

Fares and Other Revenues

Transit systems typically generate most of their operating revenues through passenger fares and advertising revenues. Transit systems must consider multiple objectives when they develop their revenue policies. Fare increases almost universally cause ridership losses. While one major objective is usually to maximize revenues, transit systems often must consider other public objectives such as maintaining or increasing ridership or rejecting controversial advertising. We reviewed MTA's revenue policies regarding passenger fares and advertising revenues. We also assessed MTA's performance in these two revenue-generating activities.

Passenger fares can be assessed from several perspectives including peer comparisons, policy direction, and fare structure design.

Peer System Revenue Profiles

One way to assess MTA's passenger fares is to compare its performance with the transit systems in its peer group. For the comparisons, we used the most current national data for fiscal year 1999 from the National Transit Database. Transit systems are only required to report data at the system level. Therefore, we made comparisons at the system level and not by mode (e.g., bus, demand response).

The MTA has high average fares in comparison with the transit systems in its peer group, as shown on Table 7-1. MTA's average fare per passenger (\$0.89) is about one-third higher than the average fare per passenger for the average transit system in the peer group (\$0.67). This places MTA average fares 12th highest out of the 13 transit systems in the peer study.

**Table 7-1
MTA Performance Audit
MTA Fares Compared to Peers
Fiscal 1999**

<u>Measure</u>	<u>MTA</u>	<u>Peer Group Average</u>	<u>MTA as % of Average</u>	<u>Rank of 13</u>
Average Fare	\$0.89	\$0.67	132.8%	2
Fares as % Costs*	28.8%	24.3%	118.6%	4

*Costs are total costs reported in NTD data for 1999. With normalized maintenance Fares as % of costs moves to 32%.

Similarly, MTA's customers pay for a larger percentage of operating costs, as shown on Table 7-1. In fiscal year 1999, passenger fares covered 28% of MTA operating costs. This is 18% higher than the percent of the operating costs supported by passenger fares at the average peer system (24.3%), and was 4th highest among the 13 systems.

Fare Policy Direction

Fare policy is a difficult issue for most transit boards. Making fare decisions place two of the most important roles of a board, ridership generation and fiscal responsibility, potentially into conflict. It is generally conceded that increasing fares will frequently result in decreasing ridership. Most boards, however, feel that riders should pay a fair share of transit costs. That share is usually spelled out in a fare policy that generates fare-changing decisions in a more routine manner. However, since raising fares is unpopular, many boards postpone action while costs continue to rise. As a result, fare revenues cover a decreasing portion of costs until the boards raise fares, often in response to a funding crisis.

Some transit systems try to avoid raising fares in a crisis mode by adopting a fare policy that stipulates that fares should pay a certain percentage of expenses. Having clear-cut fare policy simplifies the process of making fare decisions.

MTA Fare Policy - We examined the policy of the MTA Board regarding fare revenues. While the Board has a policy regarding fare recovery of individual routes, the Board does not have a policy for the transit system as whole.

We then examined the fare recovery performance of the MTA bus service over the five-year period 1995 to 1999. We focused on the bus system because of the federal limitations on fares that can be charged on the demand response service. These federal restrictions require that paratransit fares be limited to no more than twice the fare charged for bus service. Since the federal regulations also do not allow service to be restricted because of financial capacity, transit systems do not have the flexibility to raise fares and change service on demand response services like they do on conventional bus services.

The operating ratio of the bus system as a unit has declined over the period ('95 to '99) from 42.2% to 30.3%. The overall operating ratio for all operating revenues and all operating expenses declined from 37.7% and 28.8% respectively over the same period. See Table 7-2 below.

Table 7-2
MTA Performance Audit
Fares as a % of Operating Cost
Fiscal Years 1995-1999

<u>Year</u>	<u>Fare Increase Implemented</u>	<u>Bus/Bus %</u>	<u>all/all %</u>
1995		42.2	37.7
1996	August, 1996	38.5	37.4
1997	August, 1997	37.6	36.3
1998		35.9	33.0
1999	August, 1999	30.3	28.8

While the MTA management and the Board were making ongoing efforts to maintain fare revenues after three fare increases in four years, the operating ratio has declined significantly since 1996. According to MTA management, part of this decline was associated with uncertainty related to the new Titan football service. MTA management revised the service and pricing in 2000 and expects performance to rebound.

Impact Of the 1999 Fare Increase. As a result of fare increases during 1999 overall passenger fare revenue was up only fractionally for the fiscal year. This indicates there is little revenue opportunity available through increasing fares further.

Fare Structure Design.

Transit systems offer a variety of pricing or ticketing plans to customers as a means of encouraging use of the system by additional riders, or of recovering a higher return for premium services. The MTA offers several basic plans, including:

- **Cash Fares-** The customer pays cash for the full fare every time a ride is taken. This fare was the standard fare at most systems until the mid-1970's when market-specific or service-specific discount or premium fares became a common practice. Cash fares are usually the highest price per ride at most transit systems.

