

# *Fare Strategy Briefing: Farebox Recovery*

*Executive Committee*

*05/04/2023*



# *Why we are here*

- Recap the Board's anticipated fares-related work in 2023.
- Review existing farebox recovery targets, benchmark against peer transit agencies, and highlight trends driving the farebox recovery equation.
- Share flat fare options as follow-up to the April Executive Committee meeting.
- Seek the Board's feedback on policy questions related to our farebox recovery targets.
- Information only, no action required.

***Where we're going***

# Fares guiding framework

We serve passengers with a fare structure that is regionally integrated to encourage transit ridership through equitable and simple pricing, and financial stewardship.

# ***Toward a comprehensive fares strategy***

## ***Upcoming needed Board actions***

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

# Areas of focus in 2023

## Major policy topics

- Fare policy – originally adopted in 2010 with a minor update in 2014 (Resolution No. [R2014-27](#))
  - Fare structure.
  - Farebox recovery targets.
- Parking management program – last Board action in 2018 to allow priced monthly parking permits (Resolution No. [R2018-27](#))
  - Expanded program with daily paid parking.

# *Farebox recovery targets*

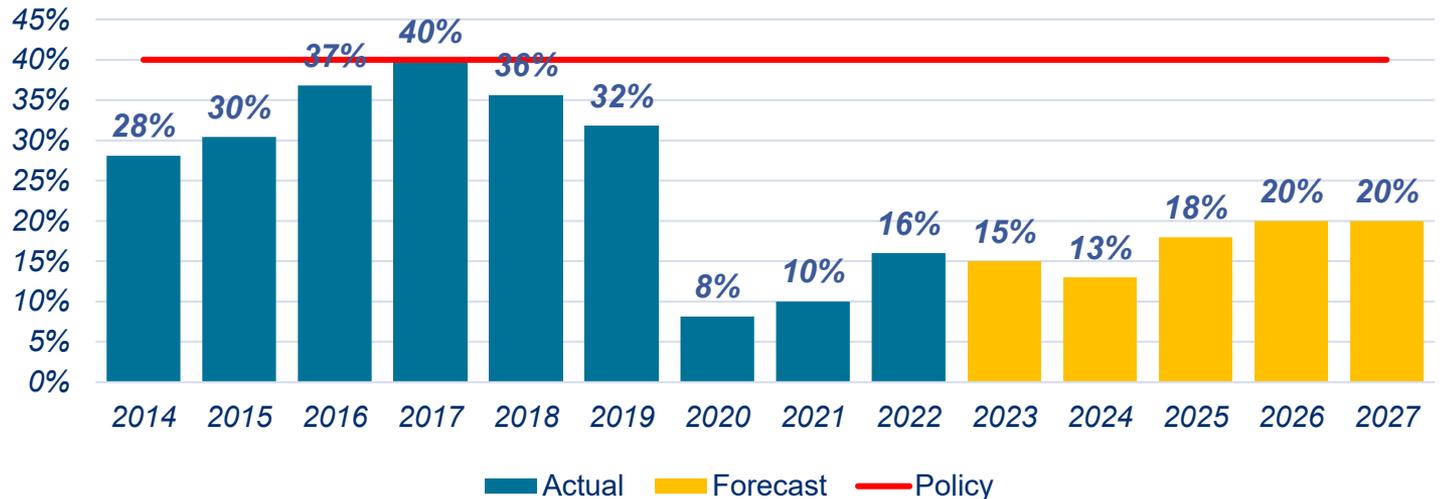
## *The Board's fare policy establishes farebox recovery ratios*

- Farebox recovery ratio is the percentage of operating expenses made up by passenger fares.
- RCW requires Sound Transit to have a farebox recovery policy: “Agencies providing high capacity transportation service shall...establish [a] farebox recovery return policy.” (RCW 81.104.130)
- Farebox recovery below the minimum recovery targets signals that fare revenues are not keeping pace with costs of operations and that the financial plan is threatened.
- Per policy, when farebox recovery falls below the established levels, a fare change process is triggered.

