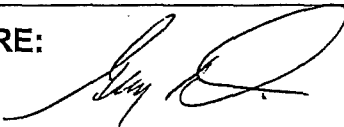




Hamilton

CITY OF HAMILTON
PUBLIC WORKS DEPARTMENT
Transportation, Energy & Facilities Division

TO: Mayor and Members General Issues Committee	WARD(S) AFFECTED: CITY WIDE
COMMITTEE DATE: December 14, 2010	
SUBJECT/REPORT NO: Transit Fare Increase Policy (PW10078) - (City Wide) (Outstanding Business List Item)	
SUBMITTED BY: Gerry Davis, CMA General Manager Public Works Department	PREPARED BY: Don Hull Director of Transit (905) 546-2424, Extension 1860
SIGNATURE: 	Nancy Purser Manager, Transit Support Services (905) 546-2424, Extension 1876

RECOMMENDATION

- (a) That Appendix "A" attached to Report PW10078 respecting the Transit Fare Increase Policy be received and referred to Council's City-wide budget deliberations;
- (b) That the subject matter be identified as completed and removed from the General Issues Committee's Outstanding Business List.

EXECUTIVE SUMMARY

This report responds to a Council direction arising from the 2010 Transit Budget presentation to Committee of the Whole for staff to report back to Council with a policy for determining Transit fare increases through the setting of a Revenue to Cost Ratio for implementation in the 2011 Budget.

Transit programs are required to report a variety of operating data annually to the Canadian Urban Transit Association (CUTA) from which various performance measures are calculated. This reporting is required to qualify for the ongoing Provincial Gas Tax (PGT). The Revenue to Cost ratio (R/C ratio) is one such measure and is generally considered to be among the most strategic. Historically, a high R/C ratio was an indicator of high performance and it remained relatively stable from year-to-year.

However, the R/C ratio has undergone almost annual change since the re-introduction of provincial subsidy to transit programs through PGT in 2004. The explanation for varying rate of annual change between municipalities is entirely related to policy decisions of municipal Councils governing the unconditional allocation of the grant that has included options such as service levels expansion, to avoid a fare increase, to support the capital program or to reduce the transit levy. Municipalities that invested heavily in service level expansion experienced a greater rate in decline in the R/C ratio as new services rarely recover new revenues at the rate of new expenditure. So, in this scenario a declining R/C ratio can be an indicator of positive performance which forces a re-thinking of the historical attitude towards this measure.

In summary, the R/C ratio is an outcome measure of policy decisions; where a high R/C ratio represents a desire for maximum efficiency performance (low cost, no changes to long standing service and a continual balancing of expenditures and revenues), while a low R/C ratio reflects high effectiveness performance (high transit ridership, increased service levels, with expected improvements in revenues over a longer term returning the transit program to a higher R/C ratio). The Transportation Master Plan calls for an increase in ridership (effectiveness performance), which as explained will initially create a decline in R/C ratio. For this reason, a policy developed on triggering a transit fare increase based on a fixed R/C ratio (one that does not change from year-to-year) without taking service enhancements or uncontrollable expenditure increases into consideration is not advised. Appendix "C" provides examples of the impact on revenues and costs when the ratio is adjusted based on comparator municipalities.

Notwithstanding, the R/C ratio can be the mechanism for measuring the effectiveness of policy decisions. The essential elements of the proposed policy, seeks to achieve a balancing of expenditures and revenues, by sharing the increasing costs of the program and thereby maintaining or improving the previous years R/C ratio. Highlights of the policy attached as Appendix "A" to this report are as follows:

This policy sets the upper and lower limit for the R/C ratio. The lower limit R/C is 45%, which allows for expanded service, while the upper limit is set at 50% which provides for the sharing of costs between the levy and the farebox.

1. The Transit program R/C ratio calculated from the prior year approved budget is to be used as a benchmark for the preparation of the current year budget. Should the R/C ratio exceed 50% then fare increases are to be minimized or avoided to return the ratio to the appropriate level, increase in expenditures would be funded by the levy. Should the R/C ratio be within the limits set out, then the following process is to be followed:
2. Council sets a net levy increase guideline in advance of commencement of the annual budget preparation, which determines the net dollar increase (expenditures less revenue) for net levy;
 - For Transit, expenditures are fixed at the same percentage increase as Council's net levy goal;
 - The revenue increase (fare) is variable and is calculated as the net difference between expenditures and net levy;

- At this point, the R/C ratio is maintained for the current year budget.
- 3. To determine the new fare, the revenue increase calculated above, is then computed to a fare increase that is rounded up to the nearest \$0.05;
 - The policy anticipates that the annual fare increase will generate surpluses beyond the net levy guideline and that these surpluses would then be allocated, as follows:
 - first to cover expenditure increases that may exceed Council net levy guideline, i.e.; wages, fuel, insurance;
 - and secondly to fund service level expansion.

