

**DRAFT MINI-REPORT  
ECONOMIC IMPACT OF ZERO FARE TRANSIT  
SUBMITTED BY KANSAS CITY AREA TRANSPORTATION AUTHORITY  
December 5, 2019**

**Conducted by the Center for Economic Information (CEI) in the Department of Economics of the  
College of Arts and Sciences at the University of Missouri Kansas City.**

The Kansas City Area Transportation Authority (KCATA) is collaborating with the Center for Economic Information at the University of Missouri Kansas City in order to better understand the economic impact of the proposed zero-fare policy.

**Based on our preliminary analysis, it is our expectation that the proposed policy will improve the quality of life in the Kansas City area.**

**IMPACT OF THE PROPOSED POLICY**

Regional gross domestic product (GDP) will **increase between \$13,615,461 and \$17,930,968**. This proposed policy change would have a meaningful impact on the economic livelihood of KCATA's passengers and those new passengers who may now be motivated to use bus service. For those living paycheck to paycheck, as most Americans are, even an additional \$50 per month of income can make the difference in deciding which bills to pay.

Where will the money be spent if not in the farebox? These are the top four categories of spending with the size of the impact:

- Housing                    \$2,195,838
- Medical                    \$716,913
- Retail                      \$606,503
- Insurance carriers      \$448,834

Increasing consumer incomes has a meaningful and significant effect on the ability of people to pay for their rents and mortgages. ***This fact is especially important because we can say that the proposed policy will help alleviate, in a meaningful way, the housing crisis in Kansas City.***

That is not all. There is the possibility that additional funds will now be available for home improvement projects and repairs. There is also the real possibility that housing values will improve in the city as a whole. An additional impact lies in the possibility that the higher quality of life will attract business to Kansas City.

***Medical is the second largest category.*** It is clear that there will be additional spending on medical priorities. This category covers emergency room visits and closely correlates with purchases of medications. This additional yearly income could make all the difference for a family trying to decide whether to see the dentist this year.

Thirdly, we have **wholesale trade**; this includes spending at establishments like COSTCO and Sam's Club. Finally, and fourthly, we have **insurance carriers**. It should not be under-emphasized that this is an important category of spending for working class households. This category covers all types of insurance, e.g., renter's insurance.

### **Increased Tax Revenue**

It should also be pointed out that there will be an injection of tax revenue into the regional economy. Local and state government tax revenue will increase by \$679,217. We can decompose total local and state government revenue impact as follows.

- Sales tax - \$311,242
- Property tax - \$220,409
- Additional minor tax collections

### **Methodology**

To begin, we decided to conduct an input-output analysis with social accounting matrices of the proposed policy. We performed an input-output analysis with social accounting matrices using a software application known as IMPLAN. Input-Output (I-O) modeling is based on the work of Nobel Prize winner Wassily Leontif. The foundational concept is that all industries, households, and government in the economy are connected through buy-sell relationships, therefore a given economic activity supports a ripple of additional economic activity throughout the economy.

IMPLAN is an input-output modeling system that uses annual, regional data to map these buy-sell relationships so users can predict how specific economic changes will impact a given regional economy or estimate the effect of past or existing economic activity. IMPLAN is a leading provider of economic impact data and analytical software. The company began in 1972 working with the US Forest Service and has grown to a current user base of academics, governments, economic developers, corporations, nonprofits, and consultants. IMPLAN is attractive because of its transparency. Analysts can view the background data used in the models and customize them with local data and knowledge.

Our initial analysis focused on the following counties: in Kansas, Clay, Johnson and Wyandotte counties, and in Missouri, Platte and Jackson counties because these are the counties that the KCATA primarily services. We also performed the analysis for Missouri separately at KCATA's request, as the agency believed that this would be of interest to policymakers on the Kansas City Missouri City Council. The results for both analyses can be found in this document.

To proceed with the IMPLAN analysis, once the geography of the study area is specified, a particular economic "event" must be defined in order to generate a particular economic impact.

Examples of economic events accepted by IMPLAN include construction projects, relocation of corporate headquarters, etc. To model the impact of the proposed zero-fare policy, we assume

that KCATA's total fare collections would be released as an injection into the regional economy and hence amount to an increase in consumer income - it is akin to a fiscal stimulus. We assume that the loss of fare revenue could be easily replenished with general government revenue. In other words, we assume that there are no changes in the tax structure.