# We are out of compliance with Board-adopted fare policy

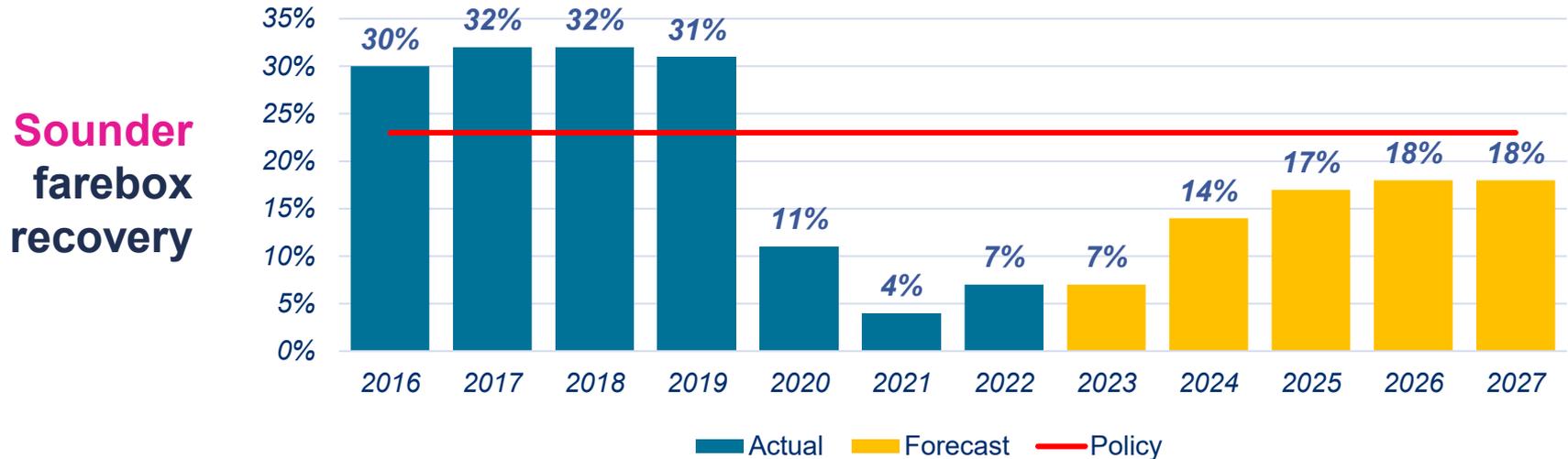
*Link farebox recovery well below 40% policy*

Link farebox recovery



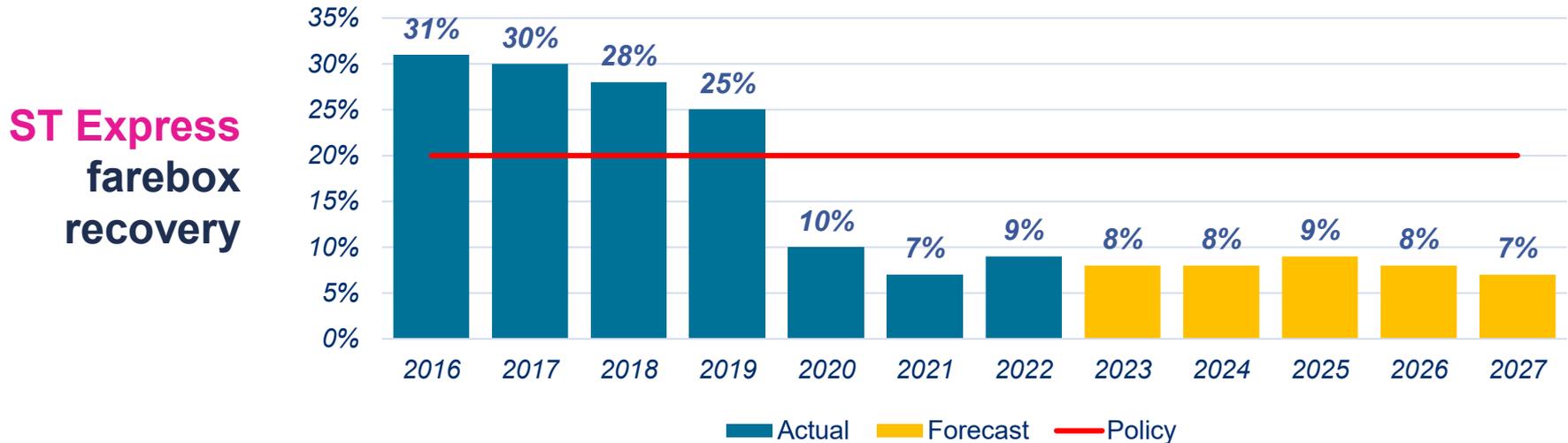
# We are out of compliance with Board-adopted fare policy

