1
YORK REGION TRANSIT
2007 FARE RATE CHANGE

The Transit Committee recommends:

1. **The presentation by Mary Lou Johnston, Manager, Marketing and Customer Services be received; and**

2. **The recommendation contained in the following report, August 25, 2006, from the Commissioner of Transportation and Works be adopted:**

1. RECOMMENDATION

It is recommended that the fare structure identified in the subject report as Option 3 (outlined below) be endorsed for implementation effective January 1, 2007.

OPTION 3

Option 2 (Increase Flat Cash, Adult Ticket, Express Cash, Express Ticket fares, and GO Rail $0.50 Fare Integration; Introduce Express Monthly Pass; Increase GTA Weekly Pass and Increase Adult Multipass) **+ Increase Student Pass + Increase Senior/Child Pass**

Fare Category	Distribution	Current	Proposed	% Increase	Net Annual Revenue Increase
ADULT TICKET	18.6%	$2.20	$2.30	4.5%	$ 260,633
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STUDENT TICKET	6.8%	$1.70	$1.70	0.0%	$ -
SENIOR/CHILD TICKET	2.0%	$1.40	$1.40	0.0%	$ -
EXPRESS CASH	0.5%	$2.75	$3.00	9.1%	$ 12,928
EXPRESS TICKET	0.5%	$2.50	$2.75	10.0%	$ 15,163
GTA WEEKLY PASS	3.4%	$2.11	$2.21	4.7%	$ 56,140
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EXPRESS PASS	1.0%	$0.00	$2.50	N/A	N/A
GO SUBSIDY / SUPPLEMENT	1.9%	$2.15	$2.23	3.7%	$ 22,284
GO STICKER PASS	0.3%	$2.11	$2.11	0.0%	$ -
	% Increase (Weighted Average):			**7.12%**	**$ 2,083,113**

Shaded Cells Indicate Fare Increases

2. PURPOSE

The purpose of this report is to advise Transit Committee and Regional Council of the status of York Region Transit's (YRT and Viva) current fare structure and recommend a fare rate change for January 2007. The fare change would apply to YRT, Viva and Mobility Plus services. (Note, only the Adult fare category applies to Mobility Plus).

3. BACKGROUND

York Region has made a significant investment in public transit over the past six years. Between 2001 and 2005, revenue service hours have increased by an average of 20% per year. In 2006, revenue service hours increased by approximately 30% over 2005, due largely to the addition of the Viva bus rapid transit service. YRT and Viva will carry over 17 million revenue passengers in 2006, an impressive 15% increase over the previous year or an additional two million new trips.

But providing transit services that are frequent, reliable and comfortable comes at a significant cost to the Region. Along with its federal and provincial funding partners, York has invested $150 million to build the Viva bus rapid transit service, and is paying an additional $28 million in net operating costs in 2006 for both Viva and YRT services.

In order to balance the investment and associated costs to operate transit services, staff undertake an annual fare structure review. The review considers a number of variables including: financial objectives (including cost recovery targets); market variables (including service contractor rates, fuel costs, Consumer Price Index, etc.); consistency with other GTA transit fare structures; timing of new services including service adjustments; and the availability of discount options for regular customers. Once a new fare structure is approved, the fare change process itself involves a number of steps including: the printing of new fare media (tickets and passes); the re-programming of fare equipment at Viva stations, at transit terminals, and on fareboxes on conventional YRT buses; updating marketing materials; and the development of a communications plan. The new fare structure is communicated internally to YRT customer service staff, contracted service operators, fare distribution agents and partner transit agencies. A lead time of at least two months is required to implement an effective fare change strategy.

As part of the development of the preliminary 2007 operating budget, staff have estimated next year’s fare revenues and operating costs for YRT, Viva and Mobility Plus services, and established a combined cost recovery target for conventional YRT services and Viva, and a separate cost recovery target for Mobility Plus services. The 2007 revenue estimates are based on current revenue distribution patterns (January-May) coupled with next year’s ridership forecasts. The operating costs consist primarily of service contractor charges and associated administration costs.

4. ANALYSIS AND OPTIONS

In order to meet the transportation and, more specifically, the transit goals of York Region, YRT staff develop a Five Year Service Plan. The Plan is the basis for growth and expansion of transit services over the next five years. The new Five Year Service Plan was approved by Transit Committee and Regional Council in June 2006. Within the context of the Five Year Service Plan, an Annual Service Plan is produced which formulates the basis for the following year’s planning activities and budget. In conjunction with any increase in operating expenditures required to fund annual improvements, corresponding revenue targets are also established.

