

Ann Arbor Transportation Authority Board of Directors
Planning and Development Committee
Meeting Summary –
November 20, 2008 – 5:30 p.m.

The meeting was attended by Paul C. Ajegba (Committee Member), Ted Annis (Chair), Rich Robben (Committee Member) and the following AATA Staff: Dawn Gabay, Ed Robertson, Mary Stasiak, Phil Webb, and Karen Wheeler.

Mr. Annis made two announcements regarding protocol for Board Committee meetings: Draft working documents are intended for discussion purposes only and are subject to be modified. Such documents will not be released to the public until they are finalized and approved by the committee chair. Members of the public are welcome to attend committee meetings and observe, but there is no public comment time.

Developing a New Fare Structure

Mary Stasiak led a discussion on the pros and cons of a zero-fare, no change to the fare structure, a \$1.25 fare and a \$1.50 fare.

Zero Fare – Ms. Stasiak reported that the FY 2009 budget for passenger fare revenue is \$3.6Million. Mary provided an overview of the pros and cons of going to a zero-fare. The biggest impact to AATA of going to a zero fare would be how a zero-fare would affect paratransit services. Based upon studies performed at other transit systems where zero-fare has been tested, staff estimated that a zero fare at AATA could result in a 30 percent increase in fixed route ridership, and a 50 percent increase in demand for paratransit service. Mary noted that such a significant increase in ridership on fixed route service would result in having to hire more personnel which would lead to increased operating costs in the face of lost passenger revenues.

The committee reviewed and discussed a spreadsheet prepared by staff detailing projected five year budget deficits that would occur based on zero fare: year one (FY 2009) was estimated at resulting in a \$7.5Million deficit; while the cumulative five year deficit by the end of FY 2013 is estimated at \$36Million. Ed Robertson noted that by federal law, AATA must meet A-Ride service demands regardless of their cost.

The committee discussed the information presented by staff (a copy of the memorandum is attached), and unanimously agreed that a zero-fare is not a good idea, but that the due diligence on the subject was important.

No Fare Change – Mary Stasiak reviewed the pros and cons of not making a fare change noting that there would be no marketing expenses to inform riders of changes in fare policy, or no staff time to conduct public input meetings and compile public comment. It was also noted that no fare change could result in a lost opportunity to increase the

University of Michigan's overall payment for MRide during upcoming negotiations with the University, difficulty in POSA partners ability to pay fully allocated costs for their services, and a lost opportunity to utilize the fare structure to shift passengers from the more expensive paratransit service to the less expensive fixed route service.

Raise Fare to \$1.25 – Mary Stasiak reviewed the pros of raising the fare to \$1.25. The projected additional annual revenues of \$350,000 generated by such a fare increase could be used to offset operating expenses. The increased revenues would also bolster AATA's financial stability at a time when expenses are increasing and federal, state and local funding is uncertain. This would also aid Purchase of Service Agreement partners in achieving the Board's goal of its partners paying the fully allocated costs of their transit services.

Mr. Annis asked Mr. Webb to obtain current numbers on local tax revenues from the City of Ann Arbor. Mr. Webb indicated that such updated information will be available in February.

Raise Fare to \$1.50 – Mary Stasiak reported that staff projects raising the fare to \$1.50 would for the foreseeable future correct the long-term structural deficit that would occur by or before 2013. Ms. Stasiak indicated that there could be a staged approach to raising the fare that would perhaps be more palatable to the public and result in losing fewer passengers as fares increase.

The committee discussed fare elasticity and the impact of raising the fare to \$1.50 on transit dependent individuals. Dawn Gabay noted that staff is investigating ways of structuring a fare change to mitigate the impact by providing discounts to low income riders and to frequent riders through a restructured pass program.

The committee discussed the pros and cons of going to a \$1.50 fare presented by staff.

Suggestions from the committee included raising the general fare by 25 cents in May 2009 and by an additional 25 cents in May 2010, combined with continuation of cost reduction programs for low income and frequent users. Staff recommended reducing the fare to zero for paratransit riders on fixed route service, and raising the door-to-door fare for same day service to \$2.50. Any fare increases in fares would have to be formally approved by the Board in March 2009 to become effective in May 2009.

