

Comprehensive Fares Strategy

Board Workshop

3/16/2022



Workshop purpose & objectives

Shared understanding of:

- Current and projected fare revenue trends.
- How these trends affect long-term fare revenue projections.
- How fare policy actions affect the Finance Plan.
- The choices the Board will need to consider this year and in the future.

Toward a comprehensive fares strategy

Upcoming needed Board actions

- Adopt an equitable and accountable fare compliance policy and expand reduced fare programs.
- Review and consider modifying revenue and farebox recovery targets.
- Establish fare rates where none currently exist. (T Line, Stride, and parking).
- Adjust existing fare levels, fare structures, and categories to meet established target.

Upcoming fare-related Board actions

Multiple decisions needed in the next 18 months

Near term (next 3 months)

- Fare compliance:
 - Policy update,
 - Subsidized annual pass extension,
 - Budget amendments for fare compliance and reduced fare programs.
- Establish T Line fares and set farebox recovery target.

Medium term (4-18 months)

- Authorize daily paid parking.
- Increase Link fares and/or change fare structure (distance-based vs. flat fare, etc.).
- Determine approach to youth fares.
- Establish Stride fares and set farebox recovery target.

Workshop content

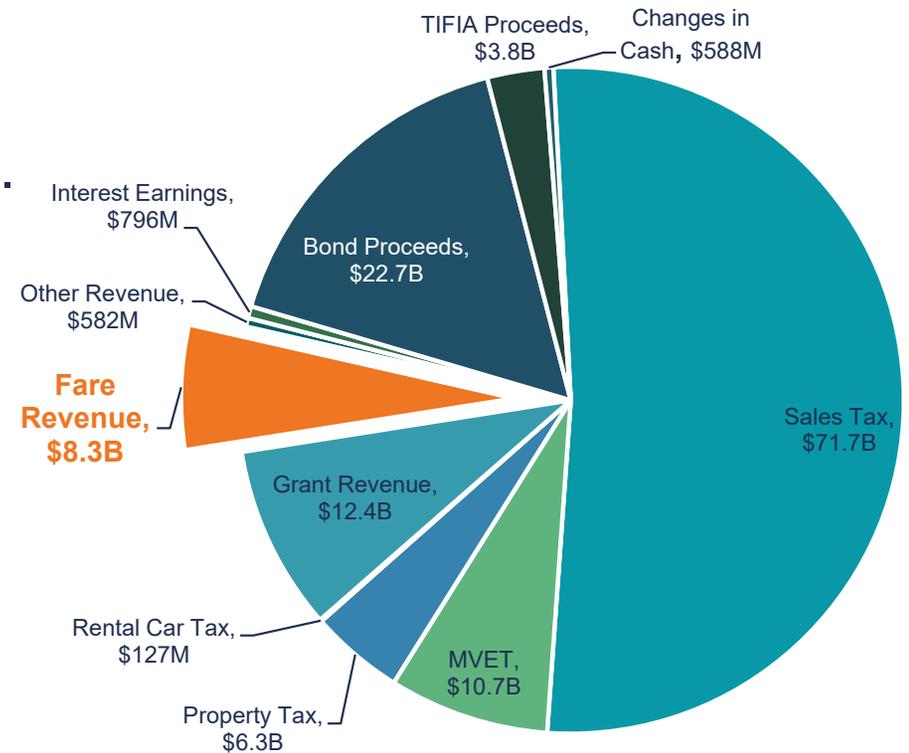
Understanding the fare revenue equation

$$\begin{array}{l} \text{Ridership} \\ + \text{Fare rates} \\ + \text{Fare compliance} \\ \hline = \text{Fare revenue} \end{array} \left. \vphantom{\begin{array}{l} \text{Ridership} \\ + \text{Fare rates} \\ + \text{Fare compliance} \\ \hline = \text{Fare revenue} \end{array}} \right\} \text{Focus of today's workshop}$$

