

Principles for Sustainable Low Income Transit Pass Funding Model Options

As part of the 2019 sub-service review program and direction from TT2019-0637 RouteAhead Update, Administration was directed to develop a long-term sustainable funding model for the Low Income Transit Pass (LITP) program. It was important to identify a set of principles to guide the development of funding options, given the vast number of potential scenarios and associated impacts to users and the tax rate.

The principles underlying the development of sustainable funding model options focused on maintaining a three-band sliding scale fare structure and reflecting equity among bands in the proportion of income that would be allocated towards transit.

Maintain a Three-Band Sliding Scale

The sliding scale fare structure, introduced in 2017, is an investment in Calgary's most financially vulnerable citizens. It recognizes varying income levels in citizens below the Low Income Cut Off (LICO) while still being easy to understand and communicate, and operationally efficient to deliver. Rather than one flat rate, the three-band structure enhances the affordability of mobility options of these customers and enables them to become more active community members. The sliding scale fare structure has strong alignment with The City's poverty reduction and economic strategies, and currently supports more than 66,000 low income Calgarians through the economic recovery by making it easier for them to access employment, supports and services in the community. Affordable transit fares for low income citizens have been shown to contribute to the overall vitality of cities, and improves labour supply and mobility, economic and community participation, and reduced use of costly health and emergency services. Increases in Calgary Transit ridership combined with increased purchases per household since the launch of the sliding scale fare structure provide insight into the enabling nature of the program.

Evaluation of Discontinuation of Sliding Scale

As per the direction from the sub-service review, an option was evaluated to discontinue the sliding scale fare structure if the Province discontinues the pilot funding. The LITP fare structure would return to the previously-approved single rate of 50 per cent discount off the Adult Monthly Pass for all customers under LICO; all LITP customers would pay \$54.50 for a monthly pass in 2020. The net financial impact is estimated to be an additional \$11 million in revenues as purchasing patterns return to the single-rate LITP and regular fare products similar to 2016. This option would address the LITP program funding gap, but is not recommended because alternate fare scenarios have been established that maintain a more affordable three-band structure, aligned with a household's ability to pay, while still addressing the program's entire funding gap (Scenario C – Option 3). A more financially-sustainable sliding scale fare structure retains significant positive benefits and outcomes to low-income Calgarians and society overall, and is still operationally efficient to deliver.

Moreover, if a return to a 50 per cent discount is re-introduced, it is expected that a sizeable number of low income persons would be unable to afford the pass price. Proportionally, households could end up paying up to 18 percent of their income at the \$54.50 fare price. Based on detailed surveys conducted on LITP program participants, it is expected that these households, as they did previously, would most often switch to pay-as-you-go fares (e.g. tickets, cash fares), and travel less by transit. Many households remaining in the program would

purchase passes less frequently or purchase fewer passes per household. Regardless, the overall result is that for a great many household's access to employment, supports and services in the community will be significantly reduced compared all other options presented that retain a three-band sliding scale at more financially-sustainable rates.

This lack of access would have many negative impacts. Users of the program have indicated the more affordable pass provided an enhanced ability to seek and maintain employment. Increasing pass prices to \$54.50 for all income levels below LICO would therefore pose a challenge to seeking employment. Research indicates that job searches would be more geographically limited, thereby decreasing options available to the job seeker (Attachment 2).

Additionally, research indicates that significantly higher priced passes would make it more difficult to access medical and other appointments that could impact the frequency of more costly emergency health services (Attachment 2). Additionally, decreased access to social supports through family and friends are likely to increase social isolation, which is associated with poor health and mental health outcomes. Overall, the most financially vulnerable households would spend 10 -18 per cent of their income on transit, resulting in having less money available for other necessities thereby increasing their vulnerability.

Maintaining a sliding scale fare structure also advances various Council priorities and strategies. The Enough for All poverty reduction strategy identified the sliding scale fare structure as a key success in the 2017 Enough for All - Report to Community. In that report it states, "While the sliding scale Low Income Transit Pass is not a panacea, it is an incredibly important tool to combat poverty in Calgary." Within the refreshed Enough for All 2.0 (2019), the sliding scale LITP is identified as an important component in one of the key levers of change, transportation. The levers of change are seen as important areas of focus to be addressed in order to reduce poverty in Calgary. The Economic Strategy Update (PFC2019-0604) also highlighted the sliding scale fare structure as a significant contributor to improved livelihoods and diversity and inclusion of economic participation in Calgary.

