M E M O R A N D U M

DATE: February 1, 2005

TO: MTA Board of Directors
Cleopatra Vaughns, Chair
Michael Kasolas, Vice Chair
Shirley Breyer Black, Director
Wil Din, Director
Rev. Dr. James McCray, Jr., Director
Peter Mezey, Director

FROM: Michael T. Burns
Director of Transportation

RE: Revenue Proposals for FY06

At the January 4, 2005, Municipal Transportation Agency (MTA) Board of Directors' meeting, staff provided a status update on the Fiscal Year 2005 and Fiscal Year 2006 (FY05 and FY06) operating budgets for the Agency. At this meeting, staff was directed to develop specific proposals and recommendations to address the projected deficits. This memo focuses on FY06 and beyond and provides discussion, and estimated value and timelines for a variety of changes in Muni's fare structure, and further discussion on a variety of proposals that might generate additional revenue to the Agency in the long term. In addition, this memo addresses the issue of fare evasion in response to a request of the Board.

Fare Evasion

It is difficult to measure fare evasion accurately. Observation is not sufficient since those passengers loading at the rear door may have a valid pass or transfer. Staff conducted a literature search and found the reported industry average was 6%, with a range from 1% to 40%. The industry wisdom is that fare evasion varies widely by line and time of day, with the lowest rate likely to be during AM peak on commute lines and the highest rate likely after 10 pm on local lines.

The MTA has initiated a program to address back door boarding, which is the most commonly cited instance of potential fare evasion.

Rear Door Monitoring Program

Beginning January 10, 2005, Muni instituted a new Rear Door Monitoring Program. Supported by Transit Fare Inspectors, MTAP personnel, and the SFPD, employees on worker's compensation are being assigned to ride buses to monitor the back door. In addition to providing a security presence, they will advise passengers that rear door loading is prohibited and redirect boarding riders to the front door. Staff will be able to monitor revenue changes, evaluate the effect on operation, and improve customer service.

The Rear Door Monitoring Program has been initiated on the 14 Mission as a three-month pilot program. Once the pilot is completed, the results will be evaluated and the program is expected to be expanded to other lines.

Revenue Options

Muni Fare Increase

Muni's FY2005 budget for fixed route fares (cash, tokens, and passes) is $117.8 million. This covers approximately 24% of Muni's operating costs. The last fare increase was implemented as of September 1, 2003, and was approved through the FY04 budget process. Depending on the rate and timing of a fare increase, staff estimates that a fare increase could generate between $13.3 million and $27.0 million in revenue for FY06.

The table below identifies two possible rate increases and the corresponding anticipated revenue. A fare increase implemented as part of the FY06 operating budget would follow the usual process for the budget: approval by the MTA Board and submission to the Mayor and Board of Supervisors by March 1st and implementation September 1st, thereby providing ten months of increased revenues.

Fare Type	Current Fare	Alternate Fare (1)	Alternate Fare (2)
Adult Cash	$1.25	$1.50	$1.75
Senior/Disabled Cash	$0.35	$0.50	$0.60
Youth Cash	$0.35	$0.50	$0.60
Cable Car Cash	$3.00	$4.00	$5.00
Cable Car Souvenir	$3.00	$4.00	$5.00
Transfers	Free	Free	Free
Fast Pass (adult)	$45.00	$50.00	$60.00
Discount Monthly Pass – Senior, Disabled	$10.00	$12.00	$15.00
Discount Monthly Pass – Youth	$10.00	$12.00	$15.00
Weekly Pass	$12.00	$15.00	$18.00
1 Day Passport	$9.00	$11.00	$13.00
3 Day Passport	$15.00	$18.00	$21.00
7 Day Passport	$20.00	$24.00	$27.00
Class Pass	$15.00	$18.00	$21.00
Tokens	$10.50	$13.50	$16.00
Other (various)	Various	Various	Various
Total New Revenue Annual		**$15,905,967**	**$32,441,967**
Total New Revenue 10 months		**$13,254,973**	**$27,034,973**
Average Percent Rate Increase		*19%*	*42%*

The proposed fare structure establishes a relationship between cash fares, pre-paid passes and other discount fares. In both of these increase scenarios, the pass fare is increased less than the cash fare, thereby promoting pass sales. Tokens are priced at a 10% discount from the cash fare, which mirrors an industry average for urban transit agencies. In September 2003, senior, youth and disabled cash fares were not increased. Under these proposals, they would be increased.