At this point the R/C ratio for the current year budget will improve slightly due to rounding of the fare increase to the nearest \$0.05.

- 4. Should actual budgeted expenditure increases surpass the Council guideline and surplus revenue, a further fare increase may be recommended to Council as part of an overall budget mitigation strategy.
- 5. Should actual budgeted expenditures come in below the Council guideline, the savings are then utilized to fund service level expansion for that budget year.

An example model for 2011 is provided in the Financial Section of this report assuming a Council net levy guideline of 2%.

Alternatives for Consideration - See Page 5

FINANCIAL / STAFFING / LEGAL IMPLICATIONS

Financial:

The recommended fare policy:

- institutes an equitable fare policy solution whereby riders (through the farebox), and general taxpayers (through the net levy) share the increasing cost in delivering transit service,
- provides a potential source of funding for service level enhancements to achieve the Transportation Master Plan goals,
- embeds transit fare increases within upset parameters as set out in the policy for the transit budget submission.

Sample Calculation

			Fare Increase Calculation per Proposed Policy (,000's)					Budget Calculation		
	A	B	C	D	E	F	G	H	I	J
HSR	2010 Council Approved Budget	Council Guideline	* 2011 Budget Based on Guideline	Guideline Increase	**Calculated per Fare Increase	**Actual per Fare Increase	Additional Revenue for Service Improvement	Actual Expenditure Budget Increase 1%	Expand Service (additional revenue +/- actual expend budget)	2011 Budget
			A x (1+B)	C - A	D / # trips	E rounded	(F * # trips) - D	(A * 1%) - D	-G - H	A+D+H+I
Net Expenditures	68,766	2%	70,141	1,375				(687)	1,025	70,479
Total Revenues (Fees & General)	(33,110)	2%	(33,773)	(662)	\$0.03	\$0.05	(337)			(34,110)
Net Levy	35,656	2%	36,368	712			(337)	(687)	1,025	36,359
R/C	48.15%		48.15%	48.15%						48.40%
*Assume Council Directed 2% net levy										
**Assume 20,000,000 trips (exclude Golden Age)										

Staffing: N/A

Legal: N/A

HISTORICAL BACKGROUND

Each year for the past several years Council has convened a dedicated Transit Day Budget presentation in advance of the overall City budget schedule, for the purpose of consideration of an annual fare increase and to allow sufficient lead time to allow for a January implementation so as to achieve the full annualized revenue potential.

Council has expressed an interest in replacing this practice with a policy for setting transit fare increases based on a direct relationship to the Revenue to Cost ratio that is calculated from a prescribed formula.

POLICY IMPLICATIONS

This report presents a new Transit Fare Increase policy for the consideration of Council.

RELEVANT CONSULTATION

Consultation has been undertaken with the Finance & Administration Division of Finance & Corporate Services.

ANALYSIS / RATIONALE FOR RECOMMENDATION

Based on a survey of Canadian Urban Transit Association (CUTA) members, most Canadian transit systems do not have policies specifically for addressing regular fare increases. Most transit systems take an ad-hoc approach by monitoring conditions of neighbouring municipalities and by assessing deficiencies within the budget to provide for appropriate levels of transit service and its associated operating costs.

A few transit agencies have established a strategic R/C ratio target as a means to provide continuous monitoring of its transit revenues and expenses and to determine requirements for fare increases.

This report recommends a policy for embedding an annual transit fare increase in the Transit budget.

This recommendation is based on the ability to:

- maintain a balance between the financial contributions by riders (from the farebox) and general taxpayers (from the net levy) and to;
- manage the sustainability of the transit program, including:
 - addressing the rising cost of compensation as well as cost drivers that are somewhat unique to transit programs such as fuel, vehicle maintenance, and fleet insurance,
 - accommodating external cost drivers on the transit program such as population growth and increasing operating complexity such as roadway congestion, boarding and alighting time,
 - ensuring the ongoing provision of excellent service delivery,
 - progress toward implementation of Transportation Master Plan (TMP) goals including expansion of transit service area coverage, harmonization of the transit levels across the entire City, improving inter-regional connectivity, increased demands for technology, and increased investment in environmental initiatives.

ALTERNATIVES FOR CONSIDERATION

See Appendix "A" Transit Fare Increase Policy (Proposed).