Reflect Equity among Bands

Equity is a principle supported through the Social Wellbeing Policy (CPS2018-0362). The policy aims to ensure all people can benefit equally from City services. A sliding scale fare structure attempts to better match a household's ability to pay with the price of a monthly transit pass. As a result, affordability is addressed as a potential barrier to participation in access to transit services. Focusing on equity, Administration has attempted to provide a 'relative' price to the LITP based on a household's income, while still providing the greatest advantage to those earning the least. In so doing, it is believed that persons with lower incomes will have better access to transit services than without the sliding scale fare structure.

In operationalizing the principle of equity, Administration has attempted to keep the proportional price of a pass relatively similar across the band price structure. Applying equity principles to the bands of sliding scale pricing system will affect the Band A price. Initial recommendations for Band A pricing (CPS2016-0494 Options for Sliding Scale Implementation) recommended setting the Band A price at 85 per cent discount off the adult monthly pass, and this was increased to 95 per cent discount after Council debate with the financial impact to be evaluated after implementation. The result is that individuals in the Band A income category pay less of their income (less than two per cent) compared to other bands (four to seven per cent) in the current state.

Table 1: Percent of income paid by fare type for current LITP fares

| | Band Type | Fare Prices (2019) | Percent of Income paid by Household |
|----------------|-----------|--------------------|-------------------------------------|
| Family of Four | Band A | \$5.30 | 1.1% - 1.7%* |
| | Band B | \$37.10 | 4.1% - 7.0% |
| | Band C | \$53.00 | 5.3% - 6.2% |

The equity comparison (family of four) of the revised LITP fare structure options are shown in the table below. The percent of household income paid for transit for each band ranges from 3.5-8.5 per cent for the recommended options, with Band A still reflecting greater subsidies and lower percentages of income allocated to transit compared to the higher-income bands.

The impact of Scenario C – Option 4 (reverting to a single-rate LITP fare structure at 50 per cent off Adult Monthly Pass) is also reflected in Table 2 below. This option does not support the principle of equity, as households in lower income categories face greater proportional costs for transit than households with higher incomes. Households in Band A would pay between 11 and 18 per cent of income, while those in Band C would pay between 5 and 6 per cent.

Table 2: Equity analysis of revised LITP fare structure options (family of four). Recommended options for each scenario are denoted in bold.

| Scenario/Option | Band Type | Fare Prices (2020) | Percent of Income paid by Household |
|---|---------------|--------------------|-------------------------------------|
| Scenario B – Option 2: \$3.25 million from revised LITP fares, \$3.25 million additional tax support | Band A | \$13.10 | 2.6% - 4.3%* |
| | Band B | \$38.15 | 4.1% - 7.0% |
| | Band C | \$53.00 | 5.3% - 6.2% |
| Scenario B – Option 3: \$6.5 million from revised LITP fares, no additional tax support | Band A | \$18.55 | 3.6% - 5.9%* |
| | Band B | \$43.60 | 5.0% - 8.5% |
| | Band C | \$59.95 | 5.8% - 6.8% |
| Scenario C – Option 2: \$6.5 million from revised LITP fares, \$4.5 million additional tax support | Band A | \$18.55 | 3.6% - 5.9%* |
| | Band B | \$43.60 | 5.0% - 8.5% |
| | Band C | \$59.95 | 5.8% - 6.8% |
| Scenario C – Option 3: \$11 million from revised LITP fares, no additional tax support | Band A | \$24.00 | 4.6%-7.7% |
| | Band B | \$54.50 | 6.2%-10.6% |
| | Band C | \$81.75 | 7.9%-9.3% |
| Scenario C – Option 4: \$11 million from reversion to a single- rate fare for the LITP | Band A | \$54.50 | 10.9% - 17.9%* |
| | Band B | \$54.50 | 6.2% - 10.6% |
| | Band C | \$54.50 | 5.3% - 6.2% |

*Lower income levels reflect households in receipt of Alberta Works. Households earning less are not reflected in percentage range.