



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

<b>TO:</b>	Chair and Members Public Works Committee
<b>COMMITTEE DATE:</b>	January 15, 2018
<b>SUBJECT/REPORT NO:</b>	PRESTO Third Party Retail Vendor (PW17033b)(City Wide)
<b>WARD(S) AFFECTED:</b>	City Wide
<b>PREPARED BY:</b>	Nancy Purser (905) 546-2424, Extension 1876
<b>SUBMITTED BY:</b>	Debbie Dalle Vedove Director, Transit Public Works Department
<b>SIGNATURE:</b>	

**RECOMMENDATION**

That Council authorize the General Manager of Public Works, or his/her delegate, to execute on behalf of the City all documents necessary to effect an agreement with Metrolinx for the retail distribution of the PRESTO card in a form that is acceptable to the City Solicitor.

**EXECUTIVE SUMMARY**

Once approved, as part of its new operating agreement with Metrolinx, the City will be required to achieve an 80% PRESTO adoption rate by 2021. For this to occur it is necessary to remove legacy fare media (paper tickets and passes) from circulation.

One of the outstanding deliverables from the original PRESTO operating agreement (2006) is a requirement for PRESTO to develop a Third Party Network. On April 11, 2017, Metrolinx entered into an agreement with Loblaw's Inc. ("Loblaw") to be the primary distributor for PRESTO Media through its affiliate Shoppers Drug Mart. The Retail Distribution Agreement (RDA) forms part of the overall agreement between Metrolinx and Loblaw. Before Loblaw will distribute and load PRESTO media in Hamilton, the RDA requires the City of Hamilton to accept exclusivity terms for an initial period of seven (7) years with two (2) successive five (5) year renewal periods.

The City of Hamilton will incur no additional costs in regards to entering into this RDA. The City's requirement is solely to agree to the exclusivity rights of Loblaw and its brands (Appendix D). Under the RDA, Loblaw, and its brands will be the only entity with the right to distribute and load PRESTO media. This means that the City cannot enter into an agreement with a competing retail location that is within 3.5 km of a Shoppers Drug Mart location (see exclusivity maps in Appendices A and B). There are a sufficient number of Shoppers Drug Mart locations to cover the entire city. The City can,

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however, distribute and load PRESTO cards from any transit property or municipal property without restriction.

There are currently nine (9) Fortino stores that distribute and load PRESTO cards. Loblaw has indicated that it wants its Fortinos locations to be covered by the RDA and is working with Metrolinx to determine next steps. The City will work with Loblaw to plan the transition to avoid any service disruption to customers. The equipment currently used at Fortinos locations is owned by the City and will be redeployed to other City locations once the transition is complete.

***Alternatives for Consideration – See Page 4***

**FINANCIAL – STAFFING – LEGAL IMPLICATIONS**

Financial: N/A

Staffing: N/A

Legal: N/A

**HISTORICAL BACKGROUND**

The PRESTO fare card was developed with the intent of replacing legacy paper tickets and paper monthly pass. In September 2014, Council entering into an agreement with Loblaw (Fortinos) to provide PRESTO card distribution and load services. This partnership has proven successful and PRESTO adoption has increased from 14% in 2015 to a current rate of 25%.

In August 2015, Metrolinx issued a request for proposal for a retail partnership. The following guiding principles informed Metrolinx's decision for the retail partnership:

- ensure PRESTO customers in all areas are well served and through a channel of their preference (to the extent possible);
- create a network that optimized resource allocation based on customer channel preferences and predicted channel usage; and
- create a network that is adaptable to new circumstances, such as introduction of new payment feature or technology

The Loblaw Agreement was signed on April 11, 2017 and announced by Minister of Transportation, Steven Del Duca on May 8, 2017. Metrolinx commenced a pilot rollout in Toronto in May 2017 at 10 locations, and as of Fall 2017, 93 Shoppers Drug Mart locations in Toronto now offer PRESTO.

**POLICY IMPLICATIONS AND LEGISLATED REQUIREMENTS**

N/A

**RELEVANT CONSULTATION**

Legal has reviewed the Agreement for PRESTO Retail Distribution.

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**ANALYSIS AND RATIONALE FOR RECOMMENDATION**

The addition of the nine (9) Fortinos locations in 2014, improved our adoption rate from 14% in 2015 to the current level of 25%. The GTHA statistics show that most customers prefer and continue to load their PRESTO card in person.

Once approved, as part of its new operating agreement with Metrolinx, the City will be required to achieve an 80% PRESTO adoption rate by 2021. The only way to achieve the adoption rate is to remove the legacy paper tickets and passes from circulation. GO Transit, Brampton Transit, and Oakville Transit have removed their legacy fare media (save and except special purpose tickets for social agencies) and have achieved the 80% adoption rate. Entering into the RDA with Metrolinx will provide the much needed locations for HSR customers to purchase and load PRESTO cards making this the most cost effective solution for the City.

There are no additional costs associated with the RDA as it is included as part of the new PRESTO operating agreement commission structure (4% in 2018 to the maximum of 9% beginning in 2021). The City will only be responsible for abiding by the terms of exclusivity. The chart below depicts the responsibilities of each party under the Metrolinx agreement.

