

REGIONAL TRANSIT ISSUE PAPER

Agenda Item No.	Board Meeting Date	Open/Closed Session	Information/Action Item	Issue Date
10	07/26/10	Open	Action	07/21/10

Subject: Approving an Agreement for Discount Purchase and Sale of Prepaid Fare Media with the County of Sacramento

ISSUE

Whether to approve a new 3-year agreement for a discount group pass program with the Department of Human Assistance (DHA) for single Fare Tickets, daily and monthly passes for its General Assistance program participants.

RECOMMENDED ACTION

Adopt Resolution No. 10-07___, Approving an Agreement for Discount Purchase and Sale of Prepaid Fare Media with the County of Sacramento

FISCAL IMPACT

Budgeted:	Yes	This FY:	\$	2,096,400
Budget Source:	Operating	Next FY:	\$	
Funding Source:	Revenue	Annualized:	\$	2,096,400
Cost Cntr/GL Acct(s) or Capital Project #:	420918	Total Amount:	\$	6,289,200
Total Budget:	\$ 2,096,400			

DISCUSSION

Background:

On January 28, 2008, the Board adopted Resolution No. 08-01-0008, approving an agreement with the County of Sacramento for a discount group pass program for DHA. At that time, the key provisions included a term of 3 years, a minimum payment to RT of \$1,749,000 for FY08, and guaranteed 3 percent increases in the second and third years. The fiscal impact information included the minimum amount of revenue based on the minimum-maximum table for monthly passes, ID cards, and stickers within the draft agreement.

Subsequent to that approval, RT and County staff continued to discuss how to ensure that RT received an amount of revenue close to that required by RT's group discount policy within the minimum-maximum purchase concept. The outcome of those discussions was a proposed modification to the agreement (which had not been signed) in which the minimum-maximum range would be eliminated and the amounts previously expressed as maximum limits would become guaranteed purchase amounts for each year of the agreement. RT's Policy for Discount Sale of

Approved:

Presented:

FINAL 7/21/10

General Manager/CEO

Chief Financial Officer

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Prepaid Fare Media (Group Discount Policy)(Resolution 07-12-0158) permits the sale of RT Monthly Passes at a discount of up to 60% off the face value to groups that represent more than 1,000 people and buy at least 12,000 monthly passes per year. In 2008, the monthly pass price was \$85, so the group discount policy required that monthly passes be sold at a minimum price of \$34. In negotiations with RT, DHA stressed that it could not pay more than \$25 per pass, but could purchase a higher minimum number of passes to compensate for the lower per-pass price. On April 28, 2008, the Board approved the agreement with the higher minimum purchase amount and the \$25 per pass price, with a specific finding that the agreement provided for a discount in excess of that permitted by the Group Discount Policy. The price to be paid by DHA for single-fare tickets and daily passes was consistent with the Group Discount Policy (which allows a discount of up to 50% for those media).

Because DHA had historically returned a significant number of unused passes, the expectation of RT staff was that DHA would continue to return unused passes. The Agreement provided that DHA could return unused passes, but that it would not receive a credit for returned passes unless the passes were in excess of the minimum purchase amount. As a consequence, staff assumed that RT would receive closer to \$40 per pass actually distributed to DHA clients. However, over the term of the Agreement, DHA stopped returning unused monthly pass stickers, so RT's net revenue per monthly pass distributed to DHA has been \$25, even as the price of the monthly pass has increased. In addition, the price paid by DHA for single-fare tickets and daily passes has remained constant, even as the cost of those media has increased.

On April 21, 2009, RT and DHA entered into the First Amendment to the Agreement, which allowed DHA to temporarily increase the number of monthly passes purchased from 6,196 to 6,446 between April - June 2009, and 6,623 for the time period July - November 2009, resulting in increased revenue to RT of \$50,000 over an eight-month period.

