

**Report to  
Rapport au:**

**Transit Commission  
Commission du transport en commun  
5 December 2016 / 5 décembre 2016**

**and Council  
et au Conseil  
14 December 2016 / 14 décembre 2016**

**Submitted on November 23, 2016  
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**Submitted by  
Soumis par:  
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**Ward: CITY WIDE / À L'ÉCHELLE DE LA VILLE      File Number: ACS2016-TSD-OCT-0004**

**SUBJECT: PRESTO SMARTCARD OPERATING AGREEMENT**

**OBJET: CONTRAT D'EXPLOITATION DES CARTES À PUCE PRESTO**

## **REPORT RECOMMENDATIONS**

That the Transit Commission recommend that Council approve the recommendations to delegate authority to the General Manager of the Transportation Services Department to negotiate, execute, and finalize including any amendments thereto:

1. A one-year extension to the existing Presto Fare System Operating Agreement under the same terms and conditions to October 27, 2017;

2. A new Presto Smartcard Fare System Agreement for a term of ten (10) years from 2017 to 2027 (the “Successor Agreement”) based on the three key business terms identified in this report; and,
3. A Memorandum of Understanding with Metrolinx based on the same terms and conditions as the existing Presto Fare System Operating Agreement for the services and costs associated with integrating the new OC Transpo fare control system with the Presto fare payment system as described in the report.

## **RECOMMANDATIONS DU RAPPORT**

Que la Commission du transport en commun recommande au Conseil d’approuver les recommandations visant à déléguer au directeur général des transports le pouvoir de négocier, de signer et de conclure les ententes suivantes, y compris toute modification :

1. une prolongation d’un an du contrat d’exploitation du système de paiement PRESTO, selon les dispositions déjà en place, jusqu’au 27 octobre 2017;
2. une nouvelle entente sur le système de paiement par carte à puce PRESTO d’une durée de 10 ans – de 2017 à 2027 – (le « nouveau contrat »), fondée sur les trois conditions principales énoncées dans le présent rapport;
3. un protocole d’entente avec Metrolinx qui reprend les dispositions du contrat d’exploitation du système de paiement PRESTO en ce qui concerne les services et les coûts associés à l’intégration du nouveau système de perception des tarifs d’OC Transpo dans ledit système de paiement, décrit dans le présent rapport.

## **BACKGROUND**

On December 7, 2007, City Council approved the recommendations of the *Smartcard Fare System* report and delegated authority to the Director of Transit Services to approve and execute an agreement with Metrolinx for the operation of the Presto smartcard system for OC Transpo (“Presto System”).

Metrolinx and the City are parties to the Greater Toronto Area (GTA) Fare System Operating Agreement, dated October 27, 2006, and entered into by the City on October 19, 2009 (the “Operating Agreement”), which set out the terms and conditions for the City’s post-implementation of, participation in and use of the Presto System. This current Operating Agreement between the City of Ottawa and Metrolinx was set to expire on October 27, 2016 but has been extended as described below.

In a memo to City Council and the Transit Commission on November 9, 2016, the City Manager advised that he had exercised his delegated authority to sign an extension of the current agreement until November 26, 2016 ([ACS2016-CCS-GEN-0026](#)). Given the imminent release of this report, the City Manager exercised his delegated authority to sign a further extension of the agreement until December 26, 2016 in anticipation of consideration of this report by the Transit Commission and Council.

Staff have been in discussions for several months with Metrolinx to extend and renew the Operating Agreement for the Presto System, and the recommendations in this report arise from these discussions and negotiations.

## **DISCUSSION**

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 term of ten (10) years from October 27, 2017 to November 27, 2027 (the “Successor Agreement”). The City requested an extension of the current agreement with the same terms and conditions for a period beyond 2018 so it could focus on the work associated with achieving LRT readiness.

Metrolinx considered this request and has advised that it will agree to a one-year extension of the existing Operating Agreement, based on the same terms and conditions, provided all of the participating Transit Agencies agree in principle with the key business terms identified in this report. These key business terms will form the basis of the Successor Agreement. The one-year extension to the existing Operating Agreement, which began with the two one-month extensions, is intended to allow sufficient time for the Transit Agencies and Metrolinx to finalize and ratify the Successor Agreement. The complexity of the new services model, new pricing model and governance, together with multiple Transit Agencies involved, all require additional time to capture the terms for this agreement.

