

Business Plan Excerpt on Fare Policy

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Introduction

The purpose of the Edmonton Transit System Fare policy is to provide transparency and consistency to citizens for the setting of transit fares. The current policy approved by Council in 2007 is based on a flat fare model that provides discounts for seniors, students, and other select users in a fixed relationship to the base cash fare. The policy includes a fare structure that identifies rates for the various payment options for adults, seniors, youths, etc.) to 2013.

The Edmonton Transit System fare policy is to be reviewed at least once per Council term. This discussion paper provides a brief summary of some of the issues and opportunities that have emerged in recent years for consideration in the next policy review.

Overview of Ridership and Revenue Trends

Ridership on Edmonton Transit has doubled since 1996 growing at an average annual rate of about 7%. Since the adoption of the current fare policy in 2007 ridership has increased by 33% despite a severe economic downturn during most of 2009 and 2010 and significant increases in transit pass prices. A large part of the ridership growth can be attributed to the introduction of the UPass program at several post secondary institutions, the ETS@work program, and the expansion of the LRT system, and increased service hours.

Fare revenue has doubled since 1999 growing at an average annual rate of 9%. Since the adoption of the current fare policy which significantly raised adult and youth pass prices, fare revenues increased by 33%.

Based on the 2010 fiscal year, the ridership and revenue market shares are as follows:

| | <u>Ridership</u> | <u>Revenue</u> |
|-------------|------------------|----------------|
| Adult | 49.3% | 69.0% |
| Senior | 8.2% | 1.6% |
| Youth | 15.8% | 17.3% |
| Post Sec | 26.7% | 12.0% |

Total operating expenses have also increased significantly; having doubled since 2001 (10% average annual increase). Since 2007, operating expenses increased by approximately 41%. Much of this increase can be attributed to significant inflationary pressure during the boom years, increases in service levels to meet growing ridership demands in new and emerging suburban neighbourhoods that are more costly to serve because of residential densities and distances to major destinations, and the operationalization of major infrastructure projects (ie. LRT expansion, new transit centres and garages). It is also important to note that for much of the 1990's, investment in the transit system was deferred creating a service and infrastructure deficit that is has only recently being addressed – impacting current capital and operating costs.

Cost Recovery

The cost to operate the transit system has increased at a faster rate than revenues and ridership and as a result, transit's cost recovery ratio has been trending downward. Operating costs are expected to continue to rise given continued growth and demand for service in new and emerging suburban neighbourhoods that are more costly to serve and as more infrastructure developments (i.e. LRT expansions and new Transit Centres) currently in the planning and construction stage come on line. This suggests that the cost recovery ratio will continue to decline unless farebox revenue can be increased significantly. This will be a challenge under the current fare policy that provides significant discounts for a large portion of transit riders. The economic reality is that the cost of operating a transit system has no relation to who gets on the bus; but rather how often people ride, when, and where. Given that City Council has identified financial sustainability through an appropriate cost recovery ratio as one of the key goals, a fare policy based on the cost drivers of the transit system (i.e. length of trip, time of day, or type of service) rather than the type of rider (i.e. adult, youth, senior, etc) may be more appropriate and effective. An investment electronic fare collection technology however, would be required to enable such payment options.

Perceived Value Proposition

Recent investments in service hours and infrastructure, although substantial, have not kept pace with the service expectations of many customers, particularly with respect to evening and weekend service levels. Increased loads on inner city routes has also created over-crowding and pass-up conditions. At the same time, many customers (adult pass holders in particular) have experienced significant fare increases. This means that the personal perceptions of value are eroding (ie. paying more for a lower quality of service) for many customers.

Research tells us that customers have generally become more service sensitive than price sensitive. Future fare hikes in the absence of noticeable service level improvements on a disaggregate (personal) level will increase dissatisfaction, mitigate ridership growth and invite criticism and cynicism of transit service.

Third Party Pricing Strategies

Certain pricing strategies have met with notable success even during the recession years. These programs include the UPass program, the ETS@Work program and the subsidized youth passes sold through local schools. A common characteristic of these programs is that part of the cost (i.e. transit fare) is paid by a third party. In the case of the UPass, the price is effectively subsidized by nonusers. With respect to the ETS@Work program, 12% of the cost of the monthly pass is paid by the employer; and youth passes are subsidized by the school boards using transportation funding provided by the Province. Similarly, the tax deductible benefit for transit passes introduced by the federal government also serves to effectively reduce the price for transit users. The pricing support provided by third parties, make the value proposition more attractive and reduces the price elasticity impacts of fare increases for transit users. These programs and other potential third party programs should be an integral element of a new fare policy.

