

Appendix D

Fare Strategy and Structure Recommendations

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Appendix D

Kitsap Transit Passenger Only Ferry Business Plan – Fare Strategy and Structure Recommendations

Submitted to KPFF and Kitsap Transit
by IBI Group

March 9, 2016

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1 Background and Purpose

The Kitsap Transit Passenger-Only Business Plan and Long Range Strategy dated December, 2014 includes a proposed approach and concept of operations¹ for the sale and collection of passenger ferry fares. That concept outlined five primary objectives:

- Provide an efficient and cost effective fare collection system.
- Provide fare products and pricing to serve all customer markets
- Provide fast and efficient boarding
- Integrate as appropriate with other modes, technologies and agencies
- Provide appropriate infrastructure

To support these objectives, the concept proposed that three key products be sold in order to meet the needs of different rider markets including:

- Single ride fares for infrequent users and tourists
- Passes and other discounted products for frequent users

It further recommended that a variety of fare media be used, again to meet the needs of different customer markets including:

- Cash and credit/debit cards (primarily for single ride fares)
- ORCA for discounted fare products
- Mobile (smart phone) ticketing as a future enhancement

From all of this information a generalized fare product and pricing model was established. The purpose of this memorandum is to expand upon that model and present specific recommendations for a fare strategy, structure, products and pricing to support startup of a new passenger only service.

2 Proposed Fare Strategy and Structure

In the context of this document, *fare strategy* refers to the fundamental principles behind the fare system, who it is intending to serve, and ultimately what it is trying to achieve. This sets the overall philosophy for the fare system and provides a point of reference for both establishing initial fares and also future fare changes as they should always support the overall strategy.

Fare structure refers to the specific logic used to create fare categories and derive prices for the different rider categories and fare products used. An example of this is any discount structure used to support the needs of different rider types such as frequent users, special programs, disadvantaged populations, etc.

The fare collection concept of operations set out a basic fare strategy and structure that included:

1. Directional pricing where the rider pays a different amount depending on whether the trip is in the eastbound or westbound direction.

¹ Operations Appendix Dated July 2014, section 7, Fare Collection Plan

2. A base price for each fare reflective of the cost to the rider of utilizing other services crossing central Puget Sound.
3. A \$1-\$3 (per direction) premium service price that a customer would be willing to pay for faster, high quality passenger-only ferry service over and above the base price.
4. Inter- and intra-service transfers based on current ORCA and Puget Pass privileges and rules.

2.1 Proposed Fare Strategy

Although a Kitsap Transit passenger-only ferry service would serve a variety of rider markets, the “bread and butter” of the operation is expected to be the frequent user market, defined as riders making 16 round trips/32 one way trips or more in a month². The proposed fare strategy therefore focuses first on establishing applicable fare categories and prices for that group, and from there establishing the logic and pricing structure for other rider groups and markets.

The proposed fare strategy is based on the assumption that the vast majority of the frequent user market (80%+) will use some form of ORCA product to pay for their fare. As of April 2014, approximately 75% of all of Kitsap Transit’s bus and foot ferry riders use ORCA, so a target of 80%+ penetration for the frequent user market is not unreasonable, and is consistent with what other services such as Sound Transit’s commuter rail system experience.

One of the nuances of current ferry operations in the Central Puget Sound region is that the transfer rules between transit and ferry services differ depending on if the waterborne portion of the trip is provided by the King County Water Taxi or Washington State Ferries. In the case of the King County Water Taxi, ORCA riders are provided with transfer privileges as follows:

- Stored value transfers from a higher priced service (e.g. ferry) to a lower priced one (e.g. bus) are at no additional cost to the rider.
- Stored value transfers from a lower priced service to a higher priced one using stored value require only the payment of the difference in fare.
- Puget Passes are good up to the face value for any service boarded, with the customer only paying extra if the fare is higher than the face value of the particular pass they use.

In the case of Washington State Ferries, separate fare products are required for both the bus and ferry portions of the trip as WSF does not accept Puget Passes or transfers from connecting bus services. This means that ORCA customers using both bus and WSF services must purchase two products; one to board the bus and the other to board the ferry (westbound direction only).

