



**Metro**

Los Angeles County  
Metropolitan Transportation Authority

One Gateway Plaza  
Los Angeles, CA 90012-2952

213.922.1  
metro.net

**21**

**EXECUTIVE MANAGEMENT AND AUDIT COMMITTEE  
OCTOBER 19, 2006**

**SUBJECT: APTA PEER REVIEW OF FARE POLICY**

**ACTION: RECEIVE AND FILE**

**RECOMMENDATION**

Receive and file APTA Peer Review on Fare Policy

**ISSUE**

In discussions leading to the adoption of the FY07 budget, various Board members commented on the need to address Metro's fare policy in the context of resolving the "structural deficit."

To address the fare issue, in February 2006, the CEO requested the American Public Transportation Association (APTA) to conduct a "peer review" to assist Metro in reviewing our current fare revenues, fare structure, fare recovery ratio and policies in the context of current industry practices. The review was conducted in April 2006 and the final report was received and circulated to Board members in July 2006.

**DISCUSSION**

The APTA panel noted that our fare recovery ratio and fare structure are low in comparison with our industry peers. They recommended a comprehensive fare policy that recognizes that users should pay a reasonable portion of the services provided would index fare changes to match service level and cost increases. The full text of the report is attached.

Fares are only one component of a comprehensive strategy to address the "structural deficit." Other issues affecting the strategy are the Board motion of March 2006 directing staff and municipal operators to work on changes to the formula allocation procedure and the motion of June 2006 directing staff to develop a financial stability policy.

**NEXT STEPS**

Recommendations for a fare policy and fare structure changes will be brought forward for Board consideration later this calendar year in the context of the updated 10-year forecast and long range plan.

**ATTACHMENT**

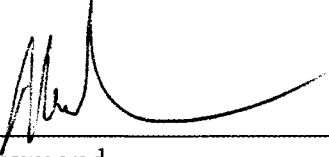
A. APTA Peer Review

Prepared by: Terry Matsumoto, Executive Officer, Finance and Treasurer  
Matt Raymond, Chief Communications Officer, Communications




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Terry Matsumoto  
Executive Officer, Finance and Treasurer



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Matt Raymond  
Chief Communications Officer



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Roger Snoble  
Chief Executive Officer

**REPORT**  
**OF THE**  
**AMERICAN PUBLIC TRANSPORTATION ASSOCIATION**  
  
**PEER REVIEW PANEL**

**FOR**  
  
**LOS ANGELES COUNTY**  
**METROPOLITAN TRANSPORTATION**  
**AUTHORITY**

**Los Angeles, California**

April, 2006



**A Service of the Safety Management (Peer Review) Program of the  
American Public Transportation Association**

**REPORT  
OF THE  
AMERICAN PUBLIC TRANSPORTATION ASSOCIATION**

**PEER REVIEW PANEL**

**Fare Policy Review  
FOR  
Los Angeles County  
Metropolitan Transportation Authority**

**Panel Members:**

**Lawrence Fleischer  
Pamela Herhold  
Fran Hooper**

**Published by the  
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Washington, DC 20006  
William W. Millar, President**

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## I. INTRODUCTION

On February 13, 2006, a formal peer review request was received by the American Public Transportation Association (APTA) from Roger Snoble, CEO of the Los Angeles County Metropolitan Transportation Authority (Metro). The purpose of the Peer Review was to assist Metro in reviewing their current fare revenues, fare structure, fare recovery ratio and policies in the context of current industry practices. To help understand the scope of the intended review, Metro provided information on the organization and governance of the organization, its fare structure and revenue sources, and its fare policies.

A schedule for conducting the review was developed through consultations between Metro staff and APTA staff, and it was determined that the peer review would take place April 24-26, 2006. It was agreed the panel would be comprised of industry personnel highly experienced in the fare policy analysis and revenue collection operations of large transit systems.

