Finance & Administration Committee

Information Item IV-B

October 10, 2013

Ridership and Fare Policy Update

Washington Metropolitan Area Transit Authority

Board Action/Information Summary

○ Action ◉ Information	MEAD Number: 200436	Resolution: ○ Yes ◉ No

TITLE:

FY2015 Ridership Forecast and Fare Policy Update

PRESENTATION SUMMARY:

This presentation provides an overview of Metro's ridership forecasting results and fare policy options ahead of the General Manager's proposed FY2015 budget in November. Based on the Board's fare policy principles and on its stated policy to review fares every two years, Metro staff are considering a package of moderate fare increases that would raise approximately $30 million in additional fare revenue annually beginning in FY2015.

PURPOSE:

This presentation will provide the Committee with detailed information related to Metro's current ridership forecasting for FY2015-2017, and it also will provide the Committee members with an opportunity to give feedback and additional ideas to Metro staff regarding potential FY2015 fare policy changes.

DESCRIPTION:

Key Highlights:

Metro faces both challenges and opportunities in the coming years regarding ridership and fare revenue on Metrorail, Metrobus, and MetroAccess. The challenges include potential employee furloughs associated with sequestration and reduced levels of federal spending; increasing use of telework by employers (particularly federal agencies) leading to reduced trip-making; and increased sensitivity to fare increases, particularly on Metrorail. The opportunities include the continued redevelopment of the downtown core of the Washington region, as well as transit oriented development (TOD) at stations outside the core; and potential growth as the Baby Boom generation ages and searches for mobility alternatives. Many of these challenges and opportunities are outside of Metro's direct control, but future ridership growth will depend on how Metro adapts to these changes.

Fare policy, by contrast, is an area that Metro does control directly. In November 2010, the Metro Board put forward seven policy principles to guide future decisions about fares, with the overarching principle that fares should "generate adequate revenue while maximizing ridership." Based on these principles and on the Board's stated policy to review fares every two years, Metro staff are considering a package of moderate fare increases that would raise approximately $30 million in additional fare revenue annually beginning in FY2015. However, additional fare policy proposals will still be considered

prior to the submission of the proposed FY2015 budget in November.

Background and History:

Metro's most recent fare change was implemented in July 2012, at the beginning of FY2013. The fare changes were relatively extensive, including the elimination of "peak of the peak" pricing on Metrorail; a changing of the off-peak fare structure on Metrorail to bring it closer to the peak structure (with a discount of approximately 25%); an increase in the surcharge on both Metrorail and Metrobus for using paper or cash instead of SmarTrip; and a range of smaller changes. As a result of the fare change, passenger revenues increased in FY2013 by approximately $42 million over FY2012. However, revenues fell short of projections due to a decline in Metrorail ridership. Metrorail riders reacted more strongly to this fare increase than they had to previous increases, partly as a result of changes to the federal transit subsidy. Metrobus ridership, by contrast, was relatively stable during FY2013.

In the initial months of FY2014, Metrorail ridership appears to be holding steady compared to FY2013, and Metrobus ridership is demonstrating modest growth. In this uncertain environment, the Metro Board must now consider potential fare policy changes for FY2015 and beyond.

Discussion:

<u>Ridership Forecasting</u>

- Between FY1994 and FY2009, total annual ridership on Metrobus and Metrorail grew from approximately 290 million trips to 360 million trips, an increase of 24 percent. Metrorail experienced steady growth through the period, increasing from 150 million trips to 225 million trips, while Metrobus ridership declined modestly from 150 million to 135 million. However, much of the decline on Metrobus can be attributed to (a) the elimination of some bus routes as the rail system expanded; (b) a farebox change in FY2006 that reduced counted riders by approximately 10%; and (c) a shift of some routes from Metrobus to local bus operators. On key regional routes, Metrobus continued to perform well.
- In the period since FY2009 and the onset of the financial crisis and recession, total Metro ridership has declined from 360 million trips to 340 million trips, a drop of six percent. After both modes declined in FY2010, Metrobus has regained some if its lost ridership, while Metrorail has stagnated. Ridership in FY2013 was roughly equal to the ridership level of FY2007.
- Metro also faces challenges and opportunities in the future, and future ridership growth on both bus and rail depends on how Metro adapts to the new environment. The challenges include:
    - *Federal government uncertainty*: Evidence of the impact of sequestration and general uncertainty surrounding the federal government can be seen in recent economic statistics, and this uncertainty appears likely to continue in the short term. If furloughs of federal employees and contractors continue, as well as limitations on travel and conferences, this will negatively impact

