

# Transit Smart Fare System – Capital Profile Amendment and Fare Approaches

## Recommendation

That Community and Public Services Committee recommend to City Council:

That Capital Profile 13-66-1294 – Transit Smart Fare System (Smart Card) be increased by \$1.35 million to account for the additional scope of work to include four additional municipalities as part of the initial implementation of the Regional Smart Fare System, with funding coming from the municipalities.

## Executive Summary

Once implemented, the Regional Smart Fare System will allow riders to pay for transit using a variety of methods such as credit cards, debit cards, and other compatible smart cards. The system is intended to make transit more convenient for customers, enabling them to purchase and manage their transit fare accounts electronically. It will also enable participating municipalities/transit systems to implement fare policies and technology that better reflect the needs of their transit customers.

This report recommends approval of project profile 13-66-1294 - Transit Smart Fare System (Smart Card) for the Smart Fare project in order to increase the scope of work to include Leduc, Beaumont, Spruce Grove and Fort Saskatchewan transit systems as part of the initial implementation of the Regional Smart Fare System. These four municipalities expressed interest and will join the City of St. Albert and Strathcona County, which are already participating in the project. Although the project budget will increase by \$1.35 million as a result of scope changes, there are no additional project costs to the existing partners (including Edmonton).

This project is an opportunity to use modern fare technology, which by extension enables the City to implement modernized fare approaches and policies. To this end, Administration has also provided information on three fare approaches: fare capping, Pay-As-You-Go and distance-based fares. These approaches will be reflected as part of the Fare Policy report being presented for approval in fall 2018 (CR\_5931 – Fare Policy, October 3, 2018, Community and Public Services Committee).

### Report

In conjunction with other municipalities within the region, the City of Edmonton will be implementing the Regional Smart Fare System. The system will use modern electronic fare equipment and payment technology to better integrate regional transit service delivery and to make transit more convenient for customers.

### Capital Profile Amendment – Additional Project Partners

The Regional Smart Fare System Project Profile identifies three participating municipalities: Edmonton, St. Albert and Strathcona County. However, work on the Airport Accord highlighted the importance for Leduc Transit to join. Other municipalities in the region are also interested in being part of initial implementation. The municipalities being added are Leduc/Leduc County, Spruce Grove, Beaumont and Fort Saskatchewan.

The contract between the City of Edmonton and the vendor (Vix Technology) includes terms and conditions that allow for more municipalities to be added to the system. With the inclusion of the transit systems from these municipalities, transit passengers would be able to obtain their transit fare products through a common regional system.

The approved capital budget for this project is \$51.6 million. The profile (Attachment 1) includes a request to increase the project budget by \$1.35 million, which will be covered by partnership funding from the new municipalities joining the initiative. Existing partners (Edmonton, Strathcona County and St. Albert) do not need to provide additional funding, and all existing funding sources, including GreenTRIP (provincial funding), will be used to offset the existing partners' costs.

A non-binding Memorandum of Understanding has been prepared to outline the financial responsibilities of the newly identified municipalities and agreement to terms and conditions for existing partners.

### Proposed Fare Approaches

In 2017, City Council approved the Transit Strategy and endorsed the principles in the White Paper on User Fees. The White Paper outlined how the implementation of the Smart Fare System could allow for the introduction of variable fare pricing according to time of day, distance travelled or geographic location.

Administration focused on three new fare approaches for implementation with the Regional Smart Fare System rollout in 2020: fare capping, Pay-As-You-Go, and distance-based fares.

### Fare Capping

With fare capping, maximum payment limits (or “caps”) are placed on the amount a transit customer will pay over a specific period of time, such as daily and/or monthly periods, resulting in direct benefits to frequent transit users. Different fare caps could be set for specific demographic/user groups, such as seniors, youth, students and individuals experiencing low-income to align with Council’s Fare Policy and to support the City’s inclusivity and affordability goals. This approach would also give transit riders price certainty.

Fare capping may not apply to all fare products. Exceptions will be made where there is a third-party subsidy (e.g., employer-subsidized monthly fare products) or where fare products are provided through contracts (e.g., U-Pass). In addition, low-value fare products (e.g., seniors low-income monthly passes) could also be excluded from fare capping, as the price of these products is already low, and a minimum value close to the total value of the product must be retained in the account. For these products, the fare would be a fixed rate, regardless of the number of rides in the period the fare product is valid.

