ITEM	8
MANAGER'S REPORT NO.	28
COUNCIL MEETING	88/04/18

RE: TRANSIT FARES AND FUNDING

MUNICIPAL MANAGER'S RECOMMENDATION:

1. THAT the recommendation of the Director Planning & Building be adopted.

* * * * * * * * *

TO: Municipal Manager

DATE: 1988 April 08

FROM: Director Planning & Building Inspection

OUR FILE:

SUBJECT: Transit Fares and Funding

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RECOMMENDATION :

1. THAT a copy of this report be sent to the Vancouver Transit Commission and B.C. Transit.

R E P O R T

1.0 INTRODUCTION/SUMMARY

At its meeting of 1988 March 28 Council requested a report on the subject of transit funding and the proposed new fare structure. At that time Council directed that the Clerk inform B.C. Transit 'that Council reserved the option of commenting on fares subsequent to the public information meeting at John Oliver School on April 07'. Council also reiterated its desire to see the Fare Zone boundary in northeast Burnaby shifted so as to coincide with the Municipal boundary.

This report comments on the subject of transit funding, the transit budget and the proposed fare structure. Our review is primarily based on material supplied by B.C. Transit. Much of this background information is annexed to this report for Council's own consideration.

2.0 FUNDING

A new funding formula has been agreed between the Vancouver Transit Commission and the Provincial Government after protracted negotiation. Before outlining this new formula it is worthwhile to consider the old one.

2.1 The "Old" Formula

The "old" formula for transit funding was introduced in the late 70's with the Urban Transit Authority Act. This legislation removed Transit from being a B.C. Hydro accountability. With this old formula a specific percentage of the total operating costs had to be met from the farebox.

Variance in fare revenue from the target was the responsibility of the Transit Commission. The Transit deficit (operating costs less fare revenue) was shared 60/40 by the Province/Metropolitan area.

The revenue target was to be an increasing one. By 1985/86 the revenue target was 35% of costs while the target for 1988/89 was to have been 38%. The serious flaw in this arrangement was that the potential for growth in target revenues would be outstripped by increased transit costs arising from the introduction of SkyTrain. Thus in 1988/89 approximately $111 million would have been required from the farebox compared to the $91 million that was realized in 1987/88. Total revenue would have to had increase by over 20%. There was no practicable way of meeting this increase from fare increases.

2.2 The New Formula

A B.C. Transit press release on the new funding formula is attached as Exhibit 1. A significant element of this formula is that all operating cost exclusive of SkyTrain capital cost will be shared 31.2% by Province and 68.8% by the Vancouver Transit Commission. That 68.8% share includes the Commission's existing taxation sources as well as farebox revenue. Thus the commission will have greater autonomy in determining fare policy.

The inclusion of fares as part of the "local" share of transit funding is also a significant perceptual departure from the previous formula. It acknowledges that the majority of funding is derived, by the Vancouver Transit Commission, from the Metropolitan area. Hopefully this symbolic increase in fiscal responsibility will result in greater authority for the Commission to implement its own program rather than the Province's.

The press release explains that SkyTrain costs will be treated on a different basis. Phase I of SkyTrain will (continue to) receive a Provincial grant of $38.9 million (per annum) with the remainder of the amortized capital costs shared 65% Province/35% Commission. SkyTrain extensions will receive a provincial grant of 25% of capital with the remainder of costs shared 65% Province/35% Commission. This weighting of costs reflects the decision accountabilities leading to SkyTrain implementation.

This sharing also puts major capital investment in public transportation infrastructure on a similar footing to the funding of regional road network improvements. In Greater Vancouver the burden for funding freeways and major arterials has been traditionally shouldered by the Province. It must be recognized however that a consequence of having the Province pay the majority of capital costs for transportation infrastructure is that the Province will also be responsible for the related decision-making. It would make sense if the decision making in transportation infrastructure investment (for roads as well as public transportation) were a more direct accountability of the Metropolitan area rather than the Province.

3.0 TRANSIT BUDGET

Attached as Exhibit 2 is a B.C. Transit memorandum outlining some of the ramifications of the new funding formula on the transit budget. As indicated by Table 1 of this attachment, the Provincial share of transit costs for 1988/89 would be about 40%. This proportion is projected to modestly increase to nearer 42% over the next five years as further SkyTrain improvements come on stream. It should be noted that the Province was paying about 40% of total costs two years ago but it would have been paying less in 1988/89 if the old formula had been adhered to. Table 2 of Exhibit 2 is also of interest because it details local system revenue including taxes.

