

MBTA Advisory Board

Report on the
Proposed 2007 MBTA Fare Restructuring and Fare Increase

July 20, 2006

Overview of the MBTA Fare Increase and Restructuring

The need for a fare increase

Since Forward Funding was enacted by the Legislature in 2000, the MBTA has been responsible for balancing its budget with the revenue streams it was given. To supplement fare and non-fare revenues, which in FY2007 are expected to make up 35% of projected revenues, the MBTA receives revenue from assessments on cities and towns (contributing about 10%) and one fifth of the state's sales tax receipts (excluding meals), which will contribute the remaining 55% to the projected total revenues of \$1.34 billion. In addition to operating expenses, this amount will fund debt service for \$5.2 billion of outstanding debt.

Due to lower than expected sales tax revenues since forward funding, the MBTA has received \$113 million less than projected during the six years since 2000. At the same time, ridership - while still higher than during most of the 1990s - has been decreasing since 2001. Both lower sales tax receipts and a decrease in ridership are at least partially due to a downturn in the economy and stagnant population growth in the Boston metropolitan area. Escalating health care, pension, security and fuel costs have contributed to an increase in operating expenses that has been much larger than anticipated, resulting in a projected \$40 million deficit in FY2007 and the need for a fare increase in order to narrow the budget gap. There is no public appetite for the significant service cuts necessary to balance the budget without a fare increase.

Fare Restructuring – quick summary of highlights

By the end of 2006 the MBTA will have completed its automated fare collection project on all rapid transit and bus lines. The new fare equipment allows for more flexibility in fare collection and provides an opportunity for the MBTA to restructure its fares to eliminate inequities and inconsistencies in the system. With the new fare equipment, the MBTA is introducing the CharlieTicket, a simple magnetic stripe stored value card, and the CharlieCard, a contactless smart card that electronically holds stored value and/or a pass and can be programmed to accommodate changing fare policies in the future. The new system effectively eliminates cash transactions in the subway system. Bus fare boxes will continue to accept cash; however, the new fare structure favors the use of the CharlieCard and to a lesser extent the CharlieTicket over cash. The fare differential between cash and CharlieTicket and CharlieCard fares was deliberately set high to encourage the use of the CharlieCard, which is the most convenient and efficient fare medium for riders and for the MBTA as it allows faster boarding and requires fewer financial transactions. While the surcharge is controversial, the need to quickly convert the transit riding public from cash and the previous pass system to the CharlieCard system is critical to the success of the project. Experience in other transit systems, such as in Chicago and London, showed that a significant fare differential was necessary in order speed up adoption of the smart card by riders (Transport for London's cash subway fare is twice as high as its smart card fare).

The MBTA's proposal eliminates all exit fares and reinstates fare collection on surface stations on the outbound green line. Another major change will be the introduction of free and discounted transfers facilitated by the new fare media. The CharlieTicket will include free local bus to bus transfers; the CharlieCard will provide free transfers from local bus to bus,

express bus to subway, subway to bus and step-up transfers from local bus to subway and subway to express bus. Riders paying cash will not receive any free or discounted transfers. Because in the new fare structure transfers will by and large be free for subway riders, the subway only pass will be discontinued and the combo pass will be re-branded as the One-Pass.

Fare Increase

In addition to the restructuring, the MBTA is proposing a fare increase that will yield a 25% increase in total fare revenues. Base fares are proposed to increase as follows¹:

	Current Fare	Proposed Fare	
		CharlieCard	CharlieTicket/Cash
Local Bus	\$0.90	\$1.25	\$1.65
Rapid Transit	\$1.25	\$1.70	\$2.25
Local Bus & Rapid Transit	\$2.15	\$1.70	\$3.90
Inner Express Bus	\$2.20 - \$3.10	\$2.80	\$3.70
Outer Express Bus	\$3.45 - \$3.75	\$4.00	\$5.35

	Current Fare	Proposed Fare*
Commuter Rail Zone 1A	\$1.25	\$1.70
Commuter Rail Zone 1B	\$2.00	\$2.50
Commuter Rail Zone 1	\$3.25	\$4.25
Commuter Rail Zone 2	\$3.50	\$4.75
Commuter Rail Zone 3	\$3.75	\$5.25
Commuter Rail Zone 4	\$4.50	\$5.75
Commuter Rail Zone 5	\$5.00	\$6.25
Commuter Rail Zone 6	\$5.25	\$6.75
Commuter Rail Zone 7	\$5.50	\$7.25
Commuter Rail Zone 8	\$6.00	\$7.75
Commuter Boat	\$6.00	\$6.00
Inner Harbor Ferries	\$1.50	\$1.70
The Ride	\$1.50	\$2.00

* Automated Fare Collection will only be available on subway and bus at the time the fare increase will be implemented

Time-period passes, of which monthly passes are the most popular, will increase correspondingly. Most monthly pass prices were set such that riders will benefit from buying a pass if they ride 31 to 33 times or more a month (depending on the pass).

