

## **Agreement in Principle Terms**

### **PRESTO Fare Card Agreement-in-Principle January 2017**

#### **Context**

- The 10-year PRESTO operating agreement with municipal transit agencies in the GTHA (the "905") and Ottawa, but not including the TTC, expired in October 2016. Since that time, the operating agreement has been extended on an interim basis while negotiations on a new operating agreement have progressed.

#### **Highlights of the New Agreement-in-Principle**

##### **1. Term**

- The existing operating agreement will be extended to October 26, 2017.
- The successor agreement will be for a 10-year period, commencing on October 26, 2017 and terminating on November 27, 2027.
- Over the term of the contract, an annual review of progress will be completed (see point 9 below).

##### **2. Services Model**

- Services and associated pricing structure will be based on a core set of services that all transit agencies use and for which the operating costs will be shared among all participating transit agencies, including Brampton, Burlington, Durham Region, Hamilton, Mississauga, Oakville, Ottawa and York Region.
- There is also an optional set of common core services further described in point four below, for which the operating costs will be charged directly to the transit agencies that opt to purchase them.

##### **3. Core Services**

- To be provided by Metrolinx, at a cost as set out in the transition plan listed below:
  - For the period from October 2016 to December 2017, at a rate of 2% of revenue collected through PRESTO,
  - For 2018, at a rate of 3% of revenue collected through PRESTO,
  - For 2019, at a rate of 4% of revenue collected through PRESTO,
  - For 2020, at a rate of 5% of revenue collected through PRESTO,
  - For 2021-2027, at a rate of 6% of revenue collected through PRESTO.
- HST will be added to all rates.

#### **4. Common Core Services (for the 905 Transit Agencies)**

- Defined as a common set of specifications for equipment and services to be deployed on all 905 transit agencies. Any material changes required by an agency to the common core services will be designated as optional services.
- To be provided by Metrolinx, at a cost maturing at 3% of revenue collected through PRESTO, phased-in as common core services are implemented. The methodology for the phase-in will be agreed to by Metrolinx and the municipalities. HST will be applied to all rates.
- In the event that the cost of common core services, following open and competitive procurement processes (see point 5 below), exceed 3% of revenue collected through PRESTO, Metrolinx will assume the first 0.5% of pricing risk above 3%.
- In the event that the cost of common core services exceed 3.5% of revenue collected through PRESTO, Metrolinx will initiate a discussion with the municipalities to develop strategies to address the affordability of the common core services.
- Metrolinx will offer the same limited use media (LUM) solution as that developed for the TTC. For LUM's, cost for disposable stock will be covered by the municipalities, up to an affordability threshold of 20 cents per unit. Metrolinx will procure these through an open and competitive process, with full visibility and collaboration with the municipalities, and if the market cost exceeds the affordability threshold for the municipalities, the parties will evaluate and determine the appropriate next steps.
- For eCredentials, Metrolinx will bear the costs of establishing the eCredentials system. This includes the hardware, software and configuration/set-up of the central system. The Transit Agencies will be responsible for administrative and implementation costs related to the individual institutions.
- In relation to new fare media, Metrolinx is committed to the ongoing evolution of PRESTO to address new industry developments. Metrolinx will develop business cases for new technology with input from municipalities and introduce them, subject to approvals and the availability of funding.
- Metrolinx recognizes that municipalities may wish to continue to manage their existing third party retail networks. While these are the municipalities' responsibilities, Metrolinx will make equipment and support available.

#### **5. Procurement**

- Metrolinx will procure equipment and services, to the extent possible, through open and competitive processes.
- Metrolinx will engage the municipalities in a collaborative process as the scope of work is defined, procurement strategies are developed and implemented, and contracts with service providers are entered into.

## **6. Governance**

- PRESTO will be governed by a management group comprised of five representatives - one from Metrolinx (chair - PRESTO), one from Metrolinx Operations, one from the TTC, one from OC Transpo, and one representing the 905 municipalities.
- The 905 municipalities will form a "buyer's group" to select their representative on the management group and to develop common positions for their representative.

## **7. Dispute Resolution**

- Metrolinx will establish a leadership group comprised of the President & CEO of Metrolinx and the City Managers/Chief Administrative Officers of the participating municipalities, as a body to resolve any escalation of disputes emanating from the management group.

## **8. Fare Integration**

- While not part of this agreement, the parties agree that the development of potential strategies to address fare integration will be the subject of future discussion and agreement among the parties.

## **9. Review Gates**

- The master agreement will provide for an annual "review gate", where the parties would evaluate progress and any adjustments that need to be made in the program. These review gates would not include the opportunity for any party to terminate the contract. Rather, they represent an opportunity to evaluate performance and progress of Metrolinx, PRESTO, and the municipalities in achieving the agreed objectives.
- The first annual review gate would involve a neutral third party of PRESTO to enable to ascertain the efficiency and effectiveness of the PRESTO deployment, including the technical requirements and Metrolinx/municipal processes and systems that make up the functional requirements of PRESTO. The objective would be to develop common standards designed to maximize cost efficiencies.

## **10. Device Refresh**

- The parties agree to advance the plan to refresh devices as quickly as possible given that the service contract for Thales equipment expires in October 2019. In addition, the refresh of devices is required to implement open and mobile payment, as well as limited use media.
- Metrolinx is responsible for capital costs associated with GO Transit and UP Express, while the municipalities are responsible for capital costs associated with the devices for the local services.

- All parties agree that they will work together to develop a business case for the funding of the refresh program by all levels of government.
- In this regard, Metrolinx will develop an implementation program, in consultation with the municipalities, that reflects the budgetary requirements of the municipalities.
- Municipalities may choose to pursue the refresh of their devices independently. In this case, these municipalities would not participate in the common core services, and would need to develop a further agreement with Metrolinx on how common core services would be delivered.
- If one or more municipalities choose to move forward independently, Metrolinx and the remaining municipalities will need to review the master agreement provisions for the common core services.

#### **11. Current Contract Close-Out Costs (Undelivered Items)**

- Metrolinx will bear the capital costs of developing functionality for the agreed list of items.

#### **Next Steps**

- All 905 municipalities need to seek council approval of the agreement-in-principle, and this is targeted for February 2017. Metrolinx will also be seeking approval of its Board of Directors.
- Following approvals, all parties will sign an agreement-in-principle letter, outlining the key terms, with this document forming the basis of this letter.
- Metrolinx will continue detailed negotiations with the 905 municipalities and Ottawa to execute the new legal agreement(s) that underpin the agreement-in-principle, which will take effect in October 2017. This will include:
  - Detailing pricing elements, including establishing a revenue protection mechanism,
  - Finalizing the services catalogue, adding detailed core and common core service descriptions, accountabilities and where applicable, appropriate service level commitments,
  - Designing the governance structure and processes, and establishment of a PRESTO roadmap (to be reviewed by the parties annually),
  - Progressing the 905 Transition Project, including device and service procurements,
  - Municipal delivery of the common core business specifications by February 28, 2017.