



REQUEST FOR ACTION CITY COUNCIL

Agenda Date: 8/18/2026
Agenda Section: Other Business

Department Origination: Finance

Agenda Item: Consider Public Transit Fares Adjustments for Baxter's Service

Approval Required: Simple Majority Vote

BACKGROUND

In 2007 the city approved entering into a transit service agreement with the City of Brainerd to increase service to five days per week. Five-day service began in June 2007. Baxter's contribution has been calculated after deducting for the MNDOT grant formula in place and ridership revenues. Historically, the Baxter bus fares have covered Baxter's portion of the transit operations. When small deficits occur, the city is responsible for its share through the property tax levy. The last fare adjustment occurred in 2023 when larger deficits were projected and changes to the coverage area outside the two cities were being implemented.

City staff from the two cities have been reviewing data related to the historical performance during the past three years. The City of Brainerd is recommending adjustments to our fares to match their fares. Based upon projections for the remainder of 2026 and the 2027 projections from the City of Brainerd, the attached side-by-side analyses were prepared to evaluate Brainerd's recommended transit fare adjustments.

FINANCIAL IMPLICATIONS

The first page provides a comparison of the 2026 projections at the current fare structure of \$7 for an advanced scheduled trip and \$11 for a same-day scheduled fare. The fare revenue is projected based upon doubling the first six months of 3,631 advance fares and 561 same-day fares. A surplus of about \$26,209 is projected. If the fares were reduced for the last four months of 2026 to match Brainerd's \$3 advance fare and \$5 same-day fare and the other same assumptions occurred, the 2026 surplus would be about \$14,284.

On the left-hand side of the second page, the 2027 results are projected based upon the revised \$3 advanced and \$5 same-day fares and a 5% increase in ridership that was presented by the City of Brainerd. It also assumes a grant from MNDOT based upon a \$1,601,600 maximum operating budget of which 90% would be funded by MNDOT. The City of Baxter's share would be 18% of the 10% local match, or about \$28,829. Historically, Baxter has relied on fare revenues to cover the costs of its share of transit operations, not utilizing limited local government aid, the property tax levy, or other general revenue sources. The projected annual surplus under this scenario is about \$3,737.

To stress test no growth in ridership fares (same numbers as what were estimated for 2026) with the lower fares and a \$1.6 million budget, the table on the right-hand side projects a slightly lower surplus of \$2,367.

It should be noted the 2027 overall operating budget reported by Brainerd is approximately \$1,846,600, which exceeds MNDOT's maximum approval amount of \$1,602,000. If the actual operating costs exceed the MNDOT maximum by the \$244,000 difference, the difference will need to be covered by local contributions of which Baxter's additional 18% share would amount to an additional \$43,920. The potential additional cost would result in an operating deficit for 2027 ranging from \$40,183 to \$41,553, based upon the other assumptions in the tables.

It should also be noted the 2027 projections do not include any capital costs allocated for 2027. Any capital replacements would increase the annual deficit.

STAFF RECOMMENDATIONS

Prior annual positive reconciliations for Baxter's portion from 2023 through 2025 that can only be used toward transit operations total about \$94,133. These savings would offset a potential 2027 deficit if one occurred. Based upon the assumptions in the 2026 and 2027 projections, staff recommends adjusting the fare rates to \$3 and \$5 for advance and same-day fares, respectively as recommended by the City of Brainerd, effective September 1, 2026.

Baxter will continue to analyze future results and recommend future rate adjustments if warranted keeping with the theory the city's portion of the transit operation should be user-funded by transit fares.

COUNCIL ACTION REQUESTED

Adjust the public transit fares for Baxter's service to \$3 and \$5 for advance and same-day fares, respectively, effective September 1, 2026 or shortly thereafter.

City of Baxter

Analysis of Dial-A-Ride Projected Revenues for Baxter Portion from Data Provided by the City of Brainerd

08.17.2026

2026 PROJECTIONS

CURRENT FARE STRUCTURE (\$7 advanced/\$11 Same-Day)

PROJECTED OPERATING AND CAPITAL COSTS

Overall MNDOT Approved Operating Funding	1,702,700	
Statutory local share 10%	170,270	
Baxter Portion of Operating Share 18%		30,649
Van Ordered 2025, Van & Bus Ordered 2026		
Assumes all three delivered in 2026;		
costs allocated to year delivered		
Baxter Capital Cost of 3 Vehicles		10,118
Total Projected Baxter Cost for 2026		40,767

PROJECTED REVENUES

Estimated nonoperating revenues from advertising and interest revenue		3,800
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Ridership Fares through June 2026