Current:

In an effort to continue the relationship with DHA, staff has been working with DHA to renew its existing contract for another 3 years. During the past two years, DHA has experienced a reduction in its discretionary budget and significant shortfalls in its revenues. In addition, DHA has determined through surveys that although each general assistance client receives a monthly pass, the number of clients actually using the passes is closer to approximately 66% of the actual pass holders. RT staff has confirmed the estimated usage through ridership surveys. Recognizing the fiscal constraints of both the DHA and RT and after due consideration, RT staff agrees to the proposed terms based on the assumption that the actual usage of the monthly pass based on the contract amount received will approximate the 60% discounted fare allowed by the current fare policy. DHA staff and RT staff will monitor the actual usage of the pass over the life of the proposed contract to validate the estimated usage and resulting fare discount experienced.

DHA expressed to RT and the County Board of Supervisors its desire to continue the Agreement with the same minimum purchase requirements and pricing as provided for the last year of the previous three year contract or FY 2009-2010 (see table below for details).

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On May 26, 2010, the County Board of Supervisors approved a resolution requesting that RT enter into a new 3-year Agreement with the same provisions stipulated in Agreement for FY 2009-2010

A summary of the proposed terms is as follows:

Passes	# to be purchased	Cost
\$25 per monthly pass	6,373 per month for a total of 76,476	\$1,911,900
ID Cards at a cost of \$3.00	15,000	\$ 45,000
Subtotal		\$1,964,400
Tickets	# to be purchased	Cost
Single Fare \$1.00 per ticket	1,000 per month for an annual total of 12,000	\$ 12,000
Daily Passes \$2.50 per ticket	4,000 per month for an annual total of 48,000	\$ 120,000
Subtotal		\$ 132,000
Total Fiscal Year Cost		\$2,096,400

The discounted cost per single Fare Ticket, Daily Pass, and Monthly Pass reflected in the schedule above exceed the current Board-approved discounts within the Group Discount policy, however, when utilization is factored into the equation an equivalent to the discount fare will be experienced.

Should the RT Board decide not to enter into a new agreement with DHA, RT could experience a total revenue loss of up to \$2.1 million over the following three fiscal years, beginning on July 1st, 2010. This estimate is based on the survey data provided by DHA, which indicates that approximately 1/3 of its clients do not use the passes mailed to them each month. If actually unused, these passes generate \$700K in revenue annually, which could amount to a revenue loss of \$2.1 million over 3 years if the survey is an accurate reflection of use of the DHA pass. This revenue loss would be in addition to any other deflection that would occur as a result of riders having to pay up to 4 times DHA's current discounted rate for their transportation needs.

Staff recommends that the Board approve a new 3-year agreement with Sacramento County on substantially the same terms as the recently-expired Agreement, with the following changes: language requiring DHA to provide yearly utilization reports; and language mandating returns for unused media (with no credit for unused single, daily and monthly stickers unless DHA exceeds the minimum monthly purchase amounts set out in the table above). The new agreement would contain, just as the past agreement did, a provision for either party to terminate for convenience with 90 days' advance written notice. This will allow RT to revisit the terms of the Agreement if economic conditions change.

RESOLUTION NO. 10-07-_____

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

July 26, 2010

**APPROVING AN AGREEMENT FOR DISCOUNT PURCHASE AND SALE OF
PREPAID FARE MEDIA WITH THE COUNTY OF SACRAMENTO**

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

THAT, the Agreement for Discount Purchase and Sale of Prepaid Fare Media between the Sacramento Regional Transit District (RT) and the County of Sacramento (County), whereby COUNTY agrees to purchase specified minimum quantities of single fare tickets, daily passes, and monthly passes for its General Assistance Recipients for 3 fiscal years (FY), beginning with FY2010-11, and RT agrees to sell such fare media at a discount exceeding the percentage established in the RT fare policy set forth in Resolution No. 07-12-0158, is hereby approved.

STEVE MILLER, Chair

A T T E S T:

MICHAEL R. WILEY, Secretary

By: _____
Cindy Brooks, Assistant Secretary