2.2 Current Travel Costs

The proposed pricing strategy is based on what it costs today for a typical frequent user crossing the Sound. Focusing on this rider market, an estimate was made on “total monthly cost” to commute on a regular basis to/from Kitsap County and Seattle, considering the three proposed passenger-only ferry routes of Bremerton-Seattle, Southworth-Seattle, and Kingston-Seattle.

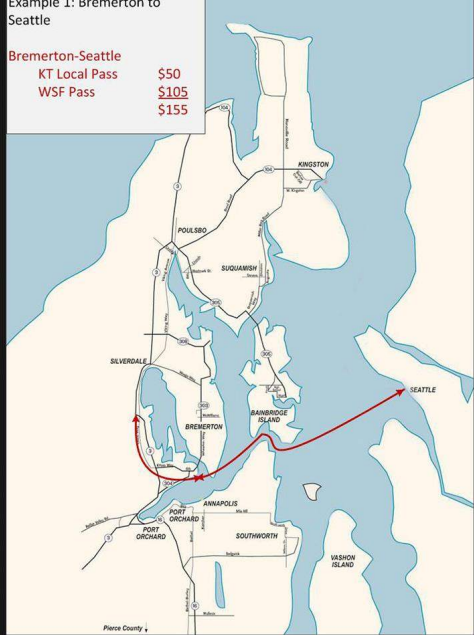
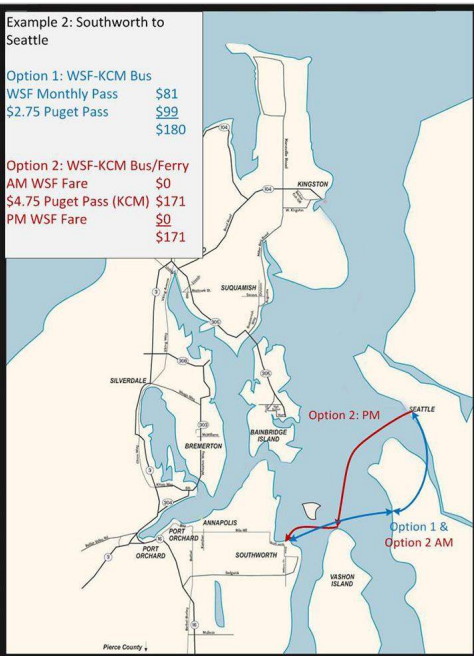
In each case, it was assumed that the rider would make the trip solely using public transit and ferry service³, choosing the best value fare products which were typically:

² WSF prices its pass based on approximately 16 round trips/32 one-way trips per month. For the purpose of this document, that same assumption is retained for the purpose of pricing Kitsap Transit ferry products.

³ Riders driving to either end of the trip would likely incur as much, if not more, costs than bus riders if parking payment, fuel, etc. was included.

- A Kitsap Transit ORCA pass or Puget Pass for bus and rail connections; and
- A Washington State Ferry multi-ride discounted ticket or pass for crossing the Sound.

The following charts summarize what the “best value” options are today for a frequent user regularly traveling to or from Kitsap County and King County. All examples assume that the rider would walk to and from his or her destination in Seattle⁴.

