



Clause 12 in Report No. 7 of Committee of the Whole was adopted, without amendment, by the Council of The Regional Municipality of York at its meeting held on April 20, 2017.

12

Approval of a New PRESTO Agreement
Between York Region and Metrolinx

Committee of the Whole recommends adoption of the following recommendation contained in the report dated March 30, 2017 from the Commissioner of Transportation Services:

1. Council authorize the execution of a new PRESTO agreement with Metrolinx to continue the ongoing use and evolution of the PRESTO Smart Card System in accordance with the following principles:
 - a) A 10-year agreement period, from October 27, 2017 to November 27, 2027
 - b) Metrolinx would provide a service model based on a core set of services required by all PRESTO participating agencies. Starting January 1, 2018, an annual commission adjustment over a four-year period would be applied based on the delivery of core services provided by Metrolinx to an upper limit of six percent. Implementation would be as follows:
 - i. For 2017, at a rate of two per cent of revenue collected through PRESTO
 - ii. For 2018, at a rate of three per cent of revenue collected through PRESTO
 - iii. For 2019, at a rate of four per cent of revenue collected through PRESTO
 - iv. For 2020, at a rate of five per cent of revenue collected through PRESTO
 - v. From 2021 to 2027, at a rate of six per cent of revenue collected through PRESTO
 - vi. Harmonized Sales Tax would be added to all rates

Approval of a New PRESTO Agreement
Between York Region and Metrolinx

- c) Metrolinx would provide additional 905 transit agency requirements, known as Common Core Services, maturing at three per cent of revenue collected through PRESTO.
 - d) Metrolinx will procure equipment and services, to the extent possible, through open and competitive processes.
 - e) PRESTO would be governed by a management group comprised of six representatives – PRESTO co-chair, one from Metrolinx Operations, one from the Toronto Transit Commission (TTC), one from OC Transpo, and two representing the 905 municipalities.
 - f) 905 Transit Agencies would form a "buyer's group" to select their representative on the management group and to develop common positions for their representative.
 - g) Metrolinx would establish a leadership group comprised of the President and Chief Executive Officer of Metrolinx and the City Managers/Chief Administrative Officers of the participating municipalities, as a body to resolve any escalation of disputes emanating from the management group.
 - h) Metrolinx would bear the capital costs of developing functionality for an agreed list of items not yet delivered under the current agreement.
 - i) 905 Transit Agencies would be responsible for capital costs associated with PRESTO equipment and all parties will pursue available subsidies to offset these costs.
 - j) Should Metrolinx offer a more favourable agreement to any 905 Transit Agency, Metrolinx would be required to offer the same terms and conditions to the Region.
2. The General Manager of York Region Transit (YRT/Viva) be authorized to perform any action, and provide any required recommendations, instructions and approvals to PRESTO Committees, on the Region's behalf, to complete the operation within the scope and budget of the new PRESTO agreement.
3. The Commissioner of Transportation Services be authorized to execute the agreement.

Report dated March 30, 2017 from the Commissioner of Transportation Services now follows:

1. Recommendations

It is recommended that:

1. Council authorize the execution of a new PRESTO agreement with Metrolinx to continue the ongoing use and evolution of the PRESTO Smart Card System in accordance with the following principles:
 - a) A 10-year agreement period, from October 27, 2017 to November 27, 2027
 - b) Metrolinx would provide a service model based on a core set of services required by all PRESTO participating agencies. Starting January 1, 2018, an annual commission adjustment over a four-year period would be applied based on the delivery of core services provided by Metrolinx to an upper limit of six percent. Implementation would be as follows:
 - i. For 2017, at a rate of two per cent of revenue collected through PRESTO
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 - iii. For 2019, at a rate of four per cent of revenue collected through PRESTO
 - iv. For 2020, at a rate of five per cent of revenue collected through PRESTO
 - v. From 2021 to 2027, at a rate of six per cent of revenue collected through PRESTO
 - vi. Harmonized Sales Tax would be added to all rates
 - c) Metrolinx would provide additional 905 transit agency requirements, known as Common Core Services, maturing at three per cent of revenue collected through PRESTO.

