

Agenda Item No.	Board Meeting Date	Open/Closed Session	Information/Action Item	Issue Date
9	02/23/15	Open	Information	02/13/15

Subject: Update on the Requested Fare Revenue Discounts

## ISSUE

Provide the Board with an update on currently offered RT fare revenue discounts and information regarding discounts requested by members of the public and the Board.

## RECOMMENDED ACTION

Provide Staff with Direction Regarding Potential Future Discount Offerings.

## FISCAL IMPACT

None at this time. Information item only.

## DISCUSSION

As discussed in the Mid-Year Financial Update Issue Paper, RT is facing some difficult challenges. The FY2015 fare revenues are estimated to be approximately \$2.6 million short of the budgeted amount. RT's FY2015 operating reserve is \$4.6 million, which is approximately \$14 million short of the 1 ½ months' operating expense reserve target.

In addition to the current shortfall discussed above, RT's current financial forecast model, which is a model used by RT for the purposes of financial/strategic planning and obtaining Federal Transit Administration (FTA) funding for the projects such as the Southline Phase 2 Light Rail expansion, shows that fare revenues are projected to increase by 13% in FY2016 compared to the FY2015 budget and by 10% in FY2017. The fare box recovery ratio is a calculation whereby RT divides the fare revenues into operating expenses less Paratransit expenses. With expenses continuing to grow by at least the inflation rate, RT's fare revenues need to also increase by, at minimum, the same rate just to maintain the same recovery ratio. Keeping the recovery ratio at the same percentage is not sufficient due to the various commitments that RT has made to other agencies and the public. One of the requirements for receiving Transportation Development Act funds is that RT maintain a 25.5% recovery ratio. For compliance purposes, RT has met that requirement, but this has only been accomplished with the use of supplemental local funds. Additionally, during 2004, the voters approved the renewal of Measure A, which was set to expire in 2008. As part of the renewal process for receipt of Measure A funds, RT verbally committed to improve its fare recovery ratio to no less than 27% system wide. As shown in table T1 below, RT was close to achieving this ratio in 2011, but since then, the ratio has declined.

Approved:

Presented:

Final 02/18/15

General Manager/CEO

Director, Finance and Treasury

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	<u>FY05</u>	<u>FY06</u>	<u>FY07</u>	<u>FY08</u>	<u>FY09</u>	<u>FY10</u>	<u>FY11</u>	<u>FY12</u>	<u>FY13</u>	<u>FY14</u>
Fare Box Recovery Ratio	18.7%	20.5%	22.5%	21.9%	24.8%	23.9%	26.0%	25.1%	24.1%	22.0%

Note: The average fare box recovery ratio is fiscal year based.

To achieve a fare box recovery ratio of 27%, assuming the expenses remain at the projected FY2015 level, RT’s revenue would need to be \$36.7 million. When converting this into an average fare, the average fare would need to be \$1.35 per ride. RT’s average fare, as of the end of December 31, 2014, is \$1.05. To increase to \$1.35 per ride, we would need a 29% increase to RT’s fares. This information should be considered when evaluating whether RT should offer further fare discounts.

Staff has provided a recap of the current discounts offered to its riders by fare type in the table below. When reviewing the table, it is important to understand that some of the discounts shown are mandated by the FTA. As a recipient of federal funds, RT must allow elderly persons, persons with disabilities and persons with a Medicare card to pay, during off peak hours, one half the single ride fare paid during the peak hours. The FTA further defines elderly persons as seniors aged 65 and higher. Persons with disabilities are further defined in RT’s fare policy. There is no FTA requirement to provide discounts to students.

The current RT Board adopted discount fare policy provides more generous discounts than what is required by the FTA. For example, RT’s minimum age requirement for Senior discount fares is 62 years, our senior/disabled discount is offered during both peak and off peak hours, and this discount is offered to both daily and monthly pass holders. Additionally, RT provides a 60% discount, referred to as the Super Senior Discount to those 75 years and older. These discounts along with all other discounts provided by RT, are being reviewed by the RT Fare Structure Committee. This Committee has been tasked with modifying and updating RT’s fare structure with the goal of increasing revenues. The Committee will bring forward recommended changes and seek Board approval.