Metrolinx is also negotiating with all participating transit agencies in the Greater Toronto and Hamilton Area (“Transit Agencies”), except for the Toronto Transit Commission, which has a separate contract in place with Metrolinx.

On December 9, 2013, the Transit Commission approved the fare control strategy for the O-Train Confederation Line and Trillium Line, consisting of fare gates and machines to allow customers to purchase passes and single-ride fares at station entrances, to ensure that only customers who have paid a fare can reach the platforms. Supply of the fare control system is in process. Both the fare gates and the ticket machines require

integration with the Presto system in order for customers to be able to use all fare media at all stations. There are also certain aspects of data flow between Metrolinx and the City's financial system that will be modernized and standardized as part of this integration. Staff approached Metrolinx with a request to support and work on the data integration. Metrolinx has accepted this request, and negotiations are now underway to identify the level of effort and costs associated with carrying out this essential work. Metrolinx will bill its actual costs incurred, and City staff will ensure that the costs are required and reasonable.

## **Key Business Terms of the Successor Agreement**

### *1. New Services Model*

The pricing structure for the Presto System will be based on a core set of services that all Transit Agencies, including the City, use, and for which the operating costs will be shared among all participating Transit Agencies. There is also an optional set of enhanced services for which the operating costs will be charged directly to the Transit Agencies that opt to purchase them.

Staff support this new concept of core-and-optional pricing structure. It will ensure that the City does not contribute to the cost of components of the Presto system that exist and that are developed only for the benefit of other Transit Agencies. In particular, any potential future costs related to inter-municipal travel and fare integration in the Greater Toronto and Hamilton Area would not be charged to the City.

The proposed core-and-optional pricing structure is particularly appropriate for the Ottawa situation. The core services are essential in nature, and are generally limited to providing, managing, and supporting the Presto System, the financial system that supports the fare payment system, and customer services at the Presto call centre and on the [prestocard.ca](http://prestocard.ca) web site.

The City owns its own fare system devices and contracts directly with the vendor for maintenance; this would not be a core service. Moreover, the City does not require or benefit from the functions in the Presto System that allow for inter-municipal travel and fare integration in the Greater Toronto and Hamilton Area (GTHA); these would not be core services. Customers would continue to be able to use e-purse value on their Presto cards in Ottawa and in the GTHA.

Staff do not currently foresee that any significant optional services would be required for ongoing OC Transpo operations.

## *2. Pricing*

All participating Transit Agencies will contribute toward the core operating cost of the Presto System by paying a fee based on the value of the fares paid through the system. The fee would increase to 3 per cent on January 1, 2018, to 4 per cent on January 1, 2019, to 5 per cent on January 1, 2020, and to 6 per cent on January 1, 2021. The fee would remain at 6 per cent for the remainder of the agreement, until November 27, 2027.

According to calculations provided by Metrolinx, once the fee reaches 6 per cent, this will result in 73 per cent of the operating cost of the Presto core system being paid by transit agencies, including GO Transit and UP Express, which are provincial entities, and 27 per cent being paid by the provincial Ministry of Transportation.

The proposed 6 per cent fee is higher than the current 2 per cent fee paid by the City. Nevertheless, given the actual costs that are being incurred now that the Presto System has matured, given the due diligence that staff have exercised in examining those costs, together with locking in this rate for ten years, and given the negotiation that staff have carried out with Metrolinx, staff support this rate. Figures provided by Metrolinx indicate that similar multi-agency smartcard systems in use for transit in North America have operating costs of between 11 and 14 per cent of the fare value processed.

Ottawa will continue to be reimbursed for some of its costs incurred in loading value into Presto accounts. Metrolinx pays to the City a 2 per cent commission for cash value loaded onto Presto e-purse accounts at OC Transpo customer service centres, and the same arrangement will apply to the future ticket machines at O-Train stations on both the Trillium and Confederation Lines.