Approval of a New PRESTO Agreement
Between York Region and Metrolinx

- d) Metrolinx will procure equipment and services, to the extent possible, through open and competitive processes.
 - e) PRESTO would be governed by a management group comprised of six representatives – PRESTO co-chair, one from Metrolinx Operations, one from the Toronto Transit Commission (TTC), one from OC Transpo, and two representing the 905 municipalities.
 - f) 905 Transit Agencies would form a "buyer's group" to select their representative on the management group and to develop common positions for their representative.
 - g) Metrolinx would establish a leadership group comprised of the President and Chief Executive Officer of Metrolinx and the City Managers/Chief Administrative Officers of the participating municipalities, as a body to resolve any escalation of disputes emanating from the management group.
 - h) Metrolinx would bear the capital costs of developing functionality for an agreed list of items not yet delivered under the current agreement.
 - i) 905 Transit Agencies would be responsible for capital costs associated with PRESTO equipment and all parties will pursue available subsidies to offset these costs.
 - j) Should Metrolinx offer a more favourable agreement to any 905 Transit Agency, Metrolinx would be required to offer the same terms and conditions to the Region.
2. The General Manager of York Region Transit (YRT/Viva) be authorized to perform any action, and provide any required recommendations, instructions and approvals to PRESTO Committees, on the Region's behalf, to complete the operation within the scope and budget of the new PRESTO agreement.
3. The Commissioner of Transportation Services be authorized to execute the agreement.

2. Purpose

This report requests Council authorization to enter into a new 10-year agreement with Metrolinx for the continued participation in the PRESTO Smart Card System (PRESTO).

3. Background and Previous Council Direction

PRESTO was created to facilitate seamless inter-regional transit travel throughout the Greater Toronto and Hamilton Area (GTHA)

[In June 2006](#), Council authorized the Region to commit funding for the implementation of PRESTO and enter into an operating agreement with the Ministry of Transportation Ontario.

The current Operating Agreement was approved by Council in June 2006 for an initial 10-year term (2006 to 2016), and is between the Province of Ontario, the City of Ottawa and GTHA municipalities, excluding the Toronto Transit Commission (TTC).

The PRESTO Operating Agreement establishes the roles and responsibilities and governance structure; it defines the mechanism for all involved parties to address ongoing operating requirements of PRESTO.

The initial cost to implement PRESTO was jointly-funded by the Ministry of Transportation Ontario and participating GTHA municipalities.

The MTO funded 100 per cent of the initial capital cost, and ongoing operating costs for the common central system required to operate PRESTO. They also funded 33 per cent of the initial capital cost for each transit system. This included on-bus and remote devices located at York Region Transit (YRT/Viva) bus garages, terminals and viva stations. The transit agencies are then responsible for the ongoing operating costs of PRESTO on their systems.

YRT/Viva implemented PRESTO in July 2011; the initial 10-year term was set to expire on October 27, 2016

In 2015, the 905 Transit Agencies requested the Province to extend the existing agreement for three years under the same terms and conditions, following the prescribed process documented within the PRESTO Operating Agreement.

In March [2015](#), Council authorized staff to seek renewal of the current PRESTO Operating Agreement for an additional three years, from October 27, 2016 to October 27, 2019.

The Operating Agreement includes provision for three renewal terms of three years each, subject to the agreement of all parties to extend the agreement following a process described within the agreement.

Approval of a New PRESTO Agreement Between York Region and Metrolinx

In September 2015, the 905 Transit Agencies sent a joint letter, with the appropriate resolutions, formally notifying Metrolinx that their respective Councils and Boards had authorized renewal of the current Operating Agreement.

In February 2016, the 905 Transit Agencies received written notification from PRESTO acknowledging the request for the three-year extension, but also expressing a preference to develop an agreement with a revised business model for PRESTO.

In June 2016, Council received a report advising of the Ministry of Transportation's decision to not extend the current PRESTO Operating Agreement beyond October 27, 2016.

The Province committed to a 12-month extension of the current agreement under the same terms and conditions

The Province committed to a 12-month extension of the current agreement to October 2017, under the same terms, conditions and costs, and contingent upon the execution of an agreement in principle, by October 27, 2016.

Significant efforts were made to meet the October 2016 deadline; however, additional work was required. Additional extensions have allowed further discussion of the principles of a new agreement and given all seven 905 municipalities time to obtain necessary Council approvals.

4. Analysis and Implications

PRESTO is an operating division of Metrolinx, and an essential component of an integrated transit fare system in the Greater Toronto and Hamilton Area

PRESTO enhances public transit in the GTHA by making fare payment easier, and allowing for seamless travel between transit systems when crossing municipal boundaries, by using a smart card. By eliminating the need for tickets and cash fare, PRESTO is making transit payment simple, fast and secure.

The 905 Transit Agencies, and the TTC, have made investments to implement PRESTO technology and equipment to allow for seamless travel across the GTHA, without needing familiarity of the different fare systems.