The most controversial and regressive "local tax" is the power levy on residential dwelling units. It is an anachronism related to Transit's early relationship to B.C. Hydro. The Hydro levy does not generate as much revenue as other sources and we understand that its use will be reviewed. At issue is the alternative funding that could be used to make up the hydro levy amount. Up to now the Transit Commission has resisted employing residential property tax as a revenue source and there is good reason for it to continue to do so.

Arguably, the local "transit" taxes should be targeted to recoup some of the benefits that are a "spin off" of the Transit system. The primary indirect beneficiaries of the transit system are private motorists. Public transit provides them with an alternate mode (should their car become unavailable) but more importantly the degree of transit usage reflects the extent to which potential road congestion is alleviated for peak period journeys. Unfortunately we cannot yet selectively and appropriately price motorists' travel during the peak. So motor vehicle tax is a "second best" pricing solution.

Further to Exhibit 2 B.C. Transit write:

> "The Commission has approved an increase in the gas tax from 2.5 cents per litre to 3.0 cents per litre with the rates for the hydro levy in the nonresidential property tax remaining unchanged for 1988/89. This should yield some $76.9 million in local taxes including interest. Revenue from fares, at the current levels, would be $92 million, for a total of local taxes in terms of $168.9 million. This would leave a shortfall of $5.8 million to meet local requirements.
>
> The proposed fare increase is estimated to generate an additional $7.0 million. This would be used to offset the $5.8 million shortfall and to provide a small fund of $1.2 million to be used as a fare and local tax stabilization fund."

4.0 TRANSIT FARES

Exhibit 3 (attached) shows the Transit Fare Schedule proposed by B.C. Transit. It should be noted that the 'existing' Transit fares that are listed have been constant since 1986 April. The fare schedule stabilization has been possible because of windfall surplus revenue generated during Expo '86.

4.1 Fare Zones

The highest percentage increase in fares is for the multi-zone trips. This reflects adopted transit policy to better relate fares to cost (distance travelled). When the fare zones were reintroduced in 1984 the surcharge for multi-zone trips was initially kept low in order to minimize the impact on existing users. It was proposed to gradually increase the differential so that a two-zone fare and three-zone fare would respectively be 150% and 200% of a single zone tariff. With the increases currently proposed the fare zone differential ceiling would be approached by the two zone fare and reached by the three zone fare.

Our review of the literature confirms a general agreement that transit fares should reflect journey length. Unfortunately it is not practicable to collect fares that precisely reflect travel distance. Thus the use of fare zones is another second best solution. The fare zones now in use are shown on Exhibit 4. A casual examination of the fare zone map suggests that the outer most zone where the relative cost of providing transit service is highest, is spatially the most extensive. There may be a case for insertion of an additional zone boundary to separate out hinterland areas such as South Surrey/White Rock and Cloverdale/Langley.

Similarly, a casual examination suggests that the fare zone boundary in northeast Burnaby inequitably constricts the size of the Burnaby/New Westminster fare zone. Apart from the spatial anomaly, the Municipality has long contended, from a community development point of view, that the zone boundary and the municipal boundary should coincide. The issue of the transit fare zone boundary has been summarized in a recent Council Report (Manager's Report No. 25, Item 8, Page 120). Council has also reiterated its desire for a change to B.C. Transit.

4.2 Fare Cards

Exhibit 3 shows that the percent increase in monthly fare card prices is less than the increase proposed for single journeys. B.C. Transit has previously used a ratio of 40:1 for pricing fare cards relative to single journeys. This makes a fare card a most attractive purchase for those commuters who also use transit for "extra" non-work journeys. However, most multi-zone fare cards are purchased by commuters residing in the suburbs. There, off peak transit accessibility is lower than in the Vancouver City fare zone where the bulk of single zone cards are sold. Accordingly B.C. Transit has modified the differential between fare card price and single zone fare to make the fare cards more attractive to suburban commuters (notwithstanding the higher cost of providing transit to Suburbia). The extension of this philosophy would have differential pricing for single zone fare cards amongst the three fare zones. At present the single fare zone card is transferable.

4.3 Off Peak Fares

In the past B.C. Transit has suggested that fare zones remain in effect for off peak travel. Appropriately, B.C. Transit has not re-introduced this idea. Again there is general agreement that off peak fares should be lower than peak prices. During the off peak buses (especially those running in suburban areas) are scheduled on the basis of policy headways and have an ample spare capacity. As it costs no more to operate a full bus than an empty one it would make sense if additional riders would be attracted to the system. Yet, off peak fares remain the same as single zone peak fares. Thus the price advantage of travelling off peak extends to long journeys but is diminished for the shorter journeys which comprise the majority of trips.