Metro ridership, which is heavily dependent on federal employees.

- *Rider response to fares*: As noted above, riders (particularly on Metrorail) appear to be more sensitive to fare increases than in the past. This may constrain Metro's flexibility in changing fares and trying to balance the funding burden between riders and local jurisdictions.
- *Telework*: Metro has seen increasing evidence (from surveys by the Office of Personnel Management and other sources) that federal agencies are encouraging and even requiring telework by employees as a way to cut costs and reduce the need for office space. If telework continues to grow, it has the potential to impact commuting patterns across the region on all modes.

Despite the challenges, Metro also has opportunities:

- *Continued redevelopment and TOD*: Metro has seen rail ridership growth concurrent with development in areas such as Navy Yard and the Rosslyn-Ballston corridor, as well as bus ridership growth along major corridors such as H Street NE and 14th Street NW. If the inner core continues to flourish and TOD investments continue to be made at outer stations, Metro should be positioned to capture additional ridership.
- *Generational changes*: In addition to the much-touted desire by many 'millennials' to live in transit-friendly environments, the aging of the Baby Boom generation presents another opportunity for Metro to provide mobility options to a relatively new market.

- Metro believes that the opportunities will ultimately outweigh the challenges, so that ridership growth will occur and will necessitate the capacity investments outlined in *Momentum*, Metro's strategic plan for the next ten years. However, overcoming the challenges will require creativity and resilience.
- Metro's current ridership forecasting model is an econometric regression model that correlates past ridership with historical economic data (on population, employment, and other factors) and then projects future ridership using economic forecasts. This approach assumes that past relationships will hold in the future.
    - The key factors in the model are population and employment, the overall level of fares, and smaller factors like hotel rooms sold.
    - The model incorporates normal seasonality and can adjust for unique one-time events in the past (such as the 2009 Inauguration or Hurricane Sandy in 2012), but it cannot yet forecast sequestration or telework impacts.
    - The model is constantly being updated with new data and new forecasts. If a ridership forecast misses, it is generally due to either incorrect economic forecasts or a change in behavior not captured by the model. In the case of the previous forecasts for FY2013, both of these factors appear to be at work:
        - Economic forecasts were imperfect – in particular, DC employment was lower than projected by approximately 2 percent.
        - There was a greater response to the July 2012 fare increase than past experience would have predicted
        - More broadly, the model may not be reflecting changes in trip-making behavior, including:

        - Increasing usage of Metrobus by choice riders
        - Reduced commuting even when employed (e.g., telework)
- Metro is also currently working to create a more robust forecasting model for MetroAccess. The methodology is somewhat similar to the bus/rail model, but paratransit forecasting faces different challenges, including forecasting the impact of an aging population and increasing disability rates; modeling registration (i.e., signing up for MetroAccess) versus modeling trip-making frequency; and determining whether a given trip will be carried by MetroAccess or by a different provider, such as a social service agency. Metro staff will update the Board at a later date on the progress of this model.
- The current projected near-term (FY2015-2017) annual growth rate for Metrobus and MetroAccess is one to two percent and one percent for Metrorail (not including new ridership from the Silver Line). These forecasts will be further refined ahead of the presentation of the FY2015 proposed budget in November. Achieving better long-term growth on all modes depends on a reduction in uncertainty surrounding the federal government; a continued attraction of jobs and residents to the region; and the successful implementation of the capacity- and quality-improving investments outlined in Momentum.