The committee unanimously agreed to make a recommendation to the Board for staff to proceed with public input meetings for a fare increase to \$1.25 in May 2009 and an increase to \$1.50 in May 2010.

Mr. Webb agreed to update the pro forma for the model for an increase to \$1.25 in May 2009. Ms. Gabay agreed to present preliminary information on a revised structure of passes and discounts plan to next committee meeting.

WALLY Update

Dawn Gabay reported on the November 17 WALLY Coalition meeting during which AATA staff thanked the Coalition members for their work to date, and expressed the need for continued coalition member involvement and support.

The committee discussed the need to begin seeking funding for the project from coalition partners and Congressman Dingell. Ms. Gabay agreed to begin scheduling meetings to make such requests.

Mr. Annis reported on a conversation with the owner of RL Banks, the firm that earlier had studied the WALLY project. Mr. Annis requested that staff provide committee members with a copy of the RL Banks findings. Mr. Annis suggested that the committee give consideration to hiring a project management firm to oversee the WALLY project.

The committee, with input from staff, discussed how to select a project management contractor. It was noted that the Michigan Department of Transportation (MDOT) may have a firm with suitable skills under contract with which AATA could partner. Staff will provide an update at the next committee meeting on whether utilizing the MDOT contractor may be possible, or if it would be necessary to begin a bid process to select an alternate consultant.

2009 Board of Directors Retreat

Mr. Annis asked Mr. Robertson to begin the work of planning the Board's 2009 Retreat with a goal of holding the retreat in March or April 2009. Mr. Annis recommended that Doug Eadie facilitate the session.

Respectfully Submitted,

Karen Wheeler

Memorandum



To: Planning and Development Committee
From: Dawn Gabay, Ed Robertson, Phil Webb and Mary Stasiak
Date: November 20, 2008
Re: Financial Impacts of Various Fare Policies

Possible changes to AATA's Fare Structure are under consideration by the Planning and Development Committee. As part of that exercise, Staff has been asked to prepare the pros and cons of the following four fare policies, including their financial implications:

1. zero-fare
2. no change to the fare structure
3. a \$1.25 (base) fare
4. a \$1.50 (base) fare

Passenger fare revenue in FY 2009 is budgeted to be \$3,617,000 and consists of:

- fixed route (\$2,900,000)
- ARide (\$515,000)
- Night Ride (\$82,000)
- Commuter Express (\$60,000)
- Non-urban match (\$60,000).

In addition to the above totals, AATA expects to receive an additional \$1,100,000 in Federal preventive maintenance revenue from our unlimited access agreement with the University of Michigan (which we apply toward fixed route expenses).

The total of all these revenue sources that are directly tied to passengers being carried is \$4,717,000 and represents 19.3% of our total budgeted expenses of \$24,451,000.

PROS AND CONS OF ZERO-FARE

THE PROS:

1. Increased ridership (which would translate into an increase in passengers per mile and passengers per service hour).
2. The cost of producing fare media would be eliminated (estimated to be about \$51,000).
3. Costs associated with collecting fares, processing fares, handling of tokens, and selling fare media would be reduced or eliminated.
4. Fare disputes and time spent in explaining fares would be eliminated, allowing the driver to concentrate more on driving and answering other passenger questions.

THE CONS;

1. A conservative estimate is that demand for ARide services would double, prompted by a zero fare (ARide fares are limited by law to no more than twice the fixed route fare).
2. Due to increases in demand, expenses associated with providing ARide services would double from their current \$3.2 million to an anticipated **\$6.4 million**. (Most ARide service is for persons with disabilities and is required under the American with Disabilities Act. This is a Civil Rights law and all demand for service must be met and the cost of providing the service is not considered a reason for not providing it. History has shown there are extremely limited economies of scale with ARide “door to door” services when demand increases).
3. ARide availability for seniors would be greatly decreased, or even eliminated, as all available capacity would be filled with ADA eligible passengers.
4. Based upon experiments with zero fares conducted by other transit system, there would be at least a 30% increase in ridership (with much of that coming during rush periods.) To accommodate the greatly increased passenger loads, fixed route services would have to be increased by approximately 20% (with their corresponding increases in expenses).
5. If available revenues are not available to meet both fixed route AND ARide demands, resources would have to be redirected from fixed route services to ARide (since ALL ARide demand must be met by law).