Table T2 below shows the various discounts by fare category:

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Table T2		Discount Fare Structure		
<b>Discounted Monthly Passes</b>		<b>Full Fare</b>	<b>Disc Price</b>	<b>Discount %</b>
Senior (full month/semi-month)		\$100 / \$50	\$50 / \$25	50%
Super Senior		\$100	\$40	60%
Lifetime Pass		\$100	Free	100%
Disable (full month/semi-month)		\$100 / \$50	\$50 / \$25	50%
Student (semi-month only)		\$50	\$25	50%
SCUSD Student (Free Lunch Program)		\$50	\$12.50	75%
DHA		\$100	\$25	75%
<b>Discounted Daily Passes</b>		<b>Full Fare</b>	<b>Disc Price</b>	<b>Discount %</b>
Senior		\$6	\$3	50%
Disabled		\$6	\$3	50%
Student		\$6	\$3	50%
DHA		\$6	\$3	50%
<b>Discounted Single Rides</b>		<b>Full Fare</b>	<b>Disc Price</b>	<b>Discount %</b>
Senior		\$2.50	\$1.25	50%
Disabled		\$2.50	\$1.25	50%
Student		\$2.50	\$1.25	50%
<b>College Discounts</b>		<b>Full Fare (per ride)</b>	<b>Reimburse (per ride)</b>	<b>Discount %</b>
College Pass - Los Rios		\$2.50	\$0.24	90%
College Pass - Sac State		\$2.50	\$1.25	50%

Note: The items highlighted above represent the discounts required by the FTA.

As can be seen from the discounts shown in the fare table above, the Board's focus over the years has been on providing school discounts, more specifically, college discounts. The average fare received for Los Rios is only \$.24 per ride, prior to accounting for any transfer agreement reimbursements to other transit partners. After including the reimbursement due to the transfer agreements, RT ends up receiving, on average, approximately \$.20 per Los Rios student ride. The Sacramento State contract, on the other hand, which has been updated over the past few years, is better aligned with the discounts offered to all students.

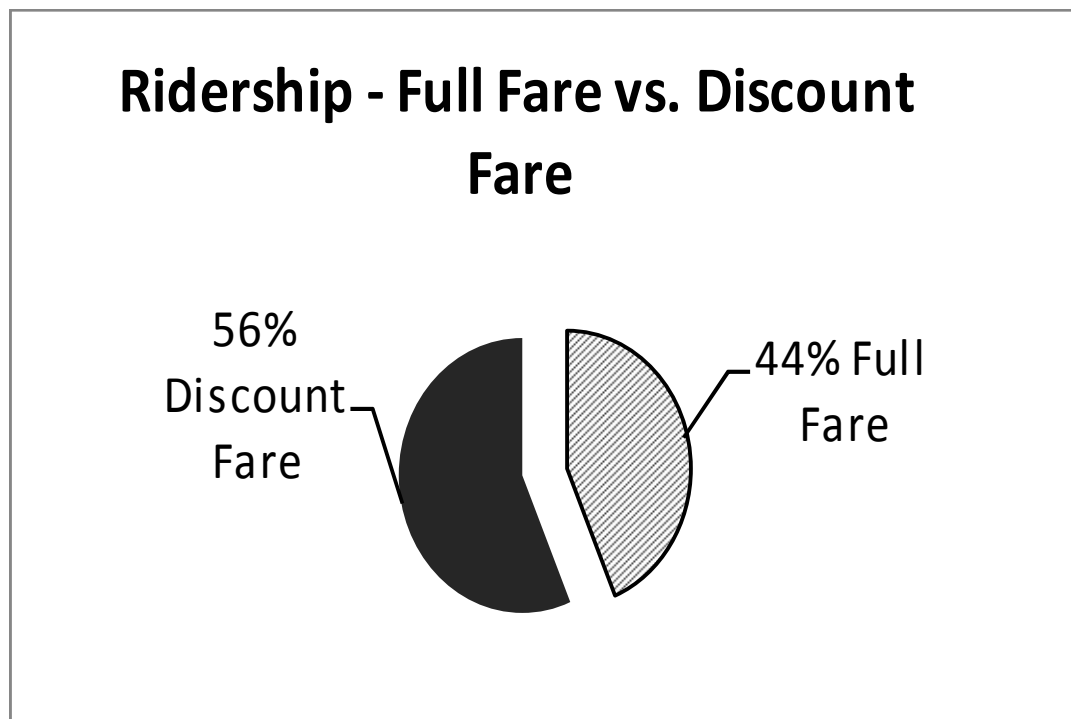
To determine the financial impact of offering discounts, staff prepared the following three charts. The first chart (A1) shows the percentage of riders who pay a discount fare versus full fare. This

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data was provided through RT’s 2014 Fare Survey. The second chart (A2) shows the amount in fare revenue that RT collects from discounted fares as compared to full fare. Table (T3) provides detailed discount fare categories and ridership information.