- **Tickets-** The customer purchases tickets for a specific number of rides in advance - in the case of the MTA, 20 rides. The tickets offer the user the convenience of not having to carry the correct fare for each ride. Many transit systems offer a discount over the cash fare for three reasons: 1) the financial advantage of receiving money in advance of providing the transit service and 2) improved boarding speeds at stops, a new way to market the services.

- **Flash Passes**- The customer purchases an unlimited-ride ticket for use at any time during a specified amount of time, for either one week or one month. The pass offers the user the convenience of not having to carry the correct fare for each ride. Many transit systems offer a discounted pass over the cash fare for two reasons: 1) the financial advantage of receiving money in advance of providing the transit service and, 2) improved boarding speeds at stops. Flash passes have the potential for increasing the discount per trip for a user who rides the system frequently.

Coincidentally, tickets and passes offer a pre-paid media that can be used for a variety of promotional purposes by third parties such as employers, merchants, special event managers.

Like many other transit systems, the MTA also has fares that are designed for three general types of riders — regular adult, express adult, and discount riders (children, senior citizen, and disabled). MTA also has special fares for users of the downtown shuttle and magnet school routes.

The MTA follows the practices of many other transit systems and provides lower fares for discount riders, as indicated on Exhibit 7-1. The base cash fare of \$0.70 is slightly less than half of the adult cash fare of \$1.45. This pricing structure also meets the federal requirements for discounted fares for the elderly in off-peak periods.

MTA's 20 Ride Tickets - The MTA sells 20-ride passes for regular bus and express bus adult fares and for discount fares. The discounts when compared to the full fares for the tickets range between 12% and 14% for each ride. If a transfer is made, the ticket user must pay the full \$0.10 for the transfer and the discounts are reduced to a range between 11% and 13%. The 20 ride pass encourages riders who use transit for work commuting to purchase the 20-ride tickets, since it provides them the security that they will not lose their discount if they miss work a few days.

MTA's Monthly Flash Pass The MTA offers monthly flash pass only to adult users of local services. The pass is priced at 33 times the cash fare, or 31 times cash fare with transfer. This pricing is common among transit systems and provides a reasonable discount for a commuter traveling to work 22 days a month, making an assumed 44 rides a month on average. The monthly pass encourages people to use the transit system seven days a week for all travel purposes. The greater the use, the greater the actual discount. This pricing plan supports a public policy objective of offering the lowest fares to the people who use the system most. It also produces cash up-front.

MTA's Weekly Flash Pass - The MTA offers weekly unlimited use flash passes to adult users of local services, and to discount riders. The pricing of these passes is focused on people who use the transit

system more than for work commuting. It is also more accessible to people with limited means that do not want to spend the price of the larger monthly volume passes.

Flash passes are not offered for adult express bus users. This appears appropriate since the majority of these users usually limit their transit riding to work commuting. Often, these riders are not as price sensitive as frequent, seven-day riders. Nevertheless, the MTA offers them some pricing discounts through the 20-ride mobility pass (ticket).

It is not clear if the MTA uses the difference in the pricing of local and express fares fully to reflect the differences in the cost of services.

Special Fares - The MTA charges special fares for the downtown shuttle and magnet school services. The cash fare for the downtown shuttle is \$0.25. The monthly pass is priced at \$5.00 or 20 times the cash fare. The multiplier of 20 is inconsistent with the multiplier of 33 that is used for the monthly flash pass for local services.

The cash fare for the magnet shuttle is \$1.10. A 20-ticket pass also is offered at \$22, with no discount compared to the cash fare. Offering no discount to student users of the shuttle is appropriate and consistent with the practices of other transit systems.

Advertising Revenues

One way to assess MTA’s advertising revenues is to compare its non-fare revenue performance with the transit systems in its peer group. For the comparisons, we used the fiscal year 1999 data from the National Transit Database in the reporting category auxiliary transportation funds, which includes advertising revenues.

**Table 7-3
MTA Performance Audit
Auxiliary Revenue
Compared to Peer Systems**

	MTA	Peer Group Average	MTA as % of Peer Average	Rank Among 13 Systems
Auxiliary Revenue as % Of total revenue	2.4%	1.22%	197.5%	2

The MTA earned significantly higher revenues in comparison with the transit systems in its peer group as shown on Table 7-3. In fiscal year 1999, it earned 2.4% of its operating revenues from auxiliary

revenues, primarily advertising revenues. This is almost double the percent of operating revenues funded by auxiliary revenues at the average peer system.

The MTA has a higher percentage of operating costs supported by auxiliary funds than 11 of the 13 transit systems in the peer group.