The peer review panel consisted of the following members:

Lawrence Fleisher  
Chief of Metropolitan Planning  
Metropolitan Transportation Authority of New York

Pamela Herhold  
Manager of Financial Planning  
San Francisco Bay Area Rapid Transit District (BART)

Fran Hooper  
Director – Member Services  
American Public Transportation Association

Greg Garback, Executive Officer – Finance at the Washington Metropolitan Area Transit Authority was scheduled to participate in the Peer Review but had to cancel his participation at the last minute due to intervening issues at WMATA.

The panel convened in Los Angeles, CA on April 24, 2004. APTA Staff Advisor Fran Hooper provided panel coordination and logistical support. Mr. Terry Matsumoto, Executive Officer, Finance & Treasurer, acted as agency liaison for Metro.

## **Methodology**

The APTA peer review process is well established as a valuable resource to the industry for assessing all aspects of transit operations and functions. The peer reviews are conducted on-site by highly experienced transit personnel who are selected on the basis of their subject matter expertise. Through on-site interviews of agency staff, the review of relevant documents, and inspections the panel concludes its review with a summary of observations and recommendations to the Chief Executive Officer of the transit agency.

## **Scope of Report**

For this review, the panel was provided access to a wide range of relevant documents and information pertaining to Metro's fare policies and revenues. Key transit agency staff provided information through extensive interviews.

The observations and recommendations provided through this Peer Review are offered as an industry resource to be considered by the Metro in considering fare options for the Los Angeles system.



## II. OBSERVATIONS

### *General Observations*

Following its review of agency documents and conversations with agency personnel the Peer Review panel had the following general observations:

- Metro is in a difficult position regarding increasing fare revenues: the Formula Allocation Policy (FAP) limits Metro's ability to raise its base fare and establish the appropriate multiples between the base fare and the other elements of its fare structure.
- The current fare structure, adopted in 2003 and implemented in January 2004, does what it was designed to do:
  - increase fare and FAP allocation revenues
  - facilitate the elimination of transfers
  - BUT it moved riders to an under-priced day pass
- The result is a fare structure that is less flexible and less productive than those of its peer systems.
- The current fare structure requires deferral of capital asset maintenance to balance budgets.
- The fare structure does not reflect the real cost of providing service.
- The single trip fare and the daily pass are significantly undervalued. The day pass, for example is currently used for perhaps as many as 4.7 rides per day per user and costs the rider \$3 per day – equal to 2.4 single fare trips. At a cost of \$1.25, the single trip fare is priced lower than the cost of providing that ride and significantly lower than the single fare ride cost of other large systems like New York, Chicago and Philadelphia.

### *Potential Follow-ups*

- Universal Fare System (UFS) implementation requires important policy decisions on regional definitions, including senior and student eligibility and interagency transfers. But it also offers an opportunity for Metro to re-examine and revamp its fare structure.
- The issue and impact of fare evasion on revenue collection should be re-considered.

***Comparison of Agency Fare Structures***

<u>Fare Category</u>	<u>MTALA</u>	<u>MTANYC</u>	<u>AC Transit</u>	<u>CTA</u>	<u>SEPTA</u>	<u>OCTA</u>
Base	\$1.25	\$2.00	\$1.75	\$2.00	\$2.00	\$1.25
Transfer	N/A	N/A	\$0.25	N/A	\$0.60	N/A
Day	\$3.00	\$7.00	N/A	\$5.00	\$5.50	\$3.00
Weekly	\$14.00	\$24.00	N/A	\$20.00	\$18.75	\$15.00
Semi Monthly	\$27.00	N/A	N/A	N/A	N/A	\$26.00
Monthly	\$52.00	\$76.00	\$70.00	\$75.00	\$70.00	\$45.00
Regional Monthly	\$58.00	N/A	N/A	N/A	\$85.00	N/A

<u>Break Even Point</u>	<u>Trips</u>	<u>Trips</u>	<u>Trips</u>	<u>Trips</u>	<u>Trips</u>	<u>Trips</u>
Base to Day Pass	2.4	3.5	N/A	2.5	2.8	2.4
Base to Weekly	11.2	12.0	N/A	10.0	9.4	12.0
Base to Semi Monthly	21.6	N/A	N/A	N/A	N/A	20.8
Base to Monthly	41.6	38.0	40.0	37.5	35.0	36.0
Day to Weekly	4.7	3.4	N/A	4.0	3.4	5.0
Day to Semi Monthly	9.0	N/A	N/A	N/A	N/A	8.7
Day to Monthly	17.3	10.9	N/A	15.0	12.7	15.0
Base to Regional	46.4	N/A	N/A	N/A	42.5	N/A
Day to Regional	19.3	N/A	N/A	N/A	15.5	N/A