**Souder farebox recovery well below 23% policy**



# We are out of compliance with Board-adopted fare policy

**ST Express farebox recovery well below 20% policy**



***Review of peer transit agency  
farebox recovery targets***

# How does Sound Transit compare to peer transit agencies?

## Existing farebox recovery targets by mode

Mode	Farebox recovery target	Notes
Link	40%	Reached farebox recovery target once since 2009; current projections well below target
Souder	23%	Reliably above farebox recovery target pre-Covid; current projections well below target
ST Express	20%	Reliably above farebox recovery target pre-Covid; current projections well below target
T Line	Not yet established	Farebox recovery target to be set after start of fare collection with opening of Hilltop extension

# How does *Link* compare to peer transit agencies with light rail?

Agency	Adult fares	Farebox recovery target	2019 farebox recovery	2021 farebox recovery
Sound Transit	\$2.25-\$3.50	40%	32%	10%
Tri-Met (Portland)	\$2.50	25%	36%	9%
MTS (San Diego)	\$2.50	31.9%	49%	19%
UTA (Salt Lake City)	\$2.50	17%	25%	10%
Metro (Minneapolis)	\$2.00/\$2.50	35%	35%	8%
RTD (Denver)	\$3.00/\$5.25/ \$10.50	*	29%	13%

\*RTD's farebox recovery target was 30% until 2021 when the requirement was removed by the Colorado legislature.

# How does *Sounder* compare to peer transit agencies with commuter rail?

Agency	Adult fares	Farebox recovery target	2019 farebox recovery	2021 farebox recovery
Sound Transit	\$3.25-\$5.75	23%	31%	4%
Caltrain (Bay Area)	\$3.20-\$15.00	65%	75%	24%
RTD (Denver)	\$3.00/\$5.25/ \$10.50	*	41%	30%
UTA (Salt Lake City)	\$2.50-\$9.70	17%	16%	6%
Tri-Rail (South Florida)	\$2.50-\$8.75	22.5%	14%	4%

\*RTD's farebox recovery target was 30% until 2021 when the requirement was removed by the Colorado legislature.

# How does *ST Express* compare to peer transit agencies with express bus service?

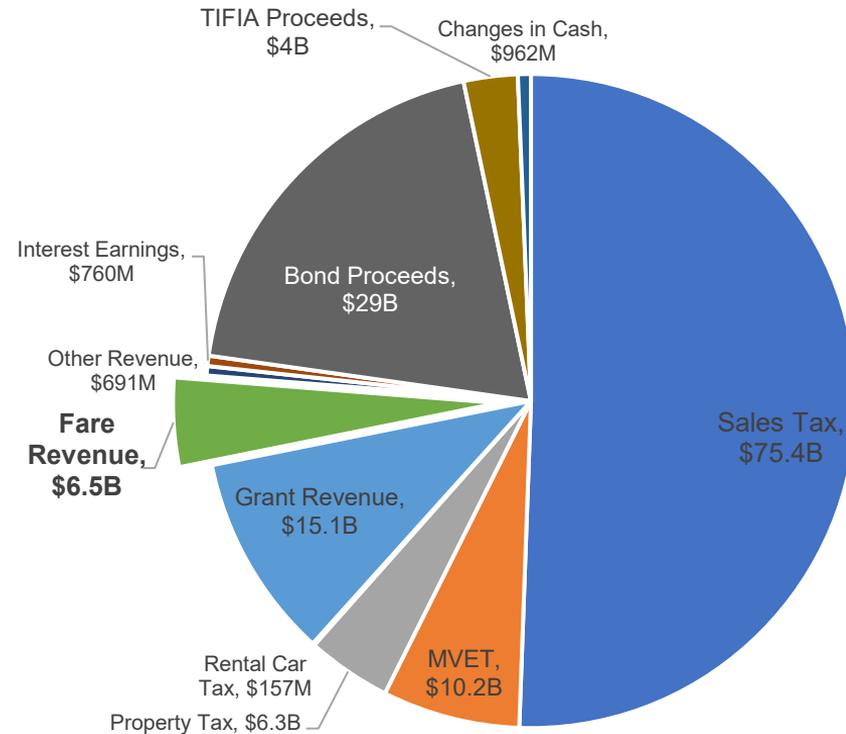
Agency	Adult fares	Farebox recovery target	2019 farebox recovery	2021 farebox recovery
Sound Transit	\$3.25	20%	25%	7%
GRTA Xpress (Atlanta)	\$2.50	25%	36%	9%
MTA (Maryland)	\$2.50	17%	25%	8%