Staff is viewing a potential FY06 fare increase within a five-year window. For example, were the adult cash fare to be increased to $1.50 in FY06, then staff believes it makes sense to plan on increasing this fare by a quarter in both FY08 and FY10, resulting in a $2.00 adult cash fare in the final year. All other fare categories would be similarly increased. In order to implement a fare increase, the MTA would either need to declare a fiscal emergency or conduct environmental review.

Estimated annual revenue: $15.9 to $32.4 million
Revenue first realized: FY06

Other Fare Adjustments
In addition to increasing the fare schedule, staff has analyzed three new revenue proposals related to fares for consideration:

<u>Eliminate Transfers</u>
Preliminary estimates indicate that Muni could save $8.8 to $13.1 million annually by eliminating free transfers, depending on assumptions of how many passengers require linked trips for a destination and the elasticity of that particular travel pattern. However, there are significant concerns that are not reflected in the analysis. For example, the analysis does not quantify costs that we could incur were the Agency to decide to modify our service structure to maximize the number of direct route (no transfer) trips. An additional concern is the inequity of such a policy, charging some passengers more per destination than others and penalizing those who cannot or will not walk a few blocks to avoid having to transfer.

Estimated annual savings: $8.5 to $13.1 million
Savings first realized: FY06

<u>Charge for Transfers</u>
Muni could also consider charging for transfers. Other agencies that charge for transfers include AC Transit ($0.25), the Chicago Transit Authority ($0.25), Los Angeles ($0.25), Miami ($0.25), and SEPTA in Philadelphia ($0.60). At a proposed price of $0.25 for transfers, the increased revenue would be an estimated $3.1 to $6.1 million annually, assuming demand for linked trips from 25-50% of cash and token payers. Paying for transfers would require an additional transaction for these riders, which slows loading, particularly in the early

months of implementation.

The Agency could also expect an increase of transfer theft. Currently, transfers do not hold a dollar value. At the proposed rate of $0.25, a new book containing 100 transfers would be valued at $25. Depending on the line and the run, operators can be issued several books of transfers. If a charge for transfers were imposed, there would be new administrative costs to manage the daily reconciliation of the transfer turn-ins. Based on the existing system, the annual cost would be approximately $0.8 million. As a result, the potential net increased revenue resulting from a new $0.25 charge for transfers would be $2.3 million to $5.4 million annually.

Estimated annual revenue: $2.3 to $5.4 million
Revenue first realized: FY06

<u>Express Surcharge</u>
There could be an additional charge for Express/Limited service. Staff analysis indicates that Muni could generate $0.4 million at an express surcharge of $0.25, and $1.2 million at an express surcharge of $0.75. These numbers don't take into account any additional costs resulting from increased ridership on the non-express lines or savings from reduced demand on Limited/Express lines.

Estimated annual revenue: $0.4 to $1.2 million
Revenue first realized: FY06

<u>Eliminate BART FastPass Privilege</u>
Muni could end the practice of providing BART access at no extra charge to adult FastPass holders. Approximately 20,000 passengers take 35,000 weekday rides on BART within San Francisco, mostly along the Mission/Balboa corridor, with a FastPass. The MTA pays BART $0.87 per ride, for an annual cost of $9 million. It is difficult to calculate the net savings of this option, including elimination of the BART payment, increased operating expenses to carry additional riders, and the loss of FastPass sales revenue to those customers who buy it primarily for BART access, but the range is estimated to be $2.0 million to $5.0 million annually. Canceling our contract with BART requires 180 days notice. As such, the savings to be gained by such an action would not begin until some time in FY06.

Estimated annual savings: $2.0 to $5.0 million
Savings first realized: FY06

<u>Premium FastPass</u>
Alternatively, the MTA could create a new "Premium FastPass" that offers additional service to passengers and cost-recovery for the Agency. This option can be evaluated further, but

would be intended to partially cover the reimbursement to BART of the service use and start up expenses.

