

PRICE SETTING

Price setting refers to the process for determining how much the transit pass should cost each participating agency based on factors such as

- Number of customers served
- Number of trips provided
- Accounting and overhead expenses
- The expense of providing the trip

Most transit pass partnerships involve a transit system that is operating a general public service and has an existing fare structure. Therefore, the transit system has an established formula for determining how much it costs to provide the trip. This toolkit element tailors that formula to include human services agency and transit system expenses that are specific to the transit pass. The goal is to include all expenses generated by the transit pass into the price. Transit pass agreements must be operated in a businesslike fashion, and all costs of service must be accounted for and paid.

There are cost benefits to implementing a transit pass that encourages customers who are eligible for human services or transit agency paratransit service to ride public fixed routes whenever possible. These benefits have been realized in communities across the country including, Boston, Austin, and throughout Connecticut. These communities are a few examples of partnerships that coordinated the resources of human services agencies, Medicaid transportation, and public transit providers to implement a transit pass resulting in increased ridership on fixed routes and decreased paratransit costs for partners. Increased utilization of fixed-route service saves money. Where multiple passengers share a ride on regularly scheduled routes, the cost of providing a trip is less than if the trip would have been provided for a single, or just a few, individuals on paratransit vehicles. Some of these transit pass partnerships are relatively new, but the operating and administrative cost savings are noteworthy. The ideas are applicable to other communities where coordination of transportation resources through a transit pass partnership can become a reality.

Each of the other toolkit elements impact the price of the transit pass. As a foundation, set the price of the transit pass based on Steps 1 and 2, below. The decisions made about items listed in Step 3 may or may not add to the final price depending on each element of the pass. After completing each element, include the information in Step 3 into the formula to set the price of the pass. If the price is beyond the financial realities of the partnership, amendments to one or more transit pass elements may be necessary to arrive at a more appropriate price. Or, a source for subsidizing the pass may also be an option.

Step 1: Estimate Pass Utilization

Step 1 is estimating the number of customers that are likely use the pass and the number of trips to be provided. The steps for estimating pass utilization are similar to those listed in the [Administration, Management, and Accountability Element](#) of this toolkit. Tools for measuring pass utilization include

- **Number of Eligible Sponsored Customers**
 - **Community Population Demographics**
 - **Number of Monthly Pass Transit Riders and Trips**
- ✓ **Number of Eligible Sponsored Customers** — Similar to a projection of public transit ridership in the general population, only a percentage of eligible customers who participate in the human services agency program that sponsors the transit pass will utilize the benefits of public transportation. To arrive at that percentage estimate, first, calculate the percentage of the total population in the community that uses public transportation. That percentage varies by community. Then, apply a slightly higher percentage to the sponsored customer population. A higher percentage of sponsored customers are likely to use the transit pass because the pass is specifically designed for their benefit.
 - ✓ **Community Population Demographics** — Community demographics are relevant when transit pass eligibility is determined by an individual's age, disability, employer, student or Veteran status, or place of residence. To calculate demographics, divide the community population into each eligibility group. Then, use current public transit ridership percentages for those groups to determine the probable percentage of the population that will use the transit pass. Again, the percentage should be slightly higher than the general population ridership percentages. For example, if 30 percent of the total population over age 65 currently rides public transit, it is likely that the percentage will increase somewhat when the transit pass is implemented to benefit that age group.
 - ✓ **Number of Monthly Pass Transit Riders and Trips** — The number of monthly pass trips provided by the transit system partner is an indication of the number of trips that will be provided by the transit pass. For example, if the monthly pass is available to the general public and 20 percent of the transit system's annual trips are monthly pass trips, it is likely that a similar percentage of the eligible customer population will also utilize the transit pass.

Step 2: Estimate Revenue

In Step 1 all partners projected the number of transit pass customers and the amount of trips that those customers will take. Step 2 is for the transportation provider. The transit provider should calculate the farebox revenue that would be generated from the general public (non-transit pass) rider for the same trips. The farebox revenue generated from the transit pass should be equal to or greater than the average revenue from a similar general public trip. For example, if the transit system fare structure is based on zones so that longer trips are a higher passenger fare than shorter trips, the provider should calculate which zones the customers are likely to cross so that the accurate average price of the trip is understood.

It is important to ensure that general public fares or other funding sources are not subsidizing transit pass fares. Remember that public accountability as well as accountability to the partner for the price of the pass must be demonstrated.

Furthermore, transit pass eligibility that coincides with the eligibility requirements for the transit provider's half-price fare will also be provided for half-price. It is common practice for the human services agency partner to pay the half-price fare for eligible customers (i.e., persons with disability, senior citizens, or persons with a Medicare card). Verification of half-price transit pass fares may be required by the transit system's Section 5307 funding source. In the case of Medicaid sponsored trips, for example, auditors periodically ensure that the agency is paying the half-price fare rather than the full fare that is expected from customers who do not qualify for half price.¹

Example: Price Setting Strategies of Agency-Transit System Pass Programs

- [Akron Metro RTA, Ohio](#)
- [Mountain Mobility, North Carolina](#)
- [Miami-Dade Transit, Florida](#)

Step 3: Estimate Administrative, Management, and Accounting Expenses

Establishing the price to provide the transit pass must include analysis of full costs and avoidable costs. This step applies to human services agency and transit system partners because it should include all administrative costs for any organization that will contribute these services to the partnership. Analyze the pass participants' responsibilities to the partnership (see [Step 2 of the Management Element](#)) and determine the administrative time and materials that will impact the cost of the pass. The cost estimates should include consideration of staff time, fare media printing and tracking materials and time, and equipment maintenance.