Chart A1



As the chart above illustrates, 56% of RT’s ridership comes from discounted riders. Only 44% of RT’s rides were paid using full fare. Additionally, the information used in this slide only accounts for discounts provided by RT; it does not account for discounts or free media provided by a government agency, non-profit, or employer.

To assist in evaluating the financial impact of these discounts, staff provided Chart A2 which shows the amount of revenue RT receives from the discount riders as compared to full fare riders.

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Chart A2

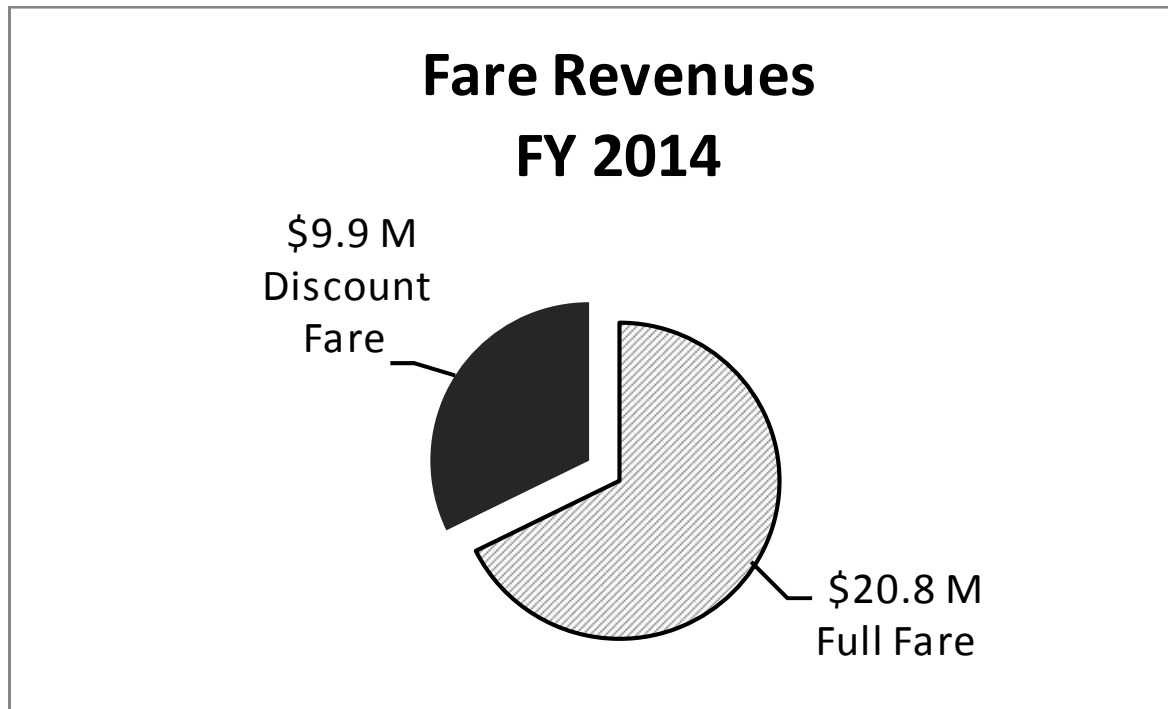


Chart A2 shows that 32% (\$9.9 million) of RT's fare revenue comes from discount riders, whereas 68% (\$20.8 million) comes from full fare riders. With the introduction of new discount programs in the past, RT has seen an increase in the discount fares without a significant increase in new riders. Our experience has shown that current riders shift their buying patterns from full fare options to discounted fares. Therefore, RT suspects that additional future discounts, along with current relatively low gas prices, would have a direct impact on full fare revenue with little to no increase in ridership. With fare revenue receiving a lot of focus right now by outside agencies, namely the FTA, RT's bank, and the two bond rating agencies (S&P and Moody's), it is important to understand that any decision that could reduce fare revenues will likely generate questions from these outside groups.

