

# TORONTO TRANSIT COMMISSION REPORT NO.

**MEETING DATE:** October 23, 2013

**SUBJECT:** TTC Fare Policy - Requests for Fare Discounts

## **ACTION ITEM**

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## **RECOMMENDATION**

It is recommended that the Board forward this report to the City of Toronto and the Province of Ontario, noting that:

- It is beyond the mandate and expertise of the TTC to effectively resolve broader social and community issues related to income distribution;
- The current TTC policy regarding concession fares is that new or reduced concession fares will only be considered if arrangements are made to subsidize the TTC for the associated revenue loss. Additional subsidy is required to avoid placing the burden of the proposed program on existing riders through increased fares and/or reduced services;
- TTC fares are normally established in conjunction with decisions about subsidy levels to maximize ridership while ensuring there are sufficient revenues to meet the TTC's financial obligations. This will be particularly challenging in 2014, as the TTC currently faces an operating budget pressure;
- The implementation of any, or all, of the proposed initiatives described in this report would only add to the TTC's budget pressures. For this reason, TTC staff recommend that no change be made to the current concession fare structure; and
- Significant changes to fare policy in relation to peak and off-peak travel are not easily implemented or managed under the TTC's current fare system. The PRESTO system will allow increased flexibility on policies of this nature when implementation is complete.

## **FUNDING**

There are no funding impacts associated with the recommendations in this report.

**BACKGROUND**

Following deputations at its meetings of September 27, 2012 and November 21, 2012 by the Advisory Committee on Accessible Transit (ACAT), and others, the TTC Board requested that staff report back on the cost and benefit of:

- Extending the Family Pass from weekends only to seven days a week;
- Implementing an “off-peak” seniors program that would explore no fare payment for seniors during off-peak hours, and/or a reduced monthly pass for seniors that would be valid during off-peak hours; and
- Providing reduced fares to recipients of the Ontario Disability Support Program (ODSP) and the Ontario Works Program (OWP).

In addition, at its meeting of January 21, 2013, the TTC Board requested that staff report back on a deputation requesting that the TTC consider lowering the age requirement for the Senior Metropass from 65 to 60.

This report provides a response to the above-noted requests. The report also provides a discussion of how the implementation of the PRESTO fare collection system at the TTC will provide an opportunity for the TTC to review its overall approach to fare policies and fare structures.

**DISCUSSION**

It is important that requests for changes to current TTC fare policies, and discounts for specific rider groups, be considered in the context of the overall objectives and challenges facing the TTC. The fare structure for the TTC is normally established, in conjunction with an understanding of available subsidies, to ensure that sufficient revenues are available to meet its financial obligations while maximizing ridership.

Balancing subsidies and fare levels to maximize ridership can be challenging. In recent years, the TTC has been required to collect between 70% and 75% of its operating costs through revenues. This revenue/cost ratio is amongst the highest for transit agencies in North America, and is significantly higher than most major transit agencies in North America. Achieving an acceptable balance will be particularly challenging heading into 2014. Difficult decisions will be required over the coming months to create a balanced budget for 2014. What this means is that any new fare-related initiative that will reduce revenues and/or increase costs will exacerbate the existing shortfall and place greater pressure on the existing elements within the operating budget.

For this reason, the TTC has consistently maintained that any requests for additional, or new, discounts should only be considered if there is a designated source of additional subsidy to fund the request. TTC policy states that the TTC will only consider a new concession fare if arrangements are made to compensate the TTC for the associated revenue loss. The compensation must be provided by an external source to avoid placing the burden of covering the costs of the program on existing riders, through increased fares and/or reduced services.

The TTC's policy of requiring designated additional subsidy for any new concession fare is linked to its overall mandate to provide public transit services within the city of Toronto. The TTC's specific mandate does not extend to resolving social issues related to income distribution. These issues, while important city-wide concerns, are beyond the expertise and scope of TTC staff to assess or resolve. This perspective has been articulated in the past, notably in the following excerpt from the *Ridership Growth Strategy, 2003*:

*Fifteen-to-twenty percent of regular TTC passengers do not have access to an automobile for their trip and are, therefore, highly dependent on the TTC for travel in Toronto. While the cost of travel may be a very significant issue for some of these people, it is beyond the mandate of the TTC to effectively resolve broader social and community issues related to income distribution and welfare. For this reason, the TTC's involvement in social welfare issues has been limited to the historical provision of concession fares for children, students, and seniors.*

