

TORONTO TRANSIT COMMISSION REPORT NO.

MEETING DATE: May 1, 2012

SUBJECT: FRAMEWORK FOR AGREEMENTS BETWEEN TTC AND
METROLINX/PRESTO

ACTION ITEM

RECOMMENDATION

It is recommended that the Commission:

1. Reaffirm the framework and general principles for implementing Metrolinx/PRESTO fare collection system on TTC premises (including vehicles, as applicable), that were approved by the Commission on November 23, 2011 (see Appendix A);
2. Delegate authority to the Chief Executive Officer to continue to negotiate with Metrolinx and execute any and all necessary agreements with Metrolinx related to the design, implementation and operation of the PRESTO Services in a manner consistent with the principles set out in Appendix A.

FUNDING

Funding of \$140 million is included under Program 5.4 Fare System – TTC/GTA Farecard Project in the 2012-2016 Capital Program budget approved by City of Toronto Council on January 17, 2012 (as outlined on pages 1171-1175 in the TTC's 2011-2015 Capital Program documents). This funding is based on approval under the Canada Strategic Infrastructure Fund (CSIF), to be shared equally by Canada, Ontario and the City of Toronto. In accordance with the July 6, 2011 Commission directive, the City's 1/3 portion of the CSIF funding (i.e. \$47 million) will be used for TTC's Capital costs. Metrolinx is working with the Federal and Provincial government to confirm the remainder of the CSIF funding, and has submitted the necessary business case to secure the Federal portion of the CSIF funding for the PRESTO initiative.

Any PRESTO capital costs related to TTC above the \$140M CSIF funding will be paid by Metrolinx, and recovered as part of the annual fixed fee paid by TTC to PRESTO. This fixed fee is calculated as a percentage of the TTC fare revenues processed through the PRESTO system.

Once PRESTO is fully implemented throughout the TTC, as outlined in this report, the PRESTO fixed-fee annual operating cost would be offset by other TTC fare collection operating savings and should result in no net increase to TTC's overall fare collection operating costs. However, during the transition phase when the PRESTO system is being implemented and the TTC's legacy fare system is still required, it is possible that overall operational costs will be greater than current as a result of operating the two systems simultaneously. There is no anticipated PRESTO-specific operating impact for 2012.

BACKGROUND

In June 2011, the Commission approved the adoption of the PRESTO fare collection system, subject to developing acceptable operating and financial agreements, and confirming all the funding necessary to proceed with the project. In November 2011, the Commission approved a framework and general principles for developing these agreements with Metrolinx. Key elements of the framework included:

- Metrolinx to design, procure, build, install, operate, service and maintain PRESTO NG consistent with agreed upon TTC business and performance requirements;
- Metrolinx to finance the capital costs for the project, excluding TTC capital costs to upgrade power at TTC facilities and internal staff costs (TTC costs capped at \$47M);
- Metrolinx would be responsible for the ongoing operation of the PRESTO NG system and for providing a wide range of "managed services" (e.g. back office operations; customer services; revenue collection and maintenance of all system field equipment);
- In return for the above, TTC would pay a fee calculated as a fixed percentage (5.25%) of the TTC fare revenues processed through the PRESTO system; and
- Once fully implemented, and upon the elimination of the TTC's legacy fare collection system, overall TTC costs for fare collection would be less than current costs.

The November 2011 Commission report also identified key areas where further discussions with Metrolinx were required to confirm the status of these areas. These topics included:

- TTC's business requirements;
- Open payments system scope and support for TTC business requirements;
- TTC's role in system design and testing;
- Service level agreements and performance measures; and

- Protection for TTC's operating expenses (including TTC revenues).

The Commission directed staff to continue discussions with Metrolinx on these subjects and report back. This report summarizes the status of these discussions and outlines a way forward for the TTC to finalize its agreements with Metrolinx relating to the design, implementation and operation of a modified and enhanced PRESTO system (i.e. PRESTO NG).

TTC and Metrolinx have now reached agreement, in principle, on the TTC functional business needs and open payments requirements which were previously outstanding items in November 2011 and this report summarizes those discussions and agreement.

DISCUSSION

A. Discussions with Metrolinx on Developing Agreements

Discussions with Metrolinx over the past few months have confirmed the key elements of the framework that will form the foundation for the agreements between TTC and Metrolinx. These discussions have also provided more information on those subjects that the Commission directed TTC staff to discuss further with Metrolinx (see Appendix C).

Functional Requirements: TTC and Metrolinx have reached agreement on the functional business requirements to be implemented by Metrolinx as part of the PRESTO system at TTC. These requirements reflect TTC's customer, business and operational needs as they relate to such topics as:

- Fare policies and products;
- PRESTO devices in stations and on vehicles;
- Customer service and support;
- Data management and reporting; and
- TTC roles and responsibilities.