Furthermore, as discussed above, this chart does not take into account the number of customers that receive reimbursements or further discounts from their employers. Approximately \$9 million of system-wide revenue comes from State employees, many of whom receive subsidies from their employer. Approximately \$1.3 million of RT's fare revenue comes from riders who receive free media from various health and human service agencies or non-profits. When taking these two factors into account, staff estimates that only \$10.6 million (35%) of RT's total fare revenue is received from riders who end up paying a full fare.

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Table T3 provides a breakdown of revenue received by the discount categories offered by RT

Table T3

Discount Type	Number of Rides	% of Disc. Ridership	Revenue	% of Revenue
Senior	971,001	8%	\$ 962,400	10%
Disabled	3,239,754	27%	\$ 3,102,239	31%
Student	2,129,367	18%	\$ 2,152,202	22%
DHA	883,977	7%	\$ 1,938,225	20%
CSUS	599,808	5%	\$ 688,327	7%
Los Rios	4,343,659	36%	\$ 1,028,073	10%
Total	<u>12,167,566</u>		<u>\$ 9,871,466</u>	

As shown above, RT provided 12.2 million rides and collected approximately \$9.9 million from these discount fare categories. When examining the revenue collected by fare type, it is important to draw comparisons to ridership and total revenue. For example, in the table above, 36% of RT's discount rides were provided to Los Rios students, however the revenue generated from these rides only makes up 10% of the discounted fare revenue.

With that in mind, based on the direction of the Board, staff has focused on three potential additional fare discount areas: Military, Student, and Low-income.

## MILITARY DISCOUNTS

At the August 25<sup>th</sup>, October 27<sup>th</sup>, and November 10<sup>th</sup> Board meetings, a First Lieutenant Trial Counsel from the Soldier Incentives Assistance Center requested that the Board consider providing a fare discount to members of the military. During one of the meetings, the Lieutenant provided four reasons to consider as support for the request. In summary, those reasons were: (1) offering a discount to military members would provide for good public relations, as this would show support to the men and woman who are serving in the military; (2) there are many other transit agencies that offer some type of discounts to military members; (3) this could increase revenue; and (4) increasing the number of military members on transit (presumably in uniform) would potentially cause other passengers to alter their behavior, resulting in enhanced security for RT.

Based on this request, staff began conducting independent research on the topic. At the November 10<sup>th</sup> Board meeting, staff provided the Board with some statistics of what discounts other transit agencies provide to members of the military. To recap, the number of agencies that provided some type of discount was estimated to be between 17% and 25% depending on what agencies were selected (peer groups vs randomly selected agencies). The discounts offered were not consistent among the transit agencies. Some agencies provided discounts to active members

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while others provided discounts to veterans. In addition, the discounts offered ranged from a free pass to a discount off the full fare value. This led staff to the conclusion that prior to offering a discount, it is important to first identify and define the target group. For discount purposes, staff would define military personnel as either an Active duty or Inactive duty member. Based on the definition from the Veterans Employment Toolkit, an Active Military member is someone who works for the military full time, may live on a military base, and can be deployed at any time. Persons in the Reserve or National Guard are not full-time active duty personnel. Furthermore, the definition from the Veterans Employment Toolkit described an Active member as someone serving in one of the four branches of the military: Army, Navy, Air Force, or Marines. Veterans and Reserves would be considered inactive for the purpose of determining discounts.

Data from the U.S. Census Bureau shows that there are approximately 512 active duty members and about 87,024 veterans residing in Sacramento County. Based on these figures, staff estimated that approximately 9,233 boardings are made by active duty military personnel annually. If RT provided a 100% discount to active duty military personnel, at an average fare of \$1.05 per ride, the potential annual loss to RT would be \$9,700. In order for there to be a mutual benefit from this type of discount arrangement, systems such as Regional Transportation District (RTD) of Denver Colorado, requires active military personnel to be wearing a military issued uniform and display an active valid military identification card. By having this requirement, there is a potential security benefit at the stations or on the bus or trains. However, it should also be understood that there could be legal issues arising should one of these members act on behalf of RT. With the addition of the Connect Card, RT could have the ability to track this with better precision if the rider was required to utilize a Smart Card configured with this discount.

