

TORONTO TRANSIT COMMISSION REPORT NO.

MEETING DATE: July 6, 2011

SUBJECT: ELECTRONIC FARE COLLECTION UPDATE

ACTION ITEM

RECOMMENDATION

It is recommended that the Commission:

1. Approve the PRESTO-TTC financial approach for implementing PRESTO at TTC as outlined in this report noting that:
 - The Province of Ontario and Metrolinx have approved the proposed financial approach which provides predictability for TTC on PRESTO fare system costs over a 10-year period, and caps the TTC's upfront capital costs to implement PRESTO at the previously budgeted amount of \$47 million;
 - TTC staff will continue to meet with representatives of the Provincial Government, Metrolinx and the City of Toronto to develop operating and governance agreements based on the Framework for Addressing Key Principles outlined in Attachment A; and
 - TTC staff will report back to the Commission for approval of the operating, governance and financial agreements once they have been developed with the Province of Ontario, Metrolinx and the City of Toronto.

FUNDING

Funding of \$140 million is included under Program 5.4 Fare System – TTC/GTA Farecard Project (as outlined on pages 1171-1175) in the TTC's 2011-2015 Capital Program as approved by City of Toronto Council on February 23, 2011. Funding of \$140 million was included under the Canada Strategic Infrastructure Fund (CSIF), to be shared by Canada, Ontario and the City of Toronto, pending execution of an amendment to the Contribution Agreement and completion of a satisfactory business case. Final confirmation has not been received for the full \$140 million. The \$140 million is not sufficient to fully implement the PRESTO smartcard system at the TTC. The unfunded portion of the project is reflected "below-the-line" in the TTC's 2012-2016 Capital Program.

The proposed PRESTO-TTC financial approach has been approved by the Provincial Treasury Board, and caps the TTC's upfront capital costs to implement PRESTO at the previously budgeted amount of \$47 million. Agreements with the Federal, Provincial and Municipal governments must be established to address full funding of this project, before TTC can proceed with full PRESTO implementation.

BACKGROUND

On June 8, 2011, the Commission approved the adoption of the PRESTO fare collection system subject to developing acceptable operating and financial agreements, and confirming all funding necessary to proceed with the project, noting that:

- TTC and City staff will undertake discussions with representatives of the Provincial Government, Metrolinx, and the City of Toronto to develop operating and financial agreements based on the Framework for Addressing Key Principles outlined in Attachment A;
- TTC staff will report back to the Commission for approval of the operating and financial agreements that have been developed with the Province, Metrolinx, and the City of Toronto; and
- TTC and City staff will undertake discussions with the Federal Government and take the steps necessary to confirm the funding available for implementing PRESTO under the Canadian Strategic Infrastructure Fund (CSIF), and will develop any necessary agreements.

The Commission also unanimously approved the following two recommendations:

- That the TTC's upfront capital costs to implement PRESTO be capped at the previously budgeted amount of \$47 million; and
- That until such time as a final agreement can be reached between the TTC, the Province, and Metrolinx on the PRESTO system, that the Affiliated Computer Services (ACS) Request for Proposal (RFP) be extended to remain open until November 23, 2011.

In accordance with Commission directions, TTC staff have continued to meet with representatives of the Province and Metrolinx to develop acceptable operating and financial agreements based on the Framework for Addressing Key Principles outlined in Attachment A. The proposed financial approach outlined in this report addresses Key Principle #5, and is consistent with the Commission's direction noted above.

DISCUSSION

The Province and Metrolinx have proposed and approved a financial approach for implementing PRESTO on TTC whereby the majority of the TTC-PRESTO capital costs are financed by the Province and recovered as part of a monthly fixed-fee paid by TTC to PRESTO. The proposed PRESTO-TTC financing arrangement provides predictability for TTC on PRESTO fare system costs (both capital and operating) over a 10-year period, and caps the TTC and City of Toronto's capital contribution for PRESTO at the previously budgeted amount of \$47 million.

PRESTO-TTC Financial Approach - Capital

The TTC-PRESTO capital costs, above the \$140 million identified as part of the CSIF program, will be financed by the Province over a 10-year period, and these costs will be recovered as part of a fixed-fee monthly payment paid by TTC to PRESTO. The TTC-PRESTO capital costs that will be recovered by the Province include: all costs related to civil

works and infrastructure modifications required to support PRESTO at all TTC stations, facilities and LRV on-street locations (e.g. engineering, design, labour and materials necessary to install power and communications); all PRESTO equipment purchases (e.g. devices, hardware and software etc) and installation costs; PRESTO-related customer information materials; PRESTO system communications and network costs; and capital costs associated with any TTC-requested change orders.

