

Agenda Item No.	Board Meeting Date	Open/Closed Session	Information/Action Item	Issue Date
6	07/22/19	Open	Action	07/15/19

Subject: Adoption of Fiscal Responsibility Policies

ISSUE

Whether or not to approve the Revised Comprehensive Reserve, Fiscal Sustainability, Farebox Recovery, and Fare Change Policies.

RECOMMENDED ACTION

- A. Adopt Resolution No. 19-07-_____, Repealing Resolution No.15-11-0126 and Approving a Revised Comprehensive Reserve Policy; and
- B. Adopt Resolution No. 19-07-_____, Repealing Resolution No. 15-11-0127 and Approving a Revised Fiscal Sustainability Policy; and
- C. Adopt Resolution No. 19-07-_____, Repealing Resolution No. 15-11-0128 and Approving a Revised Farebox Recovery Policy; and
- D. Adopt Resolution No. 19-07-_____, Repealing Resolution No. 15-11-0129 and Approving a Revised Fare Change Policy.

FISCAL IMPACT

Approval of the policies does not have a fiscal impact. Future fiscal impacts will depend upon the level of funds committed or decisions made during the annual budget preparation, year-end financial close and audit, or quarterly financial status updates.

DISCUSSION

On November 11, 2015, the Sacramento Regional Transit District (SacRT) Board of Directors approved four fiscal policies that helped lead SacRT into a time of improved financial stability, performance, and growth. The four policies, as discussed below in detail, focused on the following areas: Comprehensive Reserves, Fiscal Sustainability, Farebox Recovery, and Fare Changes.

Over the past four fiscal years, SacRT has seen the operating reserve and working capital account grow from \$3M to just over \$14M, as of June 30, 2018. Preliminary Fiscal Year (FY) 19 results are indicating an annual surplus of approximately \$7M, bringing total operating reserves and working capital to over \$20M. With the successful financial turnaround it is necessary to go back and reassess the policies to ensure they meet the needs of SacRT now and into the future.

Approved:

Presented:

Final 07/16/19

General Manager/CEO

VP, Finance/Chief Financial Officer

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Agenda Item No.	Board Meeting Date	Open/Closed Session	Information/Action Item	Issue Date
6	07/22/19	Open	Action	07/15/19

Subject: Adoption of Fiscal Responsibility Policies

Update to Comprehensive Reserve Policy:

The purpose of the Comprehensive Reserve Policy (Exhibit A) is to formalize a fiscally responsible strategy for establishing, maintaining, and building reserves to address SacRT’s needs. The policy addresses four categories for which reserves are appropriate: operating reserves, self-insurance reserves, capital replacement reserves and grant/project reserves. The proposed amendment to the Comprehensive Reserve Policy is not making changes to the any of the previously established reserve categories; rather a new category has been added to enable SacRT to reduce its reliance on the Line of Credit (LOC) entitled working capital.

Working capital will be designated by the Board annually with the declaration of the final operating surplus. Working capital will be placed into the general checking account and used to cover day to day operating costs. By funding the working capital, SacRT will be able to gradually reduce the LOC balance, providing more financial flexibility and reducing interest expenses incurred on both the used and unused balances of the LOC. The \$4.0M infused into working capital at the end of FY18 enabled SacRT to reduce the LOC balance conservatively by \$2M to a \$27M annual facility. This is the first time SacRT has reduced the LOC since its inception in 2004.

Below is a history of the reserve balances over the past five years:

Reserve Category	6/30/2015	6/30/2016	6/30/2017	6/30/2018	6/30/2019*
Operating	\$3.1M	\$3.2M	\$5.3M	\$10.5M	\$14.5M
Working Capital	-	-	-	\$4.0M	\$3.0M
Self-Insurance	\$3.1M	\$3.2M	\$3.2M	\$3.2M	\$3.3M
Capital Replacement	-	-	-	-	-
Grant/Project	SacRT met the 10% required contingency				

*FY19 is a projected balance; final results will be presented in December 2019

Fiscal Sustainability Policy:

The purpose of the Fiscal Sustainability Policy (Exhibit B) is to establish sustainability and cost control as clear and strategic priorities for SacRT. SacRT will continue to be a responsible steward of public transportation resources for the Sacramento Region. SacRT is committed to exploring new ways of providing service that improve SacRT’s efficiency and effectiveness, while providing quality service at a reasonable cost.

The minor recommended amendments to the Fiscal Sustainability Policy incorporate the concept of working capital from the Comprehensive Reserve Policy to help reduce reliance on the LOC.

Agenda Item No.	Board Meeting Date	Open/Closed Session	Information/Action Item	Issue Date
6	07/22/19	Open	Action	07/15/19

Subject: Adoption of Fiscal Responsibility Policies

Farebox Recovery Policy:

The purpose of the Farebox Recovery Policy (Exhibit C) is to establish guidelines for determining and realizing the role of fares in meeting SacRT’s financial obligations. Farebox recovery measures the percentage of operating costs covered by passenger generated fare revenue (i.e., passenger fares/operating costs less monies paid for by the American with Disabilities Act (ADA) Paratransit Services). It is important to note that SacRT has Measure A funding available to supplement fare revenue when fare revenues fall short of the 23% Transportation Development Act (TDA) requirement.

An important aspect of the policy is to convey SacRT’s commitment to provide transit services to the public at a fraction of the cost. The Farebox Recovery Policy prioritizes strategies to meet the target as: 1) increase ridership; 2) manage costs; and 3) consider fare increases.

The recommended amendments to the policy strive to provide balance between improving ridership and being price sensitive to riders. The main change to this policy is to annually allow staff to set a farebox recovery goal during the budget approval process and provide quarterly updates to the Board. This provides SacRT the ability to balance farebox recovery while still focusing on strategic initiatives such as ridership increases, improved security, and improved customer satisfaction.

