

Refined Sliding Scale Implementation Options

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Introduction

As directed by Council, Administration used the sliding scale proposal from 2015 September to pursue funding opportunities. In addition, Administration has continued to refine the sliding scale for implementation and is proposing a pilot funding framework.

The most significant development since the last report to Council has been the recent announcement by the Government of Alberta of funding to support enhancements to the Fair Entry subsidy program. While the \$13.5 million investment is significant, \$4.5 million for each of 2017, 2018 and 2019 is insufficient to fund the full costs of implementing a sliding scale. As such, options were reviewed to assist in informing potential refinements. Using the 2015 September proposal as a foundation, three alternatives for Calgary Transit's Low Income Monthly Pass program were considered in detail to investigate implementation. Cost estimates as well as opportunities and challenges are outlined for each option within this document.

As the investment from the province does not address all costs associated with the original proposal, choices on how the funding could be applied were explored. Although barriers exist for some subsidy programs to adopt a sliding scale in the short term, all are supportive of moving in this direction to better serve financially vulnerable Calgarians. As such, Administration recommends that the new funding available be targeted toward enhancements to the current Calgary Transit Low Income Monthly Pass.

Administration recommends implementing a sliding scale under 100 per cent LICO, for the Calgary Transit Low Income Monthly Pass to serve those most financially vulnerable. The recommendation aligns with The City's commitment to Enough for All, Calgary's Poverty Reduction Strategy. The province embraced The City's proposal as a means to further align goals of reducing poverty in Calgary.

If approved by Council, the implementation of the refined sliding scale for Calgary Transit Low Income Monthly Pass would allow low-income Calgarians to have greater opportunity to participate in the community, improve their quality of life, and contribute to Calgary's vitality. The provincial funding commitment also provides the opportunity to pilot elements of a new funding framework to support implementation of this first step of a sliding scale.

Implementation Options Considered

Which subsidy program to start?

Many options were explored, but three options for Calgary Transit's Low Income Monthly Pass program were considered in depth for near-term implementation using the original proposal as a foundation. Calgary Transit's Low Income Monthly Pass program provides the opportunity for a very positive impact for the customer and is positioned to move quickly on implementation. As with the other subsidy programs, Recreation is very supportive of a move to sliding scale but is unable to move to a sliding scale in the short run because of the CLASS technology

replacement project. The earliest a sliding scale could be adopted for Recreation Fee Assistance is 2018 January.

Overall, the three options allow all or a part of the intent of the original proposal for a sliding scale to be realized for Calgary Transit's Low Income Monthly Pass program, namely:

- Providing more affordable fees/fares for those currently receiving subsidies; and/or
- Extending subsidy benefits beyond the current low income thresholds.

Summary of Options Considered

1. **Recommended Option** - Implementation a sliding scale of three bands to 100 per cent LICO, for Calgary Transit Low Income Monthly Pass.
 - No new investment by The City of Calgary. New operating budget impacts (largely subsidy costs) funded by provincial dollars.
 - **Outcome** - providing more affordable fares to persons currently receiving Calgary Transit Low Income Monthly Pass but *not* extending eligibility to more recipients.
2. Implementation of the original sliding scale of five bands up to 130 per cent of LICO for Calgary Transit Low Income Monthly Pass.
 - Shortfall of \$4.4 million to fund this option over and above the \$4.5 million investment from the province.
 - **Outcome**- extending income threshold above 100 per cent LICO to include more Transit customers in the low income subsidy *and* providing more affordable fares to persons currently using Calgary Transit's Low Income Monthly Pass.
3. Implementation of a sliding scale by introducing two new bands from 100 per cent to 130 per cent of LICO *only*, for the Calgary Transit Low Income Monthly Pass.
 - Maintain the current subsidy fees of 50 per cent of the Adult Monthly Pass for those below 100 per cent LICO.
 - No new investment by The City of Calgary. New operating budget impacts (revenue losses and program administration costs) funded by provincial commitment.
 - **Outcome** – extending income threshold beyond 100 per cent LICO to include more Transit customers in the low income subsidy, but not deepening the discount for those currently eligible for Calgary Transit's Monthly Pass.

The original sliding scale proposal brought forward in 2015 September is included and referenced as Attachment 3 in the report.

