



**CITY OF HAMILTON**  
**PUBLIC WORKS DEPARTMENT**  
Transit Division

<b>TO:</b>	Chair and Members Public Works Committee
<b>COMMITTEE DATE:</b>	June 13, 2016
<b>SUBJECT/REPORT NO:</b>	PRESTO Operating Agreement Renewal Update (PW04117i) (City Wide)
<b>WARD(S) AFFECTED:</b>	City Wide
<b>PREPARED BY:</b>	David Dixon (905) 546-2424, Extension 1860
<b>SUBMITTED BY:</b>	David Dixon Director of Transit Public Works Department
<b>SIGNATURE:</b>	

**RECOMMENDATION**

- (a) That the City Manager and/or delegate be authorized to negotiate the terms and conditions of the extension of the Greater Toronto and Hamilton Area ("GTHA") Fare System Operating Agreement, made October 27, 2006 between The Hamilton Street Railway Company, the Province of Ontario, Metrolinx and other participating municipalities and transit authorities (the "Operating Agreement") for a period of one (1) year, from October 27, 2016 to October 27, 2017, for the consideration of Council;
- (b) That the City Manager and/or delegate be authorized to negotiate a new operating agreement for the future management of the GTA Fare System (PRESTO) beyond the October 27, 2016 expiry of the existing Operating Agreement, for the consideration of Council.

**EXECUTIVE SUMMARY**

On June 24, 2015, Council authorized, through report PW04117g, the renewal of the Greater Toronto and Hamilton Area Fare System Operating Agreement which is set to expire on October 27, 2016, for a period of three (3) years, from October 27, 2016 to October 27, 2019, and authorized the General Manager of Public Works or designate to negotiate a new operating agreement for the future management of the GTA Fare System (PRESTO) beyond the three year extension.

Subsequent to Council approval, Hamilton, in cooperation with other 905 Municipal Service Providers ("MSPs"), who all endorsed the renewal of the Operational Agreement, formally requested an additional three-year extension of the term.

On February 18, 2016, Minister of Transportation, Steven Del Duca, advised the 905/Ottawa MSPs that the province would not grant the requested three-year extension of the existing Operational Agreement. Minister Del Duca indicated that the province will consider a one-year extension of the current Operational Agreement on the same terms (from October 2016 to October 2017), provided that an agreement in principle (“AIP”) for a new approach, including greater cost-sharing between the province and the MSPs, can be reached by October 2016.

Approval of recommendations (a) and (b) will authorize the negotiation of the terms of the one year extension of the existing Operating Agreement as well as the negotiation of the future operating agreement for the management of the GTA Fare System (PRESTO). Any agreements reached will be subject to Council approval and authorization.

***Alternatives for Consideration – Not Applicable***

**FINANCIAL – STAFFING – LEGAL IMPLICATIONS**

Financial: There are no immediate financial implications.

Staffing: There are no immediate staffing implications.

Legal: N/A

**HISTORICAL BACKGROUND**

The PRESTO Smart Card System was created to facilitate seamless inter-regional transit travel throughout the Greater Toronto and Hamilton Area, to encourage the use of public transit. It is intended to allow customers to ride on any participating GTHA transit system without having to know the fare policies of each system.

Since 2004, the Hamilton Street Railway has been working with the Province’s PRESTO Project Office to develop and implement this electronic fare payment system. On June 19, 2006, Council approved the City of Hamilton 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. The Greater Toronto Area Fare System (GTAFS) Operating Agreement set forth the roles and responsibilities for the Municipal Service Providers and the Province. It established a governance structure that defined the mechanisms for all of the parties to address ongoing operating requirements of the system.

City of Hamilton launched the PRESTO fare card on May 11, 2011. Each of the transit providers are in different states regarding the uptake of PRESTO and the elimination of legacy fare media. Nineteen percent of Hamilton passengers currently use PRESTO, versus Brampton and GO Transit where usage is at 80%.

The cost sharing arrangement saw the Province fund 100% of the capital and operating costs of the central system for 10 years (2006 – 2016). The Province also funded 33% of the capital costs of MSP systems. This funding model applied to all participating 905 municipalities.

The current PRESTO Operating Agreement with Metrolinx is set to expire on October 27, 2016. The Operating Agreement includes a provision for three renewal terms of three years each, subject to the agreement of all parties.

On June 24, 2015, Council authorized, through report PW04117g, the renewal of the Operating Agreement for a period of three years, from October 27, 2016 to October 27, 2019, and authorized the General Manager of Public Works or designate to negotiate a new operating agreement for the future management of the GTA Fare System (PRESTO) beyond the three year extension.

The Province refused to grant the requested three year extension.

Current PRESTO Agreement:

There were two key considerations influencing the Council's decision to enter into a ten-year Operating Agreement (2006-2016) with the Ministry of Transportation for the operation of the PRESTO system:

- The collection of fare revenue through PRESTO was expected to cost no more than the normal cost of collecting fare revenue at the time; and
- The Province had indicated that participation in PRESTO was a requirement for continued receipt of Provincial Gas Tax Funding.