<u>Fare Policy</u>

- The context for considering fare changes as part of the FY2015 budget includes the following:
    - Inflation has been relatively low over the past two years (approximately 3.5% total) and is projected to remain low.
    - Rail ridership is holding steady in FY2014 after declining in FY2013, while bus ridership is showing modest gains.
    - The Silver Line Phase 1 will be opening in the beginning of CY2014.
    - A new fare payment system is on the horizon, with contract award expected soon. The new system will allow for fare options, particularly for passes and multiple riders, that the current system cannot accommodate.
- As a result, WMATA staff is currently considering a relatively modest package of fare updates that does not introduce any major changes in the fare structure. Once Silver Line Phase 1 is established and the new fare payment system is closer to full deployment, more substantive changes to fare policy could be considered.
- Outreach is continuing (as of the writing of this BAIS) to solicit additional suggestions regarding potential fare policy changes. No commitment to any fare policy change will be made until the submission of the proposed FY2015 budget in November.
    - Revenue and ridership opportunities:
        - A pilot program for allowing pass purchases with SmartBenefits starts in November
        - Creation of a new 3-day or 4-day unlimited ride convention pass
        - Modification or elimination of underutilized 1-day rail pass
    - Under consideration for MetroAccess:
        - No change to the existing structure of twice the comparable bus/rail fare

        - Retain the current $7.00 maximum fare
        - Continue free fares on bus/rail, which have proven to be a 'win-win' solution for both riders and for cost containment for Metro
    - Under consideration for Metrobus:
        - Eliminate the current cash surcharge on all routes
        - Charge $1.75 for regular base service (compared to $1.60 currently on SmarTrip and $1.80 cash), $4.00 Express fare, and $7.00 Airport fare (5A & B30). This would represent an increase of approximately nine percent for the base fare.
    - Under consideration for Metrorail:
        - Average overall increase of 3% (peak/off-peak), so that average trip would increase approximately $0.10
        - Increase base and max fares proportionally
    - Under consideration for parking:
        - Flexibility to change prices at a station-by-station level to improve utilization
        - System-wide increase of $0.25 (approximately 5%)
        - Change FedExField event pricing to be more competitive
- Additional ideas were evaluated but are not currently being considered, including:
    - Reducing the span of the peak period for rail
    - Charging off-peak fares at all times for trips outside the "core" stations
    - Charging a flat fare for single-line, intra-jurisdiction trips (e.g., Shady Grove to Bethesda)
    - Introducing a premium charge on MetroExtra bus
    - Increasing the bus-rail and rail-bus transfer discount
- The net impact of the changes currently under consideration, as compared to keeping fares at FY2014 levels and without any "organic" growth or decline in ridership, is:
    - A revenue increase of approximately $30 million, or three to four percent over existing passenger and parking revenue.
    - The potential ridership impact depends on the elasticity of passengers' response. Bus has had low elasticity in the past, and the response on bus to the FY2013 fare increase was small. Rail has shown more response recently, but the increase currently under consideration is relatively small.
- As noted above, Metro staff will continue to evaluate additional fare policy suggestions prior to the submission of the proposed FY2015 budget in November.

