CALGARY TRANSIT FARE STRATEGY REVIEW

EXECUTIVE SUMMARY

In 2013 March, City Council approved RouteAhead, a long-term plan that provides strategic direction for the expansion of Calgary Transit service and for an improved transit customer experience over the next 30 years.

A consistent and sustained pattern of transit investment, including fares, is required to achieve RouteAhead goals. To address all aspects of the plan, Calgary Transit's annual operating budget must grow by an estimated average of $17.7 million annually (excluding inflation) over the 30-year plan horizon. Although the annual cost of RouteAhead will be refined during Action Plan 2015 – 2018, an annual increase of about $10 million in tax based support per annum ($7 million additional service, $3 million quality initiatives) is required to fund the plan. To maintain the current Revenue / Cost (R/C) ratio, an increase in fares and other revenues of approximately $8 million, or five percent, per year is also required.

It is unlikely that Calgary Transit's current fare structure is capable of providing sufficient revenues to sustain the approved R/C ratio target of between 50 to 55 percent. Changes to Calgary Transit fare discounts must be implemented in order to avoid unfairly burdening any single group of customers. Increased revenue from other, non-fare sources and longer term funding opportunities are needed. Alternately, a lower R/C ratio with increased funding from municipal taxes will be required.

Before recommending specific changes to fares, Calgary Transit recommends establishing a "funding philosophy" that will be used to guide the fares of transit service during the next four years.

ADMINISTRATION RECOMMENDATION(S)

That the SPC on Transportation and Transit recommend that Council:

1. Endorse a revised "funding philosophy" to form the basis of the fare strategy required for Action Plan 2015 to 2018 based on the following principles:
   a. Increase the potential for transit revenue to support the approved revenue / cost (R/C) ratio of 50 to 55 percent through:
      i. Moving towards an income-based criteria for setting fare discounts;
      ii. Increasing revenues from other existing sources of revenue such as advertising, parking, and special services (e.g. airport, charters);
      iii. Maintaining a consistent fare discounting and pricing structure that reflects customer needs and supports the R/C ratio target; and
      iv. Moving towards increasing the price of selected fares to better align fare discounts.
   b. That any transit fare changes will be made using a modest, incremental approach.
2. Conduct public and transit customer engagement on a revised transit "funding philosophy" based on Recommendation 1 and present a recommended fare strategy and pricing structure for inclusion in Action Plan 2015 to 2018, to the SPC on Transportation and Transit in 2014 June; and
3. Pursue longer term opportunities to use the Connect Card to offer new fare options that

Approval(s): Logan, Malcolm concurs with this report. Author: Neil McKendrick
City Clerk's: J. Dubetz

will increase the convenience of paying fares and attract new customers.
4. Pursue operational funding for public transit service from other levels of government.

RECOMMENDATION OF THE SPC ON TRANSPORTATION AND TRANSIT, DATED 2014 FEBRUARY 19:

That the Administration Recommendations contained in Report TT2014-0135 be approved.

Opposition to Recommendation 1:

Opposed: P. Demong, J. Magliocca, W. Sutherland

PREVIOUS COUNCIL DIRECTION / POLICY

In 2011 September, Council approved recommendations arising from FCS2011-24 that directed Calgary Transit to:

- "Achieve a +50% Revenue / Cost Ratio"
- "Reduce the approved fare discounts offered on adult and youth transit fares in relation to the adult cash fare"
- "Revise Senior Citizen transit fares"

At the 2012 November 2013-2014 Business Plan and Budget Adjustment meeting Council directed Administration to:

"…review the Calgary Transit fare structure, including all discounts, and provide recommendations for streamlining and consolidating fare schedules, including the impact of electronic fare payment systems (Connect Card), and report back to Council through the Standing Policy Committee on Transportation and Transit no later than February 2014."