Without PRESTO, the operating cost of collecting revenue from fares is approximately 4.2% of revenue. This includes the labour cost of processing all fares, the third party vendor commissions paid, printing of paper fare media and equipment maintenance. Under the current Operating Agreement, the City pays PRESTO a 2% commission on all fares paid by e-purse and is responsible for all state of good repair and maintenance costs of all equipment. In 2015, the cost of collecting revenue from fares was approximately \$2.2 million or 5.7%, even though the HSR has not yet fully transitioned to PRESTO. To date, Metrolinx has not fully met its functionality obligations under the current contract with the 905 service providers. Outstanding matters include:

- Outstanding deliverables from 2013 High Priority Framework document such as:
  - Limited Use Media (LUMs)
  - Para Transit Solution (AODA legislation effective January 1, 2013)
  - U-Pass
  - Self Service Device
- Full interoperability of Service Provider-specific concessions
- Financial reconciliation
- Third Party Vendor Network
- Device defects
- Device Repair SLAs

As a result of its participation in the PRESTO fare system, the City has received an average of \$10.7 million in Provincial Gas Tax funding annually over the last five years. The provincial requirement for Hamilton to participate in PRESTO in order to continue to receive this funding is still in place. Participation in PRESTO is not a prerequisite for provincial gas tax funding for other transit services outside of the GTHA with the exception of Ottawa.

**TTC-PRESTO Agreement:**

In November 2012, Metrolinx and the TTC entered into a fifteen (15) year agreement for PRESTO services. This agreement is substantially different than the current Operating Agreement between Metrolinx and the 905 MSPs as it is set up as a fully managed service. The agreement includes the majority of the capital investment, equipment maintenance and operating costs, fare collection activities for on street equipment and the cost of the central system. Enhancements for the provision of open payment and the issuing of limited use media is also being made available under this agreement. These services are being provided for a 5.25% commission.

**POLICY IMPLICATIONS AND LEGISLATED REQUIREMENTS**

N/A

**RELEVANT CONSULTATION**

City Manager's Office, Legal Services

**ANALYSIS AND RATIONALE FOR RECOMMENDATION**

For over a year, PRESTO and the 905 MSPs have been engaged in discussions regarding a new operating agreement. The 905 MSPs position has been informed by the following considerations:

- Affordability of the PRESTO system for the 905 MSPs over the longer term;
- Full delivery of promised functionality from the current Operating Agreement in a timely manner;
- An agreement that is financially equitable with the normal cost of collecting of fares (legacy media); and
- A governance model that is balanced and reasonable for all parties and reflects a client relationship with PRESTO.

On February 18, 2016, Minister Del Duca advised the 905/Ottawa MSPs that the province would not grant the requested three-year extension of the existing Operational Agreement. Minister Del Duca indicated that the province will consider a one-year extension of the current Operational Agreement on the same terms (from October 2016 to October 2017), provided that an AIP for a new approach, including greater cost-sharing between the province and the MSPs, can be reached by October 2016.

Metrolinx during the discussions identified a future "funding gap" in PRESTO in their budget forecasts. Metrolinx indicated that a new operating agreement would have to

include a new governance structure and a new pricing formula with a one year transition period.

Research presented by PRESTO indicated commission rates in other international cities range between 8-10%. With such commission rates being put in place, the total costs of the fare card system for the 905 MSPs could balloon to 12 to 14% versus the current cost of maintaining legacy fare media of 4.2%.

Subsequent to the meeting with the Minister, the CEO of Metrolinx has contacted the CAO's of 905 municipalities to open new discussions at this level. A first meeting recently took place. The following clear messages were given by the CAO's: PRESTO has not lived up to delivering the full functionality provided for in the Operating Agreement; any major increase in PRESTO costs is not acceptable; and, the TTC agreement has set a precedent.

All parties involved will attend further meetings to negotiate the terms of the new operating agreement for the future management of the GTA Fare System (PRESTO). Staff will seek Council authorization to enter into any agreement negotiated.

#### **ALTERNATIVES FOR CONSIDERATION**

N/A

#### **ALIGNMENT TO THE 2012 – 2015 STRATEGIC PLAN**

##### **Strategic Priority #1**

A Prosperous & Healthy Community

*WE enhance our image, economy and well-being by demonstrating that Hamilton is a great place to live, work, play and learn.*

##### **Strategic Objective**

- 1.4 Improve the City's transportation system to support multi-modal mobility and encourage inter-regional connections.
- 1.6 Enhance Overall Sustainability (financial, economic, social and environmental).

##### **Strategic Priority #2**

Valued & Sustainable Services

*WE deliver high quality services that meet citizen needs and expectations, in a cost effective and responsible manner.*

##### **Strategic Objective**

- 2.1 Implement processes to improve services, leverage technology and validate cost effectiveness and efficiencies across the Corporation.
- 2.3 Enhance customer service satisfaction.

**Strategic Priority #3**

Leadership & Governance

*WE work together to ensure we are a government that is respectful towards each other and that the community has confidence and trust in.*

**Strategic Objective**

- 3.1 Engage in a range of inter-governmental relations (IGR) work that will advance partnerships and projects that benefit the City of Hamilton.
- 3.4 Enhance opportunities for administrative and operational efficiencies.

**APPENDICES AND SCHEDULES ATTACHED**

N/A