***Fare revenue and the Long-  
Range Finance Plan***

# Fare revenue in the Finance Plan

## An important revenue source

- Fare revenues are **\$6.5 billion** – **or 4.4%** – of the 2023 Finance Plan.
- Finance Plan assumes stable and rising annual fare revenue.
- Trends show substantial fare revenue declines since 2019, the impact of which continues to be analyzed.
- Reduced fare revenue impacts overall affordability and ability to deliver service and capital projects.



# ***Farebox recovery ratio***

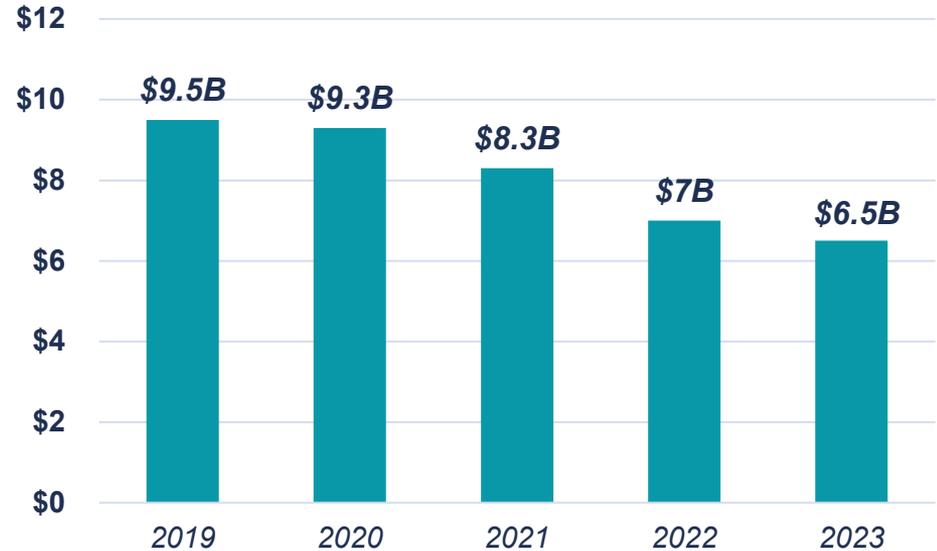
***Understanding the farebox recovery equation***

$$\frac{\text{Fare Revenue}}{\text{Operating Expenses}}$$

# Fare revenue trends (long term)

- Projected fare revenue in the Finance Plan has declined by \$3B since 2019.
- Projected fare revenue in 2019 Finance Plan: **\$9.5B.**
- Projected fare revenue in 2023 Finance Plan: **\$6.5B.**

