

TORONTO TRANSIT COMMISSION REPORT NO.

MEETING DATE: June 2, 2010

REPORT TITLE: PROCUREMENT AUTHORIZATION – AUTOMATIC FARE
COLLECTION – OPEN PAYMENTS

ACTION ITEM

RECOMMENDATION

It is recommended that the Commission:

1. Authorize the award of a Contract to The KMA Group, LLC (KMA Group) in the upset limit amount of \$1,300,000.00 on the basis of sole source for consulting services in connection with the development of a public-private partnership agreement for an open standard-based fare payment system for Phases 1 and 2, subject to terms and conditions acceptable to the TTC General Counsel and Chief General Manager; and
2. Forward this report to City Council through the Executive Committee, seeking confirmation of funding under the GTA Farecard project.

FUNDING

While funds of \$140 million were included under Program 5.2 Integrated Ticketing System – GTA Farecard Project (as outlined on pages 1171-1173) in the TTC 2010-2014 Capital Program as approved by City Council on December 8, 2009, this funding was subject to completion of a satisfactory business case under the Canada Strategic Infrastructure Fund Contribution Agreement. No funds were included in the GTA Farecard project for any scope related to open payments.

This report will be forwarded to the City of Toronto, seeking confirmation of funding under the GTA Farecard project, to be provided from the City of Toronto

BACKGROUND

At its meeting of May 6, 2010, the Commission approved authorizing staff to engage a consultant to assist the TTC to develop a business case for open payments fare collection, and to work with TTC to solicit and evaluate proposals from prospective partners, as well as to implement the proposed solution for an open fare system.

DISCUSSION

The Consultant requires a range of specific skill sets, including:

- Expertise in transit and transit fare collection;
- Detailed business and technical knowledge of open payments and its implementation in a transit environment;
- Comprehensive understanding of the financial industry and the issues related to transit fare collection;
- Demonstrated skills in negotiating complex business partnerships between transit and the financial/fare collection industry; and
- Ability to work at a detailed level but able to effectively communicate with senior transit officials and politicians.

The Consultant also requires a strong understanding of the TTC, its approach to automatic fare collection, and the PRESTO smartcard system. This background is necessary because the project will need to determine how open payments could be implemented to meet TTC customer and business needs and what the relationship would be between an open payments system and the PRESTO smartcard system.

KMA Group (more specifically Mr. Korczak) is considered a recognized expert in this field and has the combination of skills necessary to be successful in this project. Mr. Korczak has over 25 years experience with New York City Transit (NYCT), with a range of responsibilities related to NYCT's fare collection system. Mr. Korczak has also been a leading North American transit authority on open payments and was instrumental in the work that NYCT has done in piloting the implementation of open payments over the past few years. This work at NYCT has involved extensive negotiations with potential business partners in the financial payments industry. During this time, Mr. Korczak has also performed peer reviews on transit fare payment with numerous transit systems worldwide. Mr. Korczak recently retired from NYCT and is now a principal with KMA Group. In this role, he is currently working with both Chicago Transit and SEPTA in Philadelphia to lead them through the procurement process to develop their business model for open payments and to negotiate agreements with potential third parties necessary to support the implementation of open payments at these properties.

Over the last 16 months, Mr. Korczak has also developed a good knowledge of both the TTC approach to automatic fare collection and the PRESTO smartcard system. During his time at NYCT, the TTC had extensive dialogue with Mr. Korczak to better understand open payments. As a result of these exchanges, he gained a good understanding