Fare Change Policy:

The purpose of the Fare Change Policy (Exhibit D) is to establish guidelines for planning and implementing fare changes. The intent of this policy is to require SacRT to consider fare changes every other year, allowing smaller overall changes and providing steady, predictable income streams to support sustainable operations.

The recommended amendments to the Fare Change Policy provide staff the opportunity to evaluate the need for fare changes by comparing fares to peer agencies, ridership impacts, and other environmental and economic factors.

Staff recommends adoption of the amended four policies: Comprehensive Reserve Policy, Fiscal Sustainability Policy, Farebox Recovery Policy, and the Fare Change Policy.

RESOLUTION NO. 19-07-_____

Adopted by the Board of Directors of the Sacramento Regional Transit District on this date:

July 22, 2019

**REPEALING RESOLUTION NO. 15-11-0126 AND
APPROVING A REVISED COMPREHENSIVE RESERVE POLICY**

BE IT HEREBY RESOLVED BY THE BOARD OF DIRECTORS OF THE
SACRAMENTO REGIONAL TRANSIT DISTRICT AS FOLLOWS:

THAT, Resolution No. 15-11-0126 is hereby repealed.

THAT, the Comprehensive Reserve Policy as set forth in Exhibit A is hereby
approved.

PATRICK KENNEDY, Chair

A T T E S T:

HENRY LI, Secretary

By: _____
Cindy Brooks, Assistant Secretary

COMPREHENSIVE RESERVE POLICY
Sacramento Regional Transit District

Original Policy Date: 09/27/10
Revised Policy (1st): 11/09/15
Revised Policy (2nd): 07/22/19

Sacramento Regional Transit District Comprehensive Reserve Policy

I. Introduction

The purpose of the Comprehensive Reserve Policy is to formalize a fiscally responsible strategy for establishing, maintaining, and building fiscal reserves to address Sacramento Regional Transit District's (SacRT) needs. The policy addresses four categories of needs for which reserves are appropriate: operating reserve, self-insurance reserves, capital replacement reserves, and grant/project specific reserves. Two of the categories are comprised of estimated costs or liabilities (i.e., self-insurance reserves, and capital reserves), and two categories represent contingent funds for emergencies or unanticipated needs (i.e., operating reserve, and grant/project specific reserves). In addition, to the four reserve categories the Board will have the ability to designate all or a portion of the annual operating surplus to working capital account. SacRT will comply with State and Federal laws, funding regulations and generally accepted accounting principles (GAAP) in establishing, maintaining, building, and using fiscal reserves.

II. Comprehensive Reserve Policy Objectives

SacRT will establish, maintain, and build fiscal reserves to accomplish the following objectives:

- Maintain adequate funds to meet cash flow needs in the event of emergency or unexpected operating contingences, to prevent an interruption of services.
- Maintain adequate reserves to meet SacRT's self-insurance retention obligations for Workers' Compensation and general liability claims.
- Build reserves to provide the local share of capital costs for replacement and refurbishment of assets at the end of the useful life, allowing timely refurbishment and replacement.
- Maintain reserves required by grant agreements, and/or for large capital projects, to provide contingent coverage for cost overruns.
- Maintain sufficient liquidity to reduce reliance on external short term borrowing sources.

III. Scope and Authority

Staff will determine the need for reserves in each of the four categories and working capital account, and include those needs in budgets, planning documents, grant applications, and the long-term financial plan, as appropriate. Staff will establish, build, and maintain fiscal reserves consistent with this policy. Staff may manage the reserve balance as its component parts or as a single, consolidated reserve. In either case, staff must account for all sources and uses of funds to demonstrate compliance with grant provisions and use restrictions.

SacRT will contribute to the reserves and or the working capital account annually, and communicate that intent in budgets, plans, and grant applications. The amount of contributions will be that required to maintain balances described in the approach section, below.

Staff may draw down reserves for self-insurance retention claims, and the local share of capital replacement and refurbishment costs, to the extent the costs are planned and funded in the reserve. Should staff require access to contingency funds, specifically the operating reserve, and/or the grant/project specific reserve, staff will prepare an estimated need request and justification for review by the Board of Directors (Board) prior to accessing the funds and within a reasonable time of learning of the need. An estimate of needs is appropriate to ensure timely engagement of the Board; final numbers may not be known until books are closed and the fiscal audit complete. If the difference between the estimated and final need is greater than 10%, staff will prepare an update to the Board explaining the change in need. The Board retains control over the surplus funds, with the exception of working capital cash account, and a 2/3rds majority vote is required to authorize the use of these funds.

Working capital will be identified by the Board annually with the declaration of the final operating surplus. Working capital funds will be placed into the general checking account and available for use on day to day operating costs. Infusion into working capital assists SacRT with liquidity needs and reduces reliance on the Line of Credit (LOC); as such this will not require board approval to utilize these funds.

Moving forward, should reserves fall below the levels described in the policy, staff will prepare an affordable catch-up plan describing the time period over which reserves will be established to meet at least the minimum in each category. It is the intent that reserves will be established in a timely manner, and staff will report gaps and progress to establish the reserves to the Board routinely.

