

Edmonton Transit Service Fare Policy

Transit Strategy Pillar 2: Establish a Balanced Approach to Operating Funding and Fare Policy

Recommendation

That Edmonton Transit System Fare Policy C451G be replaced with Edmonton Transit System Fare Policy C451H as set out in Attachment 1 of the November 28, 2018, City Operations report CR_5931.

Executive Summary

The Edmonton Transit Service Fare Policy C451H (Attachment 1) and Fare Policy Procedure (Attachment 2) provides Administration direction on how to set transit fares. The proposed policy outlines principles related to equity, fairness and affordability to guide how citizens will pay for transit. The policy is based on Pillar Two of the Transit Strategy, and considered public opinion research about the revenue cost ratio, distance-based fare approach and discounts for select customer groups. The policy also sets a target revenue cost ratio, outlining what portion of operating costs should be recovered through fares, and a percentage discount for different customer groups.

The Office of the City Auditor's 2016 Edmonton Transit Bus and Light Rail Transit Review includes three recommendations that are being addressed through the Fare Policy recommendations. The proposed policy will also provide clear direction for the distance based fare approach as part of implementing Smart Fare.

The four principles outlined in the Fare Policy are:

1. **Balanced:** Fares will recover a portion of operating costs, recognizing both the individual and public benefits of transit.
2. **Equitable:** Fares will be consistent for trips of similar nature, reflect the cost of service and encourage ridership compared to the cost of transportation alternatives.
3. **Affordable:** Transit service will be affordable, regardless of age, finances or other barriers.
4. **Rewarding:** Frequent use will be promoted through discounts for those who use transit as a primary means of transportation.

Report

The Edmonton Transit Service Fare Policy (C451) was initially approved by Council in January 1988, replacing several separate existing policies and establishing the Edmonton Transit Tariff Structure. The Policy evolved over three decades, adding new fare products and establishing discounts for certain groups. The current version, Policy C451G (Attachment 3), states that “A multi-year transit fare structure shall be included and approved as part of the budget submission as per the City's Multi-year Budgeting Policy.” While fares require Council approval, there is currently no policy direction for the approach towards setting fares.

Policy C451H, being presented for approval, is related to Pillar Two of the Transit Strategy. It recommends the City establish a balanced approach to operating funding and fare policy. Policy C451H includes four principles that reflect actions from the Transit Strategy. If approved, the principles will provide direction from which Administration will develop fare structure and pricing. This report provides details about each principle and discusses alignment with the Transit Strategy.

Balanced: Fares will recover a portion of operating costs, recognizing both the individual and public benefits of transit.

The Transit Strategy recommends “establishing a balanced approach to operating funding and fare policy.” Establishing a cost recovery target will provide direction for that balance. Aligned with this principle, Administration is recommending a Revenue Cost Ratio target of 40 to 45 percent of annual operating costs.

The Canadian Urban Transit Association and the American Public Transportation Association produce reports about the benefits of public transit. Common themes include:

- Economic benefits from greater workforce mobility and providing employers with broader access to the labour pool.
- Investment creates and sustains economic activity including job creation.
- Reduces traffic congestion and average commute times.
- Fewer emissions compared to private vehicles, improving health & environment.
- Transit is reported as a safer travel mode, reducing accidents and related costs.
- Transit is reported to be $\frac{1}{3}$ to $\frac{1}{2}$ as expensive as car commuting in major cities.
- Transit provides community and social access that may not otherwise be available (e.g. youth or seniors who are not able to drive).

Administration did a transit public survey to assess citizens' views for the balance between private and public benefit. Most online panel respondents agree transit is a public benefit (83 percent agree) and municipal taxes should pay for a portion (73

percent agree). Close to half of the online panel respondents (47 percent) said the portion of operating costs covered through revenue, which was 40.3 percent in 2016, should stay the same. Remaining respondents were split as to whether the Revenue Cost Ratio should be increased (24 percent) or decreased (20 percent), 9 percent did not have an opinion.

For municipal transit services in Canada, the average Revenue Cost Ratio for all cities in 2016 was 33.7 percent. For cities similar in size to Edmonton, the ratio increases to 49.6 percent. Some revenues driving the higher recovery ratios are not available to the Edmonton Transit Service. Details on revenues for the Revenue Cost Ratio calculations are included in Attachment 4 - Canadian Transit Fare Comparisons.

Equitable: Fares will be consistent for trips of similar nature, reflect the cost of service and encourage ridership compared to the cost of transportation alternatives.

This principle intends to capture two themes from the Transit Strategy: consistency for trips of similar nature, and “sensitive to the urban travel market” (considers trends in out-of-pocket costs for urban auto travel and influence of these costs on mode choice).

