

ALAMEDA-CONTRA COSTA TRANSIT DISTRICT



STAFF REPORT

MEETING DATE: 8/7/2019

Staff Report No. 19-262

TO: AC Transit Board of Directors
FROM: Michael A. Hursh, General Manager
SUBJECT: Set Public Hearings for Proposed Adjustments to EasyPass Program Pricing

ACTION ITEM

RECOMMENDED ACTION(S):

Consider setting a public hearing at 6:00 p.m. on September 11, 2019 regarding proposed changes to AC Transit EasyPass pricing matrices.

BUDGETARY/FISCAL IMPACT:

There would be a gross revenue increase for the EasyPass program, if current clients remain in the program and there is continued growth from new clients. Revenue projections for current EasyPass clients show an estimated \$500,000 annual increase compared to current EasyPass pricing matrices.

BACKGROUND/RATIONALE:

The AC Transit EasyPass program offers a discounted annual pass to three distinct client groups: employers, residential communities and two-and-four-year colleges/universities. There are currently 31 EasyPass clients, generating approximately \$6 million in revenue annually.

EasyPass pricing matrices (one for employers and residential communities and a second matrix for colleges/universities) were first developed in 2006 and 2007, respectively, to provide standardized pricing for structuring multi-year agreements with EasyPass clients. The matrices were codified in Resolution 13-046 in 2013. The current matrices will expire on June 30, 2020, and all contracts will expire in 2020. New pricing must be presented for a Public Hearing, Title VI analysis and Board approval to offer pricing to new and continuing EasyPass clients. A comprehensive overview of the EasyPass program can be found in Staff Report 19-241, EasyPass Program Update.

EasyPass staff began developing the infrastructure to update the current matrices in April 2019. After formulating new pricing considerations and factors, EasyPass staff met with interdepartmental stakeholders from the Planning & Development, Title VI, Revenue Management, Budget & Finance, Legal and Data Analysis teams to solicit feedback and input on revising program objectives, pricing methodologies and other potential pricing factors. This groundwork, including peer analysis and review of Clipper data, forms the recommended EasyPass pricing and program methodologies moving forward.

Refined EasyPass Program Objectives: The initial program objectives were developed in 2007 with the

introduction of the initial pricing matrices. The revised goals and objectives are:

1. Increase ridership:

Increasing ridership was one of the original program objectives and has always been considered the primary reason universal programs like EasyPass were developed. 2018 Clipper data shows 3.6 million annual EasyPass boardings. In a 2012 report of EasyPass clients, 45% participants said they would ride less frequently without an EasyPass.

2. Encourage a modal shift from single-occupancy vehicles to public transit, with the optimal outcome of EasyPass participants becoming life-long public transportation users and advocates:

By offering an EasyPass to all eligible participants coupled with continued marketing and service information outreach, transit ideally becomes a lifestyle shift for EasyPass holders and becomes a part of the user's transportation mix.

3. Extend AC Transit's visibility through promotion of the EasyPass program and increasing the District's engagement with new stakeholders:

EasyPass affords the District the opportunity to engage with people in the employer, residential and college sectors, enabling them to become District stakeholders and transit advocates.

4. Grow the number of EasyPass clients in all client groups:

To fully leverage the objective of increasing ridership, EasyPass staff must continue to promote and grow EasyPass in all client categories.

5. Maintain fiscal responsibility by ensuring the overall EasyPass revenue-per-boarding does not fall below the District's average revenue-per-boarding:

The previous objective was for the program to be revenue neutral. This objective proved to be difficult to quantify. As such, a refinement to this objective provides a quantifiable yardstick by which to gauge the program.

Guiding Principles for EasyPass Pricing: In addition to redefining the EasyPass program objectives, pricing guiding principles were developed to help inform the updated pricing matrices methodologies:

- EasyPass pricing will align with the Fare Policy Goals established in Board Policy 333.
- Each pricing matrix will be valid for a three-year period. Each new matrix will incorporate an increase based on the Consumer Price Index-Urban (CPI-U).
- As having a long-term EasyPass pricing schedule creates predictability for both the District and EasyPass clients, EasyPass matrices will be developed for the next nine years.
- EasyPass pricing will be decoupled from local and Transbay fare (already decoupled from each other) pricing to be able to establish longer-term program agreements with EasyPass pricing.
- No current client should experience an unreasonable price increase and therefore the goal is to limit increases to 15% above the FY19 pricing matrices.
- Continue to offer a volume discount (the more people in the participant pool, the lower the per-

participant price) to encourage clients to include the highest possible number of eligible participants.

- Continue to factor in price differences to reflect the level of AC Transit service a client receives (achieved via Level of Transit Service (LTS) analysis) to encourage clients from all parts of the District's service area to join the EasyPass program.
- Incorporate historic EasyPass data and emerging trend data to ensure that experience from 12 years of EasyPass program administration, peer analysis and pass pricing research are considered.
- Incorporate a card management fee into the pricing formula to recoup a portion of the pass production expenses.
- Continue to maintain two matrices to account for programmatic differences-one for employer and residential program and one for college programs, which are administered differently and could require a student referendum.

EasyPass Pricing Methodology Options: Taking into consideration the EasyPass program goals & objectives, guiding principles and internal stakeholder feedback, two proposed pricing models are being presented for consideration at the Public Hearing. In both models, matrices would include a base price, an increase based on an average CPI-U range, and a card management fee.

Pricing Scenario 1

Base Price: The base price is derived from the current FY19-FY20 pricing matrices. The current matrices were selected as the base price for consistency, as pricing for most of the 31 EasyPass clients are derived from these matrices. As such, it provides a transparent springboard from which to establish the base price. Additionally, since the volume discount and level of transit service pricing adjustments are already incorporated into the FY19 matrices, using these matrices as the base eliminates the need to create an additional pricing adjustment for these two guiding principles.