IV. Approach to Establishing Reserves

SacRT will establish, maintain, and build reserves consistent with the following criteria by reserve category:

- Operating Reserve: SacRT will strive to establish and maintain 12.3% of the annual operating budget, which is the equivalent of 1.5 months of operating expense (less the current year Self-Insurance expense), in reserve for operations to be used if necessary to meet emergencies or unexpected operating contingencies. SacRT shall maintain at least a minimum operating reserve of 8%, or 30 days of operating expense (less the current year Self-Insurance expense).
- Self-Insurance Reserves: SacRT will strive to establish and maintain a reserve equal to the actuarially determined liability for SacRT's self-insurance retention, focusing on current liabilities to be paid in future years (i.e., total liability less funds paid out in the current year). The actuarial study will be performed at least annually. The study will address expenses related to Workers' Compensation claims incurred

and incurred, but not reported, as well as general liability claims incurred and incurred, but not reported. At minimum, SacRT will develop and maintain a reserve equal to the current year actuarially determined claim expense.

- Capital Reserves: SacRT will contribute annually to this fund recognizing that capital assets are depreciating at a known pace, and will require refurbishment or replacement at a future date. The amount of the annual contribution will be the local share of the replacement cost, pro-rated by years of useful life by asset class. At minimum, capital reserves will match the cash flow needs of local contributions to capital programs each and every year. At maximum, the reserve will fully fund the local share of capital costs on a pro-rata basis considering useful life of each asset class. Depending upon the expected fund balance, this amount might be discounted by expected investment earnings.
- Grant/Project Specific Reserves: The initial purpose of this category is to build and maintain a level of reserves equal to 10% of the total project cost for the Blue Line to Cosumnes River College (BLCRC) project by 2015, or the year the project is completed, to provide additional contingent coverage for cost overruns as required by the Federal Transit Administration (FTA). In subsequent years, additional contingent reserves might be required for large projects or as part of a grant agreement. Once the specific project or grant is closed out, funds remaining in this reserve may be allocated for other reserves or budgeted purposes of SacRT consistent with source and use of fund restrictions.
- Working Capital Account: The purpose of working capital account is to increase SacRT's liquidity to levels that reduce reliance on the LOC. There is no established minimum or maximum for this category. The funds will be utilized at the direction of management for purposes of maintaining adequate cash balances as a result of cyclical changes in receipts, disbursements, and economic changes.

V. Compliance with Regulations

SacRT will comply with all relevant laws and regulations governing fiscal responsibilities, reserves and sources and uses of funds. Among these are:

- The California Transportation Development Act and its amendments
- Federal funding guidelines and agreements
- Generally Accepted Accounting Principles (GAAP).

VI. Establishment of Reserves

SacRT received Board approval to use operating reserves to cover budget shortfalls during FY 2014 and FY 2015. During FY 2016, this trend stopped and since then, the annual operating surplus has been used to increase the reserve balances and working capital account. Staff will prepare an analysis of minimum and full reserve requirements for each of the four categories and the total. The reserve needs shall be presented to the Board no later than as part of the annual budget process each and every year. If reserves fall below the minimum in one or more categories, staff will prepare an affordable catch-up plan to cover the shortfall. The annual contribution to reserves, working capital and the catch-up

plan where needed, will become part of the budget, and be reflected in the Financial Forecasting Model, short range transit plans, grant applications (as appropriate), and general communications. Staff will report on reserve needs (minimum and full funding), planned contributions, shortfalls and the catch up plan (as appropriate) at least at mid-year and annual budget discussions.

RESOLUTION NO. 19-07-_____

Adopted by the Board of Directors of the Sacramento Regional Transit District on this date:

July 22, 2019

**REPEALING RESOLUTION NO. 15-11-0127 AND
APPROVING A REVISED FISCAL SUSTAINABILITY POLICY**

BE IT HEREBY RESOLVED BY THE BOARD OF DIRECTORS OF THE
SACRAMENTO REGIONAL TRANSIT DISTRICT AS FOLLOWS:

THAT, Resolution No. 15-11-0127 is hereby repealed.

THAT, the Fiscal Sustainability Policy as set forth in Exhibit B is hereby approved.

PATRICK KENNEDY, Chair

A T T E S T:

HENRY LI, Secretary

By: _____
Cindy Brooks, Assistant Secretary

FISCAL SUSTAINABILITY POLICY
Sacramento Regional Transit District

Original Policy Date: 11/09/15
Revised Policy: 07/22/19

Sacramento Regional Transit District Fiscal Sustainability Policy

I. Introduction

The purpose of the Fiscal Sustainability Policy (Policy) of the Sacramento Regional Transit District (SacRT) is to establish sustainability and cost control as clear strategic priorities for SacRT. SacRT is, and will continue to be, a responsible steward of public transportation resources for the Sacramento region. SacRT is committed to exploring new ways of doing business that improve both efficiency and effectiveness, with the impact of delivering quality service at a reasonable cost. SacRT is also committed to a sustainability analysis and plan for all projects, initiatives, and innovations, where said improvements have ongoing operations, support and resource requirements.

II. Cost Control Policy Objectives

The primary objectives of the SacRT's fiscal sustainability policy are to:

- Demonstrate a sustained commitment to prudent financial management and cost control in all aspects of SacRT's business and customer service.
- Promote the exploration of new ways of doing business, technology, processes, and tools that help reduce cost while maintaining quality, or increasing quality at the same or reasonable cost.
- Sustain a culture of efficiency and effectiveness, reflecting SacRT's commitment to deliver high quality, safe and secure services at a reasonable cost.
- Embed sustainable operations and financial planning as a part of all projects and initiatives, large and small, with ongoing operations, support, and resource requirements.
- Help SacRT operate a quality transit service by providing only those services it can sustainably afford, using current revenues to pay current operating expenses, and delivering a safe, secure, clean and reliable service.
- Comply with applicable laws and regulations, sound management practices, and SacRT's waste, fraud and abuse policy.
- Reduce reliance on the Line of Credit (LOC) by increasing and maintaining working capital levels which will improve SacRT's financial position and keep costs down.

