Santa Cruz Metropolitan Transit District

DATE: January 26, 2018

TO: Board of Directors

FROM: Barrow Emerson, Planning & Development Manager

SUBJECT: **REQUEST THE BOARD OF DIRECTORS DIRECT STAFF TO INITIATE A FARE RESTRUCTURING ANALYSIS PROCESS**

I. RECOMMENDED ACTION

That the Board of Directors direct staff to initiate a fare restructuring analysis

II. SUMMARY

- Santa Cruz Metropolitan Transit District (METRO) staff has been conducting preliminary analysis on fare restructuring, including opportunities for improved fare payment technology.
- At its January 5th meeting, the Finance Standing Committee approved the staff recommendation to bring to the Board a proposal to initiate a fare restructuring analysis process.

III. DISCUSSION/BACKGROUND

Background

As part of long term financial and service planning, METRO staff has been conducting preliminary analysis of fare restructuring, including technological upgrades to fare payment methods.

The fare structure can be an important tool for operational efficiency, marketing and long-range budget planning.

This analysis is necessary because:

- Potential risks to the 5-year balanced budget.
- Reduced revenue from TDA-STA 99313 (Population Share) program beginning in FY20.
- Based on future budget projections, METRO will need additional revenue to maintain service levels over the next five years as funding sources remain relatively stable while costs increase. (See Attachments A1 and A2)
- As the operating budget increases and fare revenue remains stagnant, the farebox recovery ratio declines (See Attachment B). As this graphic shows, starting in FY18 the METRO farebox recovery ratio is projected to decrease

from over 24% to 22% without any increase in fare revenue. One of our primary revenue sources, the California Development Act (TDA) which provides METRO almost $7 million annually, has within its statues the ability to punish financially agency's whose farebox recovery percentage falls below 20%.

- Another implication It is standard transit industry practice to review fare structure at least every five years.
    - METRO's last fixed route fare modification was in 2012.
    - The 2012 fare changes were not actually a comprehensive restructuring of fares and pass policy, but merely an increase in the cost of the base fare and corresponding increases to the various passes to address the recurring structural deficit.
- Coming out of the recession, five Northern California transit agencies have implemented fare restructurings in the last two years resulting in base fares greater than METRO's current $2.00 base fare. (See Attachment C)

Scale of Revenue Opportunities

METRO's current fare revenue is approximately $10M annually with a farebox recovery ratio of 23%. Over half of fare revenue comes from funding contracts with UCSC/Cabrillo for public fixed routes that also serve the schools. (See Attachment D)

Staff will return to the Finance Standing Committee in February with detailed proposals as to how to increase fare revenue by up to $2 million annually.

Targeted Strategies

There are opportunities to implement targeted strategies that would address various needs and issues of our non-UCSC/Cabrillo ridership who are generally transit dependent and have lower incomes, including discount scenarios for various passes

Another opportunity is to incentivize non-cash fare payment by providing a discount for use of a smartcard (Cruz Cash or Cruz Pass)

Fare Payment Technology

Basic fare restructuring, such as raising the base fare and adjusting the discount of a monthly pass, can be achieved without any change in fare collection technology.

A fare restructuring provides an opportunity to consider other aspects of fare collection, such as improving customer convenience and trying to reduce inefficiencies in METRO's current fare collection process, such as increased dwell time and service delays due to on-board cash payments.

New fare collection technology could be implemented concurrently with the fare restructuring if required, or at a later date. That determination would be made based on the basis of whether the technology is required to implement the fare restructuring, and on cost considerations.

More sophisticated fare restructuring strategies would require a fare technology upgrade.

<u>Process</u>

It is requested that the Finance Standing Committee recommend the Board direct staff to initiate a fare restructuring analysis at its January 2018 meeting in order to give adequate time for public consideration prior to a final fare restructuring decision in May and the adoption of the METRO annual budget in June

The sequence of activities could be as follows:

- January 2018 – Introduction of project
- February thru March 2018 – Staff analysis and community engagement
- March 2018 - Preliminary staff recommendations to Board
- March - May 2018 – Public comment process
- May 2018 – Public Hearing and Board adoption of revised Fare Policy
- January 2019 - Implementation of revised fare structure

IV. FINANCIAL CONSIDERATIONS/IMPACT

The initiation of a fare restructuring analysis does not in itself have a financial impact although outcomes of the process may result in initiatives that could have financial considerations.

V. ALTERNATIVES CONSIDERED

The alternative is to not perform long-range fare restructuring analysis, missing possible opportunities related to operating efficiency, marketing and long-term budget planning. This is not recommended.

VI. ATTACHMENTS

Attachment A1: Total Revenue & Expenses FY12 – FY 22

Attachment A2: CPI Chart Updated 8-30-17

Attachment B: Farebox Recovery Percentage FY12 to FY22

Attachment C: Peer Agency Fares

Attachment D: Current Fare Structure

Prepared By: Barrow Emerson, Planning & Development Manager

VII. APPROVALS:

Barrow Emerson,
Planning & Development Manager

Approved as to fiscal impact:
Angela Aitken, Finance

dkclow for AA

Alex Clifford, CEO/General Manager

- THIS PAGE INTENTIONALLY LEFT BLANK -