6. Passenger fare revenues used toward offsetting expenses would be reduced as follows:

Fixed Route	\$2,900,000
ARide	515,000
Night Ride	<u>82,000</u>
TOTAL	\$3,497,000

7. Additional revenue reductions of \$1,100,000 would likely occur, as these funds represent Section 5307 FTA Formula grant funds earned by the University of Michigan and transferred to AATA through the unlimited access agreement. With no passenger fares being charged, there is a great possibility that the University would see no need to have an unlimited access agreement with AATA and could utilize these Federal funds for their own transportation purposes.
8. Current POSA partner communities would either cancel their transit services or greatly reduce them as these local municipalities currently rely upon passenger generated revenues to help offset the cost of their POSA contracts. In addition, the added cost to provide even more ARide services in their jurisdictions would further exacerbate the difficulty POSA partners would have in paying their contracts.
9. The following items were documented in the research study by the Center for Urban Transportation at the University of South Florida (CUTR)
 - a. Increase of “problem passengers” would translate into increased operating expenses stemming from vandalism and an increase in supervision or security forces.
 - b. Deterioration in labor/management relations and an increase in labor unrest from drivers due to dealing with problem passengers would be expected.
 - c. Experiments with zero fares in other cities has shown that there is a loss in long term regular commuter passengers stemming from overcrowding and a reduced sense of safety.
10. Even though time spent by passengers in depositing their fares into the farebox is eliminated with zero fares, demonstrations in other cities have shown there is still deterioration in the system’s on-time performance because of the sheer increase in numbers of passengers boarding and alighting. This in turn leads to both deterioration in the system’s reliability and an increase in trip duration for passengers.
11. Based upon a realistic increase in fixed route expenses of 20% and an increase in ARide expenses of 100%, total AATA expenses would increase by \$6.2 million (at current hourly rates). This would mean that AATA’s budget would grow from \$24.5 million to \$30.7 million.
12. Without an additional \$6.2 million from somewhere to match the increase in operating expenses associated with zero fare, reductions in operating expenses equal to \$32.00 per service hour would have to be made. Unfortunately, there are not enough discretionary expenses to cover this level of reduction.
13. Presuming AATA was required to meet the greatly expanded demand for its services (both in fixed route and in ARide) and no additional revenue sources could be relied upon, AATA would be bankrupt in only a few years even with draconian reductions in labor and fringe benefits for all its employees.

PROS AND CONS OF NO FARE CHANGES

THE PROS:

1. No marketing expenses to inform riders of changes in fare policy.
2. No staff time for public hearings, compiling public comments, etc.

THE CONS:

1. Passengers would continue to pay a decreasing share of total costs.
2. POSA partners would have increased difficulty moving toward paying the fully allocated costs of the fixed route services in their communities. POSA partners may request to reduce service as a result of their inability to pay for current services.
3. Special Event Shuttles (such as Art Fair and Football Shuttles) would continue being money losers and would not become self-supporting in accordance with past practice and Board policy.
4. The cost of providing ARide and senior taxi trips would continue to greatly escalate due to the lack of fare-based incentives for ADA eligible and senior passengers to ride fixed routes. A reduction in fixed route fares for ADA and seniors coupled with an increase in fares for these groups on ARide and taxi services would result in a substantial “shift” of these passengers toward fixed route. This “shift” would, in turn, greatly reduce the overall expenses of providing ARide with no noticeable increase in fixed route expenses. This was identified as a major strategy in meeting the adopted FY 2009 Operating Budget.
5. Because the unlimited access agreement with the University of Michigan (the “MRide” agreement) is based in large part upon the average fare paid by AATA passengers, no change in the average fare creates a lost opportunity in upcoming negotiations with the University to increase the University’s overall payment for MRide.

