SUBJECT: PRESTO operating agreement renewal update

TO: Committee of the Whole

FROM: Transit Department

Report Number: TR-01-17

Wards Affected: All

File Numbers: 465-12, 770-11

Date to Committee: May 29, 2017

Date to Council: June 12, 2017

Recommendation:

Receive transit department report TR-01-17 and attached Agreement in Principle outlining the contract terms for the continued operation of the PRESTO electronic fare payment system; and

Authorize the City Manager and Director of Transit to continue to negotiate a new PRESTO Operating Agreement between the 905 Greater Toronto and Hamilton Area Transit Authorities and Metrolinx that is reflective of the terms of the Agreement in Principle provided in transit department report TR-01-17; and,

Direct the Director of Transit to provide the final agreement, to the satisfaction of the City Solicitor, to a future Committee of the Whole meeting for authorization by the Mayor and City Clerk.

Purpose:

This report provides council with an update to the negotiations that have taken place over 2016 and 2017 regarding the PRESTO Operating Agreement with the City of Burlington. It outlines the key features of the Agreement in Principle between the city and Metrolinx and provides an estimated financial impact.

This is consistent with the strategic direction, “A City that Moves”

- Increased Transportation Flows and Connectivity

Executive Summary:

In June 2006, the City of Burlington entered into a ten-year operating agreement to adopt the PRESTO card system. PRESTO was intended to facilitate more seamless transit travel within the GTHA. The adoption of PRESTO was a requirement for 905 transit agencies to receive Provincial Gas Tax Funding.

The original agreement saw the Province of Ontario funding a significant portion of the PRESTO capital and back office costs with a smaller proportion of the cost shared among the participating municipalities. The original PRESTO Operating Agreement (OA) with Metrolinx expired on October 27, 2016.

The Minister of Transportation advised that despite a request from the councils of all participating municipalities, the current PRESTO agreement will not be extended by three years. Instead, a one-year extension of the current terms was granted pending an Agreement in Principle of new terms by October 27, 2017.

These discussions have resulted in an Agreement in Principle between Metrolinx and the 905 CAO's for the foundation of a new PRESTO Operating Agreement. The Agreement in Principle covers three key areas:

1) New Service Model
2) Pricing
3) Governance

The highlights of the agreement are:

a. A ten-year agreement period from October 27, 2017 to November 27, 2027.

b. A change to a fully managed service model comprised of *Core PRESTO Services* and a set of *905 Common Core Services* which apply only to the 905 municipalities.

c. Annual cost adjustments over a four-year period for the delivery of PRESTO Core Services provided by Metrolinx, scheduled as follows:
   - 2017: two per cent of revenue collected through PRESTO;
   - 2018: three per cent of revenue collected through PRESTO;
   - 2019: four per cent of revenue collected through PRESTO;
   - 2020: five per cent of revenue collected through PRESTO; and
   - 2021 to 2027: six per cent of revenue collected through PRESTO.

d. Determination of business requirements for new devices and features for deployment by 2019. These new features and devices are referred to as "905 Common Core" which will be subject to an additional three per cent commission. The timing of the implementation of this cost is to be determined.

e. A change to the governance model of PRESTO which includes representation from the 905 transit agencies.

The estimated financial impact of the new agreement is estimated to be over $280,000 annually by 2021 based on current revenue and ridership levels. The increased cost will be phased in from 2018-2021.

New PRESTO devices with increased functionality will be installed in 2019. The city will be responsible for the capital cost of these devices.

Background and Discussion:

The PRESTO Smart Card System was created to facilitate seamless inter-regional transit travel throughout the Greater Toronto and Hamilton Area (GTHA) and to encourage the use of public transit.

On June 26, 2006, Council approved the City of Burlington entering into a ten-year operating agreement (2006-2016) with the Ministry of Transportation, other participating 905 municipalities and GO Transit for the operation of the PRESTO system.