III. Scope and Authority

This Policy governs planning, budgeting, and delivering quality services efficiently and effectively. Staff will actively pursue new ways of doing business to generate savings and efficiencies, which are to be used to fund quality and effectiveness initiatives. Staff will report appropriate cost efficiency measures in plans, budgets, and performance reports to the Board of Directors (Board) on a routine and ongoing basis. Staff will routinely develop sustainability plans for all small and large projects, initiatives, and improvements addressing operations and maintenance responsibilities, cost and

resource requirements, and affordability. The Board will consider the impact of plans, budgets, and initiatives on cost efficiency, long-term affordability, and sustainability prior to approval. SacRT will publically report both unit cost efficiency and consumer price index for urban wage earners (CPI-W), at least for annual budget review cycles.

IV. Context for the Cost Control Policy

Like any other consumer, SacRT is subject to general economic inflationary pressures when purchasing goods and services. It is a priority of SacRT to proactively manage cost growth and strive for efficiency in delivering quality transit services for the Sacramento region. This policy formalizes that intent, and should be considered in all cost decisions of SacRT (e.g., procurement, business processes, technology, staffing, compensation, labor negotiations). It is the goal of SacRT to manage cost growth within inflation, and deliver quality and effectiveness improvements while doing so. It is also the explicit policy of SacRT to both expand and reduce transit services in response to consumer demand and resource availability. Strategies may include discontinuing or reallocating lower-productivity service to higher and greater uses, either in alternative areas or in the form of enhanced service quality.

Often different organizational units are involved in different stages of the project development lifecycle (e.g., planning, development, operations, and maintenance) for both small and large projects, initiatives, and improvements. SacRT will consider and plan for life cycle sustainability in every project, large and small, with ongoing operations and maintenance requirements. This includes planning for both organizational responsibilities across the project life cycle, as well as resource requirements. Communications among and between organizational units is critical to fiscal and operational sustainability of improvements.

V. Approach to Cost Control Measurement

SacRT will manage costs within inflation rates; and management is expected to explore new ways of doing business that increase efficiency and effectiveness while delivering quality services. Performance monitoring, reporting, and response are critical components of success.

Inflation will be measured as the CPI-W, as reported by the Bureau of Labor Statistics (BLS). Given that inflation rates change monthly and many of SacRT's costs are embedded in multi-year agreements, SacRT will use a three year moving average for comparing unit costs to CPI-W, as well as the most recent year.

Unit costs will focus on the cost for each revenue service hour, as most costs are driven in large part by the number of revenue service hours delivered. Cost per revenue service hour is calculated as total operating cost less purchased transportation (i.e., monies paid to Paratransit, Inc. for mobility services) divided by the total number of revenue service hours operated. There is a significant difference by mode, and unit costs will at least be measured separately for rail and bus (i.e., rail car hours and bus hours). Similar to CPI-W, unit costs should be measured for the current year, as well as the moving average cost per hour for the prior three years.

Major plans, budget documents, and significant new initiatives will estimate the impact on cost efficiency prior to approval. Staff will monitor actual results versus the plan, and adjust implementation tactics as needed to achieve desired results.

It is anticipated that some improvement programs will require resources beyond those practical within inflationary bounds. Projects, programs, and initiatives that deliver significant improvements to service quality, safety, security, and quantity should also be considered and discussed with the Board prior to authorization, even if they increase costs beyond inflation. Any such decision should be made cognizant of the expected benefits for the public, the cost of those benefits, and our ability to pay for them.

Staff will plan for sustainable operations and resources for all projects, initiatives, and improvements that have an ongoing operations and resource requirement. At minimum, staff will plan for the total cost of ownership (e.g., capital and operating costs), organizational responsibilities by project life cycle phase, and clear and open communications among and between organizational units. Where actual requirements differ significantly from plans, staff will examine tactics for improvements, and update plans accordingly.

Should SacRT find current operating costs exceed current revenues (e.g., necessitating use of reserves to balance budgets), staff must conduct a sustainability analysis of administrative costs, operating costs and service levels. The analysis will identify strategies to reduce costs within a sustainable level (i.e., affordable within current revenue streams), and may include a review of service standards, and services operating below standards. Any proposed service changes will follow SacRT's service change policy. SacRT is expected to provide a safe, secure, clean, and reliable transit service. It is the intent of this policy to provide quality transit services in an affordable, sustainable manner.

VI. Compliance with Regulations

SacRT's financial management policies and procedures are subject to and limited by the applicable State and Federal laws, generally accepted accounting principles (GAAP), as well as SacRT's waste, fraud and abuse policy. SacRT will comply with all relevant laws, regulations, and funding requirements governing cost control and sustainability. It will also adhere to California Transportation Development Act, as amended, and the National Transit Database definitions of unit costs for consistency.

VII. Outcome Reporting

Actual unit cost results sometimes vary from plans and projections, and staff will report unit cost versus inflation to the Board at least at the annual budget review cycle. At minimum, such performance results will include CPI-W, cost per bus revenue service hour, and cost per rail revenue service hour for the current year, and the average over the prior three years. When appropriate, staff will recommend changes for Board consideration at mid-year and annual budget review cycles.

RESOLUTION NO. 19-07-_____

Adopted by the Board of Directors of the Sacramento Regional Transit District on this date:

July 22, 2019

**REPEALING RESOLUTION NO. 15-11-0128 AND
APPROVING A REVISED FAREBOX RECOVERY POLICY**

BE IT HEREBY RESOLVED BY THE BOARD OF DIRECTORS OF THE
SACRAMENTO REGIONAL TRANSIT DISTRICT AS FOLLOWS:

THAT, Resolution No. 15-11-0128 is hereby repealed.

THAT, the Farebox Recovery Policy as set forth in Exhibit C is hereby approved.