Investigation of Options

Option One–Recommended Option - Implementation of sliding scale subsidy for the Calgary Transit Low Income Monthly Pass program, maintaining current 100 per cent LICO as upper threshold. Three bands would be introduced below 100 per cent LICO.

Three bands introduced would include:

Band	Proposed State
A	≤50 per cent LICO
B	>50-85 per cent LICO
C	>85-100 per cent LICO

Financial Implications of Option One – Recommended Option

	Subsidy Discount Cost	Program Administration Costs	Total Implementation Costs	One-time Expenses
Total Sliding Scale Costs	\$4.5 M	\$0	\$4.5 M	\$0.5 M
Provincial contribution	\$4.5 M			-
Budget shortfall	\$0			\$0 M*

* One-time start up costs will be absorbed through existing, approved budgets.

For the first year, current approved budgets would absorb the costs of any operational increases, and revenue changes resulting from increased subsidies to the customer would be addressed through the provincial funding. The impacts will be assessed and reported back in Q4 2017.

As a result no new funding is being requested to implement Option One.

Pros and Cons of Option One – Recommended Option

Pros	Cons
<ul style="list-style-type: none"> Targeted approach to mitigate affordability barrier for most financially vulnerable customers. Lowest program administration costs 	<ul style="list-style-type: none"> Fewer 'new' subsidy customers than other options. Existing 'ledge' maintained at 100 per cent LICO.

<p>compared to other implementation options.</p> <ul style="list-style-type: none"> • Maximum subsidy investment which means more dollars in people’s pockets. • Provincial funding offsets costs to The City associated with this option. • Research indicates that during an economic downturn those most financially vulnerable are disproportionately impacted.¹ • Potential to attract new customers could result in modest gains of new revenue from subsidized customers. • As with all options, existing Fair Entry infrastructure enables customers to be easily assessed for eligibility and provided information on range of benefits available. • Income eligibility and benefits are easier to understand for customer by maintaining 100 per cent LICO as income threshold. 	<ul style="list-style-type: none"> • As with all options, existing IT infrastructure and business processes require enhancements. • As with all options, change to business process impacts customer interaction (e.g. more time to process application).
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This recommendation is based on several factors including:

- Maximizing subsidies available for customers mean more dollars in the pockets of eligible Calgarians;
- Research that indicates that those most impacted in a financial downturn are those who are most financially vulnerable prior to the downturn.
- Three year cost sharing funds from the Government of Alberta mean no new expenditures by The City of Calgary are required;
- Minimizing program administration costs associated with any enhancement; and
- Consistent upper income threshold maintained across Fair Entry subsidy programs makes overall eligibility for subsidy benefits simpler to understand.

¹ “Social Impacts of an Economic Downturn: Considerations for the City of Calgary.” (April 2016), University of Calgary.

Option Two- Introduction of five bands to 130 per cent of LICO for Calgary Transit Low Income Monthly Pass.

Five bands introduced would include:

Band	Proposed State
A	≤50 per cent LICO
B	>50-85 per cent LICO
C	>85-100 per cent LICO
D	>100-115 per cent LICO
E	>115-130 per cent LICO

Financial Implications of Option Two

	Subsidy Discount Cost	Program Administration Costs	Total Implementation Costs	One-time Expenses
Total Sliding Scale Costs	\$7.6 M	\$1.3 M	\$8.9 M	\$1.0 M
Provincial contribution	\$4.5 M			-
Budget shortfall	\$4.4 M			\$0.5 M*

* One-time start up costs up to \$0.5M can be absorbed through existing, approved budgets. Other start up costs, totalling \$0.5M require additional investment.

Pros and Cons of Option Two

Pros	Cons
<ul style="list-style-type: none"> Mitigate affordability barrier for financially vulnerable customers. Provide deepest subsidy discounts for those most financially vulnerable and extends benefit to financially vulnerable Calgarians with incomes between 100 per cent and 130 per cent LICO. Provincial announcement offsets some costs to The City 	<ul style="list-style-type: none"> New provincial funds unable to fully accommodate additional budget impacts and program administrative requirements associated with new sliding scale approach. More complicated system for customers to understand benefits. Varying income thresholds increases complexity of overall Fair Entry program. Existing Fair Entry staff resources inadequate to address new demand.

