



Finance & Administration Committee

Information Item IV-A

November 4, 2010

SmarTrip® Card Price Change Plan

Washington Metropolitan Area Transit Authority
Board Action/Information Summary

<input type="radio"/> Action <input checked="" type="radio"/> Information	MEAD Number:	Resolution: <input type="radio"/> Yes <input checked="" type="radio"/> No
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TITLE:

SmarTrip Card Price

PURPOSE:

To update the Finance & Administration Committee per their request on options for reducing the price of the SmarTrip® card without creating opportunity for customers to "game" the system and to make recommendations to them.

DESCRIPTION:

As part of the Finance & Administration meeting that was held on October 14, 2010, the Committee gave guidance to the staff on additional analysis they wanted to discuss in the next Finance & Administration meeting on November 4, 2010.

A decrease in price allows Metro to deliver better quality service to customers by making the SmarTrip® card more affordable. Customers benefit from having a SmarTrip® card because it's more durable than a paper farecard and it also allows them to pay a lower fare.

FUNDING IMPACT:

If there is a decision to sell the SmarTrip® card for less than \$3.40, the SmarTrip® reserve account balance will cover the difference between the new price and the cost to Metro of \$3.40. Therefore there is no impact on the capital or operating budgets.

Project Manager:	Steve Holland
Project Department/Office:	Treasury

RECOMMENDATION:

None



Washington Metropolitan Area Transit Authority

SmarTrip[®] Card Price Reduction Implementation

Finance and Administration Committee

November 4, 2010



Board Guidance from October 16, 2010 Finance & Administration Meeting

Provide more descriptive analysis on the following options:

- D: "Status Quo"
- G: "No \$0-Value Sales"
- H: "\$4 Card + Minimum Entry"

Include ...

- Financial risk due to gaming
- Impact of selling card for less than cost (if relevant)
- Software development (if relevant)
- Other impacts (if relevant)
- Necessary timeline to implement



Summary of Main Distribution Channels

<u>Option</u>	<u>Name</u>	<u>Rail Station Dispensers*</u>	<u>CVS</u>	<u>Metro Sales Offices</u>	<u>Giant</u>
D	"Status Quo"	\$5.00 card \$5.00 value	\$5.00 card \$5.00 value	\$5.00 card	\$5.00 card
G	"No \$0-Value Sales"	\$2.50 card \$7.50 value	\$2.50 card \$7.50 value	\$2.50 card \$2.50 value	\$2.50 card \$2.50 value
H	"\$4 card + Minimum Entry"	\$4.00 card \$6.00 value	\$4.00 card \$6.00 value	\$4.00 card	\$4.00 card

* Rail station dispensers account for approximately 60% of sales

The following assumptions used to quantify financial impact of the various options:

- Trips not paid with employer benefits were excluded from the analysis
- Fares were separated into four categories (up to \$3.50, \$3.55-\$4.00, \$4.05-\$4.50, and over \$4.50)
- The average fare for each of those fare groups was compared to the price of a \$2.50 SmarTrip Card
- For example, for fares over \$4.50, the average fare was \$4.91 - difference between \$2.50 and average fare of \$4.91 was the potential average revenue loss (\$2.41) for those trips
- Each period was discounted to estimate likelihood that customers would purchase a \$2.50 card for one time use



Proposed Solutions

<u>Option</u>	<u>Gaming Risk</u>	<u>Card Price</u>	<u>Impact on SmarTrip® Reserve</u>	<u>Software Development</u>	<u>Other</u>	<u>Timeline</u>
D "Status Quo"	Minimal	\$5.00	- \$1.60 added per card (\$5 - \$3.40) - Approximately \$1.3- \$1.6 million added per year	N/A	N/A	N/A
G "No \$0-Value Sales"	Approximately \$400k/month Early depletion of limited SmarTrip card stock	\$2.50	- \$1.10 depleted per card (\$2.50-\$3.40) - Approximately \$0.9- \$1.1 million depleted per year	N/A	- Packaging and delivering cards - Updating signs, website, brochures; creating ads, etc. - Point-of-Sales system changes	1/9/2011
H "\$4 Card with Minimum Entry"	Without Minimum Entry - loss of approximately \$280k/month; early depletion of SmarTrip card stock	\$4.00	- \$0.60 added per card (\$4 - \$3.40) - Approximately \$0.5- \$0.6 million added per year	Change minimum entry rule to \$1.10/\$0.45	- Packaging and delivering cards - Updating signs, website, brochures; creating ads, etc. - Point-of-Sales system changes	Required software programming and testing must take place after completion of SmartBenefits IRS compliance. In early 2011.



Longer-Term Considerations

- Switching to a “commodity card” in 2012 will create the desired financial flexibility to reduce the price of the card
 - However, reducing the price of the card would mean Option H would become a \$1 card (for example) with Minimum Entry and would no longer be effective in preventing gaming
- Also, as fares increase, none of the options will continue to prevent gaming
- Therefore, in the longer term, entry rules *as well as* exit rules will need to be changed