PROS AND CONS OF A \$1.25 BASE FARE

THE PROS:

1. Depending upon the overall design of the fare structure (and the impact of fare elasticity) AATA would realize additional revenues of approximately \$350,000 to be used toward offsetting operating expenses.
2. POSA partners would realize increased passenger revenues that would help them in reaching the goal of paying the fully-allocated costs of their transit services (see Board Resolution 28/2008).
3. Not only would a \$1.25 base fare increase the amount an ARide passenger would pay for their specialized service (ARide fare would increase from \$2.00 to \$2.50), but when coupled with a decrease in fixed route fares for regular ARide passengers, a shift from the more expensive ARide service to the less expensive (on a per-passenger basis) of fixed route service would occur, thus greatly lowering the overall cost of providing ARide service.
4. An increase in an individual's boarding fare would translate into that passenger paying a greater share of the cost for AATA to provide his/her transportation. This would, in turn, result in a favorable increase in AATA's fare recovery ratio.
5. Because the unlimited access agreement with the University of Michigan (the "MRide" agreement) is based in large part upon the average fare paid by AATA passengers, any increase in that average fare presents an excellent opportunity in upcoming negotiations with the University to increase the University's overall payment for MRide.
6. Increased revenues would immediately bolster AATA's financial stability in light of unpredictable fuel costs, increasing health care costs and uncertainty of Federal and State funding; but more importantly, increased revenues would better position AATA to address predicted structural deficits in later years. (see the financial impact of fare increases upon AATA's 5-year budget projections).

THE CONS:

1. Depending upon the reliability of older elasticity models that do not take into account the effect of the greatly increased cost of operating a private automobile, there could be a possible decrease in ridership of 5% to 10% (based upon older fare elasticity models of 20% to 40%).
2. One-time expenses to market and communicate fare changes would be felt in the first year of any fare increase.
3. There would be a one-time increase in staff time for public hearings, compiling public comments, etc. associated with implementing a fare change.

PROS AND CONS OF A \$1.50 BASE FARE

THE PROS:

1. Depending upon the overall design of the fare structure (and the impact of fare elasticity) AATA would realize additional revenues of approximately \$550,000 to be used toward offsetting operating expenses.
2. POSA partners would realize increased passenger revenues that would help them in reaching the goal of paying the fully-allocated costs of their transit services (see Board Resolution 28/2008).
3. Not only would a \$1.50 base fare increase the amount an ARide passenger would pay for their specialized service (ARide fare would increase from \$2.00 to \$3.00), but when coupled with a decrease in fixed route fares for regular ARide passengers, a massive shift from the more expensive ARide service to the less expensive (on a per-passenger basis) of fixed route service would occur, thus greatly lowering the overall cost of providing ARide service.
4. An increase in an individual's boarding fare would translate into that passenger paying a greater share of the cost for AATA to provide his/her transportation. This would, in turn, result in a favorable increase in AATA's fare recovery ratio.
5. Because the unlimited access agreement with the University of Michigan (the "MRide" agreement) is based in large part upon the average fare paid by AATA passengers, any increase in that average fare presents an excellent opportunity in upcoming negotiations with the University to increase the University's overall payment for MRide.
6. Increased revenues would immediately bolster AATA's financial stability in light of unpredictable fuel costs, increasing health care costs and uncertainty of Federal and State funding; but more importantly, increased revenues would better position AATA to address predicted structural deficits in later years. (see the financial impact of fare increases upon AATA's 5-year budget projections).

THE CONS:

1. Depending upon the reliability of older elasticity models that do not take into account the effect of the greatly increased cost of operating a private automobile, there could be a possible decrease in ridership of 10% to 20% (based upon older fare elasticity models of 20% to 40%.)
2. One-time expenses to market and communicate fare changes would be felt in the first year of any fare increase.
3. There would be a one-time increase in staff time for public hearings, compiling public comments, etc. associated with implementing a fare change.