Workshop context

An important revenue source

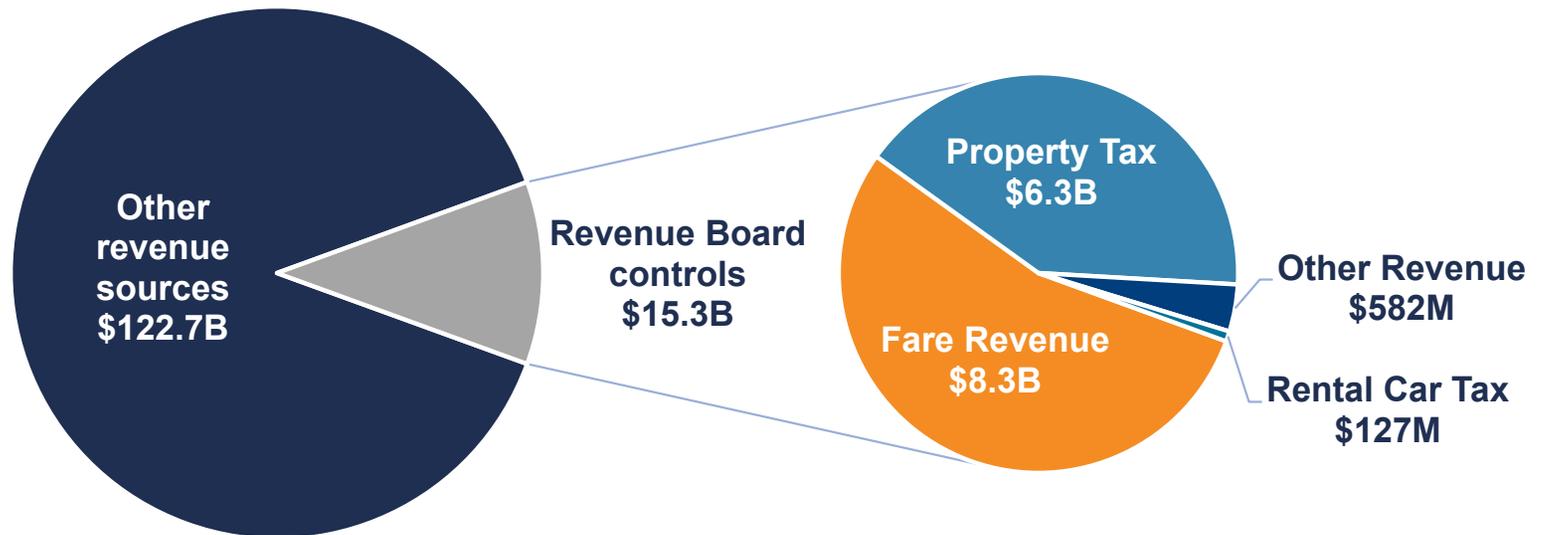
- Fare revenues are **\$8.3 billion** – or **6%** – of the 2021 Finance Plan.
- Finance Plan assumes stable and rising annual fare revenue.
- Recent trends show significant fare revenue declines.
- Reduced fare revenue impacts overall affordability and ability to deliver service and capital projects.



Workshop context

A revenue source that the Board controls

- Board has direct authority over ~11% of Finance Plan sources.
- Property tax can only grow at 1% annually.
- Fare revenue is the major source that Board directly influences.



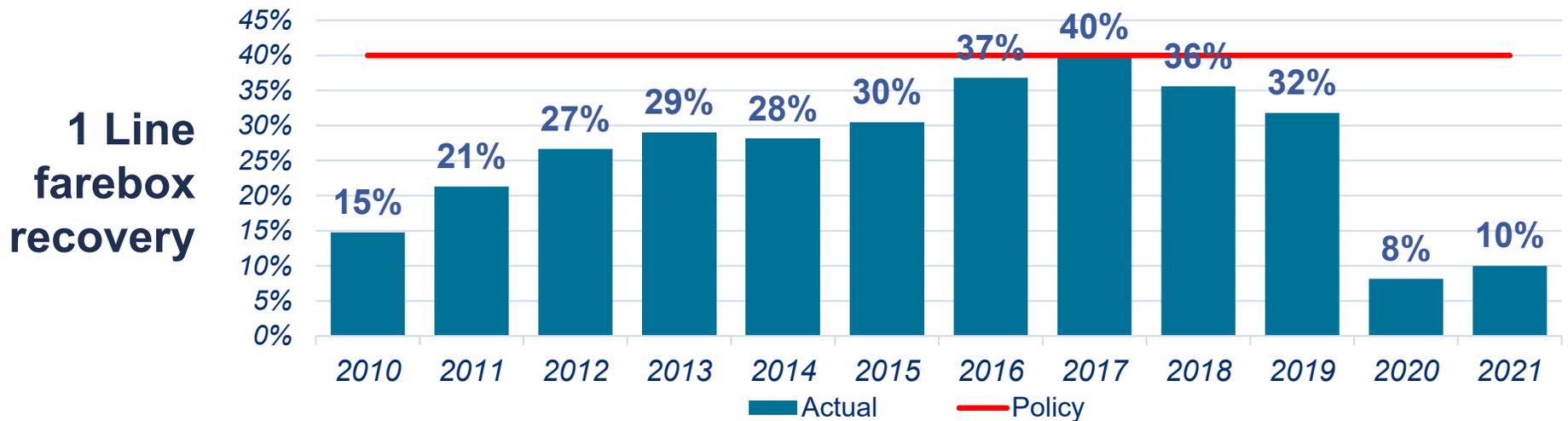
***Recent trends in fare revenue
and operating costs***