- ✓ **Full Administrative Cost** — The full cost of maintaining a transit pass is the fully loaded (overhead and fringe included) cost of time spent on training, marketing, maintenance, finance and accounting, and supervision. The MTAP Comprehensive Financial Management Guidelines Manual and fully allocated cost information from the states of Alabama, Kansas, Maryland and Ohio are good resources for determining full costs.

Considerations that impact the full cost of administration in terms of operations or time spent include the following:

¹ In accordance with 49 U.S.C. Section 5307(d)(1)(D), the grant applicant must certify that the rates charged to the elderly and persons with disabilities during nonpeak hours for fixed-route transportation using facilities and equipment financed with federal assistance from FTA "will not exceed one-half of the rates generally applicable to other persons at peak hours, whether the operation is by the applicant or by another entity under lease or otherwise." Also in accordance with 49 U.S.C. Section 5307(d)(1)(D), the grant applicant must certify that it will give the half-fare rate described in the sentence above to any person presenting a Medicare card issued to that person pursuant to Title II or Title XVIII of the Social Security Act (42 U.S.C. 401 et seq., 1395 et seq.).

- **Purchasing and Implementing Transit Pass Technology:** The [Technology](#) Element in this toolkit provides a review of available technology as well as some examples of transit pass technology. Technology ranges from “no technology” as is the case with [AppalCART](#) in North Carolina that has a fare free program, to passes printed each month as is the situation with [HARTline](#) in Tampa, Florida, or “[Breeze Card](#)” technology used in systems such as [MARTA](#) in Atlanta, Georgia.
- **Time Spent Collecting and Recording the Passes:** Typically, fare handling is spread around a number of different participants who may only spend a few hours of their workday on it.
- **The Accounting Process:** This step should be completed in coordination with, or after, Step 2 of the Management Element. Analyze the time and resources spent completing forms and tracking transit pass statistics to demonstrate the savings or extra burdens brought about by the transit pass.
- **Time Spent on Billing and Reimbursement:** If current partnerships require billing and reimbursement activities, or if the new partnership will create these obligations, be sure to fully understand the time and resources involved.

Other costs that should be part of your administrative price calculations include

- **Capital Costs: Implementation and Replacement of Software and Hardware on Vehicles:** Determine the fare media and technology to be used and the expenses associated with implementing and refreshing that technology. Refer to the [Technology](#) Element for suggested steps for system selection, integration and business planning. The [ZEE, Inc.](#) transit profile in this toolkit offers considerations for replacement of on-board computers.
- **Deployment Schedule of Technology on Vehicles:** Implementing a new fare collection process could involve phased-in deployment of technology to determine its effectiveness as well as to gradually train the riders and drivers. Phased-in deployment could also provide opportunity to spread the costs over multiple years. Example transit systems that have recently deployed new technology include CARTS in Austin, and [MARTA](#) in Atlanta.
- **Customer Education and Marketing:** To encourage customers to fully understand the concept of the pass, and the benefits it can offer, customer education and marketing is required. Consider including the cost of marketing, education, and training into the price of the pass. Transit pass partnerships that have undertaken significant public education and marketing include [HARTline](#) in Tampa, and [MARTA and CCT](#) in Atlanta. Refer to the [Marketing](#) Element for more details.
- **Staff training** – Drivers, agency representatives and administrative personnel will require training. [RIPTA](#) has developed a strong driver-training program and they have

offered some resources for your use in this toolkit. Refer to the [Training](#) Element for more details.

An additional objective should be to identify the administrative costs that can be avoided through the partnership.

- ✓ **Avoidable Administrative Cost** — This is the cost that can be saved through creating a partnership. Compare the full administrative costs without the partnership to the costs after the partnership to determine which costs will be reduced or eliminated with implementation of the pass. Avoidable costs could include distribution, reconciliation time, better utilization of off-peak transit service or other specific characteristics. For example, [ZEE, Inc.](#) implemented transit pass technology that directly uploads into the New Mexico Department of Transportation (DOT) on-line reporting system. The pass technology greatly reduced the time spent reporting statistics to the DOT.

Many agencies hope to see money returned to them because of avoidable costs relieved by the pass. However, the most common experience is that the transit pass results in more accurate application of funding toward fully (rather than partially) meeting the transportation needs of the customer, more control over distribution of transit passes and more accurate and timely documentation to justify the transportation budget.

Step 4: Establish Fare Policy Options within the Budget

Now that all factors have been calculated into the price for providing the service, the transit pass partners must decide on the transit pass options that are within the constraints of the funding sources. The reality of which transit pass options can be provided within the financial constraints of the partnership may direct the partners to amend some element of the plan, or seek additional funding sources to subsidize the transit pass.

Summary

This element outlines the process for setting the price of the transit pass. The information is based on the most common practices of transit pass partnerships, and transit system best practices. The practices are generated from the transit industry, but they require participation from the human services agency partners as well.

The other elements and the transit profiles in this toolkit provide a variety of alternatives for structuring each aspect of the transit pass. Review the elements for concepts that may reduce administrative, training or marketing expenses to see the transit pass objectives for your community become a reality.