Price Adjustment: The percentage increase for the FY21-FY24 matrices would be based on the average CPI-U from FY10-FY19 (2.73%) and applied to the valid years of the FY19 matrices (FY19 and compounded for FY20). Percentage increases based on the average CPI-U from FY10-FY19 would be applied for the three years the previous matrices (effective July 1, 2020 and July 1, 2023) have been in effect to each cell of the previous matrices to create the effective July 1, 2023 and July 1, 2026 matrices.

Using the FY10-FY19 CPI-U average incorporates a broad range of index percentages, including the years that saw the residual negative effects on the CPI-U from the 2007-2009 Great Recession, as well as the effect of economic expansion following the Great Recession. Given the inability to predict the fluctuations to the CPI-U over the next nine years, using the average from the same timespan as the proposed matrices (nine years) provides a more accurate estimate of the percentage changes of the CPI-U over the valid years of the proposed matrices.

Card Management: A \$1 card management fee would be applied to each price point on the matrices to recoup a portion of the card production expenses. To address one difference between EasyPass clients and local and Transbay customers who pay for their Clipper cards, the card management fee provides payment for Clipper card and other related card production costs.

Pricing Scenario 2

Base Price: The base price is the same as outlined in Scenario 1-the current FY19-FY20 pricing matrices.

Price Adjustment: The percentage increase for the FY21-FY24 matrices would be based on the average CPI-U from FY17-FY19 (3.53%) and applied to the valid years of the FY19 matrices (FY19 and compounded for FY20). Percentage increase based on the average CPI-U from FY17-FY19 would be applied for the three years the previous matrices (effective July 1, 2020 and July 1, 2023) have been in effect to each cell of the previous matrices to create the effective July 1, 2023 and effective July 1, 2026 matrices.

Using the FY17-FY19 CPI-U average leverages the economic expansion following the end of the Great Recession and results in a higher average increase to the per-participant price for the matrices over the nine-year timeframe. This increase assumes that a similar rate of economic expansion will continue through the duration of the proposed matrices.

Card Management: The fee would be the same as outlined in Scenario 1.

Additional Pricing Factors: Per Board Policy, promotional or temporary fare reductions of six months or less are not subject to a Public Hearing or Title VI analysis. As such, EasyPass staff may incorporate an adjustment of the EasyPass matrices pricing for all or selected clients, lasting no longer than six months.

Planned Public Outreach Strategy: Following Board policies and the District's Public Participation Plan, staff will develop and carry out a comprehensive public engagement strategy to inform members of the public, including riders, members of the community, traditionally underrepresented groups, and key stakeholders about the proposals and the public hearing, and understand their opportunities to have their comments about the proposals heard.

In addition, as EasyPass pricing affects a more defined segment of the District's riders compared to local and Transbay riders, the engagement strategy is crafted to build on relationships staff have with EasyPass clients and users, and provide more notification about the proposed changes to current and anticipated client and stakeholder groups. Planned outreach will include:

- Digital and paper notices to current EasyPass clients and participants, leveraging client-specific outreach tactics as available
- Take-one mailings to community organizations
- Posts on AC Transit social media channels
- Digital, phone and/or paper notices to city planning departments to reach stakeholders working the residential communities on transit planning and mitigation efforts
- Digital, phone and/or paper notices to potential EasyPass clients in the prospect or sales pipelines
- Digital, phone and/or paper notices to Chambers of Commerce within the AC Transit service area
- Digital, phone and/or paper notices to all two-and-four-year colleges within the AC Transit service area
- eNews digital email to all subscribers, including any EasyPass identified subscribers

- Proposed price change information posted on the AC Transit website homepage, and within the EasyPass section of the website
- Legal notice of Public Hearing
- Emails or other communication to any identified additional stakeholders

Title VI Analysis: The Board is required-under Federal Transit Administration (FTA) regulations and Board Policies 110 and 518-to consider and approve a fare equity analysis before the District can implement any changes to pricing to ensure proposed changes will not result in discriminatory impacts on populations protected by Title VI of the Civil Rights Act. Staff will undertake the Title VI analysis and solicit input on the Title VI issue as a part of the evaluation of the proposed changes proposals, and report back to the Board before they make a decision about the proposals.

ADVANTAGES/DISADVANTAGES:

The advantages of the proposed pricing options are that they would provide predictability and transparency for EasyPass clients and better enable the District to offer multi-year EasyPass agreements by confirming future EasyPass pricing changes. Both price increase methodology options will meet the EasyPass program goals and objectives as well as the District's fare policy goals as outlined in Board Policy 333. A delay in setting a Public Hearing on September 11 will adversely delay some EasyPass clients from communicating pricing changes to its participant pools in anticipation of continued EasyPass participation and the District's ability to enter into new EasyPass agreements.

ALTERNATIVES ANALYSIS:

One alternative to changing EasyPass Pricing is to keep the pricing structure and existing matrices as they are with no increases. Staff does not recommend this because the EasyPass pricing will remain stagnant while the District's fares are on a regular schedule for increases. In addition, EasyPass pricing has not previously been structured to account for cost of living adjustment.

PRIOR RELEVANT BOARD ACTION/POLICIES:

Board Policy 333 - Fare Policy - Staff Report 19-153

Staff Report 19-141 EasyPass Update

ATTACHMENTS:

1. Current AC Transit EasyPass Pricing Matrices (Effective July 2018)
2. Proposed EasyPass Pricing Matrices Scenarios 1 and 2
3. Public Hearing Notice

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