Advance Fares	3,631	@ current	\$ 7	25,417
Same-Day Fares	561	@ current	\$ 11	6,171
				31,588

Annualized 2026 Fare revenue based upon current fare structure (first 6-months x 2)	63,176
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Total Projected Baxter Revenues based upon assumptions	66,976
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2026 Projected Annual Surplus/(Deficit)	26,209
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2026 PROJECTIONS

ADJUST FARE STRUCTURE (\$3 advanced/\$5 Same-Day) Effective 09/01/26

PROJECTED OPERATING AND CAPITAL COSTS

Overall MNDOT Approved Operating Funding	1,702,700	
Statutory local share 10%	170,270	
Baxter Portion of Operating Share 18%		30,649
Van Ordered 2025, Van & Bus Ordered 2026		
Assumes all three delivered in 2026;		
costs allocated to year delivered		
Baxter Capital Cost of 3 Vehicles		10,118
Total Projected Baxter Cost for 2026		40,767

PROJECTED REVENUES

Estimated nonoperating revenues from advertising and interest revenue		3,800
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Ridership Fares through June 2026

Advance Fares	3,631	@ current	\$ 7	25,417
Same-Day Fares	561	@ current	\$ 11	6,171
				31,588

Projected July and August Fares

(2 months based upon a first 6 months)	10,529
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Projected September-December Fares

(4 months of ridership based upon a first 6 months at lower fares)

Advance Fares	2,421	@ revised	\$ 3	7,263
Same-Day Fares	374	@ revised	\$ 5	1,870
				9,133

Projected 2026 Fare revenue based upon fare structure reduced 09/01/26	51,250
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Total Projected Baxter Revenues based upon assumptions	55,050
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2026 Projected Annual Surplus/(Deficit)	14,284
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City of Baxter

Analysis of Dial-A-Ride Projected Revenues for Baxter Portion from Data Provided by the City of Brainerd

08.17.2026

2027 PROJECTIONS

REVISED FARE STRUCTURE (\$3 advanced/\$5 Same-Day)
with Brainerd Estimated 5% Growth in Number of Fares

PROJECTED OPERATING AND CAPITAL COSTS

Overall MNDOT Approved Operating Funding	1,601,600	
Statutory local share 10%	160,160	
Baxter Portion of Operating Share 18%	28,829	
Baxter Capital Cost (none indicated for 2027)	-	
Total Projected Baxter Cost for 2026	28,829	

PROJECTED REVENUES

Estimated nonoperating revenues from advertising and interest revenue	3,800
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Ridership Fares based upon 2026 projected number of fares assumptions
with Brainerd projected 5% growth in passengers

Advance Fares	7,625	@ revised	\$ 3	22,875
Same-Day Fares	1,178	@ revised	\$ 5	5,891
Projected 2027 Fare revenue based upon revised fare structure and 5% growth in number of fares				
				28,766

Total Projected Baxter Revenues based upon assumptions	32,566
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2026 Projected Annual Surplus/(Deficit)	3,737
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2027 PROJECTIONS

REVISED FARE STRUCTURE (\$3 advanced/\$5 Same-Day)
with Projected 2026 Number of Fares (no growth)

PROJECTED OPERATING AND CAPITAL COSTS

Overall MNDOT Approved Operating Funding	1,601,600	
Statutory local share 10%	160,160	
Baxter Portion of Operating Share 18%	28,829	
Baxter Capital Cost (none indicated for 2027)	-	
Total Projected Baxter Cost for 2026	28,829	

PROJECTED REVENUES

Estimated nonoperating revenues from advertising and interest revenue	3,800
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Ridership Fares through June 2026

Advance Fares	7,262	@ revised	\$ 3	21,786
Same-Day Fares	1,122	@ revised	\$ 5	5,610
Projected 2027 Fare revenue based upon revised fare structure and <u>0%</u> growth in number of fares				
				\$ 27,396

Total Projected Baxter Revenues based upon assumptions	31,196
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2026 Projected Annual Surplus/(Deficit)	2,367
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Per Brainerd, the 2027 overall operating budget is approximately \$1,846,000, which exceeds MNDOT's maximum approved amount of \$1,602,000. If the actual operating costs exceed the MNDOT maximum by the \$244,000 difference, Baxter's additional 18% share would be about an additional \$43,920, resulting in an annual operating deficit ranging from an estimated \$40,183 to \$41,553.

The 2027 projections above do not include any capital costs allocated to 2027. Capital replacements would increase the annual deficit.

The cumulate positive reconciliation of about \$94,133 from the three-year period of 2023 through 2025 would offset a potential 2027 deficit allowing the city to analyze future results should future rate adjustments be warranted.