The reason most fares increase at more than 25% is that the revenue lost by offering free and discounted transfers as well as the elimination of exit fares needs to be compensated with higher base fares. The consequences of free transfers include the elimination of a subway only pass which has angered many subway only riders who will have to pay significantly more for the OnePass that includes a service they rarely use (bus service).

¹ Since this report was written, the MBTA has announced an updated fare increase and restructuring proposal. Details are laid out in Appendix A of this report.

Winners and Losers

The beneficiaries of this fare restructuring are former cash customers who become CharlieCard holders and travel by more than one mode (linked trips) and holders of the current ComboPass. Both will be experiencing a fare decrease. For years, transit advocates have requested that the MBTA introduce discounted or free transfers, pointing out that, while the MBTA base fare is one of the lowest in the country, a linked trip is one of the most expensive compared to other agencies in the U.S.

Percentage increases for unlinked trips are slightly higher for bus and rapid transit fares than for most commuter rail zone fares. However, the fare for linked subway and bus trips decreases significantly. And while most commuter rail fares increase at a lower rate than bus and subway fares, the nominal increase is high enough to cause sticker shock among commuter rail riders.

The result of offering free subway to bus transfers will be that subway rides increase by 36% per trip and subway pass holders will experience the highest fare increase (41%). This is the case because the MBTA is planning on offering subway riders free transfers to the bus across the board and therefore plans to phase out the subway only pass leaving the OnePass (formerly ComboPass) remaining as the only pass alternative for subway riders. While subway riders and OnePass pass holders get increased access to the system through free transfers to buses, many argue that they will never ride the bus and feel it is unfair to have to pay for service they will not use.

Public process and comments

The MBTA held 11 workshops and 6 public hearings to inform riders of the upcoming fare restructuring and increase and to listen to their responses and comments. Workshops were interactive sessions where MBTA employees answered the public's questions whereas the hearings were held to hear and record the riders' testimonies.

Public comments summary

Complaints about service and a wish list for infrastructure improvements, better ADA accessibility and various expansion projects dominated the discussion. Many speakers acknowledged that they were less concerned about the fare increase, but were dissatisfied with the current service quality and expected service to be better in the future.

While a percentage of attendees flat-out opposed the fare increase or the magnitude of the fare increase, a larger portion had questions or concerns about the new fare structure and how AFC will work.

Several riders felt that the MBTA is not doing all it can to curb fare evasion and to market the system to potential riders and introduce student pass programs to increase ridership.

The public process was criticized (for holding meetings early in the day and not publicizing the meetings enough) and the MBTA added a sixth fare increase hearing in Mattapan in response to complaints about lack of hearings in that area of the city.

There was a general concern that the fare increase would be a quick fix and not address the underlying funding issues the MBTA has. People wondered if it would be back asking for higher fares in a couple of years. There was also an understanding of the MBTA's debt situation and several people called for the legislature to step in and take over some of the Authority's old debt.