4.4 The Increase in Fares

The increase in "basic" fares (off peak and single zone peak) is 8.3 to 8.7%. This change reflects the rise in the consumer price index since the last transit fare increase.

5.0 DISCUSSION AND CONCLUSIONS

The previous transit funding formula ceased to be realistic with the addition of skytrain costs. The formula negotiated by the Vancouver Regional Transit Commission will see the previous level of funding participation by the Province marginally increased. Including transit fare revenue as part of the local "share" of transit funding seems appropriate and may result in the level of local autonomy for transit planning being enhanced. It is also appropriate that the Province will pay the majority of future rapid transit extension costs as long as it continues to do the same for urban "highway" costs. A concern is that the Province, rather than Local Transit Commission, will be the primary decision maker as to which rapid transit extensions are built and when.

The revenue from fuel tax funds most of the local share of the transit deficit. It appears to be a much more appropriate subsidy source than the residential power levy. The power levy is a regressive, anachromistic tax that is inadequately targeted.

Despite the increased draw on motor vehicle tax already adopted by the commission there will still be a revenue shortfall in meeting transit costs. The transit fares for the system have remained static for the past few years and it is appropriate that they be increased. The structure of increase proposed by B.C. Transit appears to be reasonable.

It is contended by critics that Vancouver Transit Fares are higher than they are in other jurisdictions. But it must also be acknowledged that the unit cost of the transit system in Vancouver is greater than it is in other metropolitan areas of Canada. At the Public meeting at John Oliver School the majority of delegations spoke out against fare increases if not existing fare levels. The "Social Service" role of transit is generally acknowledged but it must also be acknowledged that transit fares are an ineffective vehicle for income redistribution.

It is our contention that B.C. Transit should review its fare zone boundaries including the "outer zone" boundary as well as the fare zone boundary in North East Burnaby. The desire by Council to see the N.E. Sector fare zone shifted to coincide with the Municipal boundary has recently been reiterated to Transit. If Council concurs with the foregoing discussion on the topic of funding and fares it would be appropriate that this report be sent to the Transit Commission as recommended.

A.L. Parr
DIRECTOR PLANNING &
BUILDING INSPECTION

PL/pja

cc: Director Engineering

Exhibit 1: Funding Formula

March 28, 1988 Contact: Rick Krowchuk
For Immediate Release 264-5052

EQUITABLE FUNDING FORMULA WILL ENHANCE
AND IMPROVE REGIONAL TRANSIT SERVICES

The provincial government and the Vancouver Regional Transit Commission have agreed to the basis of a new transit funding formula that will enhance and improve regional transit services, and provide for more equitable funding, including a "partnership" approach to capital extensions of SkyTrain.

The Hon. Rita M. Johnston, minister responsible for transit, and Mayor Don Lanskail, Chairman of the Vancouver Transit Commission, announced the agreement today.

"It's positive and paves the way for transit requirements for the next decade," said the minister. "It also establishes a basis for a working partnership between the provincial government and the Vancouver Regional Transit Commission."

"The Province will be contributing over $300-million more to the transit services in Greater Vancouver over the next 10 years, compared to the existing formula," said the minister.

Mayor Lanskail said: "The new funding formula, which was truly a negotiated agreement, brings much needed stability to the transit system and will ensure the capacity to grow and service the region."

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The agreement comes 39 months after talks first started between the Commission and the provincial government, and is the result of a series of prolonged negotiations between Commission members and the government.

AGREEMENT POINTS

The new cost-sharing formula is specifically geared to satisfy concerns raised by the addition of SkyTrain costs, unlike the old, blanket formula. Under the new formula, general operations and SkyTrain capital costs are segregated.

Operating and non-SkyTrain capital costs will be shared 31.2 percent by the Province and 68.8 percent by the Commission. Included in the Commission's share are revenues from the farebox, gasoline tax, transit levy on the B.C. Hydro billings, and non-residential property tax.

SkyTrain capital costs are treated on a different basis. Phase One of SkyTrain receives a provincial grant of $38.9 million with the remainder of the capital costs shared 65 percent Province, 35 percent Commission.

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SkyTrain Phase Two, the existing Surrey extension, and future extensions, capital costs will receive a provincial grant of 25 percent with the remainder shared 65 percent Province, 35 percent Commission.

The agreement paves the way for mutually agreed cost-shared SkyTrain extensions.

The agreement will see a review of the methods of applying the transit levy, currently billed with the B.C. Hydro accounts.