Metrolinx Responsibilities	Loblaw Responsibilities	City Responsibilities
<ul style="list-style-type: none"> <li>• Provide 2 devices per store</li> <li>• Installation of devices in stores</li> <li>• Maintenance and services of devices</li> <li>• Training of Shoppers Drug Mart staff</li> <li>• Overall program management and support</li> <li>• Marketing and communication</li> <li>• Management of card inventory</li> <li>• Centralized distribution of PRESTO cards to Shoppers Drug Mart</li> <li>• Manage call centre and customer support</li> <li>• Manage central system support e.g. Application Management &amp; Help Desk</li> </ul>	<ul style="list-style-type: none"> <li>• Transaction risk (fraud etc.)</li> <li>• PCI requirements</li> <li>• In store staffing costs</li> <li>• Real Estate</li> <li>• Store-level card distribution</li> <li>• Marketing and communication including in-store signage, flyer, etc.</li> <li>• Lost or stolen card inventory</li> <li>• Acquirer Relationship</li> </ul>	<ul style="list-style-type: none"> <li>• Abide by required exclusivity terms</li> </ul>

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<ul style="list-style-type: none"><li>• Payment of commission fee to Shoppers Drug Mart</li><li>• Payment to transit agencies for products purchased at Shoppers Drug Mart</li></ul>		
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There are 30 franchised Shoppers Drug Mart locations throughout Hamilton (Appendix C) of which 22 currently sell legacy fare media (paper tickets and passes). Loblaw cannot compel any one of these stores to operationalize the agreement entered into with Metrolinx but are prepared to enter individual discussions with each Franchisee as they successfully did with the Toronto rollout. It is anticipated the same success will occur in Hamilton.

Should Council approve the City's participation in the RDA, rollout of PRESTO to the Shoppers Drug Mart locations would commence in the 2<sup>nd</sup> quarter of 2018, with expected date of completion by early 4<sup>th</sup> quarter of 2018.

During the rollout staff will develop a strategy and timeline to begin the gradual removal of all legacy fare media (paper tickets and passes) from the market. Concurrently staff will also develop a marketing strategy and communication plan to support our customers through this change, along with an approach to respond to the needs of the City's social agencies. Considering the significant change and impact to our customers the gradual removal of legacy fare media will not begin before 2019. Once all plans are finalized; staff will provide an information update to Council regarding the details of both the strategy for removing legacy fare media and the marketing and communication campaign to support it.

### **ALTERNATIVES FOR CONSIDERATION**

Council could direct staff to not enter into the RDA and create a network specific to Hamilton only. Staff strongly recommends that this option is avoided as the following costs would be incurred: Capital and marketing outlay of \$634,000, with annual operating costs of \$303,600 in addition to the graduated commission starting at 4% in 2018 to the maximum of 9% beginning in 2021 the City is required to pay for PRESTO services under the new operating agreement.

Details of the network setup are as follows. Staff would not be offering a PRESTO solution in any of the Shoppers Drug Mart locations; however we would look at our current vendors to offer the PRESTO solution which may be cost prohibitive to them. Assuming we are able to maintain the same number of locations, (approximately 100), there would a capital requirement of \$384,000 for equipment, (unknown future costs for upgrades or device refresh) as well as one time marketing cost of \$250,000. The on-going annual operating costs of \$93,600 (data charges), staffing to provide on-going training of \$125,000 (staff turnover at vendor locations), and other program management functions \$85,000 (vendor set up/ card management) for a total of \$303,600.

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The chart below provides the responsibilities of each party should Hamilton pursue its own third party network.

Metrolinx Responsibilities	Vendor Responsibilities	Transit Agency Responsibilities
<ul style="list-style-type: none"> <li>• Manage call centre and customer support</li> <li>• Manage central system support e.g. Application Management &amp; Help Desk</li> <li>• Payment of commission fee to Shoppers Drug Mart</li> <li>• Payment to transit agencies for products purchased at Shoppers Drug Mart</li> </ul>	<ul style="list-style-type: none"> <li>• Transaction risk (fraud etc.)</li> <li>• PCI requirements</li> <li>• In store staffing costs</li> <li>• Real Estate</li> <li>• Store-level card distribution</li> <li>• Marketing and communication including in-store signage, flyer, etc.</li> <li>• Lost or stolen card inventory</li> <li>• Acquirer Relationship</li> </ul>	<ul style="list-style-type: none"> <li>• Provide 1 or 2 devices per store depending on the location</li> <li>• Installation of devices in stores</li> <li>• Maintenance and services of devices</li> <li>• Training of Third Party Network staff</li> <li>• Overall program management and support</li> <li>• Marketing and communication</li> <li>• Management of card inventory</li> <li>• Centralized distribution of PRESTO cards to Third Party Network</li> </ul> <p style="text-align: right; margin-right: 20px;"> <u>Cost</u>                      Capital      \$384,000                      Marketing    \$250,000                      Operating    \$303,600                      annually                 </p> <p style="text-align: right; margin-right: 20px;">4% in 2018 – 9% in 2021 commission on PRESTO paid fares</p>

**ALIGNMENT TO THE 2016 – 2025 STRATEGIC PLAN**

**Economic Prosperity and Growth**

*Hamilton has a prosperous and diverse local economy where people have opportunities to grow and develop.*

**Built Environment and Infrastructure**

*Hamilton is supported by state of the art infrastructure, transportation options, buildings and public spaces that create a dynamic City.*

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**APPENDICES AND SCHEDULES ATTACHED**

Appendix A – Exclusivity map lower City of Hamilton

Appendix B – Exclusivity map upper City of Hamilton

Appendix C – Listing of Shoppers Drug Mart Locations

Appendix D – Listing of Loblaw Brands

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