At the 2013 September 9 meeting of Council, Council referred the following notice of motion (NM2013-25) to the Fare Strategy Review in 2014 February:

"…that Administration investigate creating a single fare for seniors potentially adapting the existing youth single fare pass..."

And at the 2013 September 16 meeting of Council, for the Low Income and Senior Transit Pass Update Report (PFC2013-0655), Council directed Administration to:

a. Review the parameters of regular and low-income senior transit passes in conjunction with the Calgary Transit Fare Structure Review report due back to the Standing Policy Committee on Transportation and Transit no later than 2014 February and;

b. Align the Fare Structure Review report with the Fair Calgary Policy update report due back to the SPC on Community and Protective Services in 2013 December.

BACKGROUND

In September 2011, the "Calgary Transit Funding and Fare Strategy Report" was presented to Council (FCS2011-24). Calgary Transit was directed to make adjustments to some fares. Since then, economic conditions have improved and Calgary Transit has experienced record ridership levels. Transit system ridership has increased by 11.3 million riders, an increase of 12 percent, over the past 3 years. Investments in transit service and infrastructure have been made and are generally keeping pace with population growth and customer demand.

Calgary Transit has seen a slight drop in its R/C ratio but it continues to be within the target of 50 to 55 percent. The balance between tax support and system derived revenues (mostly fares) is referred to as the Revenue / Cost (R/C) ratio.

INVESTIGATION: ALTERNATIVES AND ANALYSIS

The attached report, "Calgary Transit Funding and Fare Strategy Review" (Attachment 1), provides a comprehensive review of transit service funding, recent transit ridership and revenue trends and the funding required to achieve the goals and objectives outlined in RouteAhead. The attached report shows that Calgary Transit fares are generally lower than most other major Canadian cities. To support increased funding for the goals identified in RouteAhead and to maintain the R/C ratio there must be increased revenue from fares and other existing revenue sources.

Transit service is supported by budgeted operating funds. The size of the operating budget is determined by the amount, quality and pricing of service which then requires support from three sources of revenue - fares, other revenue, and municipal taxes. The Transit Funding Model is shown in Attachment 2.

The R/C ratio is an important tool used to define the balance between the amount of tax support and fare and other revenue support required to fund the operating needs of the system. The principle of maintaining this balance is illustrated on Attachment 3. This tool enables Administration to define budget request and program the associated service.

Despite strong ridership levels, an approved methodology for fare pricing, regular adjustments to most fare categories, and growth in advertising sales, Calgary Transit revenues are not keeping pace with the cost of providing service. This is due to a combination of escalating labour and materials costs (parts, fuels, etc); providing service to a larger service area with low population density; and to a higher quality more customer-centric approach to service delivery. These have included enhanced customer communication and engagement and improved services such as safety and security, cleaning and maintenance.

Since 2006, the average cost to provide a passenger trip has increased by 43 percent while the average fare per trip has only risen by 29 percent. For 2013, the average cost to provide a customer trip was $3.31. It should be noted that there has been increased spending on initiatives focused on improving the quality of the customer experience on public transit to help sustain use, but the benefit of these initiatives is not easily measured in terms of increased ridership and revenue.

Data provided in the attached report show that there is a significant disparity in the discounts offered to some customers. Discounts averaging 79 percent in relation to the average cost of providing a trip are provided to 39 percent of customers who contribute only 19 percent of total fare revenues. At the other end of the spectrum, 21 percent of customers pay the highest priced fares (adult cash or tickets - a nine percent discount) and contribute 38 percent of Calgary Transit's fare revenue.

Projected population trends for Calgary indicate that the largest population growth will occur in the senior citizen demographic while adults (18 to 64 years) will increase in number but decrease as a percentage of the population. A continuation of the large discounts given to senior citizens will threaten the ability to sustain the required R/C ratio in the long term and may result in a need to increase mill rate support of public transit service. Discounts provided to low income adult and youth customers are based on a demonstrated need for financial assistance. It is suggested that all fare discounts be moved towards income based criteria and that the low income discounts be maintained.