Pros	Cons
<p>associated with this option.</p> <ul style="list-style-type: none"> • Potential to attract new customers could result in modest gains of new revenue from subsidized customers. • As with all options, existing Fair Entry infrastructure enables customers to be easily assessed for eligibility and provided information on range of benefits available. 	<ul style="list-style-type: none"> • As with all options, change to business process impacts customer interaction (e.g. more time to process application). • As with all options, existing IT infrastructure and business processes require enhancements.

Option Three- Introduction of two new bands from 100 per cent to 130 per cent for the Calgary Transit Low Income Monthly Pass which would result in three bands in total.

The bands introduced would include:

Band	Proposed State
Status Quo	Status Quo subsidy fees/fares – Below 100 per cent
D	>100-115 per cent LICO
E	>115-130 per cent LICO

Financial Implications of Option Three

	Subsidy Discount Cost	Program Administration Costs	Total Implementation Costs	One-time Expenses
Total Sliding Scale Costs	\$3.0M	\$1.5M	\$4.5M	\$1.0M
Provincial contribution	\$4.5M			\$0
Budget Shortfall	\$0			\$0.5M*

* One-time start up costs up to \$0.5M can be absorbed through existing, approved budgets. Other start up costs, totalling \$0.5M require and additional investment.

Operational increases to address increased demand from customers who were previously ineligible, are significant and would require additional program administration investment.

Pros and Cons of Option Three

Pros	Cons
<ul style="list-style-type: none"> • Extends benefit to financially vulnerable Calgarians between 100 per cent and 130 per cent LICO. • Mitigates 'ledge' at 100 per cent LICO and provides ability to support individuals as incomes increase. • Provincial funding offsets costs to The City . • Potential to attract new customers could result in modest gains of new revenue from subsidized customers. • As with all options, existing Fair Entry infrastructure enables customers to be easily assessed for eligibility and provided information on range of benefits available. 	<ul style="list-style-type: none"> • Significantly higher program administration costs required to address increased demand among new users. • Not all funds will go to subsidy as an investment in program administration costs is required. • More complicated system for customer to understand. • Varying income thresholds increases complexity of overall Fair Entry program. • Current Fair Entry staffing resources inadequate to address new demand. • As with all options, change to business process impacts customer interaction (e.g. more time to process application). • As with all options, existing IT infrastructure and business processes require enhancements.

Overview of Options for Implementation

Program	Band	Option 1	Option 2	Option 3
Calgary Transit Low Income Monthly Pass	A	✓	✓	Status Quo Subsidy
	B	✓	✓	
	C	✓	✓	
	D	x	✓	✓
	E	x	✓	✓

Fare Levers

Each of the options outlined have as their foundation fare assumptions. This is required in order to develop cost estimates. There is a direct correlation with the fares paid by the customer and the associated cost of the program borne by the City and its funding partners.

As fares increase for the customer the associated revenue from other sources required is less. Conversely as the fares for the customer decrease the revenues required from other sources is more.

Proposed Fee Schedule

Administration is proposing a fee schedule for Calgary Transit Low Income Monthly Pass, based upon a percentage discount of the Transit Adult Monthly Pass. Per Transit’s approved fee schedule, the Calgary Transit Low Income Monthly Pass is intended to be 50 per cent of the adult monthly pass fare. Similarly, the proposed fee schedule is recommending an approach to fares as a proportion of the Calgary Transit Adult Monthly Pass as opposed to a fixed price. The prices presented are for demonstrative purposes only, while the percent discounts are presented for approval. Maintaining a proportional fare structure assists in mitigating costs of growth in the program, while keeping increases modest and predictable for the customer.

Given the recent discussion on fares and direction in C2016-0544, rates are provided for demonstrative purposes only and would be finalized once fees and fares are set.

Band	Proposed State	Current Pass Cost	Percent Discount Based Upon Adult Monthly Pass	2017 & 2018 Monthly Pass Cost**	
				Fares shown are for demonstrative purposes only	
A	≤50 per cent LICO	\$44*	85%	\$15.45	\$15.75
B	>50-85 per cent LICO		65%	\$36.05	\$36.75
C	>85-100 per cent LICO		50%	\$51.50	\$52.50

* The fare schedule as approved by Council is currently 50% of the Adult Monthly Pass. However, since current Low Income Monthly Pass fares were frozen in 2014, 2015 and 2016 the current rate represents approximately a 56% discount off the adult monthly pass.