Open Payments: Agreement has also been reached on the TTC business needs regarding the PRESTO system supporting open payment systems. The existing PRESTO system will be modified and enhanced by PRESTO to support this, and the implementation of these changes to the current PRESTO system will be phased in over a period of time that is still to be confirmed with Metrolinx.

Sign-off points: The November 2011 report identified that while Metrolinx would have overall responsibility for the implementation of PRESTO throughout the transit system, the TTC required joint sign-offs with Metrolinx at key points in the process. These joint sign-offs

help mitigate risk to both parties, and enable TTC to confirm that the PRESTO system is being developed and implemented consistent with TTC's requirements. Discussions with Metrolinx have confirmed that there will be a mutual sign-off on the TTC's business requirements, the overall project plan, and solution options developed by PRESTO to address specific topics (e.g. cross-boundary travel). However, the TTC's role in system design and testing is still to be confirmed, although consistent with reducing risks to both parties it is expected that agreement can be reached.

Performance Requirements: Specific service level agreements that define the expected level of performance from the PRESTO system are still under discussion. Metrolinx is currently reviewing TTC's detailed performance requirements. These requirements are important to ensuring the reliable and effective operation of the PRESTO system consistent with TTC's customer and operational needs. Establishing an acceptable approach towards performance requirements and service level agreements will continue to be a critical focus of discussions with Metrolinx.

Financial Requirements: The Commission has directed that TTC's capital costs be capped at \$47M and that TTC's future fare collection operating costs are less than current costs. The TTC's capital costs are primarily related to its commitment to upgrade power at TTC stations and facilities to support PRESTO devices at these locations. TTC expects these costs to be within the \$47M limit, but there is the potential risk that power upgrades will be required at more stations than anticipated resulting in higher capital costs. Work is underway by the TTC to more accurately determine the stations and facilities requiring power upgrades based on power requirements recently provided by PRESTO. It should be noted that any power upgrades to a subway station will have a general benefit to the TTC beyond the PRESTO project.

From an operating perspective, reducing the TTC's overall costs of fare collection is only possible once PRESTO is fully implemented consistent with TTC's business requirements, and the legacy fare collection system has been retired. The commitment made by Metrolinx to modify and upgrade the current PRESTO system to support TTC's business requirements is essential to achieving these savings.

Agreement has been reached to reimburse the TTC for any material losses to TTC revenues that are directly attributable to a failure of the PRESTO system.

Discussions continue with Metrolinx regarding the establishment of a reasonable upper limit for the total fees payable by the TTC. This principle recognizes that there may be circumstances during the term of the contract in which TTC revenues increase significantly and the resulting fees to be paid by TTC exceed any reasonable increase to expenses that would be incurred by Metrolinx to provide services to TTC.

The TTC has proposed a maximum annual fee and Metrolinx has proposed the establishment of a “surplus fund” to meet this requirement. Metrolinx proposes to track the fees payable by the TTC against the PRESTO operating expenditures on the TTC and if any surplus exists (i.e. TTC payment exceeds Metrolinx expenditures during any fiscal year), the surplus funds will either be reinvested into the PRESTO system or divided equally between the two parties. This will be subject to an audit by TTC to ensure the accuracy of the accounting of the expenditures.

While there are still some financial issues to discuss with Metrolinx, it is expected that the agreements can be structured to reduce risks for unacceptable increases to TTC capital and operating costs.

Term of Contract: TTC and Metrolinx have agreed to a 15-year contract commencing on the signing of the Master Agreement. The agreement will automatically renew for five years, unless the TTC provides notice to Metrolinx that it does not wish to renew the agreement at the end of the initial term.

B. Next Steps to Develop Agreements with Metrolinx

The parameters outlined above and set out in Appendices A and B provide the foundation and business principles required to develop the various legal agreements between Metrolinx and TTC relating to the TTC’s use of the PRESTO system. However, both Metrolinx and TTC staff recognize that additional final details are required prior to finalizing any agreement(s), including:

- confirmation of TTC’s role in the system design and testing process;
- agreement on the performance requirements and service level agreements that define the expected level of performance from the PRESTO system; and
- protection against increases to TTC’s operating costs, including the establishment of an upper limit, or surplus fund, for fees paid by TTC to Metrolinx

Based on the Commission’s concurrence with the framework and general principles outlined in this report, TTC staff will continue the work necessary to address the final outstanding issues and develop the legal agreements necessary in a manner consistent with the approved general principles as summarized in Appendices A and B. On this basis, it is recommended that the authority to execute any and all agreement(s) required for the design, implementation and operation of the PRESTO Services on TTC premises (including vehicles, as applicable) be delegated to the Chief Executive Officer.

JUSTIFICATION

TTC and Metrolinx have now reached agreement, in principle, on the TTC functional business needs and open payments requirements which were previously outstanding items in November 2011. This further clarifies the basis for developing legal agreements between the TTC and Metrolinx regarding the implementation and operation of the PRESTO system. Metrolinx has committed to continuing discussions with TTC to reach a mutually acceptable approach on any outstanding issues.