Creating a Premium FastPass would require re-opening the BART contract and the likely re-negotiation of the reimbursement rate for FastPass users on BART, which could result in a higher proposed price in order to maintain cost recovery. An implementation schedule tied to TransLink would also create an opportunity to expand the instrument to include Senior and Disabled pass riders. If an additional $10 per FastPass was charged, and everyone who currently rode BART paid this premium, the Agency could raise an addition $2.4 million annually.

Estimated annual revenue: $2.4 million
Revenue first realized: FY06

Eliminate or Phase Out Tokens
Another option available would be to eliminate tokens or to phase out the discount they provide. At adult cash fare rates of $1.25, eliminating tokens would save $0.8 million annually, assuming all token users became cash payers. In addition, there would be long-term savings from not having to produce new tokens. Eliminating the token discount would have the same effect, but would not resulting long-term production savings.

Estimated annual savings/revenue: $0.8 million
Savings/revenue first realized: FY06

Long-Term Revenue Options

Assessment Districts
Members of the public have suggested the creation of special assessment districts to raise revenue for transit purposes. Special assessment districts are typically formed to assess real property for the cost of special benefits provided to property in the district. Forming a special assessment district requires approval by the property owners who would be responsible for a majority of the proposed total assessment. Muni would have to prepare an analysis that quantifies the cost of the special benefit to the property (as contrasted to the general benefit to the City and the public), and breaks down that cost on a per-parcel basis. The assessment imposed on each property could not exceed that property's proportional share of the special benefit. In order to create a special benefit assessment district to assess property for public transit benefits, the Board of Supervisors would need to pass implementing procedural legislation.

Estimated annual revenue: unknown
Revenue first realized: FY08

Local Vehicle Environmental Impact Fee

The MTA could propose a local vehicle environmental impact fee based on an assessment of the cost to the City of private vehicle use. Currently, no such fee exists. Implementation of such a fee would require a citywide planning process and authorization from the state legislature. It is estimated that this process would take approximately one year for approval and up to six months for implementation through the Department of Motor Vehicles. Any revenue generated through such a fee would not likely be realized until FY08. In addition, it is likely that any fees generated would have to be shared with the City.

Estimated annual revenue: unknown
Revenue first realized: FY08

Local Vehicle Registration Fee

San Mateo County recently received approval from the State Legislature for an "Environmental/Transportation Pilot Program" that will assess up to $4 per motor vehicle registration (AB1546). The fee is estimated to generate $2.5 million per year. The bill authorizes the use of these funds for programs "bearing a relationship or benefit to the motor vehicles paying the fee." If San Francisco were able to obtain authorization from the Legislature for a similar program, it is likely that Muni operating expenses would qualify under this standard. In addition to approval from the Legislature, approval by 2/3 of the Board of the Supervisors would also be required. Any revenue generated through such a fee would not likely be realized until FY07 or FY08.

Estimated annual revenue: unknown
Revenue first realized: FY08

Parking Tax Options

Currently, the City and County of San Francisco levies a 25% parking tax on all parking facilities. An amount equal to approximately 40% of the parking tax revenues is allocated to Muni.

In FY2005, the parking tax is expected to yield approximately $21 million in operating revenues to Muni, and approximately $54 million in total revenue for the City. Revenue changes for Muni depend on the scale of a rate increase. For instance, if the City's parking tax were increased to 35%, and parking demand were not reduced significantly as a result, then the total increase in annual revenue would be approximately $21 million at current parking rates. Under the current revenue allocation formula, Muni would receive an additional $8.6 million in annual revenue from the increase. However, under the Charter, an increase in the parking tax would require a reduction in the MTA's General Fund transfer equal to half the amount of the increase. For example, were a parking tax increase to generate $8.6 million in additional revenue, the MTA's General Fund transfer would be reduced by $4.3 million.

Any proposal to increase the parking tax with revenues directed to Muni would require two-thirds voter approval. The next scheduled election is in November, 2005. If approved, the parking tax rate increase would become effective ten days after the Board of Supervisors certified the results of the election. A transition period would then be required to implement any necessary administrative changes related to collection of the tax. Taking into consideration these process requirements, it is currently estimated that implementation of a parking tax increase would take approximately 15 months from now; that is, spring of 2006.