FUNDING IMPACT:

Define current or potential funding impact, including source of reimbursable funds.	
Project Manager:	n/a
Project Department/Office:	n/a

TIMELINE:

	April 2013 - Presentation of preliminary six-year operating forecast as part of adoption of FY2014 budget

Previous Actions	September 2013 - Discussion of FY2013 year-end ridership results.
Anticipated actions after presentation	October 2013 - Evaluation of additional fare policy proposals. October 2013 - Incorporation of fare policy changes into FY2015 proposed operating budget for presentation to the Committee in November

RECOMMENDATION:

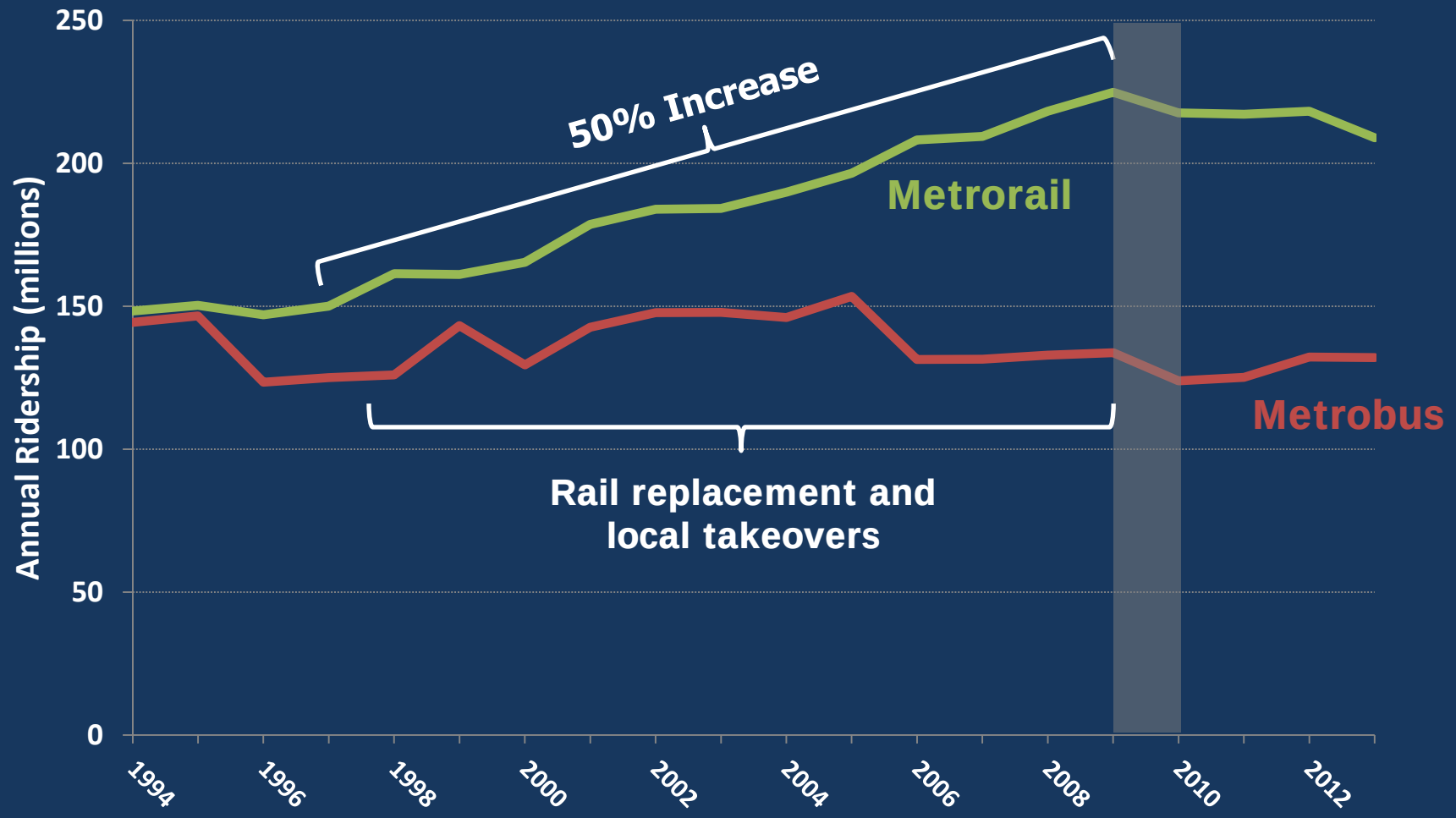
For information only.

