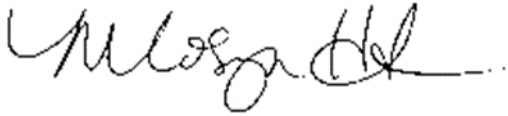




CITY OF HAMILTON
PUBLIC WORKS DEPARTMENT
Transit Division

TO:	Chair and Members Public Works Committee
COMMITTEE DATE:	June 13, 2022
SUBJECT/REPORT NO:	PRESTO Operating Agreement Amendment (PW17033(g)) (City Wide)
WARD(S) AFFECTED:	City Wide
PREPARED BY:	Nancy Purser (905) 546-2424 Ext. 1876
SUBMITTED BY:	Maureen Cosyn Heath Director, Transit Public Works Department
SIGNATURE:	

RECOMMENDATION

- (a) That the General Manager of Public Works, or their designate, be authorized and directed to execute, on behalf of the City, an amendment to the PRESTO Operating Agreement attached to Report PW17033(g) as Appendix "A" and in a form acceptable to the City Solicitor; and
- (b) That the General Manager of Public Works, or their designate, be authorized and directed to execute, on behalf of the City, any additional documents required over the term of the PRESTO Operating Agreement, with content acceptable to the General Manager Public Works and in a form acceptable to the City Solicitor.

EXECUTIVE SUMMARY

The ability to pay bus fare on-board using a credit card or debit card, known as an "open payment" method, is a desired customer feature and is a committed item under the PRESTO Operating Agreement. Open payment has already begun rolling out on UP Express and customer experience testing has been completed with participating transit agencies, including Brampton, Burlington, Durham, GO Transit, Hamilton, Oakville, Mississauga, TTC, and York, and it is expected that these agencies will be able to offer it as a fare payment option in the months ahead.

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**SUBJECT: PRESTO Operating Agreement Amendment
(PW17033(g)) (City Wide) – Page 2 of 6**

The Transit Agencies (TA's) subject to this operating agreement, which includes Brampton, Burlington, Durham, Hamilton, Oakville, Mississauga and York, expected that the equipment purchased and installed on conventional buses throughout 2020 would offer redundancy for all fare products offered under the PRESTO operating agreement. These products include the PRESTO card, E-ticketing, Open Payment, and Mobile Wallet, all of which are processed by the Bus Fare Transaction Processor (BFTP). It was expected that the Driver Control Unit (DCU) would ensure redundancy to ensure proper fare collection; however, the DCU will only accept fare payments from a PRESTO card if the BFTP stops working. This means the TA's risk revenue loss if the BFTP is not working. After a series of negotiations, Metrolinx/PRESTO has agreed to sharing the revenue risk associated with open payments with the TA's.

An amendment to the operating agreement, attached to Report PW17033(g) as Appendix "A", has been prepared. Clause 12.3, Payment Device Service Availability Critical Service Level (CSL) now recognizes two payment streams. One for PRESTO card revenue and one for open payment revenue. Under the revised clause, TA's will continue to be liable for up to 2% of PRESTO card revenue loss due to equipment failure, however, for open payment revenue, TA's will only be liable for up to 0.5%, decreasing the liability for lost revenue due to BFTP device failure from 2% down to 0.5% for the portion of fares collected using open payment. Fares collected from the PRESTO card will continue at the 2% liability, however, for the portion of fares anticipated to be paid for using open payment, TA's would be entitled to claim lost fare revenue when more than 0.5% of forecasted open payment revenue is lost because the CSL has not been met.

To ensure customers are not delayed while boarding, credit and debit cards are validated after the fact. Should a customer tap their card on a device and it is later determined that it is not in good standing with the customer's banking institution, Metrolinx will be liable for "first tap" risks, meaning Metrolinx/PRESTO will pay the expected fare to the appropriate TA and put the card on the deny list so that the card cannot be used on board again until the balance is paid.

Alternatives for Consideration – N/A

FINANCIAL – STAFFING – LEGAL IMPLICATIONS

Financial: N/A

Staffing: N/A

Legal: N/A

HISTORICAL BACKGROUND

Council approved report PW17033(a) on January 18, 2018, authorizing the City Manager to enter into a 10-year agreement with Metrolinx for the provision of the PRESTO smart card system. Participation in PRESTO remains a requirement in order to continue to receive provincial gas tax funding. We currently receive approximately \$11 million annually under this program.

The PRESTO Operating agreement requires that an 80% adoption rate be achieved no later than one year after the installation of the equipment. The 80% adoption rate means that 80% of customers use a PRESTO card for fare payment, and the remaining 20% use some other form including special tickets and cash. In July 2020, Council approved the removal of legacy paper passes and paper tickets effective December 31, 2020. The impact of this change was an immediate achievement of the 80% adoption rate.

As part of the new agreement, the City purchased new equipment that could handle other payment types such as bar codes, QR codes and credit cards which was fully installed on the HSR fleet in November 2020, at a cost to the City of \$4 million. The equipment design required two devices; a Bus Fare Transaction Processor (BFTP) which the customer interacts with and the Driver Control Unit (DCU) for the Operator to validate fares, accept additional passenger requests and serve as a redundant method to collect fares if the BFTP stopped working. As redundancy was to be built into the equipment, the TA's agreed to a payment service device availability clause which allows for a recovery of lost revenues if the devices are functioning at less than 98% capacity, meaning TA's accepted a potential revenue loss exposure of 2%.