Transit Fare increases are considered a User Fee item, in which Council direction is applied using the same process as all other user fees within the City and is approved under separate cover from the Transit program operating budget.

CORPORATE STRATEGIC PLAN

Focus Areas: 1. Skilled, Innovative and Respectful Organization, 2. Financial Sustainability, 3. Intergovernmental Relationships, 4. Growing Our Economy, 5. Social Development, 6. Environmental Stewardship, 7. Healthy Community

Financial Sustainability

- Financially Sustainable City by 2020
- Effective and sustainable Growth Management
- Delivery of municipal services and management capital assets/liabilities in a sustainable, innovative and cost effective manner

Growing Our Economy

- An improved customer service

Social Development

- Residents in need have access to adequate support services
- People participate in all aspects of community life without barriers or stigma

Environmental Stewardship

- Reduced impact of City activities on the environment

Healthy Community

- An engaged Citizenry

APPENDICES / SCHEDULES

Appendix "A" - Transit Fare Increase Policy

Appendix "B" - Transit Fare Increase Policy - Detailed R/C Calculation

Appendix "C" - Transit Fare Increase Policy - R/C Ratio Benchmarking

Appendix "A" - Transit Fare Increase Policy



2200 Upper James Street
Mount Hope, ON
L0R 1W0

<i>IMS Title:</i>	<i>TRANSIT FARE INCREASE POLICY</i>
<i>IMS #:</i>	<i>PW-TR-OP-000</i>
<i>No. of Pages:</i>	<i>3</i>
<i>Issue Date:</i>	
<i>Created by:</i>	<i>K. Andrews</i>

1. PURPOSE

To implement a model for determining an annual transit fare increase.

2. SCOPE

This policy applies to Transit program and to the setting of Transit Fares only.

3. DEFINITIONS

For the purpose of describing the procedures, the following terms are used:

- **Revenue to Cost Ratio (R/C Ratio)** – Total operating revenue divided by total operating cost
- **Operating Revenue** - All revenues obtained from transit fares, advertising, and charter services; Fees & General total on BVR
- **Operating Costs** – All expenses related to transit operations and maintenance, excludes transfers to reserves.
- **Base R/C Ratio** – Revenue to Cost Ratio calculated from the prior year approved budget

4. RESPONSIBILITY

The Director of Transit and Corporate finance staff are responsible for calculating the R/C ratio arising from the prior year approved budget and for calculating the annual fare increase in accordance with this policy.

5. PROCEDURE

This policy sets the upper and lower limit for the R/C ratio. The lower limit R/C is 45%, which allows for expanded service, while the upper limit is set at 50% which provides for the sharing of costs between the levy and the farebox.

1. The Transit program R/C ratio calculated from the prior year approved budget is to be used as a benchmark for the preparation of the current year budget. Should the R/C ratio exceed 50% then fare increases are to be minimized or avoided to return the ratio to the appropriate level, increase in expenditures would be funded by the levy. Should the R/C ratio be within the limits set out, then the following process is to be followed:
2. Council sets a net levy guideline increase in advance of commencement of the annual budget preparation, which determines the allowable dollar increase for net levy;
 - Expenditures are fixed at the same percentage guideline increase as Council's net levy goal;
 - The revenue (fare) increase is variable and is calculated as the net difference between expenditures and net levy;
 - At this point, the R/C ratio is maintained for the current year budget.
4. To determine the new fare, the revenue increase calculated above, is then computed to a fare increase that is rounded up to the nearest \$0.05, this is the upset limit of the fare increase;
 - The policy anticipates that the annual fare increase will generate surpluses beyond the net levy guideline and that these surpluses would then be allocated, as follows:
 - first to cover expenditure increases that may exceed Council net levy guideline, i.e.) wages, fuel, insurance;
 - and secondly to fund service level expansion;

The R/C ratio for the current year budget will improve slightly due to rounding of the fare increase to the nearest \$0.05.

4. Should actual budgeted expenditure increases surpass the Council guideline and surplus revenue, a further fare increase may be recommended to Council as part of an overall budget mitigation strategy.
5. Should actual budgeted expenditures come in below the Council guideline, the savings are then utilized to fund service level expansion for that budget year, i.e.) the budget net levy for the Transit program would increase by the Council guideline.