***Peer System Comparisons***

- The panel suggests that additional comparisons to peer system reviews would help the Board and the public understand the need for a new fare policy. While all transit agencies have their own set of unique issues and characteristics, peer data is helpful in considering options and determining fare policy.
- The panel believes that ranking Metro and its “peer” systems will help demonstrate that the LA region can accommodate changes in its fare structure. Peers should be selected based upon similarities of:
  - fare and transit characteristics
  - demographic and economic characteristics
- LA’s fares are significantly lower than its peer systems but its average income, poverty rate, cost of living and system characteristics compare favorably with those of its peers.

### III. RECOMMENDATIONS

The Peer Review Panel outlined a variety of options that the Metro could consider relative to fare increases. These options included the following:

#### *Alternative #1 No Immediate Change in Fare Structure*

- Fare restructuring should be done in conjunction with implementation of the new UFS , system, in order to avoid making fare decisions now that will be hard to sustain or implement with UFS.
- Metro Connections and the likely end of the consent decree are coming. This will allow Metro to more effectively schedule sustainable service levels, ideally reducing its operating expense base.
- Possibility of changing FAP
- Begin to develop and disseminate proactive messages that make the case for fare restructuring – highlighting the importance of prudently managing the public investment in the Metro system and the need to stabilize finances in both the near term and long term. The messages should include examples of how funds are being used to improve service and facilities and directly impact the public. For example, BART’s recently completed capital renovation program posted large signs stating “Your fare dollars at work” near escalator, faregate and other renovation projects.

#### *Alternative #2 Interim Revenue Enhancements*

- Consider an energy or security surcharge on each fare to raise revenue without affecting the base fare in the FAP  
-- and/or --
- Modify fare structure to increase passenger revenue while maintaining the current FAP calculation:
  - maintain current base fare
  - increase the price of day/monthly passes
  - eliminate weekly/semi-monthly passes
- The panel noted that fare surcharges, while not common, have been implemented by US transit agencies. BART, for example, recently adopted a ten cent capital surcharge that is included in each fare, generating approximately \$10 million annually.

#### *Alternative #3 Long Term Solution*

- Develop a fare structure similar to peer systems that will yield sufficient revenue to meet near and long term requirements. The panel estimated that an effective fare of approximately 90 cents per ride would be required, compared to an effective fare of between \$1.24 and \$1.30 in New York.
- Keep the day pass but raise the price to increase revenue. The panel suggests that it should be worth five trips.
- Consider consolidating the number of passes – perhaps eliminating the weekly and semi-monthly passes – to simplify fare options and move riders back to the base fare.

- Work to get legislation adopted that would permit Metro to reduce fraud by fining people who sell used daily passes to other passengers.

### ***Recommendations Regarding Fare Policy***

- Board adoption of a fare policy now could assist in restructuring the current fare structure.
- Having Board concurrence up front on fare policy goals adds clarity to the restructuring process.
- The November 12, 1998 report to the Metro Planning and Programming Committee regarding guidelines to establish a fare policy provides a good foundation for development of a Metro fare policy.
- The primary principle of a new fare policy should be the recognition that transit users must pay a reasonable portion of services provided.
- About a quarter of the US transit agencies have an approved fare policy. BART's fare and financial stability policies were discussed with Metro staff and Board-approved policies were provided.

### ***Fare Policy Considerations***

- Include performance related goals that are measurable and present a challenge to achieve, in order to move the agency to a more fiscally stable position. An example is a fare box recovery or system operating ratio goal that is several percentage points higher than current actual, and perhaps gradually increases over the long-term.
- Consider the use of automatic fare changes indexed to CPI-based cost increases or other major cost factors as BART and other agencies have done.
- Examine increasing revenue sources other than passenger fares. These could include market-based parking charges at parking lots with sufficient demand, expansion of advertising programs or fiber optics programs using existing right-of-way.
- Update the adopted fare policy on an annual or semi-annual basis.