** 2019 Transit fare schedule has not yet been set so projected fares are not included above.

As previously discussed, the recommended option would deepen discounts for those most financially vulnerable, while maintaining affordability across the scale. Currently all Transit Low Income Monthly Pass program recipients pay \$44 per month, a 56 per cent discount from the adult monthly pass. The resulting fare in 2017 would increase the cost of Calgary Transit Low Income Monthly Pass slightly for Band C, but would result in a reduction in cost for Bands A and B.

Funding Framework

The recent funding announcement by the province provides a foundation for exploring a new way to fund subsidies. For the proposed sliding scale expansion, Administration recommends using new provincial funding from a separate envelope to offset the deeper subsidy costs associated with the implementation of a sliding scale.

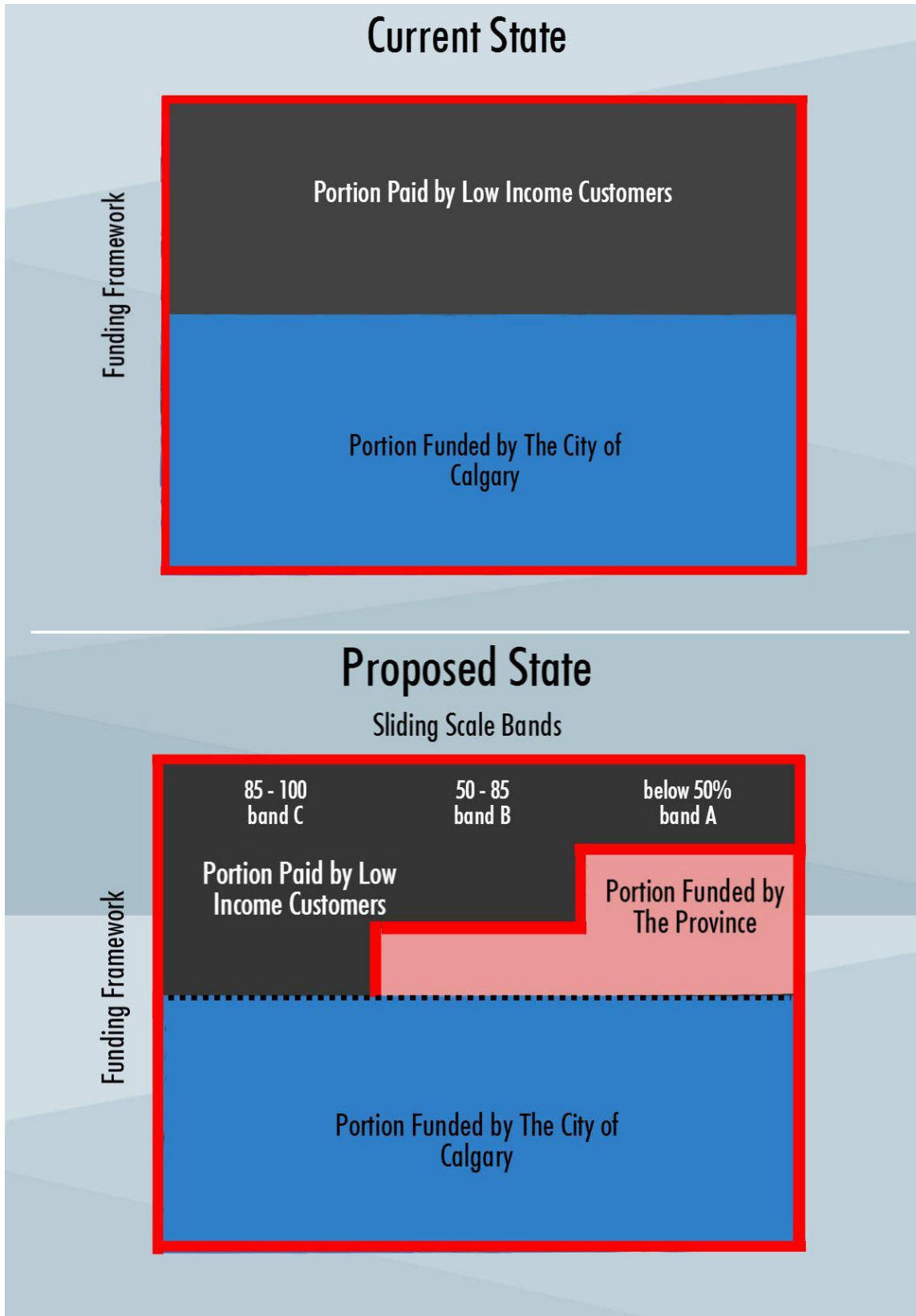
The funding would be applied based upon a calculation of the difference between the existing Calgary Transit Low Income Monthly Pass price (50 per cent of the adult monthly pass for 2017) and the new sliding scale pass ratios as outlined (ranging from 10 per cent-50 per cent of the adult monthly pass).