Approval of a New PRESTO Agreement Between York Region and Metrolinx

PRESTO and the 905 Transit Agencies have negotiated a 10-year Agreement-in-Principle, for a new service model

Under the new service model, services and associated pricing structure would be based on a core set of services that all transit agencies use and for which the operating costs would be shared among all participating transit agencies, including Brampton, Burlington, Durham Region, Hamilton, Mississauga, Oakville, Ottawa, Toronto, GO Transit and York Region.

There is also an optional set of common core services for which the operating costs would be charged directly to the transit agencies that opt to purchase them.

PRESTO would continue to provide the 905 transit agencies with core services at a cost ranging from two per cent to six per cent

PRESTO would continue providing the operation and maintenance of the common central system that manages all PRESTO card transactions, and provide fare and customer data.

Since 2011, the Region has paid PRESTO two per cent of the revenue collected through PRESTO for this service. Under the new agreement, the percentage of commission paid to PRESTO would transition from two per cent, beginning October 27, 2017, to six per cent in 2021, and to the expiry of the agreement in November 2027.

Additional Common Core Services deployed by PRESTO for seven 905 transit providers would cost up to an additional three per cent once the new equipment is installed

Common Core Services are a common set of specifications for equipment and services to be deployed on transit agencies preferring a fully managed PRESTO fare card system. Common Core Services include items such as transit agency specific third party retail support; management of device procurement, device installation and maintenance; network hosting and operations; and training.

The Common Core Services are to be provided by Metrolinx at up to three per cent of the revenue collected through PRESTO. In the event goods or services, purchased through a competitive bid process, require a contribution larger than the estimated three per cent, Metrolinx will assume the first 0.5 per cent pricing risk. Metrolinx would initiate discussion with the transit agencies to develop strategies to address affordability for costs exceeding 3.5 per cent.

Any material changes required by the Region to the Common Core Services would be designated as optional and would be at additional cost.

Approval of a New PRESTO Agreement
Between York Region and Metrolinx

Table 1 provides a summary of the commission that GTHA transit agencies would pay Metrolinx once the entire PRESTO fully-managed service is implemented.

Table 1
Commission and other costs attributable to transit agencies

Transit Agency Participants	Commission for Core Services (% of revenue)	Commission for 905 Common Core Services (% of revenue)
TTC*		4.65
905 Transit Agencies	6	3
GO Transit*	6	Managed by GO Transit
OC Transpo*	6	Managed by OC Transpo

*Under a separate agreement

Variance in transit agency collection processes, outside of the GTHA, has made an accurate cost comparison difficult. However, based on YRT/Viva's current fare collection costs at approximately 7.5 per cent, and in comparison to other transit agencies e.g. London Transit's Oyster Card (ridership being 1.3 billion annually), that operate a fully-managed smart card service at eight per cent, the negotiated nine per cent for a fully-managed smart card system is reasonable.

Metrolinx would pay for upgrading the current PRESTO system technology

Metrolinx has committed to the ongoing evolution of PRESTO to address new industry developments. Metrolinx will develop business cases for new technology, with input from the transit agencies, and introduce them subject to approvals and the availability of funding.

A PRESTO system upgrade called eCredentials would be paid for by Metrolinx. Costs for establishing the eCredentials system include: hardware, software, configuration and set-up of the central system. The system upgrade would permit PRESTO to include new products such as limited use media and specialized fare passes. The Region would be responsible for administrative and implementation costs of all new products.

Approval of a New PRESTO Agreement Between York Region and Metrolinx

Under the new agreement, each transit agency would be responsible for the capital cost to equip fleet and facilities – including upgrades to existing equipment

The 905 Transit Agencies were the first to adopt PRESTO. The current PRESTO equipment has served its useful life and needs to be replaced. As well, the contract with the current vendor, Thales, expires in October 2019. New equipment would allow YRT/Viva to implement traveller payment options such as open and mobile payment, specialized passes, and limited use media.

Metrolinx would manage the equipment procurement process and the equipment would be purchased through an open and competitive processes.

Metrolinx would engage the 905 transit agencies in a collaborative process as the scope of work is defined, procurement strategies are developed and implemented, and contracts with the Transit Agencies are entered into.

Installation of the new equipment is anticipated to be completed for all 905 transit systems by the end of 2019.

A new Governance model would be put in place to clearly identify where decisions are to be made and accountabilities

PRESTO will be governed by a management group comprised of six representatives, PRESTO's co-chair, one from Metrolinx Operations, one from the TTC, one from OC Transpo, and two representing the 905 municipalities.