### “Pay-As-You-Go” Fares

As the name suggests, customers will pay one trip at a time with this approach. If used in conjunction with fare capping, customers would pay for each trip when it is made, up to the fare cap for the applicable daily or monthly period.

With Pay-As-You-Go, customers would be able to load value into their accounts as needed. Passengers with income constraints might find this option less financially onerous than paying the full price of a monthly pass up-front.

### Distance-Based Fares

Distance-based fares are a form of equity-based pricing that aligns with the guiding principles of the Transit Strategy (Guiding Principle 2.2 - “Develop a fare strategy that is... sensitive to the urban travel market”).

With this approach, the fare for each trip is based on the distance a rider travels. The distance could be calculated based on the straight line distance between the trip start and end points. In addition, minimum and maximum fares could apply to account for short and long trips.

Used in conjunction with fare capping, the fare for each trip would count toward the daily or monthly caps, and passengers would not pay more than the applicable cap amounts.

There is potential for ridership to grow on short trips as a result of distance-based fares as there would be greater value for customers.

### Impacts of Fare Approaches

The suggested fare approaches complement each other and align with the principles of the White Paper on User Fees. The upcoming Fare Policy report (CR\_5931, October 3, 2018) will address how these approaches will affect the City's overall financial revenue outlook.

The City has an opportunity to increase transit ridership based on improved customer experience, better value, and more integrated service delivery.

Administration obtained information about transit trips from the City of Edmonton's 2015 Household Travel Survey. This information provides an indication of the impacts of using the new fare approaches based on ridership patterns mentioned in the survey. The distribution of transit trips by distance is outlined in Attachment 2. This attachment includes the distribution of trips by income level and location (travel to or from central, inner and outer neighbourhoods).

Initial observations indicate:

- Individual transit trips within Edmonton could be up to 28 kilometres, with the majority of transit trips being less than 10 kilometres. Under the Regional Smart Fare System, the average fare per kilometre can be adjusted, if needed. For illustrative purposes, the single trip prices using a rate of \$0.40 per kilometre for various distances are shown in Attachment 3 (no caps set). The actual rates will be considered in more detail when the overall Fare Policy recommendations are presented to Council in fall 2018.
- Transit riders who live in or travel to the outer band of the city have a higher proportion of longer trips, but the majority of trips are less than 10 kilometres.
- Over 20 percent of trips are made by riders with household incomes less than \$30,000 annually. The Pay-As-You-Go approach may be beneficial, given it is less financially onerous than paying the full cost of a monthly pass up-front.

With the three recommended fare approaches, particularly fare capping and Pay-As-You-Go, transit customers will have more opportunities to get better value for monthly passes. For example, passengers who buy a monthly pass product for convenience, but use transit infrequently or inconsistently (vacation or holidays from work, for example) could benefit from the Pay-As-You-Go option.

With distance-based pricing, the price of individual trips could decrease for passengers traveling short distances; however, fares could increase for passengers making longer trips. Fare capping could mitigate this by enabling passengers to pay only up to the maximum fare cap over a set period of time.

It should be noted cash fares will continue to be a fare payment option. If distance-based fares are adopted, the single-ride cash fare would be set at the maximum fare for a trip. In 2017, approximately five percent of transit trips were made with cash fares, and an additional 10 percent were made using tickets; however, these methods of payment are expected to drop significantly with the introduction of the Regional Smart Fare System. Administration expects customers will choose an electronic fare payment option that best suits their needs.

### **Fare Policy**

Administration is in the process of developing a revised Fare Policy (CR\_5931 - Fare Policy) to present to Community and Public Services Committee in the fall of 2018.

Building on the public engagement that shaped the Transit Strategy, Administration contracted with Leger, a market research company, to perform research in two phases:

#### Phase 1

A qualitative review of draft principles for the Fare Policy. The draft principles are based on Pillar 2 of the Transit Strategy. Results will help refine the principles and will be incorporated into the draft presented to committee in September.

#### Phase 2

A quantitative assessment of the cost recovery rate, the approach to minimum and maximum fares, and the discount rates for different demographic groups (concession fares).