WASHINGTON METROPOLITAN AREA TRANSIT AUTHORITY

Ridership Forecasting and Fare Policy Update

Finance & Administration Committee
October 10, 2013

Ridership Over 20 Years

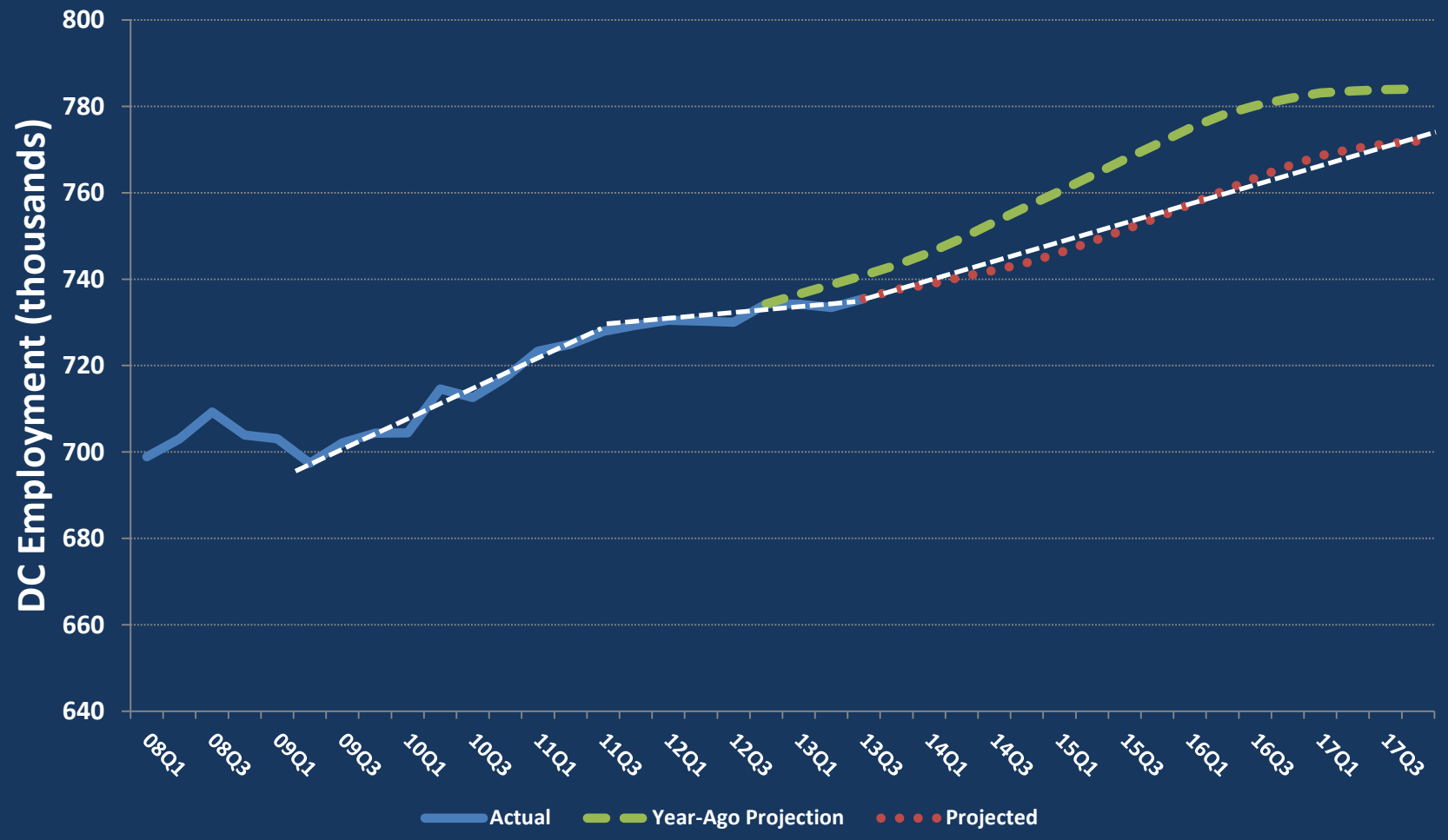


What Happens Next?

