at 13 public hearings, the agency modified the final fare increase package to expand off-peak travel, increase travel flexibility, and review transit access to Newark Airport. In addition, the agency appointed a Customer Advocate, reporting directly to the Executive Director, to make ongoing recommendations for customer service improvements.

In retrospect, the agency estimates that fare increases using an inflationary fare increase formula, as initially featured in its multi-year initiative, would not have met their financial needs over the five-year time period. NJ Transit has been able to obtain political approval and public support for greater than inflationary increases. Given the lack of a dedicated revenue stream and its uniqueness as a statewide system, versus one that is locally based and funded, NJ Transit is comfortable with its current approach to fare increases, which “includes the funders in making the policy choices to support and expand a system which has demonstrated economic returns to the state.” Noting that “policy changes may be constrained by having fare increases on a pre-determined frequency using a pre-determined formula,” the agency prefers to retain flexibility in its fare policy decisions.

Triangle Transit Authority
North Carolina
Triangle Transit Authority operates regional bus service in the Research Triangle area of North Carolina. The Board of Trustees for Triangle Transit Authority (TTA) adopted a program in 2005 to increase fares by 25 cents every two years. In the same year, TTA entered into a Triangle Seamless Public Transportation Service Memorandum of Understanding (MOU) with four other transit providers in the region. Noting that each agency’s different pass types and different fare policies are complicated for customers to understand, the five agencies have worked together under the MOU to develop and implement a regional pass, joint transfer, and fare policies. Accordingly, TTA staff recommended that the first increase under the 2005 fare increase policy planned for March 2007, which would have represented a 12.5 percent increase, not be implemented, proposing instead that the Board approve a different set of fare changes on the basis of “creating the opportunity to have a much simpler regional fare structure for the Agency to communicate and for our customers to understand” as part of this joint initiative.

Roughly in parallel, staff recommended that TTA enter into an interlocal agreement to establish a regional bus fare structure and framework for joint decision-making on changes to the regional bus fare structure. The staff recommendation notes:

Since a regional fare structure will only remain simplified if all parties make changes together, the purpose of [the interlocal] agreement is to create a unified bus fare structure

120 Ibid.
121 Laurie Barrett, Triangle Transit Authority, Director of Bus Operations, personal communication, November 21, 2006.
122 Internal Memorandum to TTA Operations & Finance Committee re: Fare Change Recommendation, March 14, 2007.
and to define a process that is responsive to every jurisdiction’s needs while requiring coordinated action to adjust fares.123

As proposed and considered by the TTA Board, the next steps under the interlocal agreement, which remains to be negotiated and executed, include creation of a Regional Fare Committee (RFC) composed of the managers of Raleigh, Durham, and Cary and TTA’s General Manager.124 One of the RFC’s primary responsibilities would be to:

Conduct an annual review of fare policies, prices, and operational procedures, including an assessment of a local fare increase (and corresponding increases in regional, express, and paratransit fares) in Fiscal Year 2009 and every two years thereafter.125

Thus, TTA’s desired policy of regular fare increases is planned to be instituted eventually, but as part of the broadened regional effort. As the staff recommendation notes:

It does change the process for making changes to TTA’s bus fare structure, requiring concurrence from the other parties to the agreement before any such change is made or withdrawal from the agreement. Increases to fares would be considered for FY2009 and every two years thereafter. If this agreement proves too restrictive for TTA in establishing a bus fare structure that allows us to continue to meet our ridership and financial goals, the Board would be able to terminate participation in the agreement with 12 months notice.126

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123 Internal Memorandum to TTA Operations & Finance Committee re: Regional Bus Fare Structure Interlocal Agreement, April 2, 2007.
124 According to the April 2, 2007 Internal Memorandum, the fifth signatory to the MOU, the Town of Chapel Hill, is not included as they operate a fare-free system.
125 Internal Memorandum to TTA Operations & Finance Committee re: Regional Bus Fare Structure Interlocal Agreement, April 2, 2007.
126 Ibid.
Synthesis of Case Study Findings

Table 4 provides key data on programmed fare increases for the nine agencies for which detailed case studies were developed, illustrating both similarities and differences in approach. Additional information obtained from the case study interviews is also included in this section to illustrate four major aspects of transit agencies’ experience in introducing programmed fare increases:

- Reasons for Programmed Fare Increases
- Implementation/Methodology
- Financial Impact
- Challenges and Constraints

Reasons for Programmed Fare Increases
As indicated in Table 4, the reasons for introducing programmed fare increases are varied. Some have been triggered by a financial crisis or other external events. For example, BART was prompted by recessionary conditions in the San Francisco Bay area in the early 2000s to develop a Financial Stability Policy. That policy, in turn, was the foundation for its biennial fare increases. The longstanding practices of LTD, TfL, and TriMet were direct or indirect responses to turmoil in fuel costs some 20 years ago. More recently, WSF’s annual fare increases were triggered by the need to compensate for the loss of a significant dedicated state tax funding source.

Although meeting certain fare recovery goals or requirements may be a stated objective for several agencies’ programmed fare increases, they appear not to have not been the driving factor per se. (See further discussion on this topic under “Financial Impact” below.)

One agency (RTC) actually introduced annual fare increases in response to a customer survey which indicated a preference for smaller, more regular fare increases over larger, less frequent ones.