Leger will perform market research to obtain public input on the Fare Policy and fare structure. This work will be supplemented by a public online tool designed to test support of discounts given to different user groups and preferences for different approaches for the Fare Policy. Phase 2 findings will inform the financial requirements and discount rates for the fare structure.

In addition, Administration will reach out to key stakeholder groups, such as the Edmonton Seniors Coordinating Council and Inclusion Alberta, this summer to gather input on the policy.

### **Public Engagement**

Public engagement completed as part of the broad engagement on the Transit Strategy suggested the City consider different approaches to fare strategy and structure.

In April/May 2018, Administration contracted Leger to undertake market research to better understand public opinions and reactions to the draft Fare Policy documents and

to the introduction of different fare approaches in the Edmonton Metropolitan Region. This work included focus groups with different transit user types, including:

- Seniors
- Monthly ETS passholders (high usage)
- Low-income ETS riders
- Cash-only ETS users
- Monthly ETS passholders (low/medium usage)
- Regional and interagency transit users

Attachment 4 outlines the key findings from the focus groups related to Smart Fare and the new fare approaches. The high-level findings are summarized below:

- The concepts of fare capping and Pay-As-You-Go were well received.
- Distance-based faring, without companion fare capping or Pay-As-You-Go, was not well received.
- The distance-based faring concept was received favourably once participants understood the companion concepts, such as minimum and maximum fares, fare capping and Pay-As-You-Go.
- A significant public education and change management program will be vital.

## Budget/Financial Implications

A total of \$51,616,000 in funding has been approved for the Regional Smart Fare System (Profile 13-66-1294). There will be increased costs to acquire and install Smart Bus and Smart Fare equipment on Leduc, Fort Saskatchewan, Beaumont and Spruce Grove buses, as well as additional costs related to the Regional Smart Fare System design to accommodate the additional agencies. The individual municipalities have indicated their willingness to cover these costs, estimated to be \$1.35 million; there will be no tax levy impacts on Edmonton, St. Albert or Strathcona County as a result.

Administration is assessing the financial implications of changes to fare approach and policy. This information will be presented as part of the fall 2018 Fare Policy report to the Community and Public Services Committee.

## 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)
Increased ridership across region through the integration of Smart Fare Systems.	Ridership	TBD	TBD

<b>Corporate Outcome(s): The City of Edmonton Has A Resilient Financial Position</b>			
<b>Outcome(s)</b>	<b>Measure(s)</b>	<b>Result(s)</b>	<b>Target(s)</b>
Maintain or improve Edmonton Transit Service farebox revenue compared to current levels	Farebox revenue	2017 farebox revenue – \$117,405,000	Maintain or increase farebox revenues following system launch

### Risk Assessment

<b>Risk Element</b>	<b>Risk Description</b>	<b>Likelihood</b>	<b>Impact</b>	<b>Risk Score (with current mitigations)</b>	<b>Current Mitigations</b>	<b>Potential Future Mitigations</b>
Public Perception	Public acceptance and understanding of the new fare approaches	3 - possible	3- major	9 - Medium	Conduct market research to gauge citizens' knowledge and understanding of the new fare approaches	Undertake awareness campaigns that clearly explain the Regional Smart Fare System
Public Perception	Specific market segments experience increased fares with implementation of new fare approaches	4 - likely	2 - moderate	8 - medium	Review results from the 2015 Household Travel Survey and other sources of information about transit customers to quantify impacts	
Project Management (Scope)	Risk of additional agencies joining Smart Fare realized. Increased workload.	5 - almost certain	2 - moderate	10 - medium	Establish conditions for entry into the Smart Fare program that minimizes system customization for other municipalities	

### Attachments

1. Capital Profile 13-66-1294 (Transit Smart Fare System (Smart Card))
2. Trip Distances
3. Distance-Based Trips – Sample Pricing
4. Market Research – Key Insights – Smart Fare

### **Others Reviewing this Report**

- R. Kits / S. Padbury, Acting Deputy City Managers, Financial and Corporate Services
- M. Sturgeon, Acting Deputy City Manager, Communications and Engagement
- K. Block, Acting Deputy City Manager, Citizen Services