<p>Example 1: For the Bremerton-Seattle route, a frequent user using Kitsap Transit bus and WSF ferry services would need to purchase:</p> <ol style="list-style-type: none"> 1. A Kitsap Transit local pass to use Kitsap Transit bus services⁵ 2. A WSF cross-sound pass to use Washington State Ferries services <p>The best value total monthly travel cost in this example is \$155.</p>	<p>Example 1: Bremerton to Seattle</p> <table border="1"> <tr> <td>Bremerton-Seattle</td> <td></td> </tr> <tr> <td>KT Local Pass</td> <td>\$50</td> </tr> <tr> <td>WSF Pass</td> <td>\$105</td> </tr> <tr> <td></td> <td>\$155</td> </tr> </table> 	Bremerton-Seattle		KT Local Pass	\$50	WSF Pass	\$105		\$155										
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<p>Example 2: Frequent users using the Southworth-Seattle route have two options available for a trip.</p> <p>Option 1:</p> <ol style="list-style-type: none"> 1. Travel on WSF between Southworth and Fauntleroy using a WSF pass 2. Connect to and from Seattle using King County Metro bus service using a \$2.75 (one zone peak) Puget Pass <p>Option 2:</p> <ol style="list-style-type: none"> 1. Use WSF auto ferry traveling to Vashon Island (free travel both ways) 2. Connect to Seattle using the King County Water Taxi using a \$4.75 Puget Pass <p>Option 2 provides the best value at a monthly cost of \$171. Note that in both cases a rider accessing Southworth by bus would not have any additional cost as either of the two Puget Passes noted above</p>	<p>Example 2: Southworth to Seattle</p> <table border="1"> <tr> <td>Option 1: WSF-KCM Bus</td> <td></td> </tr> <tr> <td>WSF Monthly Pass</td> <td>\$81</td> </tr> <tr> <td>\$2.75 Puget Pass</td> <td>\$99</td> </tr> <tr> <td></td> <td>\$180</td> </tr> <tr> <td>Option 2: WSF-KCM Bus/Ferry</td> <td></td> </tr> <tr> <td>AM WSF Fare</td> <td>\$0</td> </tr> <tr> <td>\$4.75 Puget Pass (KCM)</td> <td>\$171</td> </tr> <tr> <td>PM WSF Fare</td> <td>\$0</td> </tr> <tr> <td></td> <td>\$171</td> </tr> </table> 	Option 1: WSF-KCM Bus		WSF Monthly Pass	\$81	\$2.75 Puget Pass	\$99		\$180	Option 2: WSF-KCM Bus/Ferry		AM WSF Fare	\$0	\$4.75 Puget Pass (KCM)	\$171	PM WSF Fare	\$0		\$171
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⁴ The data also suggested that most Bremerton-Seattle riders are not transferring to King County Metro so it was assumed that they would walk when arriving in Seattle

⁵ From a review of April, 2014 ORCA product data, it appears that the best value for most Kitsap Transit bus riders is to purchase a Kitsap Transit bus pass versus a Puget Pass.

would cover the Kitsap Transit fare.

Example 3: Riders using the Kingston-Seattle route also have two options available for a trip:

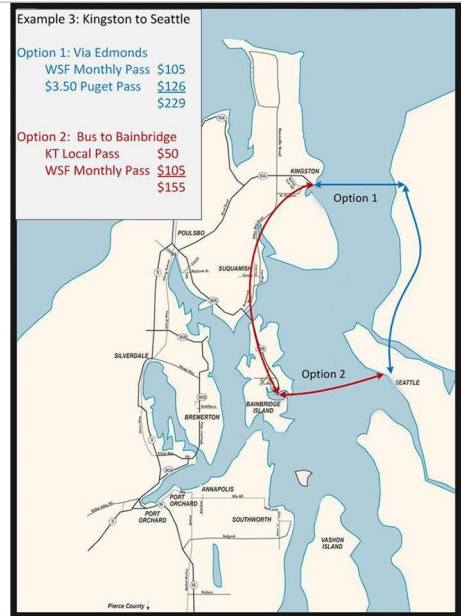
Option 1:

1. Travel on the WSF auto ferry between Kingston and Edmonds using a WSF pass
2. Connect to and from Seattle using a Sound Transit commuter rail service using a \$3.50 Puget Pass

Option 2:

1. Use a Kitsap Transit local pass to travel to and from Bainbridge.
2. Travel between Bainbridge and Seattle on WSF using a WSF pass.

In this example, the lowest cost for the rider is option 2 with a total monthly cost of \$155.