Regardless of the initial impetus for and varied objectives of the programmed fare increases, the agencies all seem to share a basic philosophy that smaller, more frequent, predictable fare increases that “keep up” with inflation and/or the cost of providing service are preferred over larger, more random, less frequent fare increases that represent a “catch up” approach to fare policy.

Implementation/Methodology
Actual implementation of programmed fare increases varied, in terms of the steps followed and the mechanisms for institutionalizing them. For example, several agencies established formal policies:

- Building on its Financial Stability Policy, BART authorized its “Productivity-Adjusted CPI-Based Fare Increases” in its Board Resolution No. 4885, adopted on May 22, 2003 with a very detailed calculation methodology included as Exhibit A in Appendix B. It has later adopted a more general Fare Policy “to serve as a framework for decision-making that reflects the interconnected areas that fares can influence” (see Appendix C).
- LTD has a very detailed written Fare Policy which articulates five objectives and provides 13 specific guidelines applicable to all recommendations for changes to the fare structure. (See in particular Guidelines 7-9 of Appendix E, which specifically address the process for considering changes in the fare on a yearly basis, and the timing and magnitude for any fare changes implemented.)
- RTC has an internal Management Policy P-12 “Public Transportation Fares” which addresses its ongoing annual fare adjustments (see Appendix F).

Golden Gate Transit and Ferries has spelled out its two Five-Year Transit Programs in Board actions and subsequent ordinances. Others have no formal policy, referring to their regular fare increases more as a matter of practice. For example, TriMet has no explicitly stated policy of regular fare increases, but has

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127 Except where noted otherwise, direct citations in this section are drawn from the individuals quoted in the Case Studies section.
**Table 4. Key Data on Programmed Fare Increases**