#### Recent Requests for Fare Discounts

The Board has received five requests for changes to the concession fare structure of the TTC:

- Family Pass available seven days a week
- Eliminate Seniors fares at off-peak times
- Provide an off-peak Seniors monthly pass at a reduced price
- Lower the age requirement for a Seniors Metropass from 65 to 60
- Reduced fares for ODSP and OWP recipients

An analysis of the potential impacts on annual passenger revenues of each of these options is shown in Appendix A. For each initiative, a range of estimated revenue impacts has been identified due to the inherent uncertainty associated with forecasting how the passengers will respond to the proposed pricing and policy changes. It should be noted that these estimates do not include any added expenses that may be required to implement and administer the program (e.g. introducing a separate Senior Pass for off-peak hours).

The first four initiatives are proposed adjustments to existing TTC concession fares. Each would result in a reduction in passenger revenues, ranging from \$1 million annually (introducing an off-peak Seniors monthly pass) to \$22 million annually (free rides for seniors in off-peak periods). Options 2 and 3 encourage seniors to undertake more of their travel at off-peak times, which would help to reduce peak period crowding levels on the TTC; however the effect on crowding would be small (less than 1% in most locations). This benefit does not offset the cost to the system of the loss of fare revenue due to these proposals.

The introduction of the Family Pass available seven days a week would effectively create at least a half-price fare with two adults (and up to four children and students) able to travel for the price of one, as long as they entered the system at the same time. Such a situation has significant risk for TTC revenues. Additionally, there are logistical and technical reasons that make the introduction of some new fare products difficult. Off-peak fares, for example, cannot be managed by TTC turnstiles, so all off-peak travel would need to be verified as a "flash pass" at a Collector's booth.

This could potentially cause added congestion and contribute to line-ups in these areas. It could also be expected that an off-peak pass would lead to increased fare disputes without a technical means of validating the time.

The proposal to provide reduced fares for Ontario Disability Support Program and the Ontario Works Program recipients is a request for a new concession fare category. It is estimated that providing these individuals with the same discount currently provided to seniors/students would result in a revenue loss ranging from \$6 million to \$12 million annually.

The implementation of any, or all, of these initiatives would add to the TTC's operating budget pressures in 2014. Staff recommend that these programs not be introduced unless the City of Toronto, or some other government or agency, provided designated additional subsidy to the TTC specifically to implement these programs.

### Fare Structure and PRESTO

The implementation of the PRESTO electronic fare collection system over the coming years will revolutionize the way in which customers purchase and pay for fares at the TTC. At the same time, PRESTO will provide the TTC with increased flexibility to implement new and/or temporary fare products and pricing. This will provide opportunities for the TTC to reassess many elements of the TTC's fare structure and its policies as PRESTO is rolled out across the TTC.

TTC staff will continue to work with PRESTO to define how the PRESTO system will be implemented at the TTC. At key points in this process, TTC staff will identify opportunities related to its fare policies for the consideration of the Board. It is expected that this will include a wide range of topics including:

- Proof of payment fare collection on the new streetcars and standardizing this approach across all streetcar routes;
- New fare products and variations on existing products (e.g. "rolling" monthly passes rather than calendar based passes); and
- PRESTO's overall impact on fare evasion and opportunities to minimize the loss of revenues.

The replacement of the current TTC fare collection system with PRESTO will in no way reduce the pressures on TTC's fare policy and structure to generate passenger revenues required to meet TTC's financial obligations, while simultaneously trying to maximize ridership. However, PRESTO will provide TTC decision-makers with increased flexibility that doesn't exist with the current fare collection system.

**JUSTIFICATION**

This report provides an update on several recent fare media-related requests, the difficulty in implementing additional concession fares due to ongoing financial constraints, and the TTC's longstanding policy of not implementing additional concession fares in order to address social policy issues.

The implementation of any or all of the fare discounts discussed in this report would only add to the TTC's current operating budget pressures in 2014. For this reason, none of these initiatives are recommended for implementation in 2014.