Staff expect that following current trends and policy decisions, approximately 65 per cent of OC Transpo fare revenue will be paid through the Presto system, from 2018 and going forward. Approximately half of OC Transpo fare revenue is paid with monthly passes, all of which, by 2018, will be on Presto cards. Approximately one-third of fare revenue comes from single-ride fares, and staff expect that approximately half of those will be paid by Presto e-purse and the other half by cash, credit card, or debit card. The remaining one-sixth of fare revenue is paid with U-Passes, and those are outside the Presto System. (Metrolinx is developing a U-Pass solution, and as the solution is being developed, staff will assess whether it is comparable to the non-Presto smartcard solution currently being used. OC Transpo has advised Metrolinx that their U-Pass solution must be comparable to the non-Presto smartcard solution and cannot cost more than the current system, both in operating and capital costs. If OC Transpo adopts

the future Presto solution for U-Pass, the proportion of fare revenue paid through the Presto system would rise to approximately 85 per cent.)

The following table shows the current expectations of the costs that would be paid to Metrolinx. These amounts, adjusted to be based on current ridership and fares at the time, would be built into the transit budgets for future years.

**Table 1: Expected Annual Costs during Successor Agreement**

Year	Per cent %	Estimated Fare Revenue OC Transpo Customers Will Pay Using Presto Cards*	Estimated Cost of Core Presto Fee
1. 2018	3	\$128.8 million	\$3.9 million
2. 2019	4	\$134.7 million	\$5.4 million
3. 2020	5	\$141.8 million	\$7.1 million
4. 2021	6	\$149.3 million	\$9.0 million
5. 2022	6	\$157.3 million	\$9.4 million
6. 2023	6	\$166.0 million	\$10.0 million
7. 2024	6	\$180.4 million	\$10.8 million
8. 2025	6	\$196.0 million	\$11.8 million
9. 2026	6	\$211.0 million	\$12.7 million
10. 2027	6	\$223.9 million	\$13.4 million

\*Note – Excludes U-Pass.

### 3. Governance

Currently, the City is a member of a number of committees within the governance and organization structure of the Presto system together with the other participating transit agencies and Metrolinx. The City also has a seat at the Executive Client Committee, which makes decisions concerning a number of important areas governing the Presto System.

For the future, Metrolinx is proposing that the Presto system be overseen by a central “Scheme Governance Committee,” on which OC Transpo would hold one of five positions, along with Metrolinx (Presto), Metrolinx (Rail and Bus Operations), the TTC, and a representative of the 905-area municipal transit systems in the GTHA. That committee would meet quarterly 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 budget for planned changes and the management of the core services which are common to all transit systems. Decisions would be made by consensus of all five members, or by a subset of the five for matters that affect only

some transit systems. That committee would also oversee a number of technical subcommittees where specialist staff would discuss the financial, technical, and customer service aspects of the Presto system.

Staff support the governance proposal. It closely mirrors the current arrangements, but clarifies the decision-making process for future revisions to the Presto System. In particular, the governance proposal ensures that the City will not be responsible for any additional costs for new functions that OC Transpo customers will not need under the new core-optional services model and any other future services developed that the City does not opt to purchase.

### **Extension of the Existing Operating Agreement to 2017**

The City was approached by Metrolinx together with the MTO to negotiate the Successor Agreement on the basis of the parties agreeing to the three key business terms described above, to be fully negotiated and finalized during the one-year extension, and that one-year extension would be renewed on the same terms and conditions of the existing Operating Agreement until October 27, 2017, the commencement date of the Successor Agreement. Council was previously advised of two one-month extensions of the current agreement, first to November 26, 2016 and then to December 26, 2016 via this report.

During the remaining 10-months of this one-year extension of the Operating Agreement, the current fee of 2 per cent would remain in place. This can be accommodated within the proposed 2017 budget.

Staff recommend that the General Manager of the Transportation Services Department be delegated authority to execute the extension of the Operating Agreement for a one-year term as described above.

### **Execution of the Successor Agreement in 2017**

During the one-year extension period, staff will participate along with Metrolinx and the MTO in finalizing the terms and conditions of the Successor Agreement, consistent with the three key business terms outlined above. The Successor Agreement would be for a term of ten (10) years from October 28, 2017 until November 27, 2027.

Staff recommend that the General Manager of the Transportation Services Department be delegated authority to negotiate, execute and finalize the Successor Agreement, consistent with the terms and conditions outlined above.