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<td>&quot;Productivity-Adjusted CPI-Based Fare Increases&quot;</td>
<td>Based on the agency's newly articulated Financial Stability Policy in the context of &quot;...times of economic change and uncertainty...to make sure [BART's] ability to deliver service rests on a strong and stable financial foundation&quot;</td>
<td>Fare policy under which incremental fare increases are planned each year, but rotated among fare types</td>
<td>Fare increases</td>
<td>Fare restructuring with annual increases as part of phasing in a distance-based fare structure over a 10-year period</td>
<td>Annual fare adjustments</td>
<td>4-year series of fare increases (with 4th year accelerated, so actually implemented over 3 years)</td>
<td>Going forward, modest real increases in fares</td>
<td>More of a practice than a formal policy</td>
<td>More of a practice than a formal policy</td>
<td>Annual fare increases to implement the fare policy component of the WSF Financial Plan</td>
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<td>Two separate Five-Year Transit Fare Programs, FY1999-2003 and FY2006-2011</td>
<td>To meet financial needs and offset declining ridership</td>
<td>Attempt to &quot;catch up&quot; in ability to meet expenses in absence of any prior fare increase since the agency began operations in 1992</td>
<td>Increase fares annually to keep pace with inflation and ensure fare revenues keep pace with increases to operating costs; customer survey indicated preference for smaller, more regular fare increases over larger, less frequent ones</td>
<td>To counteract revenue loss from shrinking sales tax receipts due to depressed economic conditions, following the 10 year waiver of TABOR restrictions with respect to RTD fare revenue growth</td>
<td>Regular increases on bus and Underground have been in place since the mid-1980s. Since TIL's existence, part of Mayor's Transport Strategy to generate revenues to support the Business Plan.</td>
<td>Trying to keep up with the cost of providing service</td>
<td>To compensate for the loss of dedicated state tax resources in 1999/2000 (with voter approval of Initiative 695) and associated legislative Joint Task Force on Ferries' 2001 recommendation to increase farebox recovery from 60% to 80%</td>
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<td>Every 2 years through 2012; implemented on January 1</td>
<td>Board Resolution No. 4685 Adopted May 22, 2003</td>
<td>Board action and ordinance</td>
<td>Written Fare Policy document</td>
<td>Board Item 4 dated May 6, 1998 &quot;Proposed Metrolink Fare Adjustment&quot;</td>
<td>Board Agenda Items for each fiscal year's Public Transportation Fare Adjustments (beginning with FY 2006) and the internal RTC Management Policy P-12 &quot;Public Transportation Fares&quot;</td>
<td>Appears to be Board action</td>
<td>Included in 5-year Business Plan and annual budget</td>
<td>No explicitly stated policies for annual increases but there is a formal Diesel Cost Response Policy and Corrective Action Plan (see Other Items of Interest with respect to Fares below)</td>
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<td>Every year, effective July 1</td>
<td>Approximately every 2 years (October 1, 1998; July 1, 2000; July 1, 2002)</td>
<td>Planned to be each year, preferably on July 1 or September 1, but rotated among fare types</td>
<td>Every year in August</td>
<td>Increases are programmed every three years in January but if annual review identifies higher inflation than projected in increases or extraordinary events, RTD has flexibility to increase fares more often</td>
<td>Every year</td>
<td>On the first Sunday of every year</td>
<td>Every other year in September (to coincide with service/route changes)</td>
<td>Every year (has always been on May 1 which coincides with beginning of the peak season but recent legislative direction shifts this to a fall implementation for future increases)</td>
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<td>Every September (to coincide with service/route changes)</td>
<td>Every year</td>
<td>Every year on July 1, beginning in 2004</td>
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<td>Basis for increases</td>
<td>Very explicit formula using average change in CPI based on BOTH National CPI-U and Bay Area CPI-W, less a productivity factor valued at 0.005 (1/2 percent)</td>
<td>In the first Five-Year Program, annual increases were pegged to the change in the Bay Area CPI during the previous year; in the current Five-Year Program, increases are programmed to cover increases in costs (projected at 5% per year)</td>
<td>Based on what was needed to &quot;catch up&quot; on expenses since operations began in 1992</td>
<td>Inflation index based on the Western Urban CPI five-year averages (used as a guideline), which is the same index used to adjust the RTC fuel tax rates</td>
<td>No particular formula but based on need to cover increased expenses after previous fare increases in 1989 and 1997</td>
<td>No particular formula or index; based on growth in agency's expenses tempered by what customers can afford; ultimate objective – to replace zone-based fares on all routes with consistent, equitable distance-based pricing</td>
<td>Retail Price Index plus some percent (e.g. + 10% for buses and + 1% for Underground)</td>
<td>Annual increases over the past six years have strived to increase farebox recovery for the system while balancing affordability concerns</td>
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<td>Magnitude of Increases</td>
<td>3.7% in 2006 (the first year of the policy); 5.4% increase to be implemented in 2008</td>
<td>In the first Five-Year Program, the magnitude ranged from 3 to 5 percent per year with paratransit fare increases capped at half the percent increase of other fares; in the second Five-Year Program, the increase is 5% per year, unless the Board determines actual costs increased by less OR that a greater increase is required to meet financial needs</td>
<td>Has varied significantly (see Table 2)</td>
<td>4%</td>
<td>In 2006, recommended increase was 2.62% but cash fares increased by slightly more than inflation rate and pass/ticket fares increased by slightly less</td>
<td>Unavailable; next programmed increase is in January 2009, after unprogrammed increase in January 2006 related to diesel fuel costs</td>
<td>Has varied (see Basis for Increases) but January 2007 increase was RPI plus 3.85% for buses and RPI + 1% for Underground; planned increases for balance of Business Plan reflect modest increases in real fares</td>
<td>Nickel increases have represented about a 3% increase</td>
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<td>Nickel increases have represented 2-3% increase</td>
<td>WSF has raised fares cumulatively about 75% over the last five years and implemented a 2.5% fare increase effective May 1, 2007. Recent legislative direction &quot;freezes&quot; fares until fall 2008 so further financial analysis can occur.</td>
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<td>Public hearings held?</td>
<td>Not for scheduled increases in 2008, 2010, and 2012; however, prior to the implementation date, the Board reviews and considers the fare structure to consider issues of distribution and equity. Review conducted in Sept. 2005, prior to first biennial increase in Jan. 2006 and for programmed FY2008 fare increase.</td>
<td>Only for each Five-Year Program as a whole, not for each year's increases; however, for the FY2006-2011 program, such hearings are held IF the Board determines that greater than 5% fare increases are required to meet District's financial needs.</td>
<td>Yes, as part of a legislatively-mandated process for approval of amended ordinance which requires fare increase decisions to be made over the course of three Board meetings.</td>
<td>Yes, on each year's proposed budget and separately for fare increases.</td>
<td>Yes, in addition to Open Houses to solicit input on proposed fare adjustments.</td>
<td>Yes, on each year's proposed budget and separately for fare increases.</td>
<td>No, though Mayor consults on his budget with London's General Assembly in December of each year AFTER announcing the fare changes.</td>
<td>Board is required to have two readings of a fare ordinance, which also serve as public hearings.</td>
<td>Board is required to have two readings of a fare ordinance, which also serve as public hearings.</td>
<td>No, though Mayor consults on his budget with London's General Assembly in December of each year AFTER announcing the fare changes.</td>
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<td>Other Items of Interest with Respect to Fares</td>
<td>10-cent capital surcharge implemented in 2006 to contribute to covering capital needs.</td>
<td>After the first Five-Year Transit Fare Program, the District simplified the fare structure and implemented two interim fare increases (in 2004 and 2005) prior to the second Five-Year Transit Fare Program, begun in FY2006.</td>
<td>Annual increases in per capita rates for Group Passes not to exceed the 3-year rolling average of LTD cost increases.</td>
<td>Individual annual fare restructuring is designed with ultimate objective of 10-year phase in of distance-based pricing.</td>
<td>RTC's FY 2005-2009 Short Range Transi Program calls for simplifying the fare structure, from three tiers to two broad categories (full fare and reduced fare).</td>
<td>Restructured fares to simplify.</td>
<td>Introduction of Oyster smart card which offers lowest travel cost and daily price capping to encourage its use as prepaid fare medium.</td>
<td>Phased implementation of distance-based Tariff Route Equity (TRE) begun 2001, almost fully phased in. Base fares increased cumulatively ~ 75% over entire system, but some routes increased as little as 35% and others over 100%. Deployment of Electronic Fare System underway; regional Smart Card program with 6 other regional agencies allows unlimited usage on monthly passes.</td>
<td>Phased implementation of distance-based Tariff Route Equity (TRE) begun 2001, almost fully phased in. Base fares increased cumulatively ~ 75% over entire system, but some routes increased as little as 35% and others over 100%. Deployment of Electronic Fare System underway; regional Smart Card program with 6 other regional agencies allows unlimited usage on monthly passes.</td>
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had a longstanding practice, dating back to the late 1980s, of regular fare adjustments. (As noted in the TriMet Case Study, however, it has a very detailed policy for Diesel Fuel Cost Increases.)