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1-58

Attachment: Appendix A – Passenger Revenue Analysis of Potential Fare Initiatives

## APPENDIX A: Passenger Revenue Analysis of Potential Fare Initiatives

REQUEST	NOTES AND ASSUMPTIONS	ANNUAL REVENUE IMPACT
Extend Family Pass conditions for use seven days per week (i.e. up to 6 people per pass with maximum 2 adults)	<p>Annual weekday Day Pass sales = 870K;                      TTC non-pass average fare= \$2.4816;                      Annual revenue impact if one existing revenue trip is taken on each weekday Family Pass (displaced trip):</p> <ul style="list-style-type: none"> <li>• 870K x (\$2.4816) x 1 = (\$2.2M)</li> </ul> <p>Annual revenue impact if number of displaced trips per weekday Family Pass ranges from 1.0 trips to 4.0 trips:</p> <ul style="list-style-type: none"> <li>• 870K x (\$2.4816) x 1.0 = (\$2.2M)</li> <li>• 870K x (\$2.4816) x 4.0 = (\$8.6M)</li> </ul>	<p>(\$2.2M) to (\$8.6M)</p> <p>+ risk of additional lost revenue if <i>new</i> pass sales further displace existing ticket/token/cash rides</p>
Off-peak Seniors Program: No fare payment for off-peak trips	<p>Annual Senior/Student non-pass trips = 45.2M;                      Assume: 40% of trips are seniors and 65% of seniors trips occur in off-peak;                      Annual Senior non-pass off-peak trips:</p> <ul style="list-style-type: none"> <li>• 45.2M x 40% x 65% = 11.8M</li> </ul> <p>Average fare for senior non-pass trip = \$1.8516;                      Annual revenue impact if no fare payment for off-peak seniors trips:</p> <ul style="list-style-type: none"> <li>• 11.8M trips x (\$1.8516) = (\$21.8M)</li> </ul>	<p>Minimum of (\$22M)</p>
Off-peak Seniors Program: New Seniors monthly pass for off-peak ridership only	<p>Assume 65% of senior trips are in off-peak service periods;                      Annual Metropass sales purchased by seniors = 113K;                      Current Senior/Student Metropass price = \$106;                      Assume price of off-peak Seniors pass is based on proportion of seniors trips taken in off-peak periods:</p> <ul style="list-style-type: none"> <li>• \$106 x 65% = \$69</li> </ul> <p>Discount for off-peak Seniors pass vs. Senior/Student pass:</p> <ul style="list-style-type: none"> <li>• \$106 - \$69 = \$37</li> </ul> <p>Assume 25% to 50% of current pass users switch to new pass;</p> <ul style="list-style-type: none"> <li>• 113K x (\$37) x 25% = (\$1.0M)</li> <li>• 113K x (\$37) x 50% = (\$2.1M)</li> </ul>	<p>(\$1.0M) to (\$2.1M)</p>
Senior Metropass: Lower age requirement to purchase Senior/Student Metropass (from 65 to 60)	<p>Annual estimated Adult Metropass sales to customers aged 60 to 64 = 145K to 220K;                      Price difference between Adult Metropass and Senior/Student Metropass:</p> <ul style="list-style-type: none"> <li>• \$128.50 - \$106.00 = \$22.50;</li> </ul> <p>Annual revenue impact for existing pass purchasers:</p> <ul style="list-style-type: none"> <li>• 145K x (\$22.50) = \$3.3M</li> <li>• 220K x (\$22.50) = \$4.9M</li> </ul>	<p>(\$3.3M) to (\$4.9M)</p>
ODSP and OWP recipients: Reduce fares to equivalent to Senior/Student rates	<p>Estimated City of Toronto recipients:</p> <ul style="list-style-type: none"> <li>• ODSP = 60K</li> <li>• OWP = 105K</li> </ul> <p>Adult average fare (2012) = \$2.0818                      Senior/Student average fare (2012) = \$1.6925                      Average discount per trip:</p> <ul style="list-style-type: none"> <li>• \$2.0818 - \$1.6925 = \$0.3893</li> </ul> <p>Average per capita annual transit trips for Toronto = 196                      Annual revenue impact if annual ridership is 50% to 100% of Toronto average:</p> <ul style="list-style-type: none"> <li>• 165K x 97.5 annual trips x (\$0.3893) = (\$6.3M)</li> <li>• 165K x 195 annual trips x (\$0.3893) = (\$12.5M)</li> </ul>	<p>(\$6.3M) to (\$12.6M)</p>

**Notes:**

1. The calculations for the two off-peak seniors' program requests are mutually exclusive.
2. ODSP/OW "recipients" refers to the estimated caseload involving Toronto residents. A "case" refers to a single individual or a head of a family unit but does not include dependents (spouses, children, adults).