As part of building the implementation plan, cost forecasting was undertaken so as not to exceed the \$4.5 million envelope committed by the province. To mitigate the risk of the costs exceeding the \$4.5 million committed due to unforeseen ridership growth, Administration has built contingency based on the funding committed. In addition, the province has provided contingency funding of up to five per cent in each of the three years. Together this provides close to a 10% contingency. Administration will closely monitor program growth and report back to Council if uptake by low income customers is greater than expected. As identified, fare adjustments can be used to mitigate program growth as appropriate. In addition, Administration will continue to work with the province to ensure a sufficient level of funding is in place to meet the program need.

As part of an investigation of a broader funding framework, Administration would pursue other mitigations pertaining to financial risks. This might include establishing a subsidy reserve fund in which surpluses resulting from the provincial commitment could be protected to fund future sliding scale enhancements and/or provide mitigation against future growth. Much work is required in this context and many options will be explored and will be reported back to Council via an update report not later than Q4 2017.

Part of a new funding framework will also include work to shift the perception of low income subsidies from being lost revenues to being additional revenues from new customers. Low income customers, like those in other income groups, make choices with respect to mode of transportation. In fact, in PFC2013-0559, 26 per cent of the low income persons surveyed were not Transit users and most expressed desire to use a car as an alternate. For this group, providing more affordable Transit options may influence their transportation choices and represent ridership gains.

The following visual compares the differences between the status quo approach and the new funding framework administered centrally based upon the funding received from the province.



The Transit Zero Based Review (ZBR) (PFC2016-0469) recommended that Calgary Neighbourhoods take on the funding responsibility for Transit's low income programs including the development revenue recovery plan. Aligned with this recommendation, the in-depth investigation of a new funding framework for low income subsidy programs can explore current and alternative funding sources. The funding commitment from the provincial government for three years provides a foundation to think creatively about how The City funds and administers subsidies for low income customers.

Timeline

Introducing the proposed sliding scale would require time for IT enhancements, training staff and preparation for communications to customers on the changes to the programs, as applicable.

To introduce the recommended Calgary Transit Low Income Monthly Pass sliding scale it would take approximately six months to fully implement. Implementation of the refined sliding scale would provide important foundational infrastructure and information to assess the opportunity for additional programs or an expanded sliding scale that may be considered as part of Administration's report back in Q4 of 2017.

Scale Implementation Timeline

		2016						2017		
		Q3			Q4			Q1		
IT System Enhancements	Business Process Review (complete)									
	Analysis and Design									
	Development									
	Testing and Deployment									
	IT System ready for implementation									
Communication and Staff Training	Communication Planning									
	311 Preparation and Training									
	Awareness and Communication Campaign									
	Training Staff									
	Sliding Scale Goes Live for Customers									

Conclusion

The introduction of a sliding scale provides an opportunity for The City and province to work collaboratively in achieving a common goal of poverty reduction. Work will continue to investigate a sustainable funding framework and alternate funding approaches to assess the feasibility of transferring responsibility for a subsidy fund management to Calgary Neighbourhoods per the recommendations of Transit's Zero Based Review.

The recommended implementation of a sliding scale to 100 per cent LICO for the Calgary Transit Low Income Monthly Pass represents an important step in enhancing access to City services through subsidy support. The City is thus continuing its leadership in ensuring all Calgarians have the same opportunity to participate in the community, access employment, improve their quality of life, and contribute to Calgary's vitality.