The 905 Transit Agencies would form a "buyer's group" to select their representative on the management group and to develop common positions for their representative.

Sub-committees would be formed to address specific topics such as business solutions and procurement needs.

As well, an annual review of the PRESTO program would evaluate progress and any adjustments that need to be made. The annual review would be an opportunity to evaluate performance and progress of Metrolinx, PRESTO, and the transit agencies in achieving the agreed objectives.

5. Financial Considerations

The current annual cost of PRESTO is approximately \$1.5 million; traveller adoption rate on YRT/Viva has reached approximately 30 per cent

PRESTO use on YRT/Viva is only 30 per cent due to customers travelling on TTC in York Region and not being able to use PRESTO on TTC buses at this time. It is anticipated the YRT/Viva usage rate for PRESTO will grow incrementally once the TTC is fully functional with PRESTO in 2017, with a future target of 80 per cent.

Table 2 shows an estimated cost impact to YRT/Viva once the full implementation of the new PRESTO agreement is in place, at up to nine per cent commission.

Table 2
PRESTO cost based on 2016 YRT/Viva ridership of 22.4 million

	Current 2 per cent cost at 30 per cent customer usage	Full Implementation 9 per cent cost at 60 per cent customer usage (estimated 2021)	Full Implementation 9 per cent cost at 80 per cent customer usage
Commission fees (per year) – Operating	\$0.41 million	\$3.7 million	\$ 4.9 million
Maintenance and support (per year) – Operating	0.33 million	0.0 million	0.0 million
Device refresh costs (annualized) – Capital	0.76 million	0.76 million	0.76 million
On-going device costs, new buses, new stations (annualized) – Capital	0.0 million	0.38 million	0.38 million
Total	\$1.50 million	\$4.84 million	\$6.04 million

Approval of a New PRESTO Agreement
Between York Region and Metrolinx

Approximately \$11.4M in capital costs are currently forecast to meet the expected needs. The Council-approved Transportation Services Capital Program includes approximately \$5M in 2018-2020 for device refresh. Metrolinx and the 905 Transit Agencies would work together to develop a business case for funding the new equipment by all levels of government. If unsuccessful in receiving funding from other levels of government, additional capital budget would be needed for device refresh and would be proposed as part of future budget processes.

Additional pressure in 2018 due to increased commission rate would be addressed as part of the 2018 budget process. Anticipated increases in the gas tax funding by the provincial government could be used to help offset the increased commission rate of PRESTO starting 2019.

Participation in PRESTO is required to receive provincial gas tax funding

The Region currently receives \$15.3M annually from the provincial Gas Tax Fund. To continue to receive this funding, the Province requires the GTHA transit agencies to participate in PRESTO.

On January 27, 2017, the Province announced its intention to increase gas tax dollars for public transit, starting in 2019. Between 2019 and 2022 it is estimated the Region would receive a gradual increase in gas tax dollars from \$19 million in 2019 to \$30 million in 2022, as shown in Table 3.

Table 3
York Region Provincial Gas Tax Funding

	Current	2019	2020	2021
Cents per litre	2.0	2.5	3.0	4.0
Provincial gas tax funding estimates (\$M)	\$15.3	\$19.1	\$23.0	\$30.6
Increase by (\$M)	\$0.0	\$3.8	\$3.9	\$7.6

Provincial gas tax revenues currently help fund transit operating expenditures of \$197M annually. The increased gas tax funds could help offset the additional cost of PRESTO under the new agreement.

6. Local Municipal Impact

PRESTO has enhanced public transit as a transportation option by making payment easier, and would support future fare integration initiatives. PRESTO is anticipated to support the transit modal split objectives of the Region, and the local municipalities for a more sustainable transportation system.

7. Conclusion

The existing PRESTO Operating Agreement has been extended to October 26, 2017, and the successor agreement would be for 10 years from October 27, 2017 to November 27, 2027.

The GTHA transit agencies continue to work with Metrolinx to develop the new PRESTO Operating Agreement and arrive at a future governance model in the best interest of all parties.

It is anticipated that the new agreement will be based on the agreed upon principle highlighted in this report and will be executed prior to the October 26, 2017 deadline.

Fare integration, while not part of this agreement, is critically dependent upon an evolving PRESTO smart card system.

For more information on this report, please contact Ann-Marie Carroll, General Manager, York Region Transit at 1-877-464-9675 ext. 75677.

The Senior Management Group has reviewed this report.

March 30, 2017

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