### III. CONCLUSIONS

The Peer Review Panel was unanimous in its perspective that the Fare Allocation Policy (FAP) and Consent Decree are having a significant negative impact on Metro's service reliability and scope, and that that this issue needs to be addressed to protect the viability of future transit service to the residents of the Los Angeles area.

Because the FAP limits the ability of the Metro to raise revenues and the Consent Decree limits Metro's ability to adequately conform service with demand, Metro has, for many years, had to use funds designated for improving its capital plant to cover operating shortfalls. If continued, this diversion of funds will limit Metro's ability to maintain its fleet and infrastructure in accordance with industry standards. Likely impacts could include:

- a decline in service reliability
- reductions in the span and scope of services provided
- increases in the number of assets that are not in a state of good repair

The continued affect of these impacts could create a situation that might lead to the implementation of another consent decree and this time it might include Metro's rail operations.

The costs associated with the pattern of maintenance deferrals by Metro will greatly exceed the expenditures that would have been required if those needs were addressed on a timely basis, as many other transit agencies have found out. A case in point: the impact of disinvestment in infrastructure in New York City in the second half of the 20<sup>th</sup> century, and the massive investment of capital required to bring the system back. In light of those past capital deferrals, one of the few financial goals established for MTA New York City Transit is to never put their physical plant in peril again. Today the cost of maintaining a state of good repair for New York MTA is \$3 billion per year.

In its discussions with Metro staff, the Panel was reminded that a similar situation occurred early in the 20<sup>th</sup> century in Los Angeles when there was a major disinvestment in the region's first rail systems. The Pacific Electric Red Car and Los Angeles Railway systems both suffered from the inability to replace and upgrade capital equipment when fares were held at 5 cents from 1877 to 1927 and to 7 cents from 1928 to 1945. By the time fares were finally allowed to rise to 10 cents from 1945 to 1951 and 15 cents from 1952 to 1956 it was too late ... conversion from electric rail to diesel motorbus was well underway as the only economically feasible solution and Los Angeles quickly lost an enormous initial investment in 1,100 miles of interurban rail and 400 miles of urban rail.

The recommendations provided in this report should be reviewed and evaluated by the Metro management as part of its on-going efforts to assess fare policies and revenue options for the agency. The Panel trusts that its review will be of assistance and stands available to clarify any questions regarding the recommendations or any other portion of the report.

Our appreciation is extended to all personnel for their professional and courteous cooperation throughout the review. During all meetings, tours, and discussions, the MTA staff provided the Panel with comprehensive information that greatly assisted the review process.

## APPENDIX

**A – Letter of Request**

**B – Peer Review Agenda**

**C – Peer Review Document List**

## **APPENDIX A**

### **LETTER of REQUEST**



Metropolitan Transportation Authority

One Gateway Plaza  
Los Angeles, CA 90012-2955

213.922.2000 Te.  
metro.net

*TEAM*

February 13, 2006

Mr. William Millar, President  
American Public Transportation Association  
1666 K Street, N.W.  
Washington, D.C. 20006

Dear Mr. Millar:

In the face of rising costs such as fuel and labor, the Los Angeles County Metropolitan Transportation Authority (Metro) is considering increasing and/or restructuring its transit fares. In order to properly set the stage for presentations to our Board this spring/summer, we request an APTA Peer Review of our current fare revenues, fare structure, fare recovery ratio and policies in the context of our transit industry.

The Metro lead for this effort will be Terry Matsumoto, Executive Officer, Finance & Treasurer. Mr. Matsumoto can be contacted at 213.922.2473, email [tmatsumoto@metro.net](mailto:tmatsumoto@metro.net), and will handle the travel arrangements, interviews and document production for the APTA team when you have appointed the members.

I am sure that similar issues face other properties across the country and we will appreciate your consideration of this request.

