



CITY OF HAMILTON
PUBLIC WORKS DEPARTMENT
Transit Division

TO:	Chair and Members Public Works Committee
COMMITTEE DATE:	January 15, 2018
SUBJECT/REPORT NO:	PRESTO Operating Agreement (PW17033a) (City Wide)
WARD(S) AFFECTED:	City Wide
PREPARED BY:	Nancy Purser (905) 546-2424, Extension 1876
SUBMITTED BY:	Debbie Dalle Vedove Director, Transit Public Works Department
SIGNATURE:	

RECOMMENDATION

That the City Manager or delegate be authorized on behalf of the City of Hamilton to execute a new ten (10) year agreement with Metrolinx for the provision of the PRESTO smart card system substantially on the terms outlined in this report and in a form acceptable to the City Solicitor.

EXECUTIVE SUMMARY

As directed by City Council on April 26, 2017, and in conjunction with representatives of other large Ontario municipalities, City staff have negotiated a new 10-year PRESTO Operating Agreement, based on four key business terms: new model; device refresh; pricing; and governance. There are two important changes to the Agreement in Principle presented to Council in April—an earlier ramp-up for fees paid to PRESTO and a clause on minimum revenue protection for Metrolinx.

Alternatives for Consideration – See Page 4

FINANCIAL – STAFFING – LEGAL IMPLICATIONS

Financial: Under the new Operating Agreement the annual operating cost of PRESTO will increase from an estimated \$422,039 in 2017 to an estimated \$4,098,005 in 2027, as shown in the chart below. The current adoption rate for PRESTO is 25% and is expected to grow to 80% by 2021. Therefore, substantial increases in costs will occur in 2019 through 2021 as both the adoption rate of PRESTO increases and the commission rates increase. On February 8, 2017, the Province announced its intention to double the municipal share of Gas Tax Funding (from 2 to 4 cents per litre) for public transit, starting in 2019. Hamilton will receive more than \$10.5M through the 2016-17 gas tax program, and, based on current projections, would see its funding increased to an

OUR Vision: To be the best place to raise a child and age successfully.

OUR Mission: To provide high quality cost conscious public services that contribute to a healthy, safe and prosperous community, in a sustainable manner.

OUR Culture: Collective Ownership, Steadfast Integrity, Courageous Change, Sensational Service, Engaged Empowered Employees.

estimated \$21M by 2021-22. It is expected that these funds will offset the increased expenditures to the levy associated with this report.

The capital cost of Device Refresh is currently unknown, we have estimated a capital budget requirement of \$4.8M, as per the Agreement in Principle this is the responsibility of the Municipality to fund. The current cost of installing PRESTO on a bus is approximately \$15,000. The Province agrees that all parties will work together to develop a business case for the funding of the refresh program by all levels of government.

Staffing: N/A

Legal: N/A

HISTORICAL BACKGROUND

The Hamilton Street Railway (HSR) entered into an Operating Agreement with the Ministry of Transportation for the operation of the PRESTO system in 2006. HSR customers have been using PRESTO since 2011.

Approximately 25% of HSR's fare revenue is currently collected through the PRESTO system. The City of Hamilton is required to participate in PRESTO in order to continue receiving Provincial Gas Tax Funds. On February 8, 2017, the Province announced its intention to double the municipal share of Gas Tax Funding (from 2 to 4 cents per litre) for public transit, starting in 2019. Hamilton will receive more than \$10.5M through the 2016-17 gas tax program, and, based on current projections, would see its funding increased to an estimated \$21M by 2021-22.

POLICY IMPLICATIONS AND LEGISLATED REQUIREMENTS

N/A

RELEVANT CONSULTATION

Representatives from the Finance and Administration and Legal Services divisions provided input for the report.

ANALYSIS AND RATIONALE FOR RECOMMENDATION

Staff have been engaged in negotiations with Metrolinx to enter into a new agreement for the provision of PRESTO Fare System services and to consolidate new pricing and services for a 10-year term from December 15, 2017.

The new ten (10) year Operating Agreement remains focused on the following four key business terms:

1. New Services Model: Fully managed service model comprised of services that all 905 Transit Agencies will utilize, meaning functions such as device procurement, installation, and repair and network operation will be the responsibility of Metrolinx.
2. Devise Refresh: New equipment is required to allow for new functionalities, including open payment (using a credit card) and limited-use media (throw-away

OUR Vision: To be the best place to raise a child and age successfully.

OUR Mission: To provide high quality cost conscious public services that contribute to a healthy, safe and prosperous community, in a sustainable manner.

OUR Culture: Collective Ownership, Steadfast Integrity, Courageous Change, Sensational Service, Engaged Empowered Employees.

cards. The capital cost of the replacement equipment will be the responsibility of the municipality.