Burlington Transit was an early adopter of the system. The city launched the PRESTO fare card on May 10, 2010, in year four of the ten-year Operating Agreement. Burlington Transit worked hard to promote the PRESTO program and currently collects over 54% of all fare revenue through PRESTO.

At the time of introduction, there was significant provincial funding for PRESTO of over $250 million. The cost sharing arrangement saw the province fund 100% of the capital and operating costs of the Central System for ten years (2006 – 2016). The province also funded 33% of the capital costs of municipal service provider systems.

There is a requirement for Burlington to participate in PRESTO to continue receive Provincial Gas Tax funding. The City of Burlington has received an average of $2.1 million in Provincial Gas Tax annually over the last five years. Participation in PRESTO is not a prerequisite for Provincial Gas Tax Funding for transit agencies outside of the GTHA except for Ottawa.

Original PRESTO Agreement

Under the original PRESTO Operating Agreement, the city pays PRESTO a two per cent commission on all fares collected through the card program. The city is also responsible for two-thirds of the cost of all capital expenditures and is responsible for all state of good repair and maintenance costs of devices.

Operating Agreement Extension

The original PRESTO Operating Agreement (OA) with Metrolinx expired on October 27, 2016. This agreement included a provision for three renewal terms of three years each, subject to the agreement of all parties.

On July 7, 2015, Burlington City Council authorized staff to *“Renew the PRESTO Operating Agreement between the City of Burlington, the Greater Toronto and Hamilton Area transit service providers and Metrolinx for a further term of three years from October 27, 2016 to October 27, 2019".*

On September 29, 2015, the transit service providers sent a joint letter with the appropriate resolutions to formally notify Metrolinx that their respective councils had authorized renewal of the existing agreement with the existing terms.

On February 18, 2016, Minister Del Duca met with the Mayors and Chairs of the 905 GTHA and Ottawa; at which time, he advised that the Province of Ontario will not agree to a three-year extension of the existing agreement. The province did agree to a one-year extension until October 27, 2017 under the same terms and conditions as the original agreement.

We have been operating under this one-year extension since October 27, 2016. During this extension period, an Agreement in Principle would need to be reached to fund a new business model for PRESTO.

Strategy/process

For much of 2016 and 2017, the 905 transit service providers were engaged in discussions regarding a new PRESTO agreement. During the discussions, Metrolinx identified a "funding gap" for PRESTO in their budget forecasts and revised their business model to reflect the loss of provincial funding and actual costs of operation.

Following these discussions, Metrolinx and the 905 transit agencies have now agreed to a ten-year Agreement in Principle for a *managed services* model. This model transfers responsibility to PRESTO to provide transit agencies with a defined suite of services related to fare payment. The Agreement in Principle covers three key areas**:**

1) New Service Model
2) Governance
3) Pricing

Summary of the Agreement in Principle

The Agreement in Principle can be found in Appendix A. The highlights from the Agreement in Principle are:

- Ten-year agreement period from October 27, 2017 to November 27, 2027;
- Device replacement to allow for new functionalities, including open payment (using a credit/debit card) and limited-use media (throw-away cards);
- Fully managed services based on a pricing structure for a set of PRESTO Core Services (Appendix B) shared among all participating transit agencies (namely GO Transit, the 905 transit agencies, the TTC and the City of Ottawa);
- An additional set of 905 Common Core Services (Appendix C), defined as a common set of business requirements for equipment and services to be deployed at all participating 905 transit agencies, based on a separate pricing structure;
- PRESTO would develop an RFP to select a vendor to procure, install and maintain the new devices on behalf of the transit agencies;
- The transit agencies would be responsible for the capital cost of the devices (hardware) and for their installation;
- PRESTO would be governed by a management group comprised of five representatives: one from Metrolinx, one from Metrolinx Operations (GO Transit), one from the TTC, one from the City of Ottawa and one representing the 905 transit agencies;
- The 905 transit agencies would form a group to select their management group representative and develop common positions for their representative;
- Comprehensive service level agreements would be developed to define the service relationship; and
- The transit agencies would continue to be solely responsible for fare amounts, rules and definitions.