PATRICK KENNEDY, Chair

A T T E S T:

HENRY LI, Secretary

By: _____
Cindy Brooks, Assistant Secretary

FAREBOX RECOVERY POLICY
Sacramento Regional Transit

Original Policy Date: 11/09/15
Revised Policy: 07/11/19

Sacramento Regional Transit District Farebox Recovery Policy

I. Introduction

The purpose of the Farebox Recovery Policy (Policy) of the Sacramento Regional Transit District (SacRT) is to establish guidelines for determining and realizing the role of fares in meeting SacRT's financial obligations. Farebox recovery measures the percentage of operating costs covered by passenger generated fare revenue (i.e., passenger fares/operating costs less monies paid for mobility services). This Farebox Recovery Policy confirms SacRT's Board of Directors' (Board) commitment to adhere to sound financial management practices, including prudent planning and management of cost, fares and associated revenues, financial capacity and customer interests. SacRT's fare policies and procedures are subject to and limited by the applicable provisions of State and Federal law, as well as funding regulations.

The Farebox Recovery Policy is intended to work in tandem with other SacRT fiscal responsibility policies, including but not limited to the Fare Change Policy, the Fiscal Sustainability Policy, and the Comprehensive Reserve Policy.

II. Farebox Recovery Policy Objectives

The primary objectives of SacRT's Farebox Recovery Policy are to:

- Protect and maximize available public funding by striking a balance between improving ridership while being price-sensitive to the customers but making sure at minimum meeting the farebox recovery ratio required by the California Transportation Development Act (TDA) as amended with available supplemental revenues, and other funding and grant provisions each and every year
- Help SacRT consistently pay ordinary operating costs with current revenues, without accessing multi-year reserves to balance the budget
- Help SacRT maintain a favorable bond rating, and reasonable interest rates, recognizing that rating services and lenders rely heavily on SacRT's fare revenue trends to determine financial health and credit risk
- Determine the appropriate target for the farebox recovery ratio in creating a sustainable customer service, considering contributions to operating costs, capital, debt capacity and repayment, grant applications and conditions, and other obligations
- Determine the time period over which the target farebox recovery ratio will be met considering financial capacity needs, ridership growth, cost control measures, average fare changes required, and impact to fare paying riders
- Comply with applicable laws and funding regulations, some of which set minimum farebox recovery ratio standards

III. Scope and Authority

This Policy governs the planning, adoption and achievement of SacRT's farebox recovery ratio targets. The Board retains control over the farebox recovery target and the time established to reach the target.

Staff must consistently plan to achieve the appropriate farebox recovery ratio, considering both the target and the year for target realization. Where the target is consistent with current performance, staff will plan strategies to maintain that level of performance. Strategies will be prioritized, first considering ridership growth, second cost control, and third fare change actions. Where the target requires a change from current performance, staff will plan for a smooth ramping of the farebox recovery ratio between the current level and the target, over the Board approved timeline. Again, the priority order of actions is 1) passenger growth, 2) cost control and 3) fare revenue. Staff will use the planned farebox recovery ratio in the budget, long-term financial model, short- and long-term plans, and communications with riders, stakeholders, partners, and the public. Fare changes to achieve the target will be planned in accordance with the Fare Change Policy.

IV. Context for the Farebox Recovery Policy

The Transportation Development Act sets SacRT's farebox recovery ratio requirement at 23% and permits SacRT to supplement fares with other locally generated revenues in meeting the requirement. In FY2011, SacRT recovered 26.1% of operating costs from fare revenue. That percentage has eroded annually due to SacRT's initiatives to increase efforts to improve the customer experience by hiring additional front line support, staff to clean, maintain, and repair vehicles with the effort of stabilizing ridership declines, making the system safer, and improving operational standards. Due to these efforts, paired with a fare decrease in October 2018, introduction of electronic fare options, service improvements, and other ridership initiatives, SacRT has experienced lower farebox recovery percentages.

SacRT strives to meet the farebox recovery requirement, with supplement, while finding a balance between providing service at a price that meets riders' needs and provides sufficient farebox revenues.

V. Approach to Farebox Recovery Planning

Annually, Staff will develop a Farebox recovery ratio goal based on the July 1st adopted budget and the fiscal year's respective strategic initiatives identified by the General Manager/CEO and Board of Directors. Having an annually reassessed goal will allow SacRT to increase or decrease the recovery ratio based on outside conditions or events with the understanding that at no point will SacRT not meet the minimum threshold (TDA) with supplemental revenues. New funding opportunities will also provide SacRT with additional supplemental revenue sources to ensure compliance with the TDA requirements and will be incorporated into annual goal setting and financial forecasting.

Staff will provide the SacRT Board an analysis of alternative farebox recovery ratios using the Financial Forecasting Model to include meeting the minimum farebox recovery ratio requirements, fulfilling all fiscal responsibility policies (including establishing the capital reserve fund), and meeting all plans for quality improvements and expansion. Strategies will be prioritized by staff first considering ridership productivity improvements, second cost control, and third fare changes. Plans will incorporate a smooth ramping for any major changes implemented over the Board approved timeline. Staff will recommend a preferred course of action to the Board. The Board will have responsibility for approving a farebox recovery ratio goal, timeline, and plan for achievement.

Consistent with other fiscal responsibility policies, staff will update the long-term financial plan to reflect the adopted goal, timeline, and strategies. Staff will review progress against the plan with the Board at least annually thereafter during the budgeting cycle. Reports will include the compounding impact of differences between planned and actual farebox recovery.

The farebox recovery goal and timeline will be reviewed periodically as part of SacRT's Short Range Transit Plan (SRTP) update process. Staff will examine progress, future fiscal needs supporting planned services and improvements, and make recommendations regarding the farebox recovery ratio goal and timeline forward. The Board retains the final decision on any potential changes.