Recent trends in fare collection

1. Farebox *recovery rates* declining since 2016.
2. Operating costs up + Link fare unchanged since 2015.
3. Fare *compliance rates* declining since 2019.
4. Ridership lower due to COVID.

Board-adopted farebox recovery targets

- Farebox recovery targets are established in the Board's fare policy, most recently in 2010.
- Fare policy requires a fare change proposal when target isn't met.
- Board could also consider changing these targets.



Farebox recovery of light rail agencies

All peer agencies below farebox targets since COVID

Agency	Adult Fare	Farebox Recovery Policy	2019 Farebox Recovery	2020 Farebox Recovery
Sound Transit – 1 Line	\$2.25-\$3.50	40%	32%	8%
Metro (Minneapolis)	\$2.50	35%	35%	14%
RTD (Denver)	\$3.00-\$10.50	30%	29%	13%
Tri-Met (Portland)	\$2.50	25%*	36%	11%
UTA (Salt Lake City)	\$2.50	17%	25%	13%

**Target for all modes*

Farebox recovery of commuter rail agencies

All peer agencies below farebox targets since COVID

Agency	Adult Fare	Farebox Recovery Policy	2019 Farebox Recovery	2020 Farebox Recovery
Sound Transit – Sounder S & N Lines	\$3.25-\$5.70	23%	31%	10%
UTA (Salt Lake City)	\$2.50-\$9.70	17%	16%	8%
VRE (Northern Virginia)	\$3.50-\$12.15	50%	54%	45%
Tri-Rail (Miami)	\$2.50-\$8.75	22.5%	14%	10%

Farebox recovery of bus operators

All peer agencies below farebox targets since COVID

Agency	Adult Fare	Farebox Recovery Policy	2019 Farebox Recovery	2020 Farebox Recovery
Sound Transit – ST Express	\$3.25	20%	25%	10%
GRTA Xpress (Atlanta)	\$3.00-\$4.00	35%	22%	15%
AC Transit (Oakland)	\$6.00	20%	16%	13%
MTA (Maryland)	\$2.75-\$6.50	35%	13%	10%

Operating costs continue to grow

Increased operating cost projections

- Fall 2021 Finance Plan update included a \$3 billion increase in projected operating costs through 2046.
- Major cost drivers include:
 - 1) Operating partners' costs for contracted service increasing (“purchased transportation”), outpacing revenue growth.
 - 2) Projected agency cost increase to keep pace with system growth and inflation.
- Increased operating costs carry implications for overall program affordability.