Capital funding of \$140 million was included under the Canada Strategic Infrastructure Fund (CSIF), to be shared by Canada, Ontario and the City of Toronto, pending execution of an amendment to the Contribution Agreement and completion of a satisfactory business case. The proposed PRESTO-TTC financial approach allocates the \$140 million CSIF funding as follows:

- \$47 million Federal CSIF contribution will be applied to the TTC PRESTO capital costs incurred by the Province;
- \$47 million Provincial CSIF contribution will be applied to the TTC-PRESTO capital costs incurred by the Province; and
- \$47 million City of Toronto CSIF contribution will be applied to the TTC internal project team and project management staff related to the implementation.

Final confirmation has not been received for the full \$140 million CSIF funding. To confirm the \$47 million Federal CSIF funding contribution for PRESTO, the current Federal timetable requires an approved business and funding package be submitted by TTC by mid-August 2011. TTC staff will undertake discussions with the Federal Government and take the steps necessary to confirm that the Federal portion of the funding is still available.

As part of the PRESTO-TTC Financial Approach, Metrolinx would retain ownership and responsibility of the PRESTO devices and network equipment during the 10-year term. The TTC-PRESTO capital investment made by the Province would be recovered as part of a monthly fixed-fee paid by TTC to PRESTO which is described in the following section.

PRESTO-TTC Financial Approach - Operating

TTC would pay PRESTO a monthly fixed-fee for a 10-year term for a variety of services including the following:

- Repayment of the Provincially financed TTC-PRESTO capital costs;
- Revenue collection and servicing of all PRESTO vending machines at subway stations and LRV on-board and off-board devices;
- Preventative and corrective maintenance of all PRESTO devices;
- All PRESTO system refresh (state-of-good-repair) costs;
- All PRESTO fare media costs (i.e. farecards and limited use media);
- All debit, credit and charge-back fees associated with the PRESTO vending devices;
- All PRESTO network services from all TTC facilities, surface vehicles and LRV on-street locations; and
- All PRESTO "back office" services, including: system security, monitoring and management, PRESTO customer call centre and website, and financial reconciliation and settlement fees and commissions.

The PRESTO monthly fixed-fee would be calculated as a percentage of TTC fare revenues which are processed through the PRESTO system. The monthly fixed-fee percentage is not applicable to cash fare payments deposited into TTC bus fareboxes, which will continue to be collected and processed by TTC. The PRESTO fixed-fee annual operating cost would be offset by other TTC fare system operating savings and should result in no net increase to TTC's current fare collection operating costs.

Summary

The proposed PRESTO-TTC financing approach, approved by the Province and Metrolinx, provides predictability for TTC on PRESTO fare system costs over a 10-year period, and caps the TTC's upfront capital costs to implement PRESTO at \$47 million. This financial approach represents a fully managed fixed-fee service approach and, hence, would form the basis of the TTC-PRESTO operating agreement with applicable performance service level agreements.

The Province and Metrolinx state they can effectively address all of the TTC's Key Principles and their commitments to these Key Principles are outlined in Attachment A. Of particular importance are their commitments to meet TTC customer and business needs, develop a governance and decision-making structure that will protect these needs, and ensure open payments will be supported by PRESTO.

The Province and Metrolinx have stated that these commitments would provide the framework for developing acceptable detailed operating, governance and financial agreements with the TTC and that the specifics would be worked out with TTC/City staff over the next few months.

JUSTIFICATION

The Province and Metrolinx have made a commitment that the PRESTO smartcard system will meet TTC's customer, business, and financial needs.

Implementing PRESTO on TTC will allow the PRESTO system to be operated as an integrated regional fare collection system serving all transit customers in the Greater Toronto and Hamilton Area. TTC would become part of the existing PRESTO system with its established rules about the development, procurement, operation, and governance of the system and, hence, ongoing decisions impacting the overall PRESTO system would be made jointly with the system's other participants, and not by TTC alone.

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Attachment A: Framework for Addressing Key Principles (June, 2011)

**Attachment A:
Framework for Addressing Key Principles
(June, 2011)**

1. PRESTO is committed to deliver a system that addresses TTC current and future business needs in a manner that is acceptable to TTC from a customer, operational, and financial perspective.
2. TTC will participate and sign-off on processes and decision points during key stages in the project, including system development and design, procurement, and implementation.
3. PRESTO will conduct an open and competitive procurement with full TTC participation for all TTC equipment and services.
4. Recognizing TTC's customer, business and financial needs, a governance and decision-making structure will be established between TTC and Metrolinx that allows for the effective management of the Deployment Project; and the effective ongoing oversight of the PRESTO Program.
5. TTC and Metrolinx will establish mutually acceptable funding agreements for capital and operating for PRESTO implementation and operation on the TTC.
6. The City of Toronto, TTC and Metrolinx will take advantage of commercial opportunities (both transit and non-transit) that the PRESTO System provides.
7. PRESTO will take advantage of advances in fare payment approaches (e.g. open payments, mobile devices).
8. TTC and PRESTO will establish a mutually agreeable Operating Model for the ongoing PRESTO System that meets TTC customer, business and financial needs.