In March 2021, PRESTO equipment was installed on all vehicles that are used to provide services through DARTS, ensuring Hamilton was fully compliant with AODA Transportation Standards.

PRESTO continues to modernize their offerings, releasing PRESTO E-tickets in September 2020, with an upgrade in September 2021 to enable QR code authentication. Mobile wallet, which is the conversion of a PRESTO card to a digital credential, is one of the most requested features based on 2019 customer research and will be launched in the coming months. Open payment, which allows for the use of credit and debit cards is a committed item under this agreement and has begun rolling out, with all TA's able to offer the product in the months ahead.

POLICY IMPLICATIONS AND LEGISLATED REQUIREMENTS

RELEVANT CONSULTATION

Staff consulted with Legal Services who are in agreement with the recommendations.

ANALYSIS AND RATIONALE FOR RECOMMENDATION

Supporting Customer Choice in Fare Payment Options

Since fall of 2021, staff have been working with PRESTO to roll out the ability for customers to use their credit or debit cards to pay a fare on HSR and all other TA's, referred to as open payment. PRESTO has been piloting the credit card functionality on UP Express since early 2021 and released the debit card function on October 21, 2021. This was the first time a contactless debit card payment option has been offered on public transit within Canada.

PRESTO has worked extensively to ensure that the customer experience will be favourable for both credit and debit users. Metrolinx continues to work with the banks to address customers who have accounts which charge a flat fee for a specific number of debit transactions and an additional fee for every transaction in excess. Metrolinx is developing communications and education to highlight this potential impact for customers.

HSR will launch when equipment and software is available for all specialized service, so that both conventionalized and specialized customers have access to the same fare payment choices at the same time. An upgrade to the software and equipment recently installed on DARTS vehicles will be completed in September and October so that credit and debit cards can be accepted on board. The cost to replace the equipment will be covered by Metrolinx.

As part of Metrolinx's commitment to fare modernization, new products and ways to pay are important aspects of the overall transit customer experience. There is a continued desire for more tech-based payment choices for customers. Open payment is designed to reach first time or occasional transit users, tourists, and those who are tech savvy and removes barriers to entry for new users and this flexible "pay as you go" option could lead to new customer acquisition. Currently, cash fares represent 11% of all trips taken, and this may further reduce that amount. Offering open payment methods will not cannibalize those who use the PRESTO card for regular travel. Customers who choose an open payment method will be charged the equivalent to the Council-approved cash fare. Additionally, customers will be able to use Apple Pay and Google Wallet along with wearables (such as watches) to pay their fare.

Mobile wallet, the conversion of a PRESTO card to a digital credential, will be released shortly, and is expected to be launched almost simultaneously with open payment. The digitization of the PRESTO card will enable the customer to retain all the benefits of the PRESTO card, including preferred pricing, concessions, loyalty programs and the 2-hour transfer. As this product receives the most requests from customers, launching the products together will help to ensure the PRESTO card benefits are not eroded.

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**SUBJECT: PRESTO Operating Agreement Amendment
(PW17033(g)) (City Wide) – Page 5 of 6**

Mobile wallet was not contemplated in the operating agreement, a further amendment will be necessary once there is a complete understanding of the impacts.

Associated Risks

In its current form, the DCU does not have the redundancy requirement for open payment. The equipment cannot read a credit or debit card for fare payment, therefore, if the BFTP is not in service there is no way to collect a fare from those boarding and wishing to pay with a credit or debit card. The TA's view is that the risk of losing a fare is too great and worked extensively with Metrolinx to mitigate potential lost revenue to the TA's by modifying the Agreement in response to the new technology.

The current Operating Agreement has a Payment Device Service Availability Critical Service Level (CSL), Clause 12.3, which PRESTO must ensure is 100% operational. While the CSL must be 100%, there are provisions for device failures, and TA's may only seek compensation for lost fare once lost revenue exceeds 2%, and only the amount beyond 2%. Given the importance of strong partnerships and positive relationships with TA's, Metrolinx/PRESTO supported the approach to sharing the revenue risk. As such, Metrolinx is proposing the 2% liability buffer in the contract be reduced to 0.5% for Open Payment transactions. Simply put, TA's would be entitled to claim lost fare revenue when more than 0.5% of forecasted open payment revenue is lost because of the Payment Device Service Availability CSL not being met.

As open payment is a new service, with no historical data available, PRESTO and TA's will work towards determining what the forecasted revenue may look like for application in clause 12.3 of the agreement. The reduction in liability to the Payment Device Service Availability CSL for open payment transactions requires an amendment to the Operating Agreement for Clause 12.2 and Clause 12.3.

With the introduction of open payments, Metrolinx will also be liable for first tap risks. To ensure no delay in boarding, credit and debit cards are validated after the fact. Should a customer tap their card on a device and later it is determined to be not in good standing; PRESTO will pay the fare that was expected to the appropriate TA and will put the card on the deny list. The deny list takes effect within 1 hour, often near real-time. Once a card is on the deny list, the customer will not be able to use it again on the PRESTO network until the unpaid fares are paid. As Metrolinx holds the relationship with the acquirer (Moneris) they will pay all related interchange fees. Additionally, all chargebacks will be managed by Metrolinx, and Metrolinx is liable for any successful chargebacks and associated fees.

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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.

APPENDICES AND SCHEDULES ATTACHED

Appendix “A” to Report PW17033(g) – First Amending Agreement 905 Agencies-
Metrolinx