VI. Compliance with Regulations

SacRT will comply with all relevant laws and regulations governing fiscal responsibility and farebox recovery ratios. Among these are:

- The California Transportation Development Act, as amended (specifically those provisions addressing farebox recovery)
- Public Utilities Code Section 102121 addressing rates and charges
- SACOG funding requirements addressing farebox recovery.

VII. Farebox Recovery Communications

Given the goals of this policy, stakeholder communications is important as SacRT is changing historical patterns of financial capacity and performance. Staff will share the policy and plans with lenders and credit rating agencies, and then share results annually to demonstrate SacRT's ability to establish a prudent fiscal policy and implement the plan. This is expected to lay the foundation for favorable ratings when they are most needed. Staff will also share the policy and plans with SACOG, to demonstrate commitment to meet both farebox recovery ratio requirements and financial capacity needs now and in the future. Finally, staff will communicate the intent to the public and passengers, along with the benefits they will see over time (e.g., timely replacement of capital assets; improved safety, security and passenger service; expanded service). An important part of the message is that, due to public funding,

SacRT is able to provide transit services to the public at a fraction of the cost of those services.

VIII. Outcome Reporting

Actual farebox recovery ratio results sometimes vary from plans and projections, and SacRT staff will routinely report results versus the plan to the Board. At minimum, such performance results will include average fare per passenger, farebox recovery ratio, total ridership, cost control results, and total fare revenue, all versus the current year budget and long-term plan supported by the Financial Forecasting Model. When appropriate, staff will recommend changes in strategies to achieve the goal for Board consideration at the mid-year and annual budget reviews.

The pure recovery ratio goal will be assessed quarterly and provided to the Board through the financial update. Should SacRT's quarterly ratio be below its goal, SacRT will provide an explanation and a plan to recover or reassess its goals based on current environmental/market conditions.

RESOLUTION NO. 19-07-_____

Adopted by the Board of Directors of the Sacramento Regional Transit District on this date:

July 22, 2019

**REPEALING RESOLUTION NO. 15-11-0129 AND
APPROVING A REVISED FARE CHANGE POLICY**

BE IT HEREBY RESOLVED BY THE BOARD OF DIRECTORS OF THE
SACRAMENTO REGIONAL TRANSIT DISTRICT AS FOLLOWS:

THAT, Resolution No. 15-11-0129 is hereby repealed.

THAT, the Fare Change Policy as set forth in Exhibit D is hereby approved.

PATRICK KENNEDY, Chair

A T T E S T:

HENRY LI, Secretary

By: _____
Cindy Brooks, Assistant Secretary

FARE CHANGE POLICY
Sacramento Regional Transit District

Original Policy Date: 11/09/15
Revised Policy: 07/22/19

Sacramento Regional Transit District Fare Change Policy

I. Introduction

The purpose of the Fare Change Policy (Policy) of the Sacramento Regional Transit District (SacRT) is to establish guidelines for planning and implementing fare changes. This Fare Change Policy confirms the commitment of the SacRT Board of Directors (Board) to adhere to sound financial management practices, including prudent planning and management of fares and associated revenues, financial capacity and customer interests. SacRT's fare policies and procedures are subject to and limited by the applicable provisions of State and Federal law, and funding regulations.

This Fare Change Policy is intended to work in concert with other SacRT fiscal responsibility policies, including farebox recovery, comprehensive reserves, and fiscal sustainability.

II. Fare Change Policy Objectives

The primary objectives of SacRT's fare change activities are to:

- Support long term financial planning, by providing a predictable and consistent fare change practice, resulting in sustainable transit services to the public.
- Provide sufficient fare revenues to meet, in conjunction with other available operating and capital funds: customer service needs; local match for capital; fiscal obligations (including debt); and grant requirements each and every year.
- Consider changes in customer income and ability to pay, approximating general pay and benefit increases, providing customers greater predictability of modest fare changes to ease personal budgeting.
- Consider the costs of competing modes of transportation (e.g., mileage and parking costs of automobiles), and other factors valued by potential customers of transit.
- Maximize ridership while meeting financial requirements and other SacRT goals.
- Support attainment of farebox recovery targets in a consistent and predictable manner; while providing transit services below cost to the public.
- Consider equity and affordability for disadvantaged populations, discounting strategy for target populations and the ability to attract new riders.
- Comply with applicable laws and funding regulations, including Federal Title VI and California funding regulations which set minimum farebox recovery standards.

III. Scope and Authority

This Policy governs the planning, adoption and execution of all fare changes. The Board retains control over all final fare change decisions. Staff will consistently plan for fare changes, analyze fare change options that meet revenue needs and other goals, gain public input, make recommendations to the Board, and implement the decisions of the Board. Staff will also include planned changes to the average fare in the long-term financial plan supported by SacRT's Financial Forecasting Model every other year.

IV. Context for the Fare Change Policy

Generally speaking, SacRT's costs increase as a result of inflationary pressures each year. SacRT will continue to practice sound fiscal stewardship and pursue cost savings initiatives to slow the rate of cost growth, as indicated in the fiscal sustainability policy. Most of SacRT's revenues do not increase automatically with inflation, and require adjustment to maintain purchasing power and support SacRT's operations.

Transit rider income also tends to grow over time through wage and salary growth, as well as through indexed government benefit levels (e.g., social security, welfare, unemployment, disability). The Average Wage Index (AWI) tracks wage and salary growth and the consumer price index for wage earners (CPI-W) drive government benefit levels. The two numbers are generally quite close, each ranging between -1 percent and 4.5 percent annually over the prior decade.