Several agencies include assumptions or statements about regular fare increases in their business plans and/or annual budgets:

- TriMet builds the assumption of the regular fare increase into the budget process.
- RTD’s six-year Transit Development Plan (TDP) includes a fiscal policy statement of having “periodic fare increases to permit fare revenues to keep pace with cost increases” and requires that the Board include future fare increases in the budget as specified in the TDP.
- TfL’s five-year Business Plan includes a general target for fare levels to continue to reflect “modest increases in real fares” and the annual budget sent by the Mayor to the London General Assembly includes the already-announced fare increases scheduled for the first Sunday of each January.

One agency (Metrolink) refers to their current annual increases as a “procedure”, memorializing fare policies and operational practices adopted by the Board in an internal document “Fare Policies and Procedures,” which is periodically updated to reflect any Board-approved change in fares. (Appendix I provides the most recent update of this Metrolink document.) Metrolink has also built in the assumption of its programmed increases in its Draft Strategic Assessment.

Finally, in the ongoing discussions of WSF’s financial condition, WSF’s tariff policies have been under review and legislation adopted in the 2007 session has replaced the applicable state legal requirements detailed in the Case Studies section by amending the Revised Code of Washington. However, the basic requirement for reviewing tariffs on an annual basis and involvement of multiple entities will continue, but with a legislatively imposed moratorium on further fare increases until September 2009.

Agencies also varied with respect to the methodology for calculating proposed increases and how they balanced a structured approach with the need for some flexibility. Three of the nine agencies interviewed utilize very specific price indices as the basis for regular fare increases:

- BART uses the most detailed and least flexible calculation methodology, something the agency see as an advantage in that there is “no mystery” to the customer as to how the fares are and will be increased.
- RTD’s programmed increases every three years are based on the change in the Denver-Boulder CPI.
- TfL’s annual increases use a Retail Price Index, with the percentages above RPI having varied by mode in recent years.

One agency (Golden Gate Transit and Ferries) used a CPI index approach in its first Five-Year Transit Fare Program, but has adopted planned increases of a flat 5 percent per year to reflect projected cost increases in its later Five-Year Transit Fare Program.

Some agencies have more flexibility in determining the magnitude of their regular increases:

- LTD currently uses a three year rolling average of district costs as a basis for calculating the planned annual rate change.
- Metrolink’s annual increase is based on its growth in expenses, tempered by a sensitivity to what customers can afford and adjusted to comply with the caps on year-to-year increases within the overall framework of phasing in distance-based pricing to replace zone-based fares over a ten-year period.
- RTC utilizes the Western Urban CPI rolling five-year averages as a guideline for fare increases but does not link fare adjustments directly to changes in the index.
- TriMet does not use a particular index, but pegs increases to inflation and the growth in total costs of TriMet’s annual budget.
- In the context of its ongoing fiscal crisis, WSF has considered WSF’s operating costs, ridership and revenues in trying to progressively increase its farebox recovery ratio from 60 percent to 80 percent.
For all agencies interviewed, even among those with an explicitly defined formula or basis for calculating regular increases, the Board typically retains some flexibility in whether and how those fare increases are implemented:

- BART’s Board of Directors can at any point direct staff to re-examine the CPI-based fare increase process, although absent such direction, the increases are implemented without having to go back to the Board for approval.
- Golden Gate Transit and Ferries can implement lower-than-5 percent fare increases by Board action if its annual cost review determines that actual costs have increased by less than projected. Subject to additional public hearings, the Board can also propose greater than 5 percent fare increases over the course of the current Five-Year Transit Fare Program.
- LTD’s schedule of planned increases is meant to convey the Board’s intent over time so that customers are not surprised, but the Board may deviate from the plan if it feels extenuating circumstances warrant. In fact, the Board has done so in the past. For example, in 2002/2003, it felt larger increases were warranted by the effects of the recession and diminishing tax receipts.
- Metrolink’s Fare Policies and Procedures document notes that “Fare procedures on the Metrolink System are governed solely by the SCRRA Board of Directors and may be modified at any time.”
- Though RTC’s policy uses the Western CPI as a guideline, the Board has full flexibility to “ease the pain of adjustments to ensure public support”, with the ultimate objective being to “strike a comfortable balance between fares keeping up with inflation and not causing ridership declines.” In times of financial hardship, the Board would look at trying to minimize service cuts as well and fares may then need to increase faster than the CPI.
- RTD’s Board has the flexibility to propose fare increases more often than the increases currently programmed for every three years. In January 2006, it implemented an unprogrammed fare increase to cover rising fuel costs.
- The Mayor of London, who also serves as Chair of the TfL Board, has total control over fare decisions as one element of delivering his Transport Strategy. While bus service improvements were being made after his election in 2000, for example, bus fares were frozen. More recently, the “implemented changes to bus fares in 2007 [were] below the increases originally set out in the five-year plan… due to the fact that demand was higher than expected in 2006 and ticket revenues were £45 million ahead of budget in 2006/2007.”
- Since TriMet's regular increases have always been “more of a practice than a policy”, there is no requirement for implementing fare increases of any specific magnitude at any prescribed frequency. Even under its more explicit Diesel Cost Response Policy, fare increases represent only one possible element to be included in the agency’s corrective action plan.
- Under the amended guidance recently enacted by the Legislature, WSF appears to have flexibility with respect to the magnitude of its proposed fare increases once it completes the comprehensive review of fare and pricing policies required to be conducted in 2008. As currently provided by state law, however, fare increases could apply for more or less than a full year only for purposes of the initial transition to new fare schedules being implemented as of September 1st versus May 1st of each year. Final approval of fare increases will still rest with the Washington State Transportation Commission and WSF must still follow the prescribed steps in the Code Reviser Process. Legislation passed in the 2007 legislative session holds off any fare increase until the fall of 2009.