By the end of 2006, fare revenues from YRT and Viva services will amount to approximately $37.6 million or 96% of total transit revenues. The remaining revenues of about $1 million are made up of bus and shelter advertising contracts, charters and other non-fare revenue. YRT and Viva's combined cost recovery (revenue/cost ratio) for 2006 is projected to be 38%. For 2007, the cost recovery based on the first draft of the proposed operating budget is estimated at 37% without any fare increase. A combination of service changes and fare increases will be required in 2007 to adjust the revenue/cost ratio towards a more sustainable 40% or higher.

It should be noted that the Mobility Plus gross cost per trip was $26.64 in 2005 which is at least six times higher than conventional transit. Mobility Plus revenues generally cover approximately 10% of overall operating costs for that program. Mobility Plus customers use only the Adult fare category for their travel.

4.1 Current Fare Structure

YRT fares consist of Adult, Student, Senior/Child and Express categories. These are further categorized into cash and discounted ticket or pass options. *Attachment 1* provides a complete list of fare categories and compares the current YRT fare structure with other GTA transit systems.

4.1.1 Fare Zone System

YRT operates on a two-zone system for conventional service and a three-zone system for Mobility Plus. The zone system was adopted by Regional Council in 2002 and implemented on Mobility Plus in 2003. With YRT conventional transit services, the zone system was introduced in September 2005 (Yonge Route 98 North service). The two-zone fare also applies to the Viva Blue service on Yonge Street.

The dividing line between the two zones is actually a band between Bloomington Road and King Road in Oak Ridges. The area between the two roads, including the Viva stations located at Bloomington Road and King Road, and the YRT routes to Seneca King Campus and within Oak Ridges, are included in both zones.

Trips that cross the band are two-zone trips and require a cash supplement of $1.00 or a two-zone ticket or pass. This additional charge helps to ensure that frequent transit service can be provided to the residents of Aurora, Newmarket and the northern municipalities, where the population base is smaller. It was estimated in the 2006 Business Plan and Budget that the $1.00 supplement for two-zone travel would generate an additional $1 million in revenue for 2006.

4.2 Fare Change Criteria

In order to recommend an appropriate fare change, a number of variables need to be considered. The criteria used for this report include analysis of financial objectives (including cost recovery targets), market variables (including service contractor rates, Consumer Price Index, etc.), consistency with other GTA transit system fare structures, and the availability of discount options for regular customers.

From this analysis, a number of options have been developed that consider both the resulting revenue generation potential, as well as any associated ridership decreases caused by the fare increase. This relationship between fare increases and their impact on ridership is referred to as fare elasticity. For a system of YRT's size and complexity, an elasticity factor of - 0.3 is considered reasonable, suggesting that for every 10% increase in fares a 3% loss in ridership can be expected.

4.2.1 GTA Fare Comparison

As shown in *Attachment 1*, several of YRT's fare categories are below the GTA average. YRT fares in all pass categories are currently below the GTA average. The Student and Senior/Child ticket categories are currently at the average for the GTA. It is expected that many of the other transit systems will consider fare increases in 2007 to offset ongoing cost pressures.

4.2.2 Cost Recovery Targets

In order to maintain a reasonable cost recovery or revenue/cost ratio, it is recommended that annual fare rate increases take into account increased levels of service and associated operating cost increases. The introduction of Viva and other new YRT services has added an additional $28 million in operating costs in 2006. Although ridership has also grown substantially, the overall cost recovery for YRT and Viva in 2006 is projected to be only 38%. Marketing and communication programs will be a critical factor in educating the public on the benefits of public transit and generating new riders to meet and exceed ridership targets, and improve the overall system cost recovery.

4.2.3 Contractor Costs

A significant factor in the projected increase in operating costs in 2007 is the recently negotiated operations and maintenance contract extensions with Miller Transit, Tokmakjian (Can-ar) and Laidlaw Transportation Services. The annualized impact of these contracts and increased hourly rates will be felt most significantly in 2007. Annualization alone will account for some $5 million in new operating costs. In addition to labour cost pressures, increased insurance premiums are a contributing factor to higher operating costs.

4.2.4 Fuel Prices

Higher diesel fuel prices have continued to have a substantial impact on operating costs. Existing YRT contracts have fuel escalation clauses which require the Region to compensate contractors for increases in fuel costs. For 2006, YRT projects a payment of $2.8 million in fuel escalation payments to the four operations and maintenance contractors. Should average fuel prices remain at a $1.00/litre, YRT expects to pay out a total of $5 million in fuel escalation charges in 2007.

