

Elimination Of Adult Tickets

Meeting Date: June 18, 2008

Subject: Elimination Of Adult Tickets

Recommendation

It is recommended that:

- Adult tickets be eliminated and the Commission authorize \$3.5 million in unbudgeted expenditures as detailed below, due to the influx of high quality counterfeits from offshore, and the lack of a technically viable or cost-effective short-term production or equipment based solution; and
- The Commission implement a long-term fare media strategy with the ultimate goal of 100% automatic verification of fare media at point of use.

Funding

Based on results to date in 2008, fare revenue losses due to Adult ticket counterfeiting could reach \$5 million by year-end if no action is immediately taken. It is estimated fare revenue losses will be reduced by between \$0.5 million and \$1 million in 2008 and in the range of \$3 million to \$4 million annually thereafter. Elimination of Adult tickets will require one-time unbudgeted operating and capital expenditures of approximately \$3.5 million in 2008. It is estimated that future annual operating costs will increase by \$150,000 net of the reduction in ticket production and processing costs. Appendix A provides details on the various costs and workforce impacts. Inclusive of depreciation, it is estimated that the incremental Operating Budget expense will be approximately \$500,000 per year.

Background

An analysis of ridership shows that in 2007, approximately 30% of riders used either Adult tickets or tokens, with each type of fare media making up about 50% of that volume. The TTC is unique in that it is the only major transit property in North America that currently offers adult riders the choice of either tickets or tokens as the base fare media. TTC fare media has always been subject to counterfeiting although due to the various security features incorporated in fare media design and production, historically the quality of counterfeits has been poor and the volumes relatively low. However, at the end of 2007 high quality counterfeits of adult tickets from a number of offshore producers were identified. Until the recent introduction of the offshore counterfeits, the percentage of counterfeit tickets was in the range of 0.4% over the last 3 years - it has now jumped to over 1.5% in 2008 and the TTC is incurring monthly fare revenue losses in excess of \$300,000. The current versions of counterfeits are of very high quality and counterfeiters have been able to duplicate a number of the core anti-

counterfeiting measures. The volume of counterfeit tickets has continued to grow during the first four months of 2008, and it is estimated that fare revenue losses could reach \$5,000,000 by the end of the year if no action is immediately taken.

Discussion

Staff assessed both production and equipment based technologies as potential solutions to address the adult ticket counterfeiting issue. New production technologies (which are related to the physical printing of the tickets), assessed by staff included holographic applications, secure and readable inks, bar code applications, proprietary secure document features and radio frequency identification. None of the potential solutions were deemed viable due to either the ability of counterfeiters to replicate the features or prohibitive costs to implement. Equipment technologies assessed by staff were focused on providing machine verification of fare media at the point of use and removing operating personnel from the verification process to the greatest extent possible. Preliminary analysis indicated that validating (registering) fareboxes could provide the TTC an optimal solution. However, the issue with this approach is length of time to implement which would be at least two years and the initial capital cost which has been estimated in the range of \$55 million to \$60 million.

As the adult ticket counterfeit issue must be addressed now, staff has developed a multi-year fare media strategy to provide a framework for immediate action as well as direction over the longer-term with the ultimate goal of 100% automated verification of fare media at point of use. The key elements of the strategy are provided below.

Short Term (Immediate)

- As there is no immediate production or equipment based solution, adult tickets will be eliminated as per timeline provided below.
- The timeline reflects the existing inventory of tokens and the lead time to acquire new stock, the acquisition of new equipment and the implementation of new processes and activities to manage the much higher weight of tokens. A phased approach for eliminating tickets from the two distribution channels is based on the level of token inventory available and the TTC's ability to manage its internal resources more effectively. Two locations are being proposed for the exchange of adult tickets for tokens, as the vast majority of riders do not stockpile tickets which means riders will be able to use up their inventory of tickets in the regular course of travel and will not require an exchange.
- Monday June 23 - Rollout of comprehensive communication/marketing plan
- Sunday June 29 - Last day Adult tickets are sold at Ticket Agents
- Saturday September 6 - Last day Adult tickets are sold at Collector booths
- Monday September 15 - Adult ticket for token exchange process begins at MDP Office & Yonge/Bloor Subway

- Sunday September 28 - Last day Adult tickets are accepted as valid fare media
 - Friday October 31 - Last day for Adult ticket exchange
- Medium Term (6 months to 2 years)
- Adapt turnstile acceptors for use on fareboxes (bus and rail)
 - Assess options for senior/student fare media
 - Assess feasibility of registering fareboxes
 - Assess fare media verification policies
- Longer Term (2 years +)
- Implement system solutions that eliminate visual verification of fare media

Justification

The TTC is facing significant fare revenue losses in 2008 from the influx of large quantities of high quality counterfeit Adult tickets which requires immediate action. As there are no viable short-term technical solutions available, the TTC must eliminate the adult ticket, and use only the token as the fare media for adult bulk fares. This action will require an unbudgeted one-time expenditure of \$3.5 million. It is estimated that the annual net benefit to the TTC will be in the range of \$3-4 million providing the TTC a payback of one year or less. In order to achieve the goal of 100% automated fare media verification and minimize the TTC's future financial risks related to fare media, staff will proceed with the elements of overall fare media strategy listed above.

June 2, 2008

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Attachment