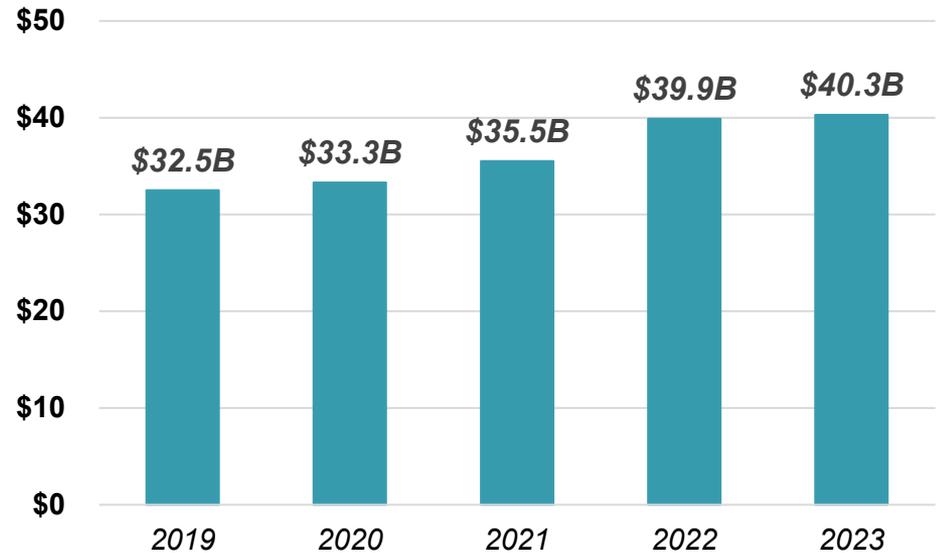
*Change in fare revenue projections in Finance Plan (2017-2046) since 2019*



# Operating expense trends (long term)

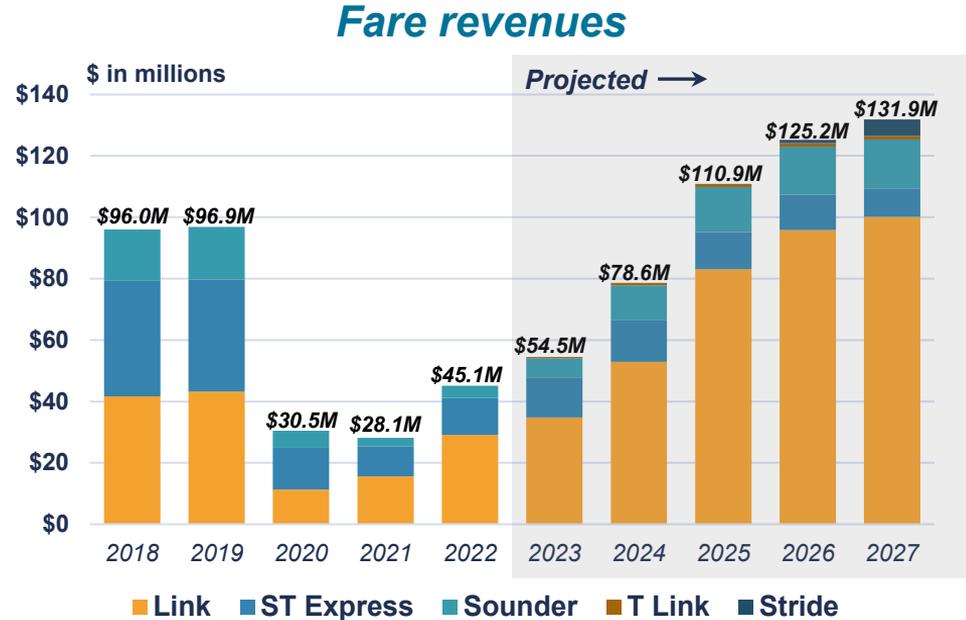
- Projected operating costs in the Finance Plan have increased by \$7.8B since 2019.
- Projected operating costs in 2019 Finance Plan: **\$32.5B.**
- Projected operating costs in 2023 Finance Plan: **\$40.3B.**

*Change in operating expenses in Finance Plan (2017-2046) since 2019*



# Fare revenue trends (near term)

- Significant decrease in ridership and fare revenue between 2019 and 2020.
- Link fares become an increasing share of fare revenue over time:
  - **43% in 2018,**
  - **76% in 2027,**
  - **84% in 2046.**



# *ORCA Business Account revenue trends*

## *Employers pay half of fare revenue*

- Continued uncertainty about future of hybrid workforces and thus ridership recovery rates.