Very truly yours,

Roger Snoble  
Chief Executive Officer



## **APPENDIX B**

### **PEER REVIEW AGENDA**

## APTA Peer Review

Monday, April 24, 2006 – Wednesday, April 26, 2006

**Attendees:** Greg Garback, Pamela Herhold, Fran Hooper, Lawrence Fleischer, Roger Snoble, John Catoe, Matt Raymond, Carol Inge, Alex Clifford, Terry Matsumoto, Michelle Caldwell, April McKay, Jane Matsumoto, Nalini Ahuja, Dana Woodbury

Monday – 4/24		Lead	Resources
8:30 AM	<b>ARRIVE AT USG</b> Building passes Peninsula Conference Room – 20 <sup>th</sup> floor	Shawn	
9:30 AM	<b>INTRODUCTIONS AND ENVIRONMENT</b> Malibu Conf Room 25th floor Meet & greet CEO's special issues LA Environment Financial Consent Decree BRU Labor Political Community Formula Allocation Procedure (FAP) Srs/disabled Transit Dependent	Roger John	Executive Team – Alex Matt, Terry Carol
11:00 AM	<b>REVIEW MTA BASELINES</b> Peninsula Conference Room – 20 <sup>th</sup> Floor MTA fare structure History of fare changes Impacts of fare changes on ridership Impacts of new services on ridership Historical analyses of cash vs prepaid Impacts on other local operators Lunch Comparative analyses Base fare Prepays Distance based Survey data	Terry Alex Matt	Michelle April Jane Ed Nalini Tim
7:00 PM	<b>PANEL DINNER</b>		

Tuesday – 4/25		Lead	Resources
8:30 AM	<b>AUTOMATED FARE COLLECTION</b> Peninsula Conference Room – 20 <sup>th</sup> floor Technology options Fare structures Regional clearing Electronic benefit transfer Non-transit opportunities Lunch	Terry Alex Matt	Jane Aprij
1:30 PM	<b>PANEL INTERNAL DISCUSSIONS</b> Peninsula Conference Room – 20 <sup>th</sup> floor Report development Additional interviews as necessary Topics to be determined	TBD	
7:00 PM	<b>PANEL DINNER</b>		
Wednesday – 4/26		Lead	Resources
10:00 AM	<b>EXIT CONFERENCE</b> Debrief to Executive Team Next Steps	Roger John	Executive Team
12:00 Noon	<b>PANEL DEPARTS</b>		

## **APPENDIX C**

### **Peer Review Document List**

***Metro Documents:***

Heavy and Light Rail Fare Barrier/Collection – A scan of Transit Research Studies prepared by the Metro Research Center

History of Metro Passenger Revenues and Operating Costs, 1960 – 2005

Introduction to the Los Angeles County Metropolitan Transportation Authority

Metro website: Financial Matters at Metro

Metro Customer Survey 2002-2005 results for fare used on the first bus/train of this trip

Metro Fiscal Year 2006 Transit Fund Allocations memo to the Planning & Programming and Finance and Budget Committees dated June 15 2005

MTA Fare Policy memo to the Planning & Programming Committee dated November 12, 1998

Relook at Fare Structure and Rider Categories since July 2005 presentation to the Regional Money Committee dated April 27, 2006

Report (untitled) of monthly, semi-monthly, weekly SR/DISB, college, student, EZMP and EZ S/D pass sales and revenue by month for FY 03 – 06

Structural Deficit presentation to the Finance and Budget Committee dated April 19, 2006

***Other Documents:***

APTA 2005 Transit Fare Database

BART Fare Structure Review Background Report dated August 2005

BART Financial Stability Policy adopted March 21, 2003

BART (draft) Pass Program cover memo dated April 21, 2006

San Francisco Bay Area Rapid Transit District Fare Policy (Attachment A) dated November, 2005

TCRP Report 94: Fare Policies, Structures and Technologies Update

US Census data from the American Community Survey for selected characteristics (vehicles available per household, household size, percentage below poverty level, median income, travel time to work, number of workers and workers using public transit) for 22 US counties