Fare compliance rate

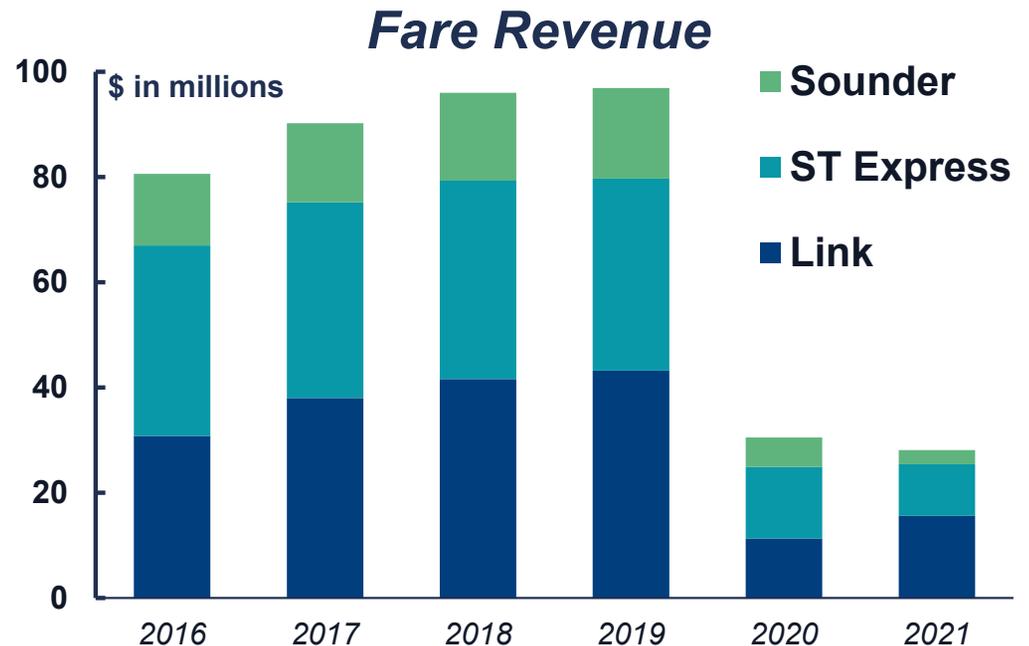
	Link		Sounder	
	2018-2019	2020-2021	2018-2019	2020-2021
Fare evasion rate	3%	10-30%	1-2%	2%
Non-fare boarding rate	14%	31-60%	3%	3-24%

Fare evasion rate is observed non-payment rate during fare checks.

Non-fare boarding rate is sampled based on automatic passenger counters compared to taps and paper tickets sold. Includes legitimate non-fare boardings such as children under 6 as well as fare evasion.

Declining ridership due to COVID

- Significant decrease in ridership and therefore fare revenue between 2019 and 2020.
- 2019 fare revenue **\$96M.**
- 2020 fare revenue **\$30M.**
- 2021 fare revenue **\$28M*.**



**unaudited figure*

Declining ORCA Business Account revenue

Employers pay half of fare revenue

- Systemwide ridership is down by 45% from February 2020.
- High uncertainty about future of hybrid workforces and thus ridership recovery rates.

Business Account revenue

2019: \$48M (50% of total)

2021: \$12M (44% of total)

***How these trends affect future
revenue projections***

Workshop content

Understanding the fare revenue equation

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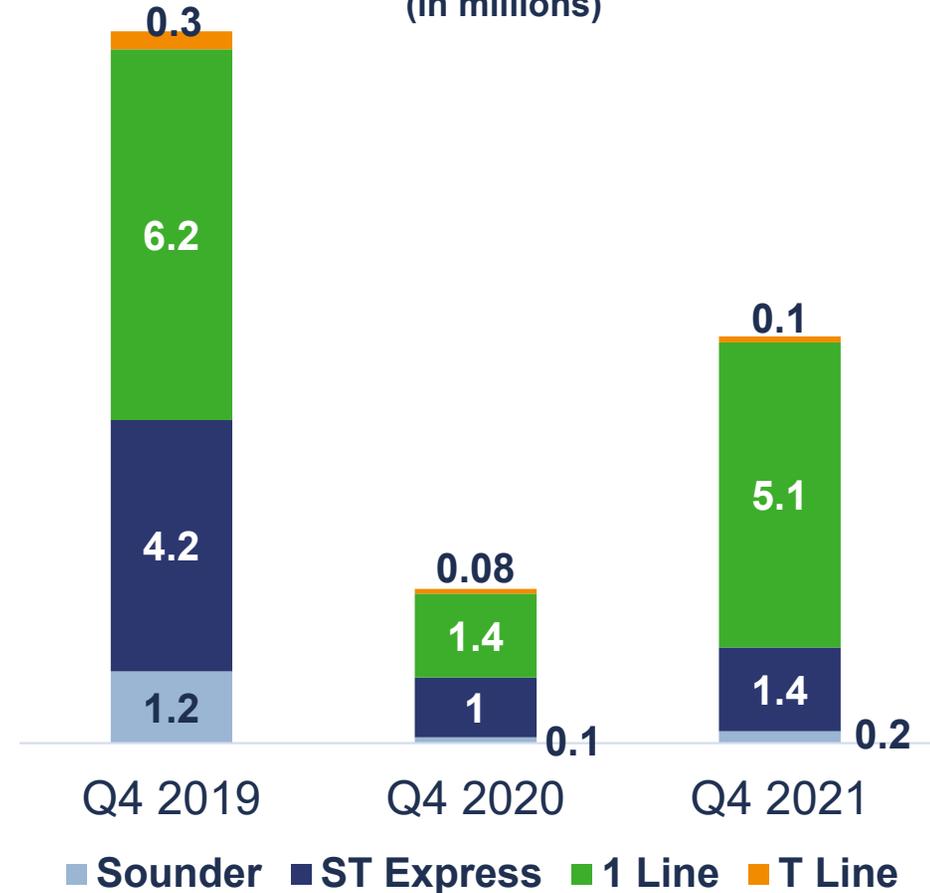
Current ridership