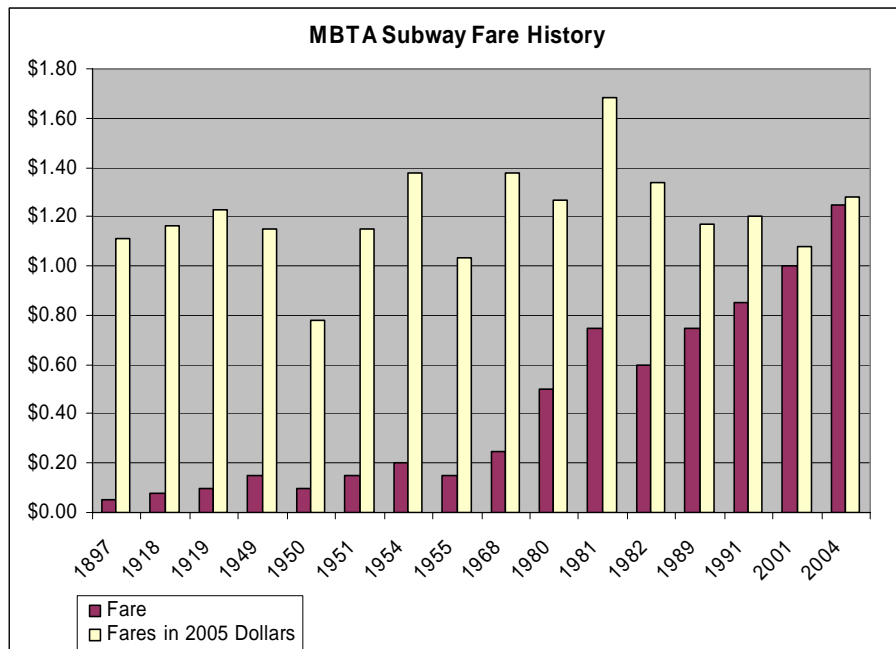
Another concern was voiced regarding the promises the MBTA made during the last fare increase. The Authority's presentation covered the specific commitments made during the last fare increase process and information on exactly how the MBTA met those commitments, however, many speakers stated that they do not trust the T to live up to its promises. Having experienced the weak track record of servicing current ticket machines, several people voiced their skepticism about the Authority's ability to introduce and maintain Automated Fare Collection properly. Wide-spread distribution of CharlieCards and superior maintenance of the fare machines are particularly important in light of the fare differential.

History of Fares in Boston

When the MBTA ran its first subway train in 1897 the base fare was 5 cents. Since then, fares have increased steadily, with the exception of a few decreases in 1950, 1955 and 1982. Adjusted for inflation, however, the average and median fare have been \$1.21 and \$1.19 respectively for the 110 year period. Inflation adjusted fares ranged from a low point of \$.78 in 1950 to a high of \$1.68 in 1981.

After almost 10 years without a fare increase, the MBTA raised subway fares from \$.85 to \$1 and bus fares from \$.65 to \$.75 in 2000, shortly after the implementation of forward funding. The last fare increase took place in 2004 when subway fares were raised to \$1.25 and bus fares to \$.90 (the original proposal of raising it to \$1 was changed to ameliorate the impact on low income riders).

Year	Fare	Fares in 2005 Dollars
1897	\$0.05	\$1.11
1918	\$0.08	\$1.16
1919	\$0.10	\$1.23
1949	\$0.15	\$1.15
1950	\$0.10	\$0.78
1951	\$0.15	\$1.15
1954	\$0.20	\$1.38
1955	\$0.15	\$1.03
1968	\$0.25	\$1.38
1980	\$0.50	\$1.27
1981	\$0.75	\$1.68
1982	\$0.60	\$1.34
1989	\$0.75	\$1.17
1991	\$0.85	\$1.20
2001	\$1.00	\$1.08
2004	\$1.25	\$1.28



Source: MBTA Advisory Board

The philosophy of determining transit fares

A discussion about a proposed fare increase should not take place without looking at the fundamental realities of public transit funding and the basic but important question of who should pay for the service. While there is disagreement on how much transit should be subsidized with tax money versus paid for by fares, it is widely acknowledged that subsidies are needed to maintain a functioning transit system, which in turn is necessary for the economic viability of most cities. And while it is easy to point towards the costs of public transit, placing a value on the public benefits is much harder, making it difficult to determine how much of the cost should be borne by the transit rider and how much by taxpayers (on the state and local level). Benefits that occur to both riders and non-riders include:

- Local/regional: economic development, less traffic congestion, fewer traffic fatalities, less air pollution, more attractive cities, availability of travel choices
- State-wide: economic development, less greenhouse gases & traveling air pollution, less demand for gasoline

The MBTA Blue Ribbon Committee, which was convened by the Secretary of Transportation in 2000 to “recommend how best to allocate and utilize the MBTA’s financial resources to ensure the operational reliability of the system” recommended a 50% revenue recovery goal: Total revenues generated by the MBTA, both fare and other revenues, should cover half of the operating budget. The 50% goal is certainly in line with the recovery ratio currently achieved or aspired to by other transit authorities in the United States. While comparison with other systems may be difficult for several reasons – fare or revenue recovery ratios display a high degree of variation due to many factors and there is a lack of standardized reporting – a 50% revenue recovery ratio seems to be an accepted standard in the US².