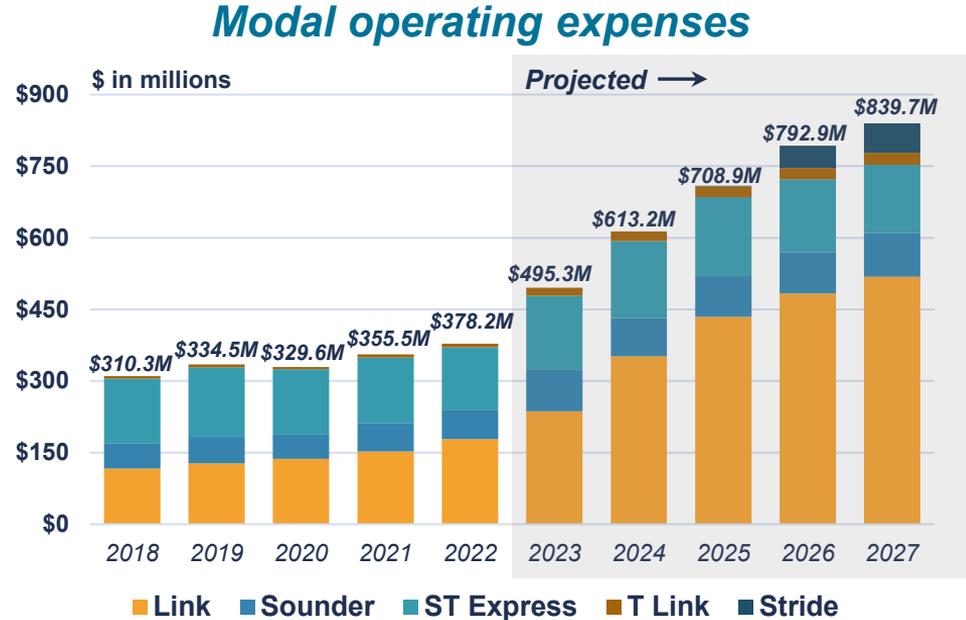
### **Business Account revenue**

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

**2022: \$20.3M** (45% of total)

# Operating expense trends (near term)

- Operating expenses (OPEX) increase as the system expands.
- Link OPEX become an increasing share over time:
  - **38% in 2018,**
  - **62% in 2027,**
  - **71% in 2046.**



***Farebox recovery drivers***

# ***Farebox recovery ratio***

## ***Understanding the fare revenue equation***

$$\frac{\text{Fare Revenue}}{\text{Operating Expenses}}$$

Ridership +  
Fare compliance +  
Fare rates

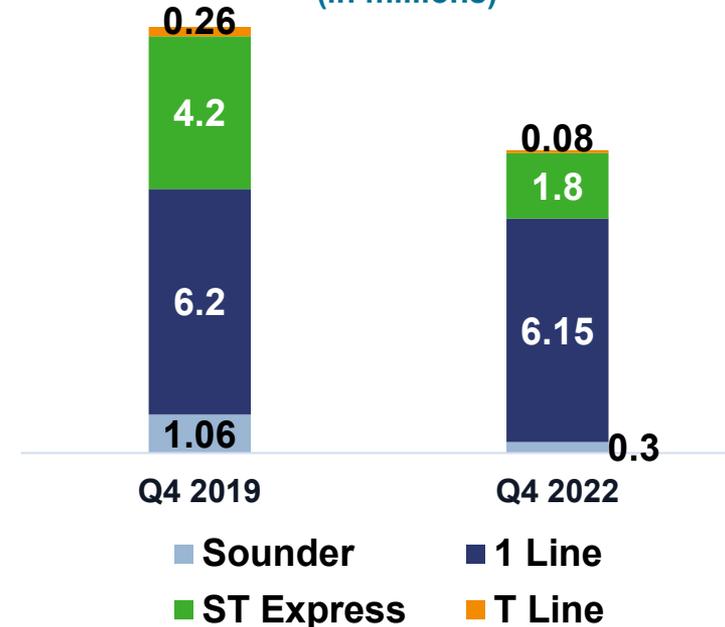
# Ridership trends since the pandemic

## Current ridership as percent of 2019

- System total: **71%**
- Link: **99%\***
- Sounder: **30%**
- ST Express: **43%**
- T Line: **32%**