Assuming that a frequent user makes 32 one-way trips per month translates into a current per ride cost of:

ROUTE	MONTHLY COST (ROUNDED TO NEAREST \$1)	ONE-WAY COSTS (32 TRIPS/MONTH)	ROUND TRIP EQUIVALENT COSTS
Bremerton-Seattle	\$155/month	\$4.84	\$9.68
Southworth-Seattle	\$171/month	\$5.34	\$10.68
Kingston-Seattle	\$155/month	\$4.84	\$9.68

2.3 Proposed Fare Structure

The proposed fare structure is based on the following principles:

1. Base fares are set based on the frequent user fare which represent the majority of the expected rider market. Frequent user fares are discounted over full cash fares, and would be restricted to ORCA products.
2. Consistent with how WSF prices its passenger fares, the base cash fare price is established at approximately 125% of the frequent user fare⁶.
3. Base reduced cash fares for Medicare card holders and qualified seniors, disabled, youth and low income riders paying with an ORCA card would be set at 50% of the cash fare price, consistent with current discount levels provided for Kitsap Transit bus services. Pass fares for riders qualifying for discount fares would be set at 50% of the current full-fare pass.

⁶ This equates to the commuter fare being approximately 80% of the cash fare equivalent structurally to how WSF prices its frequent user fares.

4. Fares would be rounded and priced in \$0.25 increments. Although rounding is not essential, establishing a policy up front that future fare increases will be in \$0.25 increments avoids situations where simply applying the percent discounts result in odd fares for reduced fare categories.
5. Any discounts would be applied only to the base fare; not to the premium service charge. Reasons for this are as follows:
 - a. The base part of the fare is associated most closely with what would be considered the transit fare on other services which is normally where discounts are applied.
 - b. As fuel prices and other costs change, it may be necessary to modify the premium amount to reflect cost or market variations.
 - c. It allows a consistent premium to be applied to all ferry travel markets regardless of how the base fare is set for that market.

With respect to Point 5, customers currently eligible for discounted fares (Medicare card holders and qualified seniors, disabled, youth and low income riders) may have concerns about paying the premium service charge. There is precedence for charging a premium fee (currently an additional \$1.00 is charged for customers using ACCESS transit services and traveling to or from outlying regions of the county), however to minimize impacts on eligible customer groups Kitsap Transit could consider offering a discount (e.g. 50%) on the premium service charge specifically for those customer groups or building the discount into a combined bus and ferry pass for those customers.

2.4 Proposed Fares

With respect to pricing fares on the three ferry routes, the concept of operations noted that Kitsap Transit could adopt a common fare across all routes, or could choose to charge fares by route. The issue is that the highest fare cost route (Southworth-Seattle) is also the shortest, at least with respect to the waterborne portion of the route. Pricing that route higher than the other two, while reflective of current costs, would likely raise questions of fairness and equity amongst the riders using that route.

For planning purposes, it is proposed that Kitsap Transit initially set a common fare across all routes based on current travel costs for the Bremerton and Kingston runs, coupled with a \$2.00 per one-way trip premium service surcharge (\$4.00 round trip). Following the concept of operations, it is also proposed that the base fare be directional in nature, and be charged only in the westbound direction like WSF fares are charged today. Rounded to the nearest \$0.25, the “frequent user fare” for the ferry service would be:

	EASTBOUND	WESTBOUND
Base Fare	\$0.00	\$6.50
Premium Service Charge	\$2.00	\$2.00
Total Proposed Price	\$2.00	\$8.50

In this model, the premium service charge is charged and collected in each direction versus being aggregated as a \$4.00 charge and collected in the westbound direction. This is to avoid ridership imbalances caused by riders taking a “free” Kitsap Transit ferry eastbound, and returning using WSF services because the Kitsap Transit ferry service is “too expensive in that direction”.

Applying the pricing structure described previously would yield proposed fare prices for each of the different rider categories as follows:

	CASH FARE	FEQUENT USER MONTHLY PASS EFFECTIVE FARE	REDUCED FARE
EASTBOUND DIRECTION (ROUNDED TO NEAREST \$0.25)			
Base Fare	\$0.00	\$0.00	\$0.00
Premium Service Charge	\$2.00	\$2.00	\$2.00
Total One-Way Price	\$2.00	\$2.00	\$2.00
WESTBOUND DIRECTION (ROUNDED TO NEAREST \$0.25)			
Base Fare	\$8.00	\$6.50	\$4.00
Premium Service Charge	\$2.00	\$2.00	\$2.00
Total One-Way Price	\$10.00	\$8.50	\$6.00
Total Round Trip Price	\$12.00	\$10.50	\$8.00
Monthly Pass Cost	\$168.00		

Assuming a rider makes 32 one-way/16 round trips per month, the total monthly cost would be \$168.00 as noted above which is commensurate with current monthly costs discussed at the beginning of this section.