The MBTA has been making some progress toward this goal:

- FY05 (actual): 41.33%
- FY06 (budget): 39.89%
- FY07 (budget): 43.11% (assumes FY2007 fare increase)

While the revenue recovery ratio is a useful goal to ensure the desired distribution of the financial burden of providing mass transit, in practice fare increases are almost always driven by budget shortfalls and in most cases do not provide for an increase in service.

As operating costs are rising – often at a faster rate than inflation – intermittent fare increases are necessary to cover increasing costs, particularly when other revenue sources remain stagnant. Scheduling modest fare increases in regular intervals to allow the transit agency to keep up with inflation is one way to avoid crisis-driven fare increases. The MBTA’s investment in AFC technology will give the Authority the ability to implement future fare increases with fewer logistical problems.

² It is even more difficult to draw on international comparisons, as accounting standards are different in other countries. Generally speaking, very dense cities, such as Tokyo and Hong Kong are in the upper range, sprawling cities like Los Angeles are in the lower range of fare or revenue recovery ratios.

Ameliorating fare increases

A fare increase invariably affects those most who can afford it the least. Choice riders can adjust their travel patterns based on what makes the most sense for them at the time, whereas the transit-dependent population, to a large extent also a lower-income population than choice riders, has no option but to pay the increase in fares or experience decreased mobility. Transit advocates make the argument that all fare increases are unfair as they disproportionately affect the low income population and there is no doubt that transit authorities should be aware of those impacts and take them into account when considering fare increases. On the other hand, when the authority is faced with the choice of a fare increase or service cuts, the low income population would likely be hit harder if they lost their mobility entirely rather than struggling to pay more for it.

When considering the context, one must admit that the low income population is facing social problems that are much larger than the cost of a transit ride. And even though a fare increase might compound these problems, it is not the root cause of people struggling to make ends meet with low minimum wage jobs, inadequate social security payments or due to other social injustices. Consequently transit authorities should not be asked to be the solution to those problems either. These social problems in general should be dealt with at the appropriate levels, such as the State Legislature or Congress, while the need for lower cost transportation to aid eligible groups should be addressed by human service agencies.

There are precedents for a variety of programs that can help decrease the cost of public transportation to the individual rider. Employer and university programs can bring down the cost of transit by allowing employees to take advantage of pre-tax payroll deductions, employer subsidies and other discount programs. Need-based programs can provide transit subsidies to those who qualify for other social assistance, such as food stamps or unemployment. Lastly, by maximizing non-fare revenue, transit agencies can delay or decrease the size of a fare increase.

MBTA funding – the bigger picture

As far as the Advisory Board staff can discover, the MBTA spends more money on debt service in its operating budget than any other transit agency in the country. An amount roughly equal to the amount collected from fares is spent annually on paying back principal and interest on borrowed funds. This not only limits its ability to maintain and expand the system in the future, it also impacts the short-term delivery of transit service.

About half of the \$5.2 billion in debt was incurred prior to the recreation of the MBTA in 2000 as an independent agency with a dedicated funding stream and some of it is the result of legal requirements of the Commonwealth of Massachusetts to build transit projects as part of the Central Artery Tunnel project. Many MBTA supporters argue that some or all of that prior debt should be picked up by the state, particularly in the case of the CA/T commitments, which were signed by the state rather than the MBTA.

Relieving the MBTA of some of its debt would allow the authority to start paying for projects on a “Pay-as-you-go” basis rather than issuing an increasing amount of bonds. In the long run

this would decrease the debt load the authority is carrying as well as the amount of money allocated in the operating budget to service this debt.

Advisory Board recommendations

The MBTA Advisory Board acknowledges the need to increase fares in order for the MBTA to balance its budget. In the absence of other significant revenue sources or opportunities to cut costs, it approved the FY 2007 budget with a mid-year fare increase yielding a total of \$35 million and \$70 million annually going forward. Despite its implicit approval of the upcoming increase, the Advisory Board urges the MBTA to consider the following actions to lessen the impact of the increase:

- Reconsider offering a subway only pass that does not include bus transfers and costs less than the OnePass. This would provide an option for subway only riders to not have to pay for bus service when they won't use it without undermining the concept of free transfers included in the base fare (single ride, CharlieCard).
- Reconsider the lock-out time after last use of the CharlieCard monthly pass. Currently the fare equipment is programmed to preclude card holders from sharing passes with others by locking out the card for 20 minutes after it was used at a particular station. The 20 minute period is too long and not necessary to prevent abuse. (Scenario: rider forgets something in parked car, returns within 10 minutes, would have to purchase an additional fare despite having paid for his/her monthly pass). The MBTA should be able to prevent pass-backs with a 5 – 10 minute lock-out period.
- Design an extensive Charlie Card distribution network and marketing campaign to ensure that the transit-dependent population has ample access to the CharlieCard and will not have to pay the proposed cash/CharlieTicket surcharge.
- Improve communication of the new fare structure and fares.
- Do more to reach out to employers to offer commuter benefits programs and take advantage of corporate pass program as well as work with universities to implement a U-Pass program.
- Enforce fare collection and punish fare evasion from the start.
- Address cost factors, such as absenteeism, to prove that the T is doing its share to control costs.
- The MBTA Advisory Board supports a legislative solution that would relieve the MBTA of some of its debt issued prior to forward funding, particularly the debt related to the CA/T projects. The Board believes that the MBTA should work towards the goal of having debt service costs consume less than 15% of its operating budget, which would still be more than the New York City MTA, SEPTA in Philadelphia or the Chicago Transit Authority carry in their operating budget³.

³ New York's share of debt service as part of the total operating budget was 14.7% in FY2006. In the same year the CTA operating budget carries no debt service as the non-federal amount of its capital projects are funded by the State of Illinois and the Regional Transportation Authority and SEPTA carries a minimal amount of debt service in its operating budget while the majority is assumed by the State of Pennsylvania.

APPENDIX A

MBTA FARE INCREASE UPDATE

10/06/2006

In October of 2006 the MBTA responded to public comments by proposing several changes to the fare structure and fare levels initially proposed. Listed below are the five potential changes and their impact on the overall revenue number. The MBTA Board of Directors will vote on the proposed fare increase at the November Board meeting.

1. Lowering the cash fare/CharlieTicket surcharge (bus surcharge = \$0.25 instead of \$0.40, subway surcharge = \$0.30 instead of \$0.55)
2. Reducing the monthly LinkPass⁴ price by \$3.00 from \$62.00 to \$59.00;
3. Reducing the 7-Day LinkPass price by \$3.00 to \$15.00 and eliminating the 3-Day LinkPass, which was priced at \$16.00;
4. Merging commuter rail zone 1B into zone 1A for single fare; and
5. Eliminating the cash fare for all children 11 years of age and under who are traveling with an adult.

Proposed Single Ride Fares (Changes from initially proposed fares in bold)

	Current Fare	CharlieCard	Proposed Fare	CharlieTicket/Cash
Local Bus	\$0.90		\$1.25	\$1.50
Rapid Transit	\$1.25		\$1.70	\$2.00
Local Bus & Rapid Transit	\$2.15		\$1.70	\$3.50
Inner Express Bus	\$2.20 - \$3.10		\$2.80	\$3.70
Outer Express Bus	\$3.45 - \$3.75		\$4.00	\$5.35

	Current Fare	Proposed Fare*
Commuter Rail Zone 1A	\$1.25	\$1.70
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Commuter Boat	\$6.00	\$6.00
Inner Harbor Ferries	\$1.50	\$1.70
The Ride	\$1.50	\$2.00

⁴ LinkPass is the new name for the OnePass (formerly Combo Plus)

Projected Revenue Impact

Table 1				
Scenario	Absolute Change		Absolute Difference	
	Revenue	Ridership	Revenue	Ridership
Original Proposal	\$76,325,746	-17,477,970	-	-
1. Reducing the Cash Surcharge (\$0.25 bus, \$0.30 subway)	\$75,646,599	-17,542,138	(\$679,147)	-64,168
2. Reducing the monthly LinkPass price by \$3.00 to \$59.00	\$72,790,706	-16,708,391	(\$3,535,040)	769,579
3. Reducing the 7-Day LinkPass price by \$3.00 to \$15.00 and eliminating the 3-Day LinkPass, which was priced at \$16.00	\$74,934,250	-17,252,822	(\$1,391,496)	225,148
4. Merging commuter rail zone 1B into zone 1A	\$76,287,753	-17,471,990	(\$37,993)	5,980
5. Eliminating the cash fare for all children 11 years of age and under	Negligible	Negligible	Negligible	Negligible
Combination of All Potential Changes	\$70,717,087	-16,541,433	(\$5,608,659)	936,537

Source: MBTA