1. <u>New Service Model</u>

The pricing structure for the PRESTO system will be based on fully managed service comprised of *PRESTO Core Services* that all transit agencies use with shared operating costs. Core Service functions are central to the fare payment system and can only be performed by Metrolinx (e.g., device certification, revenue reconciliation, settlement, etc.).

There is also a set of 905 Common Core Services for which the operating costs will be charged directly to the 905 transit agencies. 905 Common Core Service functions may be performed by a transit agency, vendor or assigned to Metrolinx (e.g. Device procurement/installation/repair, network operation, etc.). This will ensure that the city does not contribute to the cost of components of the PRESTO system that are developed only for the benefit of other transit agencies.

The new ten-year agreement would be transitioned into place, over an anticipated period of four years, in part to account for PRESTO's procurement and installation of new devices – "device refresh". These new devices are required as replacements for the existing devices that are reaching the end of their useful lives and are expected to be installed by the end of 2019.

The devices will support delivery of enhanced features including open payment (use of a credit card to pay for transit) and limited-use media (one-time use cards). While transit agencies will be responsible for the capital cost of the device refresh, there will likely be an opportunity to apply for future funding programs (e.g. Public Transit Infrastructure Fund - Phase II) to off-set some of these costs.

It is anticipated that Metrolinx and municipalities will work to see if federal government funding could be used to support capital device requirements associated with the device refresh.

2. Governance

The Agreement in Principle includes a proposal that the PRESTO system be overseen by a central "Scheme Governance Committee", represented by five members: Metrolinx (PRESTO), Metrolinx (Rail and Bus Operations), the TTC, Ottawa and one representative of the 905 transit agencies in the GTHA.

The committee would meet regularly to discuss the major roles in the system, compliance with the established plan, the roadmap for future improvements, the financial impacts of proposed system changes and budget for planned changes and the management of the PRESTO Core Services which are common to all transit agencies.

3. Pricing

(A) PRESTO Core Services Commission

PRESTO Core Services costs represent costs to use and maintain the PRESTO system regardless of the devices used. This covers payment processing, revenue allocation, customer web interfaces, card issuance, marketing and other services. The full list of services covered can be found in Appendix B.

The escalation of the PRESTO Core Services commission is as follows:

- 2017: two per cent of revenue collected through PRESTO;
- 2018: three per cent of revenue collected through PRESTO;
- 2019: four per cent of revenue collected through PRESTO;
- 2020: five per cent of revenue collected through PRESTO; and
- 2021 to 2027: six per cent of revenue collected through PRESTO.

(B) 905 Common Core Services

905 Common Core costs represent operating and development costs for NEW technologies and features that would be on new PRESTO devices in the 905 area code municipalities.

The Agreement in Principle commits to the procurement and installation of new devices (i.e. “device refresh”) by 2019, which will replace existing devices that are past their useful life and introduce new functionality. This is an update to existing devices also called “device refresh”. The full list of services that are considered under 905 Common Core can be found in Appendix C.

The additional cost for the *905 Common Core S*ervices would be an additional three per cent of the revenue collected through PRESTO. This is in addition to the six per cent for the PRESTO Core Services functionality for a total of nine per cent by 2021. The timing and escalation of the 905 Common Core three per cent commission has not been agreed.

(C) Capital Cost

Under the Agreement in Principle, transit agencies would be responsible for the capital purchase and installation cost of new devices with enhanced functionality. Device capital costs will be determined through a competitive procurement process.

Financial Impact

The financial impact of the Agreement in Principle is subject to uncertainty related to ridership, PRESTO adoption and the timing of the 905 Common Core commission. However, it is certain that the Agreement in Principle will result in a considerable increase in cost for the PRESTO fare collection system.

The total projected annual cost increase is estimated at approximately $280,850 by 2021. This estimate assumes no revenue changes or fare increase but does assume an 80% PRESTO adoption rate by 2021. This 80% adoption target has been set by Metrolinx in their models. The current Burlington PRESTO adoption rate is 54%.