If the Board were to expand the military discount to inactive members of the military, as defined above, staff estimates that this would increase the eligible population by 87,024 persons. Based on these figures, staff estimates that approximately 1,578,629 boardings are made by active and inactive military personnel annually. If RT were to provide a free ride to military personnel, staff estimates that ridership by active and inactive military personnel would increase by about 520,000 annual boardings, both by generating new riders and by capturing riders who currently ride using an existing fare type. The fiscal impact would be an estimated loss of approximately \$1,657,000 annually, based on an average fare of \$1.05 per ride for each existing rider. If a 50% discount was instead offered, staff estimates that ridership would increase by approximately 260,000 annual boardings, but that fare revenue would still decrease by approximately \$692,000.

## **STUDENT DISCOUNTS**

RT's current discount fare policy allows students ages 5-18 a 50% to 75% discount on a monthly pass. At a minimum, all students receive a 50% discount. Students who are underserved and meet the definition of eligible for a "lunch program," are able to receive the 75% discount. In addition, as the result of feedback from the students and parents, a monthly student pass was not created, rather two semi-monthly passes were created. By having two semi-monthly passes, it allows parents to spend less upfront or just purchase a pass for the first or second half of the

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month. To better understand the rules covering student passes, staff has included the language directly from the current RT Board Adopted Discount Fare Policy:

“A person may purchase an RT Student ID Card upon providing RT with both of the following:

Evidence satisfactory to RT that the person has not reached his or her 19<sup>th</sup> birthday based upon written documentation acceptable to RT, including, without limitation, a birth certificate, DMV Driver’s License, or DMV Identification Card; or by having an accompanying parent or guardian affirm that the person has not reached his or her 19<sup>th</sup> birthday; and

Evidence satisfactory to RT that the person is attending or enrolled to attend a School, or is required to obtain a high school diploma or equivalent as a condition of probation ordered by a court or as a condition of parole by a parole board, based upon written documentation acceptable to RT including, without limitation, (a) a valid School ID Card or enrollment form; or (b) by an accompanying parent or guardian affirming that the person is currently enrolled in School.”

As requested by the Board, staff has looked into three options: (1) raising the maximum age from 18 to 22; (2) applying the discount to all students enrolled in school and working towards a GED, high school equivalent, or English as a Second Language (ESL) program regardless of age; and (3) providing free rides to all students.

### Raising the Age Limit from 18 to 22

Staff has determined that increasing the age from 18 to 22 or higher would not be in conflict with the educational code; however, increasing the age could result in operational fare inspection issues. Currently, operators are required to inspect the passes and determine if the pass is valid and not counterfeit. As the age limit is increased for student discounts, it becomes more difficult for operators to determine if the pass presented at the time of boarding is valid and not counterfeit. Furthermore, some of the students who are over 19 years of age and are still enrolled in a school have the ability to receive a disabled discount fare, which is a 50% discount. Regardless, many schools have expressed a preference to issue student discounted passes as opposed to disabled passes to this group of individuals.

Staff recently conducted a survey of the student population that RT currently serves and determined that there are approximately 390 students who are 19 years old or older and still enrolled in general education high school. Based on current purchasing patterns, approximately 7% of the student population actually purchase passes. After applying that percentage to the 390 students mentioned above, it is safe to assume that this fare change could impact 28 students. Assuming that all 28 students purchase a pass at full fare for a 10 month period, which covers the discount period (school year), the discount could cause RT to experience a loss of approximately \$21,000 annually. This calculation assumes that the 28 students will shift their buying patterns



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from purchasing full fare monthly passes for \$100 per month to buying a discounted student pass, which can be as much as 75% off the standard fare (if they participate in a disadvantaged school lunch program, i.e. \$25).

Allowing Discount to Students Enrolled in School and Working Towards GED, High School Equivalency, or ESL Program Regardless of Age

As discovered through our research, some transit agencies expand the student discounts to include students working towards their GED or diplomas regardless of age. To quantify that group of individuals, staff reached out to six school districts, Sacramento City Unified School District, Twin Rivers Unified School District, Folsom Cordova Unified School District, San Juan Unified School District, Natomas Unified School District and Center Unified School District. It was found that approximately 5,366 students are currently enrolled in GED, high school equivalency or ESL classes within the adult education programs at the previously listed districts. Using the same method as above, this additional discount could result in an estimated revenue loss of \$187,810.