2.5 Fare Products

The fare collection concept of operations identified two fundamental concepts for non-cash fares:

1. Using existing ORCA fare products including passes and stored value. In this model, the face value of the pass (Kitsap Transit pass or Puget Pass) is applied as a “credit” towards the fare, with the remaining amount deducted from stored value.
2. Deploy new fare products including an ORCA multi-ride ticket product (similar to WSF’s current multi-ride card), a ferry pass, a joint Kitsap Transit – ferry pass, and mobile ticketing.

With respect to existing ORCA products, a rider using a Kitsap Transit pass would receive a \$2.00 credit towards the total cost of the fare⁷, paying \$0.00 in the eastbound direction (the pass covers the cost of the premium fare charge), and \$6.50 from stored value for the westbound trip. A Puget Pass rider with at least a \$2.00 face value pass would similarly pay \$0.00 in the eastbound direction and whatever the difference is between the pass value and \$6.50 from stored value⁸. One item of note is that consideration will need to be given as to how to allocate pass revenue between Kitsap Transit bus and ferry services since the same pass will be valid on both.

The advantage of this approach is that, other than adding a new operator type to ORCA (“KT Ferry”), all of the logic exists in ORCA to compute and charge the correct fare – no major system modifications are needed. The challenge here however is that riders will need to be educated to either buy a higher value Puget Pass or always maintain adequate stored value on their card to pay for the westbound fare.

⁷ The proposal would be that the current Kitsap Transit pass provide a full fare credit (\$2.00) towards the cost of the trip.

⁸ Because of this, there may be no merit in considering a ferry-only pass (versus a joint Kitsap Transit bus and ferry pass) as both would likely be priced the same. Under these rules transfers to and from the bus would essentially be “free”, so a joint pass would have no premium over the cost of a ferry-only pass.

With respect to introducing three new ORCA products (multi-ride ticket product, Kitsap transit ferry pass, and/or Kitsap Transit combined bus/ferry pass), the challenge at this point relates to the cost and effort of adding those products to ORCA, and also establishing transfer rules to connecting King County, Sound Transit, or Community Transit bus services. Although these products offer some promise, as the service does not exist today it is unknown whether these products will fully align with the needs of the rider market. As an initial startup strategy, it may be best to begin with the existing ORCA products and inter/intra-service transfer rules and then add new products as the true needs of the ferry rider market become apparent.

Mobile ticketing has not yet been deployed in the Central Puget Sound region, though King County and Sound Transit are involved in an active implementation that is expected to be in operation by the end of 2016. To avoid bearing the full cost of implementing a mobile ticketing system, the best strategy for Kitsap Transit would be to watch how this technology develops in the region and then participate as appropriate.

2.6 Federal Benefits Programs

Kitsap Transit is a participant in the TRANserve Federal transportation benefits program that distributes up to \$130 in monthly transit benefits through pre-paid VISA “credit” cards. Customers can use the funds provided to purchase public transit fare products at any sales location that accepts VISA credit cards including customer service offices, the Internet, retail locations, etc.

While the benefits can be redeemed by any qualified participant for the purpose of purchasing general public fare media, they are currently primarily used by participants in Kitsap Transit’s worker-driver program that operates special routes to and from the Puget Sound Naval Shipyards and Bangor submarine base. Participants in the worker-driver program either purchase a monthly pass at a premium (over the regular Kitsap Transit bus pass) price of \$75.00, or pay the \$2.00 cash fare. Effective February 1, 2016 those prices will be increasing to \$97.00 for the pass and \$3.00 for cash fares.