The following facts are relevant to the definition of the economic event of interest. The transit authority currently charges \$1.50 per ride for fixed-route service. RideKC Freedom, the KCATA complementary paratransit service, is \$3.00 per trip. However, RideKC Freedom-on-Demand has a base charge of \$5 per trip as it is not a required service. KCATA serviced approximately 12.7 million passengers during 2018, with total fare revenue of \$9.4 million regionally. This \$9.4 million is the event of interest and we model these monies as an injection to the regional economy; specifically, they amount to an increase in consumer income, as mentioned.

Once the economic event of interest is specified, IMPLAN requires that the user define the income level of the consumer in order to properly model the economic impact. Based on information provided by KCATA to CEI, and shown in the table below, we have information on the distribution of income for bus riders in 2019. As can be easily seen in the table, the majority of riders have income less than \$40,000 per annum. The modal category is \$30,000-\$39,000. Generally speaking, consumers with lower incomes have higher multipliers and the fact that KCATA's ridership is mainly low-income means that we expect a higher economic impact. Put somewhat differently, lower income consumers tend to be constrained and unable to save. This produces a higher "bang for the buck" effect. It is clear that very few high-income individuals ride the bus. In particular, passengers earning \$50,000 and above are less than 10% of total passengers. This income distribution indicates, as is well known among economists, that low-income populations find it difficult to maintain their automobiles; a car is an expensive proposition requiring regular maintenance, payments for unexpected repairs, insurance, and gasoline. The bus, therefore, is a viable proposition for low-income populations. It's good economics.

Before proceeding to enumerate the details of the economic impact of the proposed policy, we provide a general overview of the regional economy. Recall that the regional economy consists of the five-county area defined earlier in this document. Regional value added is approximately \$122 billion with 1.3 million employed persons overall. The largest regional employer is restaurants and the industry with the highest value added is real estate. The detailed breakdown is as follows:

- Industries with the highest employment are:
  - Restaurants - 72,632.
  - Wholesale trade - 54,000
  - Real estate - 50,098
  - Education - 47,404
  - Hospitals - 41,219
- Industries with the highest total output are:
  - Real estate - \$18.7 billion
  - Light truck and utility vehicle manufacturing - \$15.9 billion
  - Wholesale trade - \$13.4 billion

- o Hospitals - \$6.8 billion
- o Management of companies - \$6.5 billion

In terms of jobs, the equivalent of about 95 jobs will be created with the proposed zero fare policy.

In conclusion, we would like to briefly stray from the strictly economic aspects of the analysis. Henri Lefebvre's famous idea of a *Right to the City* has stirred up numerous discussions over the years. The *Right to the City* has been interpreted and used in many ways, often in the sense of human rights and access to urban resources. Obviously, bus transport is an essential component of providing residents a *Right to the City*. The transition from charging a fare to free bus transport will improve urban inclusivity and rights for the residents of Kansas City. Moving towards free bus transportation also accords well with the United Nations Charter on the *Right to the City*.

In particular:

Cities should guarantee for all persons the right to mobility and circulation in the city, in accordance with an urban and interurban circulation plan and through an accessible public transportation system, provided at a reasonable cost and adequate for different environmental and social needs (gender, age, capacity, etc.). (ARTICLE XIII. RIGHT TO PUBLIC TRANSPORTATION AND URBAN MOBILITY)

The *Right to the City* is about a society where all city inhabitants, including people of color, immigrants, youth, and those from the working classes have the power to shape the decisions and the conditions that affect our lives. A *Right to the City* means concrete improvements that result in stronger communities and a better state of being for our friends, families, and for our children's futures.

And--it makes good economic sense, as we hope this report has shown. A *Right to the City* means justice in housing, education, transportation, and jobs; community safety and security, neighborhood sustainability, environmental justice, and the right to culture, celebration, rest, and public space. These are the material and economic results of taking back the city. These are the goals that the *Right to the City* frames. Free public transportation in Kansas City would be a major step forward in the struggle for the *Right to the City*. Kansas City, by implementing a mass transit policy of free public transportation, would be placing itself in the forefront of the movement for the *Right to the City*.