Metro Ridership Model

- Econometric regression model
  - Correlates past ridership with historical data, then projects using economic forecasts
  - Assumes relationships will hold in the future
- Key factors
  - Population and employment
  - Broad level of fare
  - Other factors like hotel rooms, gas prices
- Incorporates normal seasonality
- Cannot yet forecast sequestration or telework

Recent Economic Projections (Aug 2013)



MetroAccess Forecasting

- Working with consultant to create robust Access model alongside bus/rail
- Different environment and key factors:
  - Aging of population and increasing disability rates
  - Registration pool vs. frequency of trip-making
  - Availability of other providers for certain types of trips

FY15-17 Forecasts

- Near-term annual growth:
  - Metrobus and MetroAccess: 1-2%
  - Metrorail: 1% (not including Silver Line)
- Better long-term growth depends on:
  - Less uncertainty for federal government
  - Region continuing to attract jobs/residents
  - Momentum investments

Metro's Strategic Goals

Goal 1

Build and maintain a premier safety culture and system

Goal 2

Meet or exceed expectations by consistently delivering quality service

Goal 3

Improve regional mobility and connect communities

Goal 4

Ensure financial stability and invest in our people and assets

Metro's Fare Policy Principles (Nov. 2010)

QUALITY SERVICE

- Ensure and enhance customer satisfaction
- Establish a mechanism to allow customers to determine their fares easily

REGIONAL MOBILITY

- Optimize the use of existing capacity
- Facilitate movement between modes and operators throughout the region

FINANCIAL STABILITY

- Establish equitable fares and ensure compliance with federal regulations
- Encourage the use of cost-effective media
- Generate adequate revenue while maximizing ridership

Board Policy:
Evaluate Fares Every Other Year

- What is the current environment?
  - Low inflation
  - Rail holding steady in FY2014 after FY2013 decline; bus showing consistent growth
  - Silver Line opening
  - New fare payment system on the horizon

Changes Under Consideration

- **<u>No commitment</u>** until formal budget proposal
- Taken from multiple sources:
  - Customer feedback
  - Jurisdiction staff
  - Management discussions/initiatives
- Have not explicitly outlined every possible change in the Tariff

Under Consideration: Revenue & Ridership Opportunities

- Pilot program for pass purchase with SmartBenefits starts in November
- Create new 3-day or 4-day convention pass
- Modify or eliminate underutilized 1-day pass
- New digital advertising contract

Under Consideration: MetroAccess

- Maintain existing fare structure:
  - Twice the comparable bus/rail fare for Access
  - Fare calculator helping riders get lower fares
  - Retain $7.00 maximum fare
  - Continue free fare on bus/rail

Under Consideration: Metrobus

- Eliminate cash surcharge on all routes
- Charge $1.75 for regular base service
  - $4.00 Express fare
  - $7.00 Airport fare (5A & B30)

Under Consideration: Metrorail

- Average overall increase of 3% (peak/off-peak)
  - Average trip would increase $0.10
  - Increase base and max fares proportionally

Under Consideration: Parking

- Flexible pricing by station to improve utilization
  - GM has flexibility on reserved spaces
  - Could cap the increase and frequency of change
- System-wide increase of $0.25 (approx. 5%)
- Make FedExField event pricing more competitive

Net Impact of Changes Under Consideration

- Revenue increase of ~$30 million (3-4%)
  - Compared to keeping fares at FY14 levels, and without any organic growth/decline in ridership
- Potential ridership impact depends on elasticity:
  - Bus has had low elasticity, even in FY2013
  - Rail has shown greater elasticity, but increase under consideration is relatively small