Financial Impact
The case study agencies shared mostly qualitative observations about the financial impact of their programmed fare increases, emphasizing their making it possible to preserve service levels and/or avoid service reductions. TfL’s representative expressed the straightforward view that its annual increases enable the agency to deliver its Business Plan. RTC’s representative noted the financial advantage of annual increases meaning that “we no longer lose money by having multiple years of inflation impact the value of the fare before action is taken retroactively.”

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As noted earlier, the greater predictability of future revenues associated with programmed increases is helpful to agencies in making plans for capital projects and service improvements. In the words of TfL’s representative, “It’s worked for us to have a framework of regular increases. It makes it easier to plan by removing one degree of uncertainty from the process.”

Ratings agencies appear to look favorably on there being a predictable regular pattern of fare increases. A March 2007 Standard & Poors rating of TfL, for example, included “flexibility to increase fares or reduce service and adjust investment program, if required” as one of five strengths among its major rating factors. Similarly, one of five strengths in Moody’s assigning an Aa3 rating to BART Series 2006 Sales Tax Revenue Bonds was “Proactive management team implemented 5 percent fare increase in 2003 and board approved policy of CPI-based fare increases.”129 In assigning an A1 rating to Series 2006 Revenue Bonds issued by TriMet, Moody's Investors Service noted that “TriMet maintains a policy of regular, aggressive, but realistic fare increases.”130

On a more quantitative basis, regular fare increases have contributed to constant or improved farebox recovery ratios:

- For LTD and TriMet, regular fare increases have played a role in maintaining a relatively constant farebox recovery ratio.
- For WSF, the annual fare increases helped increase its farebox recovery ratio from 60 percent to almost 80 percent in recent years.
- For Metrolink, regular fare increases (in combination with operating efficiencies made possible by ridership growth) have increased the farebox recovery ratio from about 37 percent in the late 1990s to a range of 41-44 percent in the years 2000 through 2006.131

The first programmed fare increase introduced in January 2006, contributed to BART’s stated Fare Policy goal to “achieve an operating ratio (total operating revenue/total expense) of at least 62 percent.” That increase, together with the increase that will be implemented in January 2008 has helped bring BART’s FY08 adopted budget operating ratio to 64.3 percent.132

Although not a factor explicitly mentioned by the agencies interviewed, it would appear that the financial impact of having regular increases in fares may be particularly important for agencies with a formal goal or policy to achieve certain farebox recovery ratios. In fact, in such scenarios, regular fare increases may become almost a mathematical imperative to the extent that an agency’s other primary source of funds is dedicated sales or employment taxes. Since those sources of non-fare revenues naturally increase with inflation or income, respectively, fare levels must also increase for the relative shares of fares vs. non-fare funding to remain constant over time.

Challenges and Constraints

All agencies acknowledged initial concern regarding the potential negative impact on ridership resulting from their fare increases. Most agencies interviewed noted that ridership has been largely unaffected by the fare increases. RTC’s representative notes that its ridership appears to be growing despite fare increases, which it attributes to the cost of driving going up even faster. The two exceptions are WSF, whose customers have experienced comparatively larger fare increases in parallel with some service reductions, and Golden Gate Transit, whose ridership declines are viewed by the District as more related to changing travel patterns and service degradation than to its programmed fare increases.

In TfL’s case, there is some evidence that bus ridership is more sensitive to price increases than Underground users. A Standard & Poors rating report issued in March 2007 includes the following observations:

Above-inflation fare increases on both the Underground and buses have not materially affected demand.

Further significant bus fare increases may be more difficult to achieve without adversely affecting demand.

Given the inelastic characteristics of demand for the Underground, there remains a degree of financial flexibility to increase fares above planned levels, although politically this could be difficult.\textsuperscript{133}

One of the key challenges faced by all agencies was ensuring customer understanding and acceptance of programmed fare increases. The following section “Factors in Success” addresses this important issue.

Other challenges encountered relate to the limitations and practical constraints agencies have faced since the introduction of programmed fare increases. As one example of such challenges, several agencies have found that their programmed fare increases cannot cover all of their funding needs:

- In 2006, BART implemented a 10-cent capital surcharge (applied to all fares, which will increase at the same rate as its biennial increases). While only representing a “drop in the bucket” in terms of the agency’s total capital needs, the surcharge keeps customers aware of the need to fund capital improvements. It should be noted that although the capital surcharge is beyond the scope of the planned biennial increases, it relates back to the Financial Stability policy approved by BART as the foundation for its program of biennial fare adjustments.
- In July, 2002, Metrolink implemented a one percent supplemental security fee to help cover costs of increased security and fare enforcement.
- As noted in the detailed Case Studies, both TriMet and RTD have implemented fare increases explicitly to cover extraordinary escalation in fuel costs. It appears that WSF also considered a fuel surcharge on top of the general fare increase which took effect on May 1, 2006, but rejected such a surcharge “because they felt the state should cover the increased fuel cost.”\textsuperscript{134}