The expectation is that the necessary details can be worked out over the next few months consistent with the framework and general principles outlined in this report. This will then enable work to continue to substantially implement PRESTO at the TTC by the targeted date of the Pan Am/Parapan Am games in 2015.

The signing of these agreements with Metrolinx will also ensure that the funding for other programs that is contingent upon TTC's participation in PRESTO (i.e. gas tax; purchase of new streetcars; transit expansion) will continue.

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- Appendix A: Framework and General Principles for Implementing Metrolinx/PRESTO Fare Collection System (Approved by Commission November 23, 2011)
- Appendix B: TTC Key Principles (June, 2011)
- Appendix C: Current Status of Discussions between TTC and Metrolinx on Key Topics

**Appendix A:
Framework and General Principles for Implementing
Metrolinx/PRESTO Fare Collection System
(Approved by Commission November 23, 2011)**

- a) The PRESTO Services are to include modifications and enhancements to the current PRESTO system to allow for an e-fare account based payment system with an open architecture using industry standards, which will accommodate open loop financial cards, mobile applications and future technological innovations (“PRESTO NG”). The modifications and enhancements to the current PRESTO system to achieve PRESTO NG will be phased in over a period of time;
- b) Metrolinx (PRESTO) to provide the following managed services: financing, building, implementing, procuring , operating, servicing, and maintaining PRESTO NG (“PRESTO Services”);
- c) TTC’s capital cost related to the design, implementation and operation of the PRESTO Services to be capped at \$47M;
- d) Upon full implementation of PRESTO NG, TTC’s operating costs for fare collection will be lower than the level currently experienced;
- e) PRESTO NG is to be designed and implemented to meet TTC business and performance requirements;
- f) Development of a detailed Project Plan agreeable to both Metrolinx and TTC;
- g) Establishment of a dispute resolution mechanism to resolve any issues between the parties;
- h) Establishment of a design or solution review process with appropriate TTC sign-off, approval and/or consultation, as applicable; and
- i) The previously approved Key Principles as set out in Appendix B of this report.

**Appendix B:
TTC 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.

**Appendix C:
Current Status of Discussions Between TTC and Metrolinx on Key Topics
(2 pages in total)**

Topic	TTC and Metrolinx Have Agreed to Following:
Implement TTC Business Specifications	<ul style="list-style-type: none"> • Metrolinx will implement TTC’s functional business requirements
Implement Open Payments System	<ul style="list-style-type: none"> • Metrolinx will modify/enhance PRESTO system to support open payment systems with open architecture to accommodate open loop financial cards, mobile payments
Project Management	<ul style="list-style-type: none"> • TTC will sign-off on business requirements, Project Plan and solution options • To be discussed: TTC’s role in system design and testing
Service Level Agreements	<ul style="list-style-type: none"> • To be discussed
Services Provided to TTC During Implementation	<p>Metrolinx to be responsible for the following during PRESTO implementation:</p> <ul style="list-style-type: none"> • Civil works in subway and throughout TTC • Provide and install all field equipment • Develop and install communication network to support PRESTO on all TTC modes • Back-end software/hardware/systems/services
Services Provided to TTC During System Operations	<p>Metrolinx to be responsible for the following:</p> <ul style="list-style-type: none"> • Revenue collection, servicing and maintenance of all PRESTO equipment • All back office operations • Customer services specific to PRESTO (e.g. call centre; website)

**Appendix C:
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(2 pages in total)**

<p>Capital Costs</p>	<ul style="list-style-type: none"> • Metrolinx to finance all capital costs necessary to implement PRESTO (except TTC costs such as station power upgrades) • Metrolinx to repair and refresh PRESTO equipment and services to maintain the PRESTO system in a state of good repair necessary to achieve the agreed to business and performance requirements
<p>Fee Payment Obligations (i.e. Operating Costs)</p>	<ul style="list-style-type: none"> • TTC will pay PRESTO a fee calculated as a fixed percentage (5.25%) of revenue collected or processed through the PRESTO system • This fee will remain fixed for duration of the contract • The fixed fee will be subject to a minimum amount (based on number of PRESTO devices implemented and operational) • To be discussed: establish reasonable upper limit for total fees payable by TTC (i.e. review maximum fee and Surplus Fund)
<p>Contract Term/Renewal</p>	<ul style="list-style-type: none"> • Agreement will be for 15 year term commencing upon signing of the Master Agreement • Automatic renewal for one 5-year year term <ul style="list-style-type: none"> ○ TTC can opt-out at end of initial term • TTC can purchase equipment at fair market value
<p>Risk Management</p>	<ul style="list-style-type: none"> • Termination for cause • Metrolinx has agreed to reimburse TTC for any revenue losses directly attributable to a failure of the PRESTO system
<p>Governance</p>	<ul style="list-style-type: none"> • TTC will be subject to Metrolinx/PRESTO governance structure for any PRESTO related topics • Unresolved issues to be addressed through dispute resolution