Currently, Edmonton Transit Service fare products do not differ based on the nature of the trip. However, the Equitable principle will apply to a future state where the Regional Smart Fare System, an open payment, account-based fare system that will add the ability to pay for transit trips with credit or debit cards and will allow the City to pursue new and innovative price structures. The first usage of the new technology will be shifting to a distance-based fare. Any major fare changes would be the subject of future public engagement and brought to Council for approval.

For the distance-based fare model, approaches could range from a:

- Per kilometre price with no cap
- Lower minimum and higher maximum trip price
- Higher minimum and lower maximum trip price
- Flat price (similar to our current fare approach)

The survey asked about these four approaches. While 42 percent of online panel respondents prefer the current flat rate, 58 percent prefer a form of distance-based fare.

Administration recommends a lower minimum/higher maximum trip price to align with the Transit Strategy. The goal is a low-cost alternative for short trips (as the cost would not exceed a set fare). For longer trips, the maximum trip price would still be economical compared to car commuting or other private alternatives. Customers would

also have maximum or capped costs for daily, monthly or other terms of usage, depending on Edmonton Transit Service fare products.

Administration has identified financial and behavioural risks associated with this approach. It is difficult to predict future usage patterns and revenue impacts once Smart Fare is implemented based on available information. For example, usage for short trips could already be high, so reducing the price for short trips may not increase ridership but would negatively impact revenues. The higher maximum trip price could discourage single-use or infrequent trips because those users may not reach their cap. These risks could require price adjustments after the implementation of Smart Fare, when more data is available to assess price impacts related to revenue cost recovery.

Affordable: Transit will be affordable, regardless of age, finances or other barriers.

Affordable transit enables access to employment, education, health services, food and recreation. In particular, those with greater financial constraints may benefit greatly from an affordable transportation option. This principle supports discounted fares for certain demographics in Edmonton, ensuring transit is affordable in the community. The principle also provides direction for Administration to continue participating in programs like Providing Accessible Transit Here (PATH) to ensure transit access for the most vulnerable. Administration will review these programs during each budget cycle to assess effectiveness for the City's needs and alignment to broader City Outcomes.

Approval of the policy will determine the percentage discount for each fare category. In conjunction with the Balanced principle, pricing for the Fare Structure will be set to achieve the target Revenue Cost Ratio. This means as the regular fare is adjusted to achieve the target Revenue Cost Ratio, all other fares will be adjusted to maintain the set percentage discount.

In the survey, Administration used a tool that illustrated how various discounts would affect the price of a regular monthly transit pass to assess the public's view on discounts using a trade-off analysis. Respondents recommended discounts for four categories: youth, students, seniors and low-income. Each discount would impact the price of a regular monthly fare. The tool received positive feedback. For the four categories, online panel respondents chose an average discount between 39 percent and 47 percent, resulting in \$118 for the regular monthly fare.

Based on the public survey, Administration believes it is possible to streamline discounted categories, similar to the single-category approach used by Translink in Vancouver. The discount fare in Vancouver is for youth aged 5-17 and seniors 65 and older. To simplify fare categories, Administration recommends increasing the eligibility

age for youth to 24 and younger. This would replace the student category for universities not participating in the UPASS program and provide transition time for individuals joining the workforce.

While the public survey shows support for larger discounts for certain groups, the recommendation for the policy will be that users who are eligible for a discount pay 65% of the regular monthly fare (e.g. youth ages 13-24 and regular seniors). This approach minimizes the increased cost of the regular fare, avoiding a major price increase for ETS's primary user group. The City will maintain the low-income category and eligibility will be determined through the Ride Transit program. In addition, Administration recommends transitioning the current low-income seniors category to receive free transit with an approved application (maintaining the current application requirements).

Rewarding: Frequent use will be promoted through discounts for those who use transit as a primary means of transportation.

This principle supports encouraging Edmontonians to use public transit. This reflects a standard practice across the transit industry to offer frequent user discounts through various fare products.

This principle aligns with the current fare structure, as the per-use cost for a monthly pass is considered to be lower than other options like a day pass or book of tickets. This principle also guides how fares would be set for potential new fare products. With support from new and evolving Smart Fare data related to transit usage in Edmonton, Administration will be able to assess and implement new fare structure options to incentivise increased transit usage.

Implementation and Risks

In 2018, the City's Revenue Cost Ratio is near 40 percent; however, upcoming changes will likely impact revenues and ridership. The Bus Network Redesign will be implemented in 2020, and while ridership is expected to increase over the long-term, Administration anticipates an initial negative short-term impact on fare revenue. The short-term impacts of the redesign will be offset by improved efficiencies. The impact of the Smart Fare system and distance-based fares could also impact revenue, with scenarios projecting a 6 percent revenue decrease because regular pass purchasers may not reach the monthly cap. While the target Revenue Cost Ratio will be approved as part of the policy, Administration is recommending 10 years to achieve the target, with a mid-term review of revenues and system usage data.