Estimated annual revenue for MTA: $4.3 million
Revenue first realized: FY06 or FY07

Another option would be to expand the tax to cover facilities where parking is currently provided for free, such as hotels and businesses. The revenue potential from this action is unknown. As with an increase in the tax rate, expanding the scope of the tax would require two-thirds voter approval.

<u>Parcel Tax</u>
Currently Muni does not receive revenues from special taxes levied on property in the City. (Muni does receive revenue from the Transit Impact Development (TIDF), a one-time charge levied against most non-residential property when it is developed to add or increase non-residential uses.) A parcel tax for the special purpose of supporting Muni improvements, maintenance, and operations would require two-thirds voter approval.

Such a tax could not be an ad valorem tax based on the value of the property. Instead, parcel taxes are typically allocated among properties based on a factor such as the size of the parcel, the number of units on the parcel, or the total square feet of commercial improvements on the parcel. Revenue expectations would vary depending on the rate of the tax. For instance, an annual tax of $100 per parcel (at approximately 18,000 parcels) would result in revenues of $1.8 million per year.

The MTA Board could place a parcel tax on the ballot. The next scheduled election is in November, 2005. As with a parking tax, if approved, the parcel tax would go into effect ten days after the Board of Supervisors certified the results of the election. However, it is not clear when the Tax Collector could begin to collect this tax, and at what point revenue generated from the tax could be distributed to the MTA. Therefore, while revenues from this tax may be received in FY2006, it is possible that a lengthy implementation could result in revenues not being received by the MTA until FY07. A possible scenario for revenue receipt is:

Estimated annual revenue: $1.8 million
Revenue first realized: FY07

Local Gas Tax: Revenue and Taxation Code

The state currently levies an excise tax of $0.18 per gallon of gasoline sold, as well as a sales tax of 6% on fuel sales. The Revenue and Taxation Code authorizes Counties to impose an additional tax on motor vehicle fuel sales. The amount of the tax is not limited, but it must be imposed in one cent increments. Such a tax would require a proposition passed by the Board of Supervisors and approved by two-thirds of the voters. The City would then have to enter into an agreement with the State Board of Equalization for the collection and administration of the tax.

A tax of $0.01 per gallon would raise approximately $2.0 million annually from sales of gasoline and diesel fuel, though revenues from a gas tax would fluctuate with the demand for gasoline.

The use of revenues generated by this tax would be limited by Article XIX of the state constitution, which restricts the use of fuel tax revenues to research, planning, construction, maintenance or improvement of: 1) streets and highways; and 2) public mass transit guideways and related facilities. Operating and maintenance costs for mass transit power systems, passenger facilities, vehicles, equipment and services are specifically excluded.

Estimated annual revenue: $2.0 million or more
Revenue first realized: FY07

Local Gas Tax: Public Utilities Code

The Public Utilities Code allows local governments to impose a separate $0.01 per gallon fuel tax following voter approval of a proposition authorizing the tax. Like a tax authorized under the Revenue and Taxation Code, a tax authorized by the Public Utilities Code would require a proposition passed by the Board of Supervisors and approval by two-thirds of the voters. The City would then have to enter into an agreement with the State Board of Equalization for the collection and administration of the tax.

The Public Utilities Code allows revenues from this gas tax to be used for the following range of purposes:

1. The planning, construction, and maintenance of, and the acquisition of rights-of-ways for, exclusive public mass transit guideways and exclusive bus lanes and related fixed facilities to such guideways and bus lanes.
2. The purchase of transit vehicles.
3. The payment of principal and interest on voter-approved bonds for purposes specified in (1) or (2) above.

A tax of $0.01 per gallon would raise approximately $2.0 million annually from sales of gasoline and diesel fuel, though revenues from a gas tax would fluctuate with the demand for gasoline.

As with the other taxes discussed above, the timeframe for implementation of either of the taxes discussed above would be relatively lengthy. Were a tax to be approved by the voters in November 2005, reaching agreement with the State Board of Equalization for collection and administration of the tax could require some time. It is estimated that implementing a gas tax would require approximately 15 months; that is, spring of 2006.

Estimated annual revenue: $2.0 million
Revenue first realized: FY06 or FY07

Next Steps

Staff is looking for prioritization of the revenue initiatives from the MTA Board at the February 15, 2005, meeting. Measures would then be incorporated into the MTA budget or other programs (i.e., the legislative agenda), as appropriate.