4.2.5 Customer Incentive Fare Programs

From a marketing perspective, YRT staff review existing discounted fare options, as well as new fare options for different market segments so as to generate new riders or encourage riders to travel more often. In 2004, Regional Council approved the RideSaver program (formerly known as Volume Incentive Pass Program or VIPP) on a pilot basis.

This program allows businesses to receive a 15% discount on transit passes for their employees based on a minimum purchase commitment of 15 passes per month over a one year period. YRT staff are working with local Economic Development departments and Transportation Management Associations (TMAs) across the Region to encourage businesses to participate in the program. Staff will be reporting back to Transit Committee on the results of the pilot program in the fall of 2007.

As a part of the federal budget in May 2006, it was announced that effective July 1, 2006 a tax credit of 15.25% would be available for monthly transit pass purchasers. This may encourage riders to choose the discounted monthly pass option over tickets or cash.

In reviewing the fare structure, the monthly pass option was not available to Express riders unless they were to purchase an Adult monthly pass and deposit a fare supplement. Riders have requested an Express pass option in order to be eligible for the tax credit. Based on the discount levels, staff are recommending the introduction of an Express monthly pass for January 1, 2007. The value of the pass has been established at $100 per month which is a 9% discount from the Express tickets and a 17% discount from the Express cash fare assuming 10 trips per week.

4.3 Fare Change Options

For the purpose of the 2007 fare review, three options were developed and the associated revenue increases and ridership decreases considered. Table 1 summarizes the impact of each option.

Tickets are sold in booklets of 10 and therefore the ticket values shown in the following tables are based on a per trip rate. The per trip value for the monthly pass is based on an average multiplier determined by a monthly pass user survey. The most recent survey was completed in April 2006 to update the pass use and multiplier value. The Adult monthly pass use average is 52 trips per month. The Adult monthly pass is also transferable to others. The Student monthly pass use average is 44 trips per month and the Senior/Child monthly pass is 42 trips per month. In comparison to previous surveys, the average use of the passes per month has increased and therefore customers are getting better value from the monthly passes.

Table 1
Fare Change Options

Summary of Fare Change Options	Resulting New Revenue	% Increase (Weighted Avg)	Resulting R/C Estimate
Base • No fare increase-ridership growth only.	$6,600,000	0%	37%
Option 1 • Increase the flat cash rate to $2.75. • Adjust the Express cash and ticket to reflect overall cash increase. • Adjust Adult ticket to reflect the cash increase.	$1,762,000	5.90%	39%
Option 2 • Increase the flat cash rate to $2.75. • Adjust the Express cash and ticket to reflect overall cash increase. • Adjust Adult ticket to reflect the cash increase. • Align the Multi Pass price closer to the current GTA average. • Increase the GTA Weekly Pass price to reflect the increase in the Adult price category.	$1,977,000	6.71%	39%
Option 3 - Recommended • Increase the flat cash rate to $2.75. • Adjust the Express cash and ticket to reflect overall cash increase. • Adjust Adult ticket to reflect the cash increase. • Align the Multi Pass price closer to the current GTA average. • Increase the GTA weekly pass price to reflect the increase in the Adult price category. • Align the Student and Senior pass closer to the current GTA average.	$2,083,000	7.12%	40%

4.3.1 Option 1

Option 1 includes an increase of 25 cents for the flat cash fare. Given that a large proportion (45%) of current riders use cash payment, adjustments to this category have a substantial impact on the percentage fare increase and additional revenues. The Express cash and ticket rates were also increased to reflect the increase in the cash fare rate.

Express services are considered a premium service and, therefore, the fares are set slightly higher than the current Adult fares. Adjustments were also made to the Adult ticket to reflect the flat cash increase. This change represents a 5.90% fare increase with additional annual net revenue of $1,762,000.

Table 2
Option 1

OPTION 1
Increase Flat Cash, Adult Ticket, Express Cash, Express Ticket fares, and GO Rail $0.50 Fare Integration; and Introduce Express Monthly Pass

Fare Category	Distribution	Current	Proposed	% Increase	Net Annual Revenue Increase
ADULT TICKET	18.6%	$2.20	$2.30	4.5%	$ 260,633
ALL CASH	48.9%	$2.50	$2.75	10.0%	$ 1,451,004
STUDENT TICKET	6.8%	$1.70	$1.70	0.0%	$ -
SENIOR/CHILD TICKET	2.0%	$1.40	$1.40	0.0%	$ -
EXPRESS CASH	0.5%	$2.75	$3.00	9.1%	$ 12,928
EXPRESS TICKET	0.5%	$2.50	$2.75	10.0%	$ 15,163
GTA WEEKLY PASS	3.4%	$2.11	$2.11	0.0%	$ -
STUDENT PASS	4.1%	$1.36	$1.36	0.0%	$ -
MULTIPASS	11.0%	$1.54	$1.54	0.0%	$ -
SENIOR PASS	1.0%	$0.95	$0.95	0.0%	$ -
EXPRESS PASS	1.0%	$0.00	$2.50	N/A	N/A
GO SUBSIDY / SUPPLEMENT	1.9%	$2.15	$2.23	3.7%	$ 22,284
GO STICKER PASS	0.3%	$2.11	$2.11	0.0%	$ -
	% Increase (Weighted Average):			**5.90%**	**$ 1,762,012**

Shaded Cells Indicate Fare Increases

4.3.2 Option 2

Option 2 includes all of the Option 1 changes but, in addition, includes some of the fare categories that are below the GTA average, while maintaining consistency with the other YRT fare categories and related discount ranges. This option represents a 6.71% fare increase and generates an additional $1,977,000 in revenue. Customers will still be able to avail themselves of discounted tickets and pass options when purchasing multiple fare media.

Table 3
Option 2

OPTION 2

Option 1 (Increase Flat Cash, Adult Ticket, Express Cash, Express Ticket fares, and GO Rail $0.50 Fare Integration; and Introduce Express Monthly Pass) **+ Increase GTA Weekly Pass + Increase Adult Multipass**

Fare Category	Distribution	Current	Proposed	% Increase	Net Annual Revenue Increase
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	% Increase (Weighted Average):			**6.71%**	**$ 1,977,031**

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4.3.3 Option 3

Option 3 includes all of the changes noted in Options 1 and 2, but also adds an increase in the Student and Senior pass categories. This increase brings the prices for those passes closer to the GTA average. Pass prices in those categories are still a 49% and 64% discount from the cash fare. Option 3 represents a 7.12% fare increase which generates an additional $2,083,000 in revenue.

Table 4
Option 3

OPTION 3

Option 2 (Increase Flat Cash, Adult Ticket, Express Cash, Express Ticket fares, and GO Rail $0.50 Fare Integration; Introduce Express Monthly Pass; Increase GTA Weekly Pass and Increase Adult Multipass) **+ Increase Student Pass + Increase Senior/Child Pass**

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4.3.3 Comments

Following a detailed review of the various options and their resulting impacts in terms of the fare change criteria mentioned earlier, it is recommended that Option 3 be endorsed. Option 3 meets the objectives established as part of the fare structure review process including financial sustainability and market price matching, while at the same time maintaining discount options for regular customers. A summary of the three options are available in *Attachment 2*.

4.4 Relationship to Vision 2026

Vision 2026 includes a goal statement relating to managed and balanced growth.
To support this goal, the Region has identified specific action areas including the securement of adequate funding for future needs. The recommendations of this report are consistent with the intent of the goal statement and support the direction of the identified action area.

5. FINANCIAL IMPLICATIONS

As indicated in the various options, a fare rate change based on the options considered could generate a minimum of $1,762,000 and a maximum of $2,083,000 in additional fare revenue next year. This amount is in addition to the $6.6 million in new revenue anticipated through ridership growth alone.

The net costs for the transit program (both YRT and Viva) have grown substantially over the past few years, as follows:

- 2004 $26,000,000
- 2005 $38,000,000
- 2006 $66,000,000 (estimated)
- 2007 $75,000,000 (draft budget amount)

The recommended Option 3 represents an approximate 7.12% weighted average increase in fares, which partially covers the anticipated cost of service improvements while still maintaining a reasonable fare structure for customers.

Assuming all service and growth enhancements identified in the draft 2007 Business Plan and Budget are implemented, the combined YRT/Viva revenue/cost ratio is estimated to be 40% as a result of the recommended fare increase.

The revenue/cost ratio has declined over the past few years as a result of the substantial expansion in service hours for YRT and Viva. The lag between service expansion and new ridership growth results in a revenue/cost ratio that is generally lower than our peers. The objective over the next five years is to grow ridership and bring the revenue/cost ratio closer to the 50% mark.

6. LOCAL MUNICIPAL IMPACT

There is no local municipal impact associated with this report.

7. CONCLUSION

As noted earlier in the report, several criteria have been considered for the annual review of YRT fares. Achieving a reasonable cost recovery target, maintaining discount options for regular customers and ensuring GTA-wide consistency are all important factors to consider. All of these criteria were fully reviewed and, as a result, it is recommended that Option 3 be endorsed to take effect January 1, 2007.

The Senior Management Group has reviewed this report.

(The attachments referred to in this clause are attached to this report.)