Revisions to Calgary's fare structure should be based on a strategy of reducing fare discounts, increasing fares to match inflation, moving towards income based fare discounts, and charging higher rates for enhanced service including parking fees. These increases should be made with modest but sustained changes. In the longer term, new fare options can be developed using the new electronic fare collection (Connect card) system.

The concept of additional municipal taxes and fees and the possibility of attracting funding support from other levels of government should be pursued. Calgary and Edmonton are the only two major transit systems in Canada that do not receive provincial funding. Support to offset low income fare subsidies may be a possible area where the Province of Alberta could be asked to contribute since social programs are an area of provincial responsibility.

Stakeholder Engagement, Research and Communication
Administration recommends conducting a public engagement program in the next two months to seek feedback on the options available for funding of Calgary Transit service improvements.

Strategic Alignment
Calgary Transit fare policies are generally in alignment with City policies such as Fair Calgary and User Pay Principles. Further alignment of municipal subsidies for services is an objective of revised fare strategy and "funding philosophy". RouteAhead, the 30-year transit strategic plan, is in alignment with the Municipal Development Plan and the Calgary Transportation Plan.

Social, Environmental, Economic (External)
The current transit fare strategy of providing subsidized fares within the context of achieving a 50 to 55 percent revenue/cost ratio recognizes the economic, environmental and societal benefits that are achieved by operating a transit system. Transit fares must be priced to position transit service as an attractive alternative for urban travel and to recognize the ability to pay by some citizens. The universal societal benefits realized from transit service include:

- providing mobility for those unable to transport themselves;
- allowing most members of society to participate in economic and social activities;
- reducing the environmental impacts associated with urban travel (land consumption, greenhouse gas emissions, consumption of resources, etc) by attracting people to use transit rather than private automobiles;
- reducing the cost of urban travel for individuals (cheaper travel);
- significantly reducing the cost of transportation infrastructure (roads and parking);and
- support for a more compact, walkable and sustainable city.

Financial Capacity

Current and Future Operating Budget:

RouteAhead requires increased investment in transit facilities, an expanded network accompanied by higher quality, more customer focused services. A sustained and strategic investment in service hours to increase the frequency and duration of service is needed to reach a goal of providing 3.7 annual service hours per capita by 2042 (currently 2.36). This level of service provision represents a convenient level necessary to make public transit a more attractive travel mode choice. Transit service improvements are also needed to support land use goals which will ultimately result in a higher percentage of transit travel (i.e.15-20 percent of all daily trips taken by public transit, compared to 7 percent today).

To fund improved service levels Calgary Transit's annual operating budget must grow by an average of $17.7 million (excluding inflation) over the 30-year plan horizon. Although the annual cost of RouteAhead will be refined during Action Plan 2015 – 2018, a preliminary estimate of $10 million per year in municipal tax based support combined with a five percent increase in revenue from fares and other revenues is required. This will ensure that the current R/C ratio (50 to 55 percent) is maintained.

Current and Future Capital Budget:

There are no capital budget implications of this report.

Risk Assessment

The ability to achieve RouteAhead goals is directly linked to Calgary Transit's fare strategy based on achieving a 50 to 55 percent R/C ratio. Without changes to the current fare pricing structure, the ability to fund improved transit services will require a higher level of municipal taxpayer support or a reduction in RouteAhead objectives.

REASON(S) FOR RECOMMENDATION(S):

Administration is requesting Council endorse the direction on a “funding philosophy” that will set the stage for a recommended fare strategy to support Calgary Transit plans for Action Plan 2015 to 2018. Pubic and transit customer consultation on the principles of the funding philosophy can be conducted prior to presenting a new transit fare strategy and pricing structure in 2014 June.

ATTACHMENTS

1. Calgary Transit Funding and Fare Strategy Review
2. Transit Funding Model
3. Maintaining the Revenue/Cost Balance