A key restriction of the Federal benefits program is that the funds can only be used for passenger transit services; they cannot be used to pay for automobile-related charges such as driving onto a Washington State ferry. This presents a challenge in the fare product model noted above in that if a customer simply loads their benefit into their ORCA stored value purse, there is no easy way to restrict stored value use only to bus, rail and walk-on ferry services (ORCA stored value is valid on all services, including WSF auto-based services). The only practical way to guarantee that the funds are only used for transit is to purchase a pass.

For riders using the worker-driver bus services, Kitsap Transit could consider introducing a special combined worker-driver ferry and bus pass. The pass price would need to be determined by Kitsap Transit, but as a starting point based on the 2016 fares could be priced at \$200 equivalent to the cost of a \$97 Kitsap Transit worker-driver pass and \$103 WSF pass.

Given the limits of the monthly benefit distribution, customers would need to come into a staffed customer service location in order to pay for part of the pass with the benefits card, and part with other funding as Federal government rules preclude individuals from adding their own money to the TRANserve card. This in turn precludes purchasing high value products (over \$130) on the ORCA website since only one form of payment is accepted. There is a workaround for this for Washington State Ferries as documented in TRANserve Bulletin No. TSB 2014-10⁹ that involves the use of ORCA e-vouchers to supplement the TRANserve benefits. This same approach could be considered by Kitsap Transit.

⁹ http://transerve.dot.gov/docs/TSB_2014-10_ORCA_ALERT.pdf

Note that consideration could also be given to introducing 10-ride electronic tickets on ORCA that would be eligible for purchase under the TRANserve program, however unless unused tickets expired at the end of the month, this approach would be inconsistent with the way the program is intended to operate which is on a monthly benefit, only purchase what you use in that month, basis. WSF expires tickets within 90 days, however that has been a source of significant frustration for customers and attempts over the years to reduce that to 30 days have met with significant resistance and have not been successful. At this time, IBI Group continues to recommend that consideration of 10-ride tickets be deferred until the system is in operation and a better understanding of impacts and customer needs is obtained.

2.7 Title VI Considerations

Section 601 of Title VI of the Civil Rights Act of 1964 states the following:

“No person in the United States shall, on the ground of race, color, or national origin, be excluded from participation in, be denied the benefits of, or be subjected to discrimination under any program or activity receiving Federal financial assistance.”

Kitsap Transit maintains on file with the Federal Transit Administration an accepted¹⁰ Title VI plan in accordance with the guidelines described in FTA circular C 4702.1B¹¹. An assessment of Title VI implications for the passenger-only ferry system is beyond the scope of this document, however in any Title VI review it is suggested that Kitsap Transit confirm that the current discounting and eligibility structure for bus services will be retained, and that the proposed directional pricing structure and the pricing of any new fare products does not create Title VI issues. If monthly pass pricing is an issue, options for shorter duration passes (e.g. weekly) could be considered versus 10 ride tickets due to the complexities of expiration and potential implications for Federal benefits programs as noted above.

3 Summary of Recommendations

Key recommendations for establishing a fare strategy, structure, pricing and products for Kitsap Transit passenger-only ferry services are as follows:

1. Adopt, as recommended in the concept of operations, a directional fare concept to avoid ridership imbalances.
2. Base any fare structures on frequent user fares (versus cash fares) as this is expected to be the largest rider segment using the service. Calculate cash fares based on the frequent user fares, not the other way around.
3. Like the King County Water Taxi, fully adopt ORCA as the preferred fare medium supporting inter and intra-service transfers. Start with the existing ORCA fare products and rules and add new products once experience is gained with ferry operations.
4. Start the service by adopting a common fare across all three routes (Kingston, Bremerton and Southworth).
5. Apply any discounts only against the “base fare” – not against the premium fare charge.
6. Develop and finalize an approach for accommodating the TRANserve Federal transportation benefits program.

¹⁰ <http://www.kitsaptransit.com/static/62/privacy-policy#title%20vi>

¹¹ www.fta.dot.gov/documents/FTA_Title_VI_FINAL.pdf

7. Review Kitsap Transit's current Title VI compliance plan and identify follow-on actions if needed.

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