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

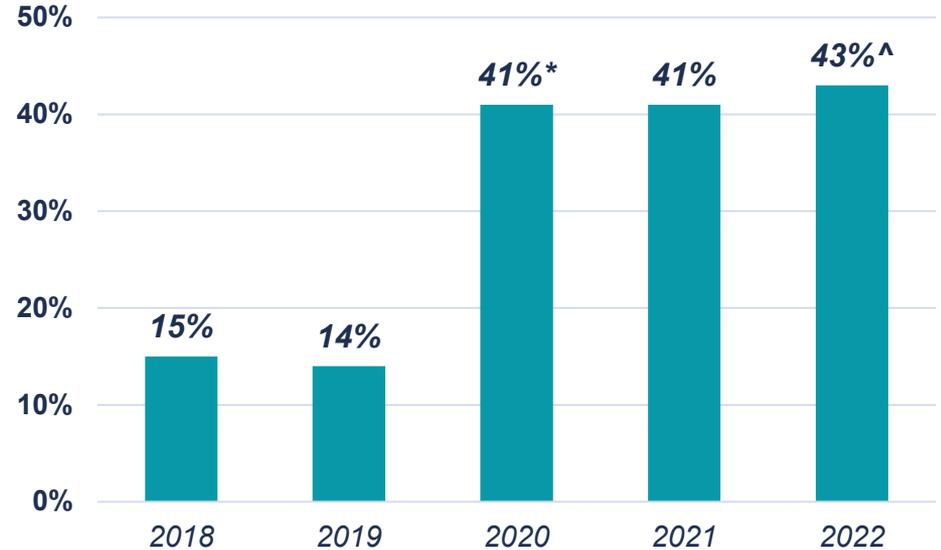
Q4 boardings, 2019 & 2022  
(in millions)



# Lower fare compliance impacts revenue

- Non-fare boarding rate has increased significantly since 2019.
- Non-fare boardings are all rides without an associated fare.
- This includes boardings that do not require a fare (e.g., youth, peace officers) and people who should pay a fare, but don't.
- Implementation of updated fare compliance policy intended to address this trend.

**Change in non-fare boarding rate since 2019**



# Fare rates

## Existing fares on Sound Transit services

Mode	Adult fares	Last adult fare change	Low-income/ senior/disabled	Youth
1 Line	\$2.25-\$3.50	2015	\$1.00	Free
T Line	\$2.00	2022*		
Souder	\$3.25-\$5.75	2016		
ST Express	\$3.25	2018		

# ***Fare structure***

## ***Distance-based fare considerations***

- Fares depend on how far a passenger travels.
- Distance-based fares require passengers to tap on and tap off. If passengers don't tap off, they are charged the highest fare from their originating station.

## ***Flat fare considerations***

- One fare for all rides – simpler for passengers to understand and budget for.
- Flat fares require passengers to only tap on.
- Simplified fare structure may allow for potential transition to fare capping.

# Fare structure

## Flat fares & fare revenues

- Initial fare revenue projections for three Link flat fare options:
  - **\$2.75**
  - **\$3.00**
  - **\$3.25**
- Key assumptions:
  - *pace of system expansion*
  - *non-fare boardings rate (20%)*
  - *pace of fare increases (every 4 years or every 5 years)*
  - *fare increase implementation in 2025*
- Analysis is compared to current Finance Plan assumptions with distance-based fares.

# Evaluating flat fare options

## Financial criteria

- Fare revenue.
- Farebox recovery.

## Passenger experience criteria

- Ridership changes.
- Impacts to passengers traveling short distances (traveling less than 12 miles).
- Impacts to passengers traveling longer distances (traveling more than 12 miles).
- Impacts to passengers using ST Express (paying \$3.25 and expected to shift to Link).
- Impacts to King County Metro passengers switching to Link.
- Impacts to Community Transit passengers switching to Link.

Benefit or Neutral  
Impact

Medium Impact

Cautionary Impact

# Flat Fare Option 1: \$2.75

## Key takeaways

- Same fare as the current King County Metro fare.
- Neutral to 1% decrease in ridership.
- Increased fares for Link passengers traveling short distances.
- Lower fares for longer trips and for ST Express and Community Transit passengers.