Compared to Q4 2019

- System total: **53%**
- Link: **83%***
- Sounder: **20%**
- ST Express: **34%**
- T Line: **53%**
- Uncertainty about extent and pace of ridership return.

**Includes new Northgate, Roosevelt, and U District stations*

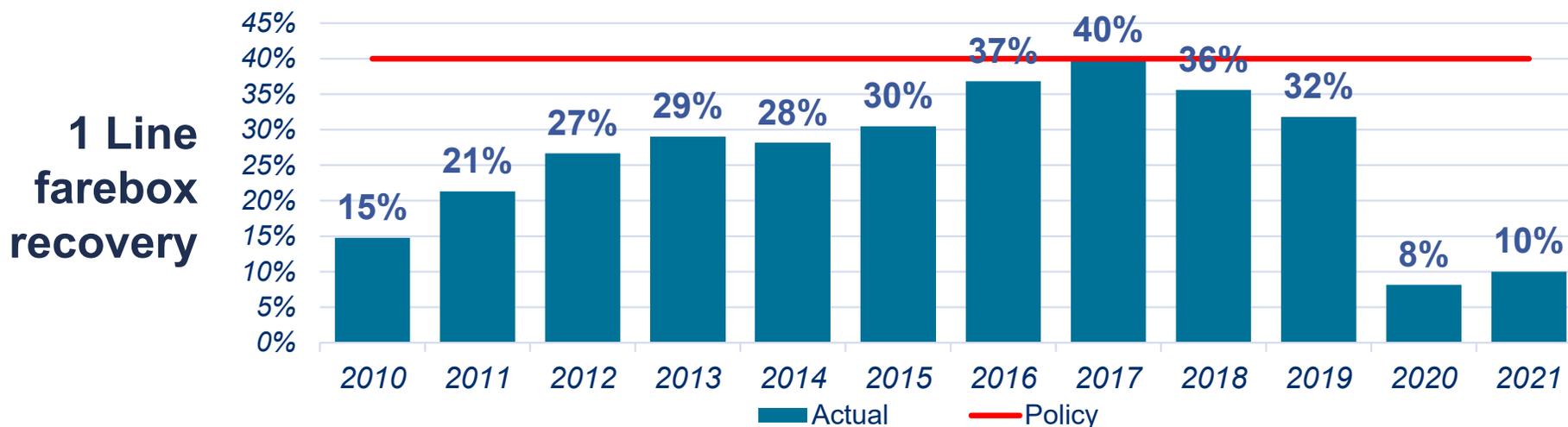
Q4 boardings by year
(in millions)