The overall intent of this policy is to evaluate the need for routine, modest fare increases every other year. Small, regular fare increases offer many benefits. Riders will become aware that transit prices, like other costs, increase routinely and they can plan for those changes. The smaller increases made possible by more frequent fare changes are easier to absorb in consumer budgets, whose income also generally increases modestly. Lending institutions and credit rating agencies base SacRT's credit risk in part on fare revenue trends, and executing a policy of routine, modest increases provides the steady, predictable revenue stream that financial analysts' value. Grant making organizations require local match and sometimes local reserves, and farebox revenues are a significant revenue source for such purposes. A series of modest, predictable fare increases provides the opportunity to fund local match to maximize grant revenue. SacRT needs a steady, predictable income stream to plan, provide, and sustain quality services; fares represent SacRT's largest source of controllable income.

However, this must be balanced with market conditions, ridership trends, peer agency comparisons and the potential dedicated funding opportunities to keep fares low.

V. Approach to Fare Change Planning

Staff will evaluate the need for a fare change every two years, based on the criteria set out below, and will consider an increase in the long-term financial plan, budget documents, grant applications (as appropriate), short-range service plans, and public communications and marketing materials.

Determining whether and by how much to increase the average fare every two years will have three components. First, the average fare will be adjusted for inflation, considering federal indices like CPI-W for urban areas and AWI, as well as changes to SacRT's cost per passenger boarding, over the period between fare changes. Second, SacRT will make appropriate adjustments to the average fare to at least meet legal and regulatory requirements for farebox recovery considerations. Third, if SacRT's Board has adopted a goal to change the farebox recovery ratio within an associated timeframe (as specified in the Farebox Recovery Policy), SacRT will consider additional adjustments to the average fare to achieve that goal. Note that if no average fare increase is needed to meet all three components, SacRT's Board may decide to forgo a fare change during that period, or change the structure while holding the average fare constant.

Long-term financial planning uses a percentage change to the average fare and system-wide average elasticity to estimate ridership and revenue. Planning and implementing a fare change requires looking at the fare structure and how individual fare elements might or might not change to achieve the new average fare. Fare elasticity (which measures how different rider groups expand and contract as a result of fare changes) varies by rider group and fare payment method used. For example, longer trips are less elastic than shorter trips, peak period trips are less elastic than off-peak trips, and work trips are less elastic than non-work trips. Staff will use changes to the fare structure to maximize ridership while meeting the fare revenue goal. Staff will seek to develop a mix of fare structure adjustments based on, but not limited to, the following considerations:

- Price of transit services relative to other modes and peer agencies
- Differential pricing (e.g., distance based, type of service, zone, time based)
- Discount strategy (e.g., how many and how deep discounts should be by market sector; compliance with federal regulations; potential discount support from other agencies, civic organizations and foundations)
- Ratio of the average fare per passenger to the nominal base fare (as an indication of the overall level of discounting, including fare evasion)
- Bulk/loyalty pricing (e.g., monthly, weekly, daily passes; high cash loads on the Connect Card[®] or other reloadable payment device)
- Convenience pricing (e.g., round-trip and one-way fares; transfers; day passes)
- Transfer and joint fare agreements with other operators
- Partner support (e.g., employee transit benefits, embedded fares in venue tickets, social service ticket subsidies)
- Ease of understanding (e.g., passenger comprehension of fare options and privileges)
- Ease of payment (e.g., coinage multiples, credit/debit, currency and coins)
- Ease of enforcement (e.g., ability to determine and enforce appropriate fare payment, and minimize fraud and theft of service)
- Administrative and implementation considerations (e.g., media stock and delivery costs and lead times, ticket expiration dates, machine reprogramming costs and

constraints, costs for printing and signage, cash handling and credit card processing fees)

- Equity among demographic groups (e.g., determination based on review relative to Title VI of the Civil Rights Act of 1964)
- Other environmental and economic conditions such as gas prices and road congestion

VI. Public Involvement

Prior to request for Board adoption, staff will schedule, conduct outreach, and solicit public input in accordance with SacRT's Public Participation Plan. SacRT's outreach effort will include a 30-day comment period on the proposed changes and the accompanying federally required Title VI fare equity analysis. Prior to holding the public meetings, SacRT will prepare and distribute a notice to riders and members of the public.

The public notice must include:

- A title and brief description of the proposed changes and a statement that SacRT is seeking public comments
- Notice of documents available for review (e.g., draft fare structure proposal(s), Title VI equity analysis, and/or environmental documents)
- The date, time, and location of the public meeting(s) and transit routes serving the location
- Contact information and where to find additional information
- The final date and time to submit comments

SacRT will post the notice on SacRT's web site and will accept comments on the proposed fare changes for at least 30 calendar days. The notice will be posted in English as well as any non-English languages determined by SacRT policy on language assistance. SacRT will also provide information on the hearing in SacRT vehicles, at major stops and stations, to applicable mailing list subscribers, and in SacRT's monthly newsletter, Next Stop News, if time permits. SacRT may also notify riders through press releases or through social media.

Upon request, and given advanced notice of at least 3 business days, SacRT will provide an interpreter (including sign language) at the public meeting. SacRT's Language Line service also provides interpretation services over the phone for patrons calling for additional information, to make comments, or to arrange interpretation services at the public hearing.

Comments received through the public meeting(s) and comment period will be analyzed, evaluated, and reported to the Board. Changes may be made to the recommended fare structure and pricing, and/or additional options considered as a result of public input.

VII. Compliance with Regulations

In adopting fare changes, SacRT will comply with all relevant laws and regulations governing fares, discounts, and farebox recovery. Among these are:

- Federal Title VI of the Civil Rights Act of 1964 and Executive Order 12898, addressing equity
- The California Transportation Development Act, as amended (primarily those provisions addressing farebox recovery)
- Federal funding guidelines addressing fare discounts
- Sacramento Area Council of Governments (SACOG) funding requirements addressing fare discounts.