Providing Free Rides to All Students

As requested by the Board, Staff has completed research on various school discount programs. The research showed that there are some transit agencies and cities/counties throughout the U.S. that provide discount or free programs to students. Some of these agencies provide programs tailored to high school students only, as the elementary schools have school bus programs to cover the younger students' needs. Other programs are discount offerings in which the pass is discounted by an agreed upon percentage. In other cases, there are free ride programs that serve small geographic areas or transit agencies that never invested in fare collection equipment, thereby eliminating the costs associated with maintenance and treasury needs.

In general, many of the agencies that provide student incentive programs are funded with either a direct tax or are reimbursed by the school districts participating in the program. While completing the research, staff found a report published in 2012 by the Transit Cooperative Research Program (TCRP) and sponsored by the Federal Transit Administration, "Synthesis 101: Implementation and Outcomes of Fare-Free Transit Systems," which discussed the opportunities and issues with providing free fares. Part of their recommendation was for the agencies to review and consider how the discount will impact their fare box recovery percentages, as offering discounts will further decrease the ratio, which for many agencies is an important compliance benchmark and tool for evaluating the health of an organization. Farebox recovery ratios are also looked at by the members of the public, FTA, RT's bank, and bond rating agencies as efficiency measures.

As noted above, RT currently provides up to a 75% discount to students K-12. The revenue received from these riders from the sale of discounted passes is approximately \$2.2 million annually. Should the Board consider providing free rides to students K-12, another revenue source or financial offset would be necessary. If an additional revenue source were available, it should not be a fixed dollar amount, but rather based on the number of students riding the system. Free rides may result in additional expense as the result of the ridership increase. Free rides could

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expand our ridership base and result in the need for additional service, fuel, security, wear and tear on the system, etc.

## **LOW INCOME DISCOUNTS**

Recently, RT received requests from members of the public seeking a discount program that would benefit low income riders.

RT's current farebox recovery ratio is estimated to be 21%. This means that, on-average, all trips are subsidized by approximately 79%. RT's current Board approved Fare Discount policy has attempted to reach out and provide discounts to groups that are economically challenged. For example, RT has a program with the Department of Human Services (DHA), to provide discounted monthly passes at a 75% discount to those who qualify for general assistance. In addition, it provides free single ride or daily passes to individuals who have short term public assistance needs. RT also has a program with the Francis House, in which the Francis House can purchase daily passes at a 50% discount and provide these passes to other agencies or people who meet the definition of "human services" needs (as defined in the Discount Fare Media agreement with the Francis House). Two other agencies, Department of Health and Human Services and Alta California Regional Center, purchase media from RT and distribute the media through their programs to people in need; combined, the agencies provided over \$1.7 million in media to disadvantaged individuals in FY14.

RT's Board adopted Service & Fare Change Policies require consideration of low-income populations when making service changes. The FTA defines a "minority route" as a route where more than 1/3 of the route's miles go through a minority area, and RT voluntarily follows the same process for low-income routes. Using the thresholds established by the FTA for "minority routes," RT estimates that approximately 85% of bus routes and all light rail lines are "low-income" routes. While only 53% of the general population is estimated to reside within a ¼ mile of transit service in RT's service area, 62% of the area's low-income population is estimated to live within a ¼ mile of transit service.

As a result of favorable service distribution and fare structures, RT estimates that it primarily serves those facing economic challenges. Based on the 2013 On-Board Survey data, RT estimates that 53% of existing passenger boardings are made by riders who are considered to be at or below the poverty level (as defined by the U.S. Department of Health and Human Services). In comparison, the 2007-2011 American Community Survey information indicates that only 16.4% of the population within RT's service area is at or below the poverty level.

Although existing programs do not help all economically challenged riders, RT is currently not in a financial position to create additional programs to serve this group. However, staff will consider this population group when evaluating the various discount programs in the Fare Structure Committee meetings.

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**CONCLUSION**

Based on RT's current financial situation, it has been demonstrated that RT is not in a position to increase or offer new discount programs unless the discount is covered through another dedicated funding source to cover the lost revenue and potential increased expenses. Should any changes be warranted, the change would require a future Board Action and a Title VI analysis.