The gasoline tax at 2.5 cents per litre will be raised one-half cent a litre effective April 1988. However, the Province has stipulated that no further increase to this funding source will be provided during the 10-year period ending 1998.

ENHANCE TRANSIT SERVICES

The negotiations also pointed to the need to promote and enhance the attractiveness of transit within the region, and the transit authority will introduce an imaginative marketing plan. The Vancouver Regional Transit System, covering 1,500 square kilometres -- the largest such transit service area in Canada -- carries some 325,000 riders a day.

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Transit Commission Chairman, Mayor Lanskail, said: "We're going to take a long, hard look at how we can improve the system, and make it attractive to new riders. This will increase our farebox revenues."

Now that an agreement on transit funding has been reached, the way is paved for a review of the Transit Commission's mandate. Commission Chairman, Mayor Lanskail, said: "The Commission believes that such an arrangement is a necessary part of any package delineating the partnership between the Province, BC Transit and the Commission in the operation of the Greater Vancouver Transit System, and we expect that this aspect will be addressed very soon."

Members of the Vancouver Regional Transit Commission who were involved in the final negotiations with the Province are: Mayor Don Lanskail of West Vancouver (Chairman), Mayor Tom Baker of New Westminster, Mayor Gordon Campbell of Vancouver, Mayor Gil Blair of Richmond, Mayor Gordon Hogg of White Rock, Mayor David Driscoll of Port Moody, and Alderman Philip Owen of Vancouver.

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Exhibit 2: Budget

BC Transit

OFFICE OF THE CORPORATE SECRETARY

MEMO TO: Mayor D. Lanskail, Chairman
Vancouver Regional Transit Commission

FROM: R. G. Lingwood

DATE: March 22, 1988

SUBJECT: 1988/89 Cost Sharing Regulation

The BC Transit Act requires that the Commission adopt a regulation setting out the means by which they will raise the local share of the transit deficit for the upcoming fiscal year. This regulation is submitted to the Provincial government for approval prior to March 31.

In 1988/89 this action represents the first step in a financial strategy for the long term funding of the existing bus and SkyTrain system under a new funding formula. The financial strategy must generate sufficient funds from fares and local taxes to avoid deficits and the need for rapid changes in fares or taxes. Further, it must establish a balance between the amount paid by the local taxpayer and the user.

The 5-year budget estimates noted in Table #1 illustrate the change in local funding over the next 5 years. A large increase occurs in 1990/91 when SkyTrain Phase II comes into full revenue service. To avoid a significant increase to fares and local taxes at that time, a fund must be established in 1988/89 and 1989/90. This fund will also mitigate against unexpected declines in fare revenues.

Table #1

Vancouver Regional Transit System - 5 Year Budget ($ million)

	1988/89	1989/90	1990/91	1991/92	1992/93
Local Share (Taxes & Fares)	174.7	183.2	196.3	202.4	210.9
Provincial Share	118.2 (40.4%)	122.0 (40.0)	143.7 (42.3)	146.5 (42.0)	150.4 (41.6)
Total	292.9	305.2	340.0	348.9	361.3

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The normal approval process for these matters would establish fares prior to the setting of tax rates. The timing of the cost sharing formula negotiations did not allow for this sequence of events. Hence, the size of the fund required must be considered in the Commission's upcoming review of fares.

Budget

In 1987/88 the Vancouver Regional Transit System operated on a budget of $269 million. The 1988/89 budget request increased to $292.9 million in order to accommodate the long term funding and repayment of SkyTrain capital, provide additional handyDART service and enhance the marketing program. Accordingly, the proportion of these costs which must be raised through fares and local taxes has increased from $166.5 million to $174.7 million.

The Commission's $174.7 million share must come from system revenues and local taxes. It is recommended that the local tax share of this total be generated in the following manner:

1. Motor Fuel Tax: It is recommended that the Commission increase the motor fuel tax from 2.5 cents/litre to 3.0 cents/litre. The motor fuel tax has a direct relationship with the provision of public transportation and provides the best means of raising additional local tax revenue. When applied throughout the transit service area, this will generate $45.5 million, $8 million more than last year.

2. Non-residential property tax: It is recommended that the following levies remain unchanged in 1988/89.
   Class 2 - $2.0049/$1000 of net taxable value
   Class 5 - $1.9489/$1000 of net taxable value
   Class 6 - $1.4021/$1000 of net taxable value.

   With the inclusion of the Langleys and the increase in assessed value this will raise an estimated $21.1 million, $1.1 million more than last year.