## **Memorandum of Understanding for the Integration of Presto with the Fare Control System**

The City is currently working to install and commission a new fare control system, an essential part of preparing the O-Train Confederation Line for service. The new fare control system consists of fare gates to control entry into O-Train stations and ticket machines to allow customers to purchase single-ride fares, daypasses and multi-day passes, to renew monthly passes and reload e-purse value on Presto cards, and to purchase new Presto cards. The fare control system will be introduced on the Trillium Line in 2017 and on the Confederation Line when it opens in 2018. On September 14, 2016, Council also approved, with partial funding from the federal Public Transit Infrastructure Fund (PTIF) ([ACS2016-CMR-GEN-0009](#)) programme, the installation of fare control equipment at certain Transitway stations.

Both the fare gates and the ticket machines require integration with the Presto System in order for customers to be able to use all fare media at all stations. There are also certain aspects of data flow between Metrolinx and the City's financial system that will be modernized and standardized as part of this integration.

To capture the transitional services, as well as certain services provided by Metrolinx that will be temporarily carried forward in support of the fare control project (and not required under the Successor Agreement), staff recommend the execution of a Memorandum of Understanding (MOU) with Metrolinx based on the same terms and conditions of the existing Operating Agreement and consistent with the future Successor Agreement. The MOU would cover the services and costs associated with integrating the new OC Transpo fare control system with the Presto fare payment system. These additional services are not available under the existing Operating Agreement and are needed prior to the execution and implementation of the Successor Agreement. Metrolinx is in full agreement with this.

These costs are similar to the concept of optional services outlined earlier, but as the work associated with integrating the OC Transpo fare control system with the Presto system would be required only by the City of Ottawa, and only until the fare control system is in place, it is not practical to include these services as part of the Successor Agreement.

Costs associated with the work to be performed will be in accordance with the services and price sheet provided by Metrolinx and are expected to amount to approximately \$600,000 for transitional services. Ongoing costs for maintaining the existing system until it is no longer required are also included in the pricing and services sheet.



Funds for this work are available within currently-approved capital authority.

Staff recommend that the General Manager of the Transportation Services Department be delegated authority to negotiate, execute, and finalize the Memorandum of Understanding as described above.

### **RURAL IMPLICATIONS**

There are no recommendations in this report that affect rural areas differently from urban areas.

### **CONSULTATION**

Consultation has not been carried out on this report, as it is administrative in nature.

### **ADVISORY COMMITTEE(S) COMMENTS**

This has not been considered by Advisory Committees.

### **LEGAL IMPLICATIONS**

There are no legal impediments to implementing the recommendations as outlined in this report. Legal Services has been involved in the various agreements being negotiated and will continue to provide legal advice throughout the process to the culmination of the execution of the agreements identified in the report on terms consistent with this report.

### **RISK MANAGEMENT IMPLICATIONS**

The primary risk to the City is that ridership and fare revenue may be different from the levels budgeted, and the amount due to Metrolinx each year may be different as a result. This risk will be managed as documented in the report.

### **FINANCIAL IMPLICATIONS**

Metrolinx's data integration costs will be funded from the Capital Projects # 900300 IT Smart Card and # 907373 Fare Control Systems at Rail Stations. Increases in Presto Fees will be included in future Operating Budgets for Commission and Council consideration.

### **ACCESSIBILITY IMPACTS**

The recommendations in this report do not impact accessibility.

## **TERM OF COUNCIL PRIORITIES**

*Transportation and Mobility* – Meet the current and future transportation needs of residents and visitors through Phase 1 and Phase 2 of the Transportation Master Plan, including ensuring the City's transit services are reliable and financially sustainable. Continued focus on improving mobility during the LRT implementation, and support for alternative transportation methods including cycling and walking, as well as transit.

*Service Excellence* – Improve client satisfaction with the delivery of municipal services by measurably strengthening the culture of service excellence at the City, by improving the efficiency of City operations, and by creating positive client experiences.

*Financial Sustainability* – Practice prudent fiscal management of existing resources, and make sound long-term choices that allow City programs and services to be sustainable.

*Governance, Planning and Decision Making* – Achieve measureable improvement in residents' level of trust in how the City is governed and managed, apply a sustainability lens to decision-making, and create a governance model that compares well to best-in-class cities around the world.

## **DISPOSITION**

Upon approval of this report, staff would engage with Metrolinx to prepare the appropriate documentation for the extension of the current Operating Agreement for one year and for the Memorandum of Understanding, with those documents to be signed by the General Manager, Transportation Services, and would continue to work with Metrolinx to prepare the detailed form of the 10-year agreement from 2018 until 2027, with that agreement also to be signed by the General Manager, Transportation Services.