**Table 7-4
Advertising Revenues
Fiscal Years 1995-1999**

Year	Cash Revenues	Trade Revenues	Total Revenues
1996	\$385,268	\$146,314	\$531,582
1997	493,030	192,947	685,977
1998	393,935	272,651	666,556
1999	538,113	174,741	712,854
2000	744,826	150,768	895,596
% Increase	93.3%	3.0%	68.5%
Average Annual Increase	17.9%	0.8%	13.9%

Advertising revenues have grown significantly in the past five years, as shown on Table 7-4. Actual cash advertising revenues nearly doubled from \$385,000 to \$744,000 between fiscal years 1996 to 2000. Trade revenues — comparable value trade of advertising (e.g., radio station) — remained constant at about \$150,000 during this period. Taken together, total revenues increased almost 70% from \$532,000 in 1996 to \$896,000 in 2000 or grew at average annual rate of 13.9%.

Bench Advertising - The backbone of MTA's advertising sales revenues are the bus benches. The MTA now has over 570 bus benches under contract for advertising. The rates for these benches range from \$86 to \$105 per month and yield over \$660,000 per year.

The MTA recently added 150 bus benches to meet advertisers needs. The MTA located the benches based on their appeal to advertisers and to address complaints or requests made by MTA riders.

Shelter Advertising - The MTA also sells advertising on bus shelters. The advertising rates for shelters range from \$233 to \$299 per month. The MTA has sold advertising on less than 20 of the 77 available spots on its shelters. According to MTA staff, these limited sales reflect the difference in advertising rates between shelters and benches when they have similar visibility to the public.

Bus Advertising - Finally, the MTA sells advertising on buses. This includes exterior signs and complete fully illustrated (wrapped) buses. MTA had five wrapped bus sales as of December 2000.

Other Revenues

The principal sources of revenues for the MTA , and for most transit systems, are public subsidies. While the MTA collects a higher than average level of funds from operating revenues, it still must rely heavily on operating and capital assistance from the Metropolitan Government, the state, and from the Federal government.

A comparison of the MTA's subsidy for capital and operating expenses compared to the peer systems is illustrated on Exhibit 7-2. Local, state, and federal subsidies for capital is better than average, with the MTA ranked 3rd or 4th out of 13 peers in 1999, as shown on the exhibit. Note, however, this data represents absolute dollars only and does not represent statistics on a per capita or a relative system size basis. For a more complete discussion of subsidies see the *Peer Review* section of this report.

As these data show, the MTA has garnered over double the level of operating subsidies from the Federal government, compared to the peer average for 1999, and ranked third in that category. Its local and state operating assistance levels were just about average for the peer systems, and ranked near the middle of the group.

Capital subsidies from all sources increased substantially year-over-year ('99 over '98).

Conclusions

- The MTA has high priced fares in comparison with the transit systems in its peer group. The MTA has higher average fares than 12 of the 13 transit systems in the peer group.
- MTA's customers pay for a larger percentage of operating costs in comparison with the transit systems in its peer group. Passenger fares covered 28% of MTA operating costs —15% more than fares of the average peer system.
- The MTA Board does not have a fare policy for the transit system as whole but does have a policy regarding fare recovery of individual routes and special services.
- The MTA made continual efforts in the last five years to increase fare revenues as a percent of operating expenses. This performance reflects management and Board concern with fare revenues, and their efforts to maintain fare revenues at about 40% of operating costs.
- The MTA fare structure is designed similar to fare structures found at other transit systems. It has a good pricing balance among cash fares, 20-ride tickets, and passes.

- The difference in the MTA 's pricing of local and express fares generally reflects the differences in the cost of local and express services, although their methods for identifying the actual differences in local and express services are inadequate to the extent of the differences in these costs. (See a related discussion in the Chapter entitled "Pricing".)
- The MTA earned significantly higher auxiliary revenues, principally advertising, in comparison with the transit systems in its peer group. In fiscal year 1999, it earned 2.4% of its operating funding from auxiliary revenues — almost double the percent at the average peer system and higher than 11 of the 13 transit systems in the peer group. Advertising revenues have grown significantly in the past five years from approximately \$532,000 in 1996 to \$896,000 in 2000 — a compounded annual rate of 13.9%.
- The backbone of MTA's advertising sales is for the bus benches. This program has been financially successful.
- The MTA may also be mispricing shelter advertising (and possibly "wrapped buses") given the lack of market response to these venues.

Recommendations

- The MTA Board should adopt a formal fare policy for the transit system as whole that relates passenger revenues to operating expenses. The fare side of the ratio should reflect the best balance possible of the impact on ridership and revenues, considering the amount of subsidy available. In establishing this balance the Board should understand there is no "magic bullet" in setting fares. Local market price elasticity, local custom, and many other factors play a role in the fare setting equation. Building a more sophisticated Marketing department should provide an aid to understanding the local market and establishing the optimum fare rate balance. (See sections on *Marketing* and *Governance*.)
- The MTA should adopt a pricing policy for each type of bus service that reflects the different costs of those services.
- In setting policy operating ratios and in pricing all services, the MTA should use fully allocated costs in defining the operating expenses. See sections on *Pricing* and *Service Scheduling* for a discussion of *fully allocated costs*.

- MTA should re-examine the current approach to selling advertising for the shelters and bus-wraps. The marketing approaches to these ad products may need to be re-positioned and possibly re-priced.

Cost Estimate

None.