The operating financial impacts are summarized in Appendix D.

<u>Operating</u>

The PRESTO Core Services commission rate would escalate from two per cent to six per cent of revenue by 2021. This represents a 300 per cent increase over the current commission rate. At current revenue levels, the in commission paid to PRESTO for Common Core Services would increase to $219,086 by 2021. This represents an increase of $171,307 per year over 2016.

The 905 Common Core Services commission is set at three per cent although there is uncertainty whether a phased approach will be implemented. At full implementation, the estimated cost impact for this new functionality is $109,543 annually.

The total PRESTO commission cost increase for Burlington (PRESTO core and 905 Common Core) is estimated at $280,850 per year by 2021. Note any increase in fares, revenue or ridership would impact the financial impact of Presto commissions.

Capital

The new device capital purchase and installation costs are unknown at this time and will be determined through a competitive procurement process. However, an estimate based on the existing device and installation costs using the number of buses in the fleet determined a potential capital cost of $1,400,000 by 2019.

Other Cost Impacts

Burlington Transit operates several complex technology systems including the PRESTO fare payment system. No dedicated staff currently exists to manage transit technology systems. There has been an increasing need for technology support. This is due to increased use of automated fare collection, complexity of fare collection methods, increased data volumes, and the investment in the smart transit system launched in 2016. Future PRESTO device refresh will involve planning, procuring, testing and implementing of new functionality. The volume and complexity of automated payment transactions continues to increase each year. Transit currently operates under significant risk without dedicated support for these systems.   Staffing requirements will be reviewed and future requests will be presented through the budget process.

Options considered

Not Applicable

Financial Matters:

Total Financial Impact

The estimated operating impact of the new PRESTO Agreement in Principle is approximately $280,000 annually by 2021. This includes an increase in commission paid for Core Services (from two per cent to six per cent) and an additional three per cent commission charge for new technology to be implemented in 2019. Increases to Transit's budget will be made through the City's annual budget process.

The capital impact of new PRESTO devices is estimated at $1,400,000 by 2019.

Source of Funding

There has been no source of funding identified to cover additional PRESTO costs. The full financial impact of these changes will be reviewed and presented during budget discussions for approval. In 2017, an increase to the Provincial Gas Tax was announced by the Ontario government and set to begin in 2019. If additional funding is received, it is recommended a portion is used to support the additional costs of the PRESTO system if permitted.

Connections:

The PRESTO fare payment system is designed to allow for increased transportation options in the GTHA and part of Metrolinx transportation strategy and The Big Move. A City that Moves is a key component of Burlington's Strategic Plan.

Public Engagement Matters:

Not applicable

Conclusion:

The adoption of the PRESTO fare collection system is a mandatory requirement for Burlington Transit to continue to receive Provincial Gas Tax.

With the expiry of the original Operating Agreement, PRESTO has revised its business model and adjusted its pricing to more accurately reflect the cost of the service resulting in cost increases.

Following several discussions, the 905 CAO's and Metrolinx have agreed to an Agreement in Principle which will form the basis of a new ten-year Operating Agreement effective October 27, 2017.

The Agreement in Principle includes a new governance structure, a move to a managed services business model and an increase in commission. The total commission will eventually escalate from the current two per cent to nine per cent of revenue by 2021.

This will have an increased operating cost impact estimated to be $308,325 annually by 2021.

The current devices will be refreshed and new technology will be introduced by 2019. The potential estimated capital cost of these devices is approximately $1,400,000.

Respectfully submitted,

Colm Lynn,

Manager of Transit Business Administration

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Appendices:

A. PRESTO Agreement in Principle

B. List of PRESTO Core Services

C. List of 905 Common Core Services

D. Estimated Financial Impact of PRESTO Agreement in Principle

Report Approval:

All reports are reviewed and/or approved by Department Director, Director of Finance and Director of Legal. Final approval is by the City Manager.