Demand for Better Payment Options

As the price of transit fares increase, more and more customers are expressing a desire for alternative payment options that are better aligned with their travel needs. The current choices are perceived as limited (i.e. single ride cash fare, 10 ride ticket strip, monthly pass). Payment options such as rolling period passes, weekly passes, weekend passes, peak period only passes, annual passes, semi-annual passes, etc provide customers the opportunity to optimize their expenditures in relation to how often and when they travel - thus improving their value proposition and resistance to potential fare increases. As costs and transit fares continue to rise, customers will become more demanding regarding payment options that are better aligned with their travel needs. Again, an investment in electronic fare collection technology would be required to enable more flexible payment options.

Equity and Affordability

A common misperception is that transit is mostly used by those that cannot afford a car. The reality is that the vast majority of transit users today are choice riders (70%)¹. They use transit because it is more economical, it is more environmentally friendly, they don't have to worry about parking, congestion, or poor driving conditions and they can use their commute time to read, catch up on emails, or listen to music. Quite frankly, more and more citizens use transit because it benefits their lifestyle – not because they have to.

Choice riders are often willing to pay more for better transit service but not more than their fair share or more than they have to in relation to their travel needs. Under the current fare policy, adult transit users and taxpayers will be forced to cover an ever increasing share of operating costs. At some point, this becomes unsustainable and the transit system will risk descending into a spiral of ridership losses and service deterioration as happened in the early 1990's. A more equitable pricing strategy is required to mitigate potential ridership losses and support future service level growth requirements. On the other hand, higher transit fares for low and fixed income Edmontonians risks undermining the City's goals to enhance the social connectedness for all citizens and reducing barriers to participation. The City currently provides support to individuals in financial need in the form of reduced fares for seniors and AISH recipients; and free transit tickets to social agencies through the Donate-A-Ride program. It is notable however that there are significant differences in the subsidy levels and that there are many other low income citizens who receive no support whatsoever. It is likely, given future potential fare increases, that other low income groups and individuals who do not qualify for concession fares will become more vocal about this perceived inequity. Ensuring affordable and equitable access to transit for the financially disadvantaged, in the face of rising costs to operate the transit system, will be a persistent challenge for Edmonton Transit.

By comparison, other municipalities have taken a more equitable and inclusive approach by implementing a universal low income transit pass program that is funded and managed through their social services departments who can also provide additional assistance and counselling as required. This approach recognizes that transit staff are not expert or resourced to make decisions regarding financial need assistance and eligibility and that transit revenues and cost recovery performance does not have to be compromised to achieve the City's liveability goals.

Fare Enforcement/Evasion

In a large and growing transit system with a diverse customer base, it is becoming more and more difficult to justify a fare structure where some customers pay more while others pay less for consuming the same service. Perceived fare inequities and significant differences between regular and concession fares will result in more individuals attempting to evade paying full fare. This could lead to an increase in customer/operator confrontations and reluctance by operators to play any role in fare enforcement if it risks their personal security.

Although fare evasion is difficult to measure and largely unknown, it is safe to say that as ridership and revenues increase so does the magnitude of the risk. Most large transit properties have invested in electronic fare collection systems to mitigate the potential revenue loss due to fare evasion. Much of Edmonton Transit's fare enforcement responsibility on the other hand, rests with bus operators despite the fact that many incidents are beyond their control. It is reasonable to conclude that Edmonton Transit is at greater fare evasion risk than many of its peers.

Regional Services/Fare Integration

Since 2004 there has been considerable growth and demand for regional transit services. New transit service has been introduced in Fort Saskatchewan, Spruce Grove, Morinville, and Leduc. St. Albert Transit and Strathcona County Transit have also increased service levels considerably. It is expected that additional regional services will be implemented - each with their own unique fare requirements – that will require integration not only with Edmonton Transit, but also with every other regional service. Since each region or municipality governs its own fare policy, managing the integration of fares for customer convenience will become more complex and place additional demands on operators. Other metropolitan cities facing the same issue have responded by integrating fares using advanced fare collection technologies.

Market Knowledge

Because the fare collection equipment is not capable of capturing accurate and timely ridership and fare payment information, Edmonton Transit knows relatively little about who its customers are, how often they ride, when they ride, or where they go. The lack of data intelligence undermines the organization's ability to make confident business decisions, compromises effectiveness, and impedes accountability.

Summary

The cost of providing transit service does not vary with the type of passenger; but with the amount and type of service provided. In order to be financially sustainable, the fare structure needs to be equitable, reflect the cost drivers of operating the transit system and incorporate more flexible payment options that provide opportunities for customers to optimize their expenditures in relation to how often and when they travel.

Implementing a financially sustainable and equitable fare structure with more flexible payment options will require an investment in new fare collection technology. Advanced fare collection technology will also reduce fare evasion and provide better information for making marketing and service design decisions.

Transit also needs to remain accessible to the most financially disadvantaged. Hence, concession fares should be based on income rather than age or disability and these subsidies should be funded and managed by social service professionals along with other service/support provided by the City for low income individuals.

¹ ETS Rider Retention Survey, 2009