There also appears to be some evidence that price increases which track inflation on the basis of CPI will not be sufficient to cover the increases in actual transit agency costs. Golden Gate Transit and Ferries switched from use of a CPI index to projected actual cost increases between its two Five-Year Transit Fare Programs for this very reason. Similarly, RTC describes their objective as growing fares with the cost of providing service, but acknowledges the reality that the CPI index it uses as a guideline does not track the actual growth in the cost of service. An internal analysis undertaken in 2005 by RTC addressed this issue, noting that “The overall CPI rose 3.2% over the 12-month period ending July 2005 but the transportation category rose 6.3% and the energy category rose 14.2%.” In addition, the memo concluded that “Over the past decade operating costs have risen much faster than passenger revenues. These increased costs are primarily the result of labor, fuel and insurance costs rising at rates three to four times greater than inflation while passenger revenues have simply kept pace with inflation. Looking at the components of operating costs over the past decade, labor, medical insurance, and fuel costs account for 73% of the increase in costs. Specifically, labor is up 73%, medical insurance is up 195% and fuel is up 145%.”\textsuperscript{135}

Depending on what an agency’s other funding sources are, increasing fares only to track inflation may not be sufficient for another reason. For example, as NJ Transit observed, with relatively fixed annual appropriations representing about half of its funding, “fares would have to be increased by double the inflation rate every year just to stay even.”

Differential inflation rates over time can also make it difficult for agencies to match fare increases with escalating costs to the extent that prospective fare increases are based on retrospective CPI changes. Even agencies using actual costs as the basis for increasing fares will have similar difficulties unless past and future cost increases are aligned. Further challenging the effectiveness of increasing fares on the basis of historical cost data, transit agencies may experience extraordinary, unbudgeted, and/or


\textsuperscript{135} Internal RTC memo from Public Transportation Director David Jickling dated September 8, 2005 on Subsidy per Citifare Passenger. (RTC’s representative notes that Citifare has been subsequently re-branded as RTC RIDE.)
unexpected cost increases as has indeed been the case with fuel costs for a number of agencies in recent years.

At a more fundamental level, if the basic fare revenue does not cover actual costs or if (as is the case with many transit agencies) service improvements and expansions are undertaken, then simply raising fares to cover the cost of inflation will be inadequate to meet the agency’s financial need to cover cost increases over time. With regard to this latter factor, NJ Transit notes that had it actually implemented its multi-year fare initiative back in 2003, the resulting increases would have been less than the actual increases it proposed and implemented in 2005 and 2007.

If an agency’s fare structure is not one which customers view as rational and equitable, it may be difficult to get public support for programmed increases. In such a scenario, customers may see the fare adjustments as simply compounding existing problems or inequities with an agency’s fares.

Another limitation faced by agencies with programmed fare increases occurs where the agency does not have total control over pricing. For example, fare increases do not automatically apply to BART trips taken with FastPass tickets (currently offering 30 percent discount and accounting for 11 percent of all BART trips) since MUNI controls pricing of the Fast Pass and reimburses BART on a per-trip basis. Since the per trip reimbursement rate is established by agreement with MUNI and is not scheduled to increase with each of the biennial increases under current joint ticketing agreements with MUNI, BART must negotiate each biennial increase with MUNI and thus risks forgoing the biennial increase on a portion of its customers. In the case of TfL, TravelCard fares are set jointly with private railway companies.

In other cases, agencies have groups of customers who benefit from specific pre-existing fare programs, and it may not be possible to apply the same regular increases to those programs, as shown by Golden Gate Transit and Ferries’ experience with paratransit fares in its first Five-Year Transit Fare Program. Even where an agency is able to apply the same percentage increase as it applies to other fare products, the financial benefit to the agency is likely to be more limited. Two examples of this complication are LTD’s Group Passes (which represented 30 percent of LTD’s total fare revenue in the fiscal year ending June 30, 2006) and RTD’s Eco Pass program (which represented 15 percent of RTD’s total fare revenue in the fiscal year ending December 31, 2006), both of which have been established to promote transit use by providing unlimited use to pass-holders. Increasing the pass price generates incremental revenue overall, but is unlikely to provide the same financial benefit on a per ride basis as would be provided by customers using other fare products.

These limitations also illustrate a challenge faced by all agencies, namely that there are often many fare policy objectives, some of which may conflict with the policy or affect the practical application of regular increases in fares. Examples of such conflicts include:

- With Metrolink’s phasing in of distance-based fares to replace zone-based pricing, the agency is unable to impose a uniform price increase on all fares because it is simultaneously trying to restructure its fares and make pricing more equitable for all customers.
- TfL notes that it is often interested in not raising the jointly negotiated TravelCard fares in the off-peak so as to encourage movement from peak to off-peak travel, but the private rail companies naturally want to increase fares.
- Triangle Transit Authority chose to discontinue its previously implemented policy for regular fare increases when the agency realized it could not raise fares as planned without disrupting fare ratios between its regional service and local bus service provided by other operators. Instead, it chose to advance the development and implementation of a regional pass, joint transfer, and fare policies in concert with other regional transit operators by “adjust[ing] TTA’s fare schedule to fit with a proposal to streamline the regional fare structure and to harmonize the fare policies so that they are easy to communicate and are consistent across agencies.”

136 Internal Memorandum to TTA Operations & Finance Committee on Fare Change Recommendation, March 14, 2007, as provided by Laurie Barrett.
Factors in Success

Based on the discussions and analysis of the cases presented here, several factors have been identified as having contributed to the successful implementation of programmed fare increases. The following paragraphs provide some highlights.