Fare rates & timing of fare increases

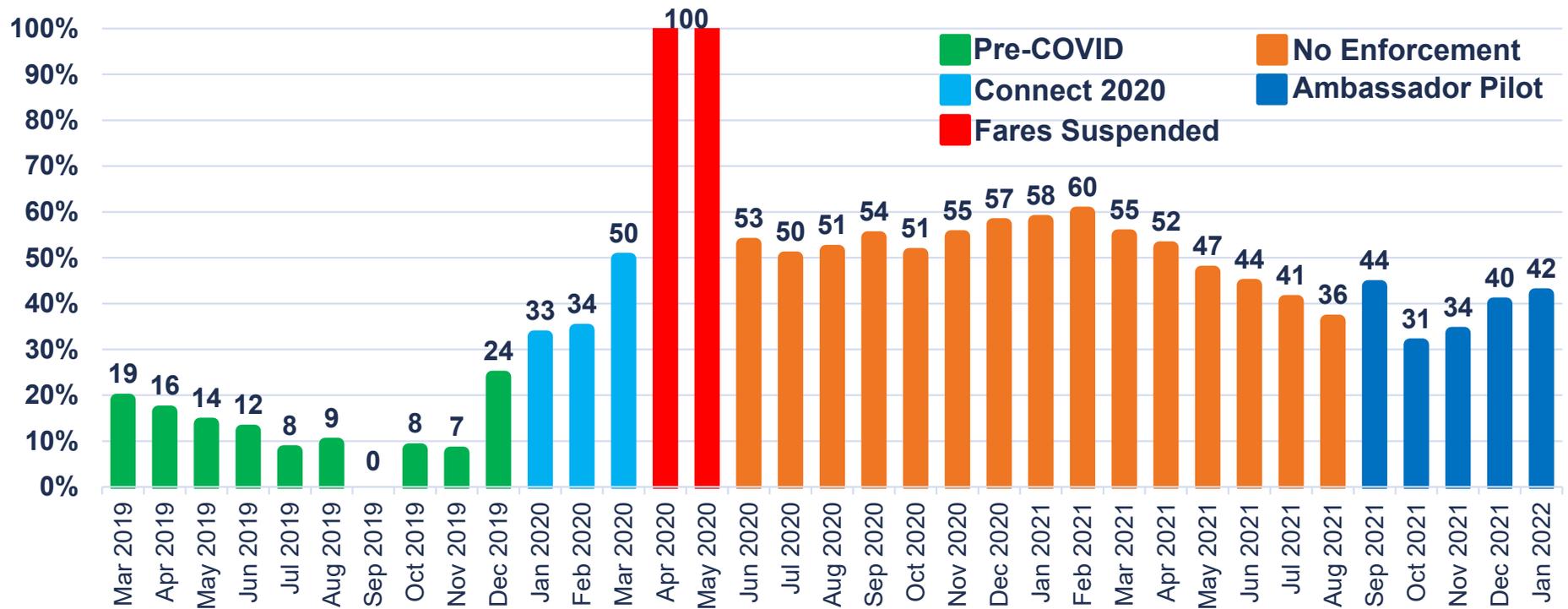
Current trends

- Last Link fare increase was in 2015. Base fare still \$2.25.
- Planned Link fare increase in 2020 deferred due to COVID.
- With no fare changes and current ridership projections, farebox recovery will be at 18% in 2025.



Link non-fare boardings, 2019-2021

Current trends



Current trends have Finance Plan impacts

- Trends since 2019 are reducing finance plan fare revenue projections by \$2-3 billion.
- Without addressing these trends, there will be continued impacts to our ability to meet service and potential project commitments.

Change in fare revenue projections in Finance Plan (2017-2046) since 2019



**2022 is a proposed Finance Plan update figure*

***Fare revenue scenarios:
Strategic Action Plan preview***

Upcoming fare-related Board actions

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Drivers of fare revenue

Three levers the Board can influence:

1. **Ridership:** how to attract and retain passengers and increase usage with existing passenger base?
2. **Fare rates and structure:** how to ensure that fares are affordable, easy to understand, incentivize ridership, optimize revenue, and respond to higher operating costs?
3. **Fare compliance:** how to ensure that ‘everyone taps,’ that income is not a barrier to ridership, and that service is accessible to all?

Increase ridership

Work proactively to increase ridership

- Establish a market development program with ridership targets by mode.
- Maximize ORCA Business Passport participation and usage.
- Get ahead of changes to ridership dynamics and understand post-pandemic system use and passenger needs.

Potential impact on fare revenues

- Increase ridership above current projections.