Option	Financial Criteria		Passenger Experience Criteria					
	2025 Fare Revenue	2025 Farebox Recovery	Ridership Impact <sup>^</sup>	Impact on short trips	Impact on longer trips	Impact on ST Express passengers	Impact on Metro passengers	Impact on CT passengers
<b>\$2.75 Flat Fare</b>	\$95M	19%	Neutral to 1% decrease	\$0.00-\$0.50 increase	Up to \$1.50 decrease	\$0.50 decrease	No change	\$1.50 decrease

# Flat Fare Option 2: \$3.00

## Key takeaways

- Higher fare revenue and farebox recovery.
- Medium impacts to ridership.
- Still higher fares for short distance Link passengers.
- Lower fares for longer trips and ST Express and Community Transit passengers.

Option	Financial Criteria		Passenger Experience Criteria					
	2025 Fare Revenue	2025 Farebox Recovery	Ridership Impact <sup>^</sup>	Impact on short trips	Impact on longer trips	Impact on ST Express passengers	Impact on Metro passengers	Impact on CT passengers
<b>\$3.00 Flat Fare</b>	\$101M	20%	2%-3% decrease	\$0.25-\$0.75 increase	Up to \$1.25 decrease	\$0.25 decrease	\$0.25 increase	\$1.25 decrease

# Flat Fare Option 3: \$3.25

## Key takeaways

- Same fare as ST Express.
- Higher fare revenue and farebox recovery, but larger impact to ridership.
- Much higher fares for Link passengers traveling short distances.
- Lower fares for longer trips and Community Transit passengers.

Option	Financial Criteria		Passenger Experience Criteria					
	2025 Fare Revenue	2025 Farebox Recovery	Ridership Impact <sup>^</sup>	Impact on short trips	Impact on longer trips	Impact on ST Express passengers	Impact on Metro passengers	Impact on CT passengers
<b>\$3.25 Flat Fare</b>	\$107M	21%	4%-6% decrease	\$0.50-\$1.00 increase	Up to \$1.00 decrease	No change	\$0.50 increase	\$1.00 decrease

# Flat Fare Options: Summary

Option	Finance Plan Impact		Passenger Experience Criteria					
	Fare increase every 4 years	Fare increase every 5 years	Ridership Impact <sup>^</sup>	Impact on short trips	Impact on longer trips	Impact on ST Express passengers	Impact on Metro passengers	Impact on CT passengers
<b>\$2.75 flat fare</b>	-2.2% / ~-\$140M	-5.6% / ~-\$370M	Neutral to 1% decrease	\$0.00-\$0.50 increase	up to \$1.50 decrease	\$0.50 decrease	No change	\$1.50 decrease
<b>\$3.00 flat fare</b>	+3.1% / ~\$200M	-0.4% / ~-\$20M	2%-3% decrease	\$0.25-\$0.75 increase	Up to \$1.25 decrease	\$0.25 decrease	\$0.25 increase	\$1.25 decrease
<b>\$3.25 flat fare</b>	+8.5% / ~\$540M	+4.9% / ~\$320M	4%-6% decrease	\$0.50-\$1.00 increase	Up to \$1.00 decrease	No change	\$0.50 increase	\$1.00 decrease

# *Policy questions*

# ***Fare policy update***

## ***Policy questions – farebox recovery***

- What information would the Committee need to inform a decision on updated farebox recovery targets?
- What should happen when we do not achieve the established farebox recovery target?
- Should we think more broadly about what counts as fare revenue for the purposes of farebox recovery and be inclusive of things like parking fees, advertising, concessions, and other sources of revenue from passengers?

## ***Policy question – fare structure and rates***

- Do you want us to consider and analyze other Link fare rates?

***Next steps***

# *Toward a comprehensive fares strategy*

## *Next steps*

- **Later today:** briefing REO Committee on fare structures and flat fare options on Link.
- **June 2023:** deeper dive on parking management at Executive and REO Committees.
- **July 2023:** preview public and passenger engagement on fare policy changes, Link fare changes, and daily paid parking.
- **July-Sept 2023:** public and passenger engagement.
- **Fall 2023/Winter 2024:** potential Board actions to update existing fare policy, change fare levels, and authorize daily paid parking.

*Thank you.*



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