SacRT's process for conducting a fare equity analysis to comply with Title VI and Executive Order 12898 with respect to fare changes is set out in Appendix A, Fare Equity Analysis.

VIII. Implementation of Fare Changes

Given the intended frequency of fare changes, staff must examine how and where fare levels are posted and communicated. The intent is to clearly convey current fare levels and plans for routine, modest changes, efficiently. In addition to posting fares on ticket vending machines, staff will post current fares on-line and guide customers to that site in marketing and communications materials. Staff will likewise strive to minimize the administrative burden and cost of changing fare media, by leveraging technology solutions like mobile phone and smart card payment mechanisms.

IX. Outcome Reporting

Actual revenue results sometimes vary from plans and projections, and staff will routinely report fare revenue results versus the plan to the Board of Directors. At minimum, such performance results will include average fare per passenger, farebox recovery, total ridership, and total fare revenue, all versus the long-term financial plan (shows compounding impact of differences between planned and actual fare revenues) and the current year budget. When appropriate, staff will recommend changes for Board consideration at mid-year and annual budget reviews.

APPENDIX A

FARE EQUITY ANALYSIS

Requirements

Under Title VI and Executive Order 12898, SacRT is required to conduct an equity analysis prior to the adoption of fare changes (including fare reductions), with the exception of Spare the Air days, temporary fare reductions that are mitigating measures for other actions, and promotional fare reductions lasting no more than six months. Paratransit and dial-a-ride fares are also outside the scope of FTA's Title VI fare equity analysis program. Title VI and the Executive Order require SacRT to establish a locally-developed definition for determining disparate impacts/disproportionate burdens (DI/DB) on minority/low-income populations, including a threshold for statistical significance.

Disparate Impacts

If a statistically significant adverse effect on minority populations is found to be likely, under Title VI SacRT must provide a substantial legitimate justification, including a finding that there are no alternatives that would have a less disparate impact on minority riders but would still accomplish SacRT's legitimate program goals, before adopting the changes.

FTA defines a minority person as anyone who is an American Indian or Alaska Native, Asian, Black or African American, Hispanic or Latino, or Native Hawaiian or other Pacific Islander.

Disproportionate Burdens

Executive Order 12898 on Environmental Justice requires SacRT to analyze proposed changes to the fare structure to determine if they are likely to result in a disproportionate burden on low-income populations. A finding of disproportionate burden requires SacRT to take steps to avoid, minimize, or mitigate impacts where practicable and to describe alternatives available to low-income passengers affected by the changes.

FTA defines a low-income person as a person whose household income is at or below the U.S. Department of Health and Human Services (HHS) poverty guidelines. The HHS definition varies by year and household size. For 2012, poverty guidelines ranged from \$11,170 for a single-person household to \$38,890 for a household of eight. The poverty guidelines for a household of four were \$23,050.

FTA encourages transit agencies to use a locally-developed threshold for low-income status, provided that the threshold is at least as inclusive as the HHS poverty guidelines. Since survey data does not always include household size or exact household income, SacRT shall, when necessary, define low-income status according

to the poverty guideline for a household of four, rounded up to the nearest bracket boundary. For example, if household income data is available in \$15,000 brackets, SacRT will consider household income less than \$30,000 to be low-income.

Definitions and Methodology

SacRT uses two different surveys to capture information on fare payment. First, an annual fare survey provides an estimate of ridership by mode and fare type, both in absolute and percent terms. Second, at least once every five years, SacRT conducts an on-board passenger survey that includes fare type, ethnicity, and household income.

When a fare change is proposed, SacRT uses data from the annual fare survey to determine ridership by fare type, media type, and mode (bus or light rail). Using data from the on-board survey, this data is further split into subsets for minority and low-income riders. SacRT then prepares a table comparing all fare categories to one another, including percent use by minority and low-income populations, and the proposed percent increase in fare.

Disparate impacts from fare changes are determined by comparing the average fare for all minority riders (aggregated over all fare types) to that for non-minority riders. SacRT's Title VI goal is for the percent increase in average fare for minority populations to be less than or equal to that for non-minority populations in the case of a net fare increase. In the case of a net fare decrease, the goal is for the percentage decrease in average fare for minority populations to be equal to or greater than that for non-minority populations. A disparate impact may exist if there is a statistically significant deficiency from this goal. SacRT defines a deficiency as statistically significant if the rates of change differ by more than 20 percent.

As an example, assume an increase is proposed to SacRT's single, daily, and monthly fares. SacRT's analysis finds that the rate of increase to the overall average fare for non-minority populations is likely to be 10 percent. Differences exceeding 2 percent (20 percent of 10 percent) are considered statistically significant. Therefore, if the rate of increase in overall average fare for minority populations exceeds 12 percent, there may be a potential disparate impact.

If a potential disparate impact on minority populations exists, then the fare change may be implemented only if (1) a legitimate justification has been prepared in written form, and (2) there are no alternatives that would have a less disparate impact on minority riders but would still accomplish SacRT's legitimate program goals.

Disproportionate burdens on low-income populations are determined in like fashion. If a potential disproportionate burden on low-income riders exists then SacRT must take steps to avoid, minimize, or mitigate impacts where practicable and must also describe alternatives to low-income passengers affected by the fare change.

Review and Approval

The Title VI fare equity analysis must be approved by the SacRT Board prior to adoption of any fare change, except as exempted above. Upon adoption of the equity analysis and the fare change, SacRT will retain records documenting the SacRT Board's consideration, awareness, and approval of the Title VI equity analysis.