3. Pricing: All participating 905 Transit Agencies will contribute toward the costs related to the Core Services and 905 Common Core Services in delivery of the PRESTO System. Agencies will pay a fee based on the value of the fares paid through the system based on the negotiated percentages.
4. Governance: The PRESTO system will be overseen by a central “Scheme Governance Committee,” represented by five positions, Metrolinx (PRESTO), Metrolinx (Rail and Bus Operations), the TTC, Ottawa and one representative of the 905 Transit Agencies in the GTHA. That 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 budgets for planned changes and the management of the Core Services which are common to all Transit Agencies.

While these key business terms remain largely unchanged, there are two important differences from what was approved by Council in April 2017, which are as follows:

1. An earlier ramp-up for fees paid to PRESTO (2018 – 2019 ONLY): The annual cost of the 905 Common Core Service has changed for the first two years of the agreement from what was presented in report PW17033 (Table 1) to Council in April 2017. This change amounts to a net increase of \$27,000, as shown in table 2, and is for services which are now expected to be in place as of January 2018; including several related to the project management and contract establishment associated with the PRESTO Device Refresh.

TABLE 1 Original reported in PW17033

PRESTO FEE CALCULATION	Forecast 2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
Forecast Adoption Rate	21%	40%	65%	75%	80%	80%	80%	80%	80%	80%	80%
PRESTO Fare Payments	8,451,973	16,494,600	27,575,960	32,914,933	36,836,683	38,614,349	40,773,124	42,907,128	43,765,270	44,640,575	45,533,387
PRESTO core % of fare revenue	2.00%	3.00%	4.00%	5.00%	6.00%	6.00%	6.00%	6.00%	6.00%	6.00%	6.00%
PRESTO Core Fee	169,039	494,838	1,103,038	1,645,747	2,210,201	2,316,861	2,446,387	2,574,428	2,625,916	2,678,435	2,732,003
PRESTO Managed Service % of revenue		0.00%	1.50%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%
PRESTO Managed Service Fee	253,000	253,000	287,139	987,448	1,105,101	1,158,430	1,223,194	1,287,214	1,312,958	1,339,217	1,366,002
Total Paid to PRESTO	422,039	747,838	1,390,178	2,633,195	3,315,302	3,475,291	3,669,581	3,861,641	3,938,874	4,017,652	4,098,005
% of revenue		3.00%	5.50%	8.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%

TABLE 2 Revised

PRESTO FEE CALCULATION	Forecast 2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
Forecast Adoption Rate	21%	40%	65%	75%	80%	80%	80%	80%	80%	80%	80%
PRESTO Fare Payments	8,451,973	16,494,600	27,575,960	32,914,933	36,836,683	38,614,349	40,773,124	42,907,128	43,765,270	44,640,575	45,533,387
PRESTO core % of fare revenue	2.00%	3.00%	4.00%	5.00%	6.00%	6.00%	6.00%	6.00%	6.00%	6.00%	6.00%
PRESTO Core Fee	169,039	494,838	1,103,038	1,645,747	2,210,201	2,316,861	2,446,387	2,574,428	2,625,916	2,678,435	2,732,003
PRESTO Managed Service % of revenue		1.00%	1.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%
PRESTO Managed Service Fee	253,000	417,946	149,260	987,448	1,105,101	1,158,430	1,223,194	1,287,214	1,312,958	1,339,217	1,366,002
Total Paid to PRESTO	422,039	912,784	1,252,298	2,633,195	3,315,302	3,475,291	3,669,581	3,861,641	3,938,874	4,017,652	4,098,005
% of revenue		4.00%	5.00%	8.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%
Net Change from PW17033		164,946	-137,880								

OUR Vision: To be the best place to raise a child and age successfully.

OUR Mission: To provide high quality cost conscious public services that contribute to a healthy, safe and prosperous community, in a sustainable manner.

OUR Culture: Collective Ownership, Steadfast Integrity, Courageous Change, Sensational Service, Engaged Empowered Employees.

2. Minimum Revenue Protection for Metrolinx: Given the large and complex nature of the PRESTO system, significant resources are required for Metrolinx to appropriately support it. Consequently, Metrolinx is requiring some revenue certainty to maintain the system in a fiscally responsible manner. With this proposed change, Hamilton will be required to meet minimum revenue generation from the PRESTO system by 2021. The revenue information will be provided by the City of Hamilton. Moving forward, it will be important for Hamilton to consider what impact a change in fare policy will have on the minimum revenue generation. Similarly, protections will now also be extended to Hamilton whenever there is a loss of revenue caused by a failure of the PRESTO service or devices.

ALTERNATIVES FOR CONSIDERATION

Staff currently understands that receiving future gas tax funding from the Province is contingent on achieving a successful PRESTO agreement. Considering the significant reliance Hamilton has on the Provincial Gas Tax Funding, staff has no alternatives to recommend in this regard.

ALIGNMENT TO THE 2016 – 2025 STRATEGIC PLAN

Built Environment and Infrastructure

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

Our People and Performance

Hamiltonians have a high level of trust and confidence in their City government.

APPENDICES AND SCHEDULES ATTACHED

None