Developing Customer Understanding and Acceptance
A recurring theme in case study interviews was the importance of clearly communicating and explaining the need for programmed fare increases to customers. For example, in 1998, as part of its proposal to increase fares for the first time in six years, Metrolink stressed that “A fare adjustment is necessary to maintain the current quality and level of service,” with further justification including the following points:

- Metrolink has expanded service significantly over the past five and a half years without any change in fares.
- State transportation bonds which financed much of Metrolink’s initial capital expansion have been spent.
- The member agencies do not have any additional funding to contribute to Metrolink subsidies.
- Costs to operate the growing system have increased over the past five and a half years. Much of that increase has been offset by operational efficiencies. It is not realistic to expect that system efficiencies can continue to offset continued service expansion in the future.
- The possibility of additional revenue from ridership increases is limited in the short term. Many trains are at or near capacity.
- Capital improvements must be maintained. As these facilities age, the cost to maintain them increases.\textsuperscript{137}

BART stresses the importance of linking fare increases to reality and selecting a policy that is intuitively understandable to the customer.\textsuperscript{138} Although meant to apply to overall Fare Policy goals, BART’s Fare Policy Document adopted in November 2005 includes several other important points relevant to programmed fare increases:

- Provide BART customers with the safe, on-time, frequent, clean and reliable service they value and that is supported by setting fares to reflect the cost of providing such service, including an allocation to capital programs. (See previous discussion in “Challenges and Constraints.”)
- Consider the value to the customer of preserving fare structure continuity so that fare structure changes do not increase some customers’ fares while decreasing the fares of other customers, creating clear winners and losers.

In ensuring acceptance of programmed fare increases, it is important to correct some customer misunderstandings about the nature of transit costs. In the words of the Metrolink Board item seeking approval of the 1998-2002 fare adjustment program,

Many passengers did not understand why any fare adjustment is needed when Metrolink ridership has increased so quickly. They see full trains as a sign of healthy income. Some suggested that Metrolink should adjust fares downward, not upward, in order to increase ridership and fare income. Other riders suggested cutting back on less-patronized services- such as mid-day trains- which they believe are costly. Mid-day trains, however, cost Metrolink very little since train engineers and conductors work an eight-hour shift and no additional labor costs are incurred.

More recently, The New York Times addressed the same misconception in an article entitled “The Commuting Conundrum” with the subtitle “Extra riders, extra revenue. So why are the area’s rail systems looking for money?” Although a complicated issue, the article goes on to explain:

\textsuperscript{137} Metrolink Board Item 4, May 6, 1998.
\textsuperscript{138} Charlotte Barham, BART, personal communication, February 13, 2007.
Part of the answer to these questions rests on an overriding truth about mass transit: Revenue from fares typically covers about half a railroad’s operating costs, so the more ridership grows, the more money railroads must find from other sources to make ends meet. Yet with state and federal mass transportation budgets stretched thin, railroads are finding it harder to resist raising ticket prices.  

Paraphrasing several agencies interviewed for this study, there are not that many “pots” of money an agency can tap for funding, and fares are one pot over which an agency has more control than others.

In developing customer support, all of the case study agencies emphasize the need for sustained funding to maintain service levels, and try and point to service improvements which the programmed fare increases make possible. RTD believes that people realize that the cost of doing business increases over time. Even in January 2006 when fares were increased to cover the rising costs of fuel, “people could relate” in the context of fuel cost increases they were also experiencing at the gas pump. “They don’t like it, but they accept it.” Generally customers saw the value of using RTD service over driving. In fact, RTD recommends, “Don’t undervalue your product; value the benefit your service provides in your pricing.”

Understandably, what seems to matter to the customer is that fare increases occur as expected. For example, when TriMet transitioned to annual increases after a decade of adjusting fares every other year, there was some “public pushback”. Opponents found it unexpected then, but over time, annual increases have become expected and there has been less public opposition to the last several increases.

Addressing Customer Concerns
A common area of concern among affected customers is whether the agency has done all that it can to reduce costs or seek other sources of funding as an alternative to raising fares. Many transit customers may not appreciate or understand fully how the agency is funded or how little control an agency may have over certain significant cost elements such as labor and fuel. In this regard, transit agencies need to, in WSF’s words, “Be transparent about where money comes from and where it goes”.

Most agencies provide multiple opportunities for customer input on service and fare issues. These include such forums as open board meetings, public hearings, and other information sessions prior to implementing regular fare increases. Some agencies also have more structured and ongoing advisory groups:

- Golden Gate Transit has three different customer advisory committees; one represents disabled customers and meets monthly to address accessibility issues; a committee of bus passengers meets approximately every two months; and a ferry passenger group meets monthly.
- RTC has three different advisory boards which meet monthly: a technical group comprised of municipal representatives; a citizens advisory board; and a public transportation advisory board. These groups are used as sounding boards for input prior to formal fare increase proposals.
- RTD has two customer service panels, one for bus and one for light rail, which are used as sounding boards.
- WSF has 14 Ferry Advisory Committees which meet quarterly.