Transit users will be affected by the policy change and the Smart Fare system. Administration has mapped changes in fare products from the current state to implementation of the policy, through to implementation of Smart Fare (Attachment 5).

If approved, the largest impact will be for seniors who do not qualify for the low-income threshold. The current monthly pass for seniors is \$15 (or 15.5 percent of the regular monthly pass; annual passes offer a greater discount). This represents a much lower comparative price than similar cities in Canada, as shown in Attachment 4. To ease the transition prior to Smart Fare, seniors will be able to buy a monthly pass at the same price as approved low-income users. Seniors will also continue to have access to discounted books of tickets. Upon transition to Smart Fare, low or moderate users will only pay based on their usage, and caps will be in place at a discounted rate.

Implementation Options

Administration has considered different approaches to implementing the new policy, and the recommendations above would constitute a major change for fares, which will impact user groups and likely ridership. City Policies are Council statements that serve as guidelines for the manner in which City initiatives and activities will be carried out. As such, Council can adjust any principles or recommendations in the Fare Policy, and direct changes to the proposed transition approach.

Transition to new Fare Policy

One consideration would be the timing of implementing the Fare Policy. Administration considered two options: begin implementing the new fare structure upon approval, or delay it to align with the launch of Smart Fare. Keeping these separate is partially to clarify the difference between changes in Fare Policy and the tools used to collect fares. Administration also anticipates a challenging adjustment for users as they transition to new technology and recommends avoiding that change while implementing the new Fare Policy.

Revenue Cost Ratio Timeline

The Revenue Cost Ratio and Fare Structure recommendations are based on public feedback, practices of similar transit agencies and financial analysis. Council could request adjusting the Revenue Cost Ratio or discounts for any of the fare categories. Administration would report back with an assessment of price impacts based on revenue modelling.

Council could also direct a different approach to phasing, possibly over several years or through an accelerated approach. The recommended phasing is designed to ease the transition from current fares through to the implementation of Smart Fare.

Public Engagement

Approximately 20,000 residents helped develop our Transit Strategy through various engagement activities. Public feedback was used to develop a draft of the four principles for the Fare Policy. Further engagement took place for the development of the Fare Policy, split into two streams.

The first stream was a qualitative review of the draft principles through focus groups and workshops. The focus groups sought views of seniors, low-income users, monthly pass holders and individuals with other barriers. Stakeholder workshops invited those from Edmonton’s community organizations (and an internal stakeholder session with City representatives who work with these groups). Participants provided input on the draft principles and felt that the principles reflect the overall Transit Strategy actions. Administration used this feedback to adjust the principles. This was supplemented with further input through the Edmonton Insight Community, testing adjusted wording of the four principles.

The second stream, via an online survey, was the quantitative analysis of fares and approaches to cost recovery. The survey sought input on the Revenue Cost Ratio, the approach to Distance-Based fares and discounts for designated groups. The survey helped form the recommended RC Ratios and discounts in Fare Policy C451H. Over 3,700 individuals completed the survey between July 10 to July 25, 2018.

The executive summary of the Fare Policy public engagement is included as Attachment 6; the full report is accessible at the City’s *Transit Fare Policy* webpage.

Corporate Outcomes and Performance Management

Corporate Outcome(s): Edmontonians use public transit and active modes of transportation			
Outcome(s)	Measure(s)	Result(s)	Target(s)
Transit balances user fees with societal benefit	Revenue Cost Ratio	41% (2017)	40-45%

Risk Assessment

Risk Element	Risk Description	Likelihood	Impact	Risk Score (with current mitigations)	Current Mitigations	Potential Future Mitigations

Financial	Revenue Cost (RC) Ratio is impacted by economic conditions linked to service demand, further increasing pressure on recovery rates.	3 - Possible	3 - Major	9 - Medium	Review alternative revenue streams to create new and consistent sources of revenues for ETS.	Review transit service levels to decrease overall operational costs.
Customers	Fare changes result in decline in ridership for certain ridership segments	3 - Possible	3 - Major	9 - Medium	NA	Evaluate ridership and continue work on ridership recovery strategies
Political Influences	Direction to set price structure that does not align with Fare Policy.	3 - Possible	3 - Major	9 - Medium	NA	Review Fare Policy outcomes, with possible Policy revisions.

Attachments

1. Edmonton Transit Service Fare Policy C451H
2. Edmonton Transit Service Fare Policy Procedure
3. (Current) Edmonton Transit System Fare Policy C451G
4. Canadian Fare Comparisons
5. Fare Product Transition
6. Fare Policy Research and Engagement Report - Executive Summary

Others Reviewing this Report

- T. Burge, Chief Financial Officer and Deputy City Manager, Financial and Corporate Services
- C. Owen, Deputy City Manager, Communications and Engagement