Sample Calculation

HSR	Fare Increase Calculation per Proposed Policy (,000's)							Budget Calculation		
	A	B	C	D	E	F	G	H	I	J
	2010 Council Approved Budget	Council Guideline	* 2011 Budget Based on Guideline	Guideline Increase	**Calculated per Fare Increase	**Actual per Fare Increase	Additional Revenue for Service Improvement	Actual Expenditure Budget Increase 1%	Expand Service (additional revenue +/- actual expend budget)	2011 Budget
			A x (1+B)	C - A	D / # trips	E rounded	(F * # trips) - D	(A * 1%) - D	-G - H	A+D+HH
Net Expenditures	68,766	2%	70,141	1,375				(687)	1,025	70,479
Total Revenues (Fees & General)	(33,110)	2%	(33,773)	(662)	\$0.03	\$0.05	(337)			(34,110)
	35,055	2%	36,369	1,314			(337)	(687)	1,025	35,388
R/C	48.15%		48.15%	48.15%						48.40%
*Assume Council Directed 2% net levy										
**Assume 20,000,000 trips (exclude Golden Age)										

6. ASSOCIATED DOCUMENTS

7. REVISION HISTORY

Revision No.: _____

Date of Last Revision: _____

Last Approval Date: _____

Reason for Change: _____

Prepared by: (Print Name) _____

Prepared by: (Signature) _____

Authorized by:
Director's Name (Print Name) _____

Director's Signature: _____

Appendix "B" - Transit Fare Increase Policy

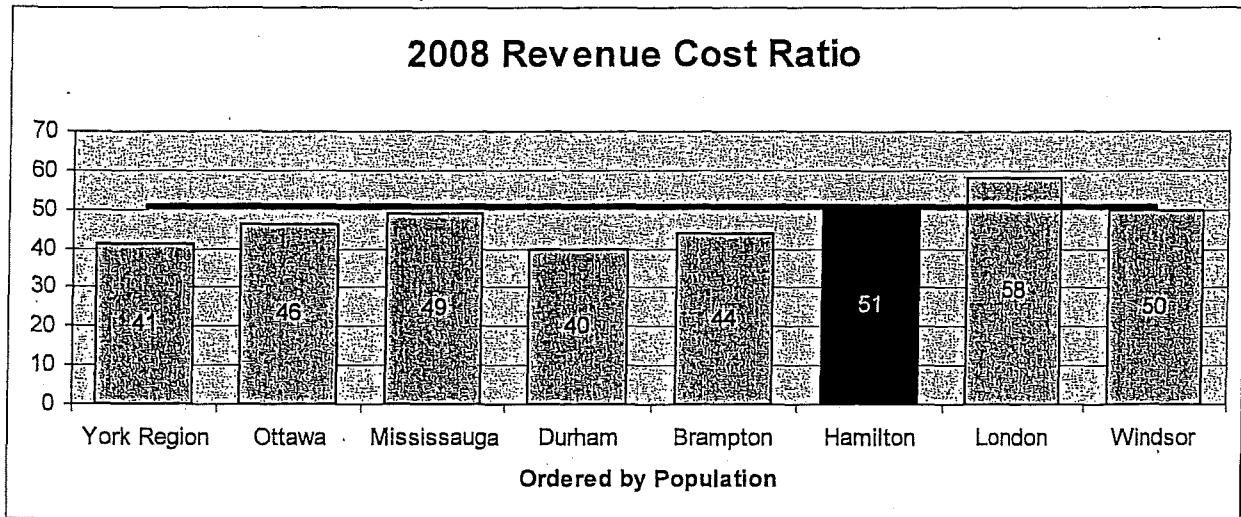
Detailed Calculation of Revenue / Cost Ratio

The calculation below utilizes the definitions as provided by CUTA. The amounts reported reflect only those that relate to conventional transit.

2010 Transit Budget

Description	ATS Budget	R/C Ratio	
		HSR Budget	Transit Budget
Gross Expenditures	\$14,659,389	\$70,747,061	\$85,406,450
Less: Transfer to Vehicle Reserve	- \$1,163,870	- \$1,980,830	- \$3,144,700
Net Expenditures	\$13,495,519	\$68,766,231	\$82,261,750
Gross Revenues	- \$2,698,440	- \$39,370,095	- \$42,068,535
Less: Government Subsidies	\$1,810,520	\$6,173,210	\$7,983,730
Transfer from Reserve	0	\$86,020	\$86,020
Net Revenues	- \$887,920	- \$33,110,865	- \$33,998,785
Net Levy for RC Ratio Calculation	\$12,607,599	\$35,655,366	\$48,262,965
R/C Ratio		48.1%	

Appendix "C" - Transit Fare Increase Policy



- Annual Impact on Revenue of \$32.6M
 - At an R/C of 40, Lower by \$7.0M
 - At an R/C of 58, Higher by \$4.4M
- Annual Impact on Cost of \$63.8M
 - At an R/C of 40, Higher by \$17.7M
 - At an R/C of 58, Lower by \$7.7M