3. Power Levy on Residential Dwelling Units: It is recommended that the levy remain at $1.60/account/month ($19.20/year). This will generate an estimated $9.3 million in revenue. The Commission and the Province have agreed to investigate changes to this transit tax to make it less regressive.

Table #2 indicates that $75.9 million will be generated by the recommended local taxes, an increase of $9.9 million from 1987/88. The $75.9 million plus the $92.0 million in system revenue generate $168.9 million. This figure is $5.8 million less than the Commission's share of $174.7 million required under the new funding formula. This $5.8 million shortfall must be made up from increased fare revenue and efficiencies which reduce the total expenditure.

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Table #2

System Revenue and Local Taxes ($ million)

	Budget 1987/88	Budget 1988/89
System Revenue	91.0	92.0*
Sub Total	91.0	92.0
Local Taxes		
i) Motor fuel tax	37.5	45.5
ii) Non residential property tax	20.0	21.1
iii) Power levy	8.5	9.3
Sub Total	66.0	75.9
Other revenues		
i) Transit fund	8.5	0
ii Interest income	1.0	1.0
Total	166.5	168.9

*Assumes existing fare structure and a 1% ridership growth.

System Revenues 1988/89

The present fare structure was budgeted to produce $91.0 million in revenue this fiscal year and $92.0 if left in effect for 1988/89. This will be insufficient to meet the Commission's 1988/89 commitments and a fare increase will be required. After public input, the Commission must decide on the amount of the increase to meet their present and future commitments. Fares were last increased on April 1, 1986.

RECOMMENDATION

IT IS RECOMMENDED THAT THE VANCOUVER REGIONAL TRANSIT COMMISSION APPROVE REGULATION #9 ATTACHED HERETO AND REQUEST THE HONOURABLE RITA M. JOHNSTON TO OBTAIN PROVINCIAL GOVERNMENT APPROVAL TO BRING THE REGULATION INTO FORCE.

R. G. Lingwood

/sb

02:45 PM
03/31/88

BC TRANSIT
VANCOUVER REGIONAL TRANSIT SYSTEM
OPERATING BUDGET
FOR THE YEAR ENDED MARCH 31,1989

(MILLIONS)

1987/88 BUDGET		BUS/ SEABUS	SKYTRAIN	CUSTOM	1988/89 BUDGET TOTAL	INCREASE/ (DECREASE)	VARIANCE %
	EXPENSES						
	OPERATING						
$103.3	Operations	$100.3	$6.1	$4.6	$111.0	$7.7	7.5
40.0	Maintenance	29.7	14.3	0.3	44.3	4.3	10.7
29.8	Administration	19.5	10.5	1.5	31.5	1.7	5.7
1.7	Interest	1.3	0.3	0.1	1.7	0.0	0.0
0.9	Transit Merchandising	1.6	0.0	0.0	1.6	0.7	77.8
$175.7	TOTAL OPERATING	$152.4	$31.2	$6.5	$190.1	$14.4	8.2
93.3	Capital Lease Fees	23.2	79.3	0.3	102.8	9.5	10.2
$269.0	TOTAL EXPENSES	$175.6	$110.5	$6.8	$292.9	$23.9	8.9

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Exhibit 3: Fares

FARE CATEGORY	PRESENT FARES	PROPOSED MAY 1 FARES	%CHANGE
ADULT FARE LEVELS			
1. CASH			
Peak (One Zone)	$1.15	$1.25	8.7%
Peak (Two Zone)	$1.55	$1.75	12.9%
Peak (Three Zone)	$2.20	$2.50	13.6%
Off-Peak	$1.15	$1.25	8.7%
2. TICKETS(BOOK OF 10)			
One Zone	$10.50	$11.25	7.1%
Two Zone	$14.00	$15.75	12.5%
Three Zone	$20.00	$22.50	12.5%
3. FARECARDS			
Local	$46.00	$50.00	8.7%
Urban/Suburban	$62.00	$67.00	8.1%
Supercard	$88.00	$90.00	2.3%
4. DAYPASS	$3.00	$3.50	16.7%
CONCESSION FARE LEVELS			
1. CASH			
Peak (One Zone)	$0.60	$0.65	8.3%
Peak (Two Zone)	$0.80	$0.90	12.5%
Peak (Three Zone)	$1.10	$1.25	13.6%
Off-Peak	$0.60	$0.65	8.3%
2. TICKETS(BOOK OF 10)			
One Zone	N.A.	$6.50	N.A.
3. FARECARD			
Concession	$27.00	$29.00	7.4%
4. DAYPASS	$1.50	$1.75	16.7%

Exhibit 4