Several agencies have made special efforts to address issues associated with some specific customer groups which have been more concerned than others with the regular fare increases. For example, TriMet works closely with a Citizens Advisory Committee representing elderly and disabled customers whose fixed incomes made them particularly sensitive to fare increases. This committee worked to develop a policy that tied fare increases to the adult base fare, with each fare experiencing a similar rate of increase. Input during the development of that policy indicated that customers were willing to “pay their fair share” and that if given a choice between maintaining fares and maintaining service, they would

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140 Or as quoted in Ken Belson’s article “The Commuting Conundrum: “Extra riders, extra revenue. So why are the area’s rail systems looking for money?”, *The New York Times*, Westchester section (March 18, 2007): 8, Jim Cameron, Chairman of the New Haven rail council states in the converse, “You can’t expect people to pay more when they are getting poor service.”
prefer maintaining service, with fare increases representing the “lesser evil”. Similarly LTD, has an Accessible Transportation Committee, which represents paratransit riders on fare increase matters.

Efforts to address customer service issues more broadly have also been important. For example, Metrolink has a Quality Service Pledge described in detail in Appendix I which provides customers with a 25 percent discount in a subsequent month if the average monthly on-time performance falls below 80 percent on a particular line.

BART, Metrolink, and TriMet conduct customer satisfaction surveys every other year as a means of getting regular input. WSF has recently been legislatively mandated to begin doing the same.

LTD’s strategy of rotating fare increases among fare types overcame customers’ initial discomfort about changing fares every year, ensuring that “Customers always have an option to continue riding at lower fares by choosing another fare option.”

Concluding Observations
Transit agencies do not operate in a vacuum in making any fare decision. Where there are other transit providers in the same region, an agency may be less likely to gain public or political acceptance for programmed price increases if it is alone in having such a policy. Even if a transit agency implements such a policy on its own, it is likely to want to ensure that the regular increases do not result in fares that are out of line with other regional transit operations.

Another important perspective to emphasize is that public transit is only one part of the overall transportation network. It may be difficult to raise fares when there are local political, public, or environmental pressures to encourage use of mass transit. Public agencies do not want to create disincentives for customers to use transit. As one New York transportation professional was quoted: “It’s not outrageous that fares go up, but in a day and age when we’re encouraging people to use mass transit, tolls don’t go up at the same time. Tolls and fares should go up in tandem.”

Most of the agencies interviewed for this study share a perspective that smaller, more frequent, and predictable fare increases are more palatable to customers and have less of an impact on ridership. It is noteworthy that these agencies are all located in the Western United States and relatively new. While difficult to document, it seems that transit riders of these relatively newer systems may view transit as a privilege they are willing to pay for rather than a right to which they are entitled, as appears to be more the case for heavily urban areas in the East. Further examination of such factors as socioeconomic or demographic differences of East Coast versus Western U.S. transit riders might help explain part of the difference in mentalities.

Appropriate levels of fare recovery appear to depend, in part, on an agency’s operating and political context and funding mechanism. Where funding sources other than fares are clear, reliable, and politically supported (as with a number of the agencies interviewed whose primary source of non-fare revenues is dedicated sales or employment taxes), the feasibility of programmed fare increases would appear to be enhanced. To the extent that there is public acceptance and political support for a specified level of funding which fares must contribute, a transit agency may find it easier to impose fare increases on a planned or scheduled basis. Such a situation may also make it easier to explain as a matter of straightforward mathematical calculation to “plug the gap” in funding from other sources in order to enable the transit agency to continue to maintain a certain level of service. Even in these cases, however, maintaining acceptable service levels and demonstrating some meaningful effort to control or reduce costs are essential to sustaining customer approval of such fare policies or practices. In short, customers appear to be willing to pay increasingly higher fares if they feel they clearly benefit from reliable transit service; the agency does its “fair share” in contributing to the most efficient and cost effective operation possible; and the fare increases are small and predictable.

Programmed fare increases become much more difficult in situations such as faced by WSF in recent years, where a major source of non-fare revenues is eliminated and there is no clear consensus on how the burden of funding should be divided between customers in the form of fares and other sources of revenues. The need for major capital investment or service improvements may make the use of programmed fare increases even more difficult, since historical costs or inflation rates may not be an appropriate measure for proposing fare increases if the agency’s goal is to have fares track its increase in costs over time.

Based on the experience and insights shared by the transit agencies interviewed for this study, an agency considering programmed fare increases needs to consider the following issues carefully:

- Is there clear public understanding and political support for the share of overall funding to be contributed by customer fares? If not, is there discussion of the strategy to be pursued?
- What fare increases will be acceptable? In the words of Golden Gate Transit and Ferries’ representative, a successful fare increase policy depends on “knowing your customer base and tailoring the increases to be as acceptable as possible to your customers.”
- How often should fare increases occur? The frequency among agencies included in this study ranges from every one to three years, with annual increases the most common practice.
- What basis or methodology should be used for calculating the proposed magnitude of fare increases? There are trade-offs between using an objective measure such as CPI (which customers can relate easily to as tracking inflation) and linking fare increases to changes in the actual cost of service.
- Should the proposed fare increases apply uniformly to all fares and fare products? Applying increases across the board has the benefit of all customers being affected equally, creating in the words of BART’s Fare Policy no “winners and losers.” However, some agencies such as LTD have found an advantage of rotating fare increases among fare types.
- How might programmed fare increases relate to other fare policy goals? For example, if an agency is trying to promote off-peak travel, it might want to exclude off-peak fares from the process of programmed fare increases.

The range of actual transit industry experience with programmed fare increases establishes a precedent for adopting such an approach to fare policy. The case studies suggest that no single implementation model will apply to all transit agencies. However, the basic paradigm of smaller, more frequent fare increases appears to be viable, and indeed welcomed, in a number of transit settings.
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