Review fare rates and structure

For 1 & 2 Lines

- Conduct public process in 2022 to consider changes to fare rate and structure.
- Adopt and implement fare increase in 2023.
- Decide between existing distance-based fares vs. moving to a flat fare.
- Consider changing farebox recovery targets.

Potential impact on fare revenues

- If fares too low, farebox recovery continues to decline.
- If fares too high, ridership loss cancels out fare revenue gains.
- If balanced properly, fares optimize revenue while retaining ridership.

Adopt new fare compliance model

Implementing staff & CEO recommendations

- Schedule and approach for carrying out fare compliance recommendations in support of accountable and equitable fare compliance policy.
- Establish targets for non-fare boarding rate.

Potential impact on fare revenues

- Reduce non-fare boarding rate and increase revenue.
- Create a more inviting passenger experience that retains ridership.

Daily paid parking

Recovering costs of building and maintaining parking

- Board authorization to implement daily paid parking and set rates.
- Potential to modify existing program goals to prioritize cost recovery.
- Provide updated projections of potential parking revenue.

Potential impact on fare revenues

- Potential to increase overall fare revenue.
- Use pricing to incentivize HOV parking, which increases passenger utilization of parking and ridership.

Reduced fare programs

Implementing staff & CEO recommendations

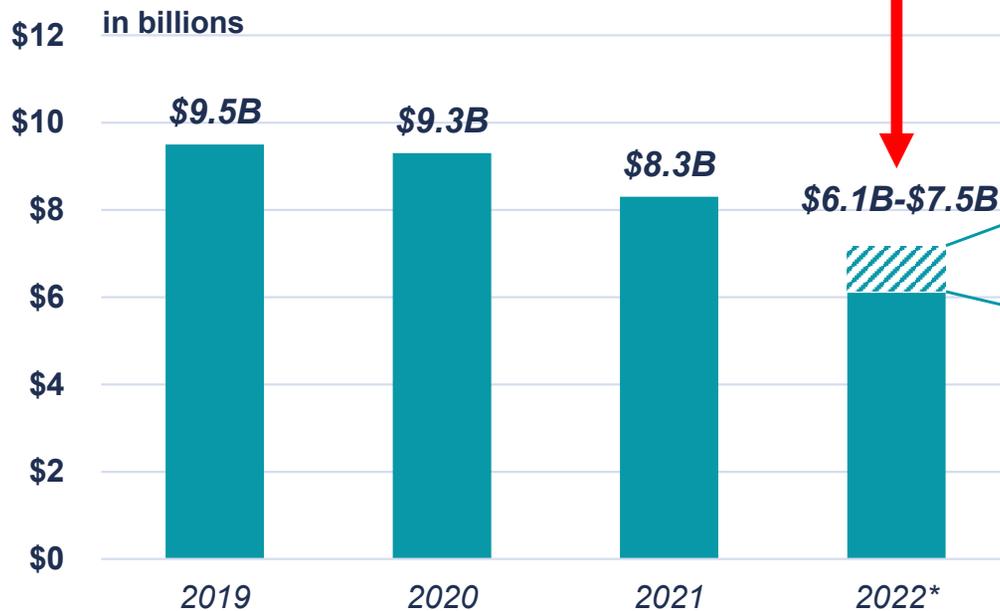
- Schedule for carrying out fare compliance recommendations that increase the reach and effectiveness of reduced fare programs.
- Board-approved ORCA LIFT participation goal accompanied by an aggressive community-centered marketing effort.

Potential impact on fare revenues

- Reduce non-fare boardings rate and increase revenue.

Summary of potential actions

Change in fare revenue projections in Finance Plan (2017-2046) since 2019



Actions have varying impact on size of the gap

1. Fare compliance
2. Fare rates & timing of increases
3. Ridership recovery
4. Daily paid parking
5. Reduced fare programs

*2022 is a proposed Finance Plan update figure

Summary & next steps

Next steps for Board engagement

Schedule

March 24 Board meeting

- Summarize workshop themes

April 7 Executive & REO Committees

- Consider recommending updated fare compliance policy and reduced fare programs for Board action

April 28 Board meeting

- Consider action on updated fare compliance policy and reduced fare programs

May 5 Executive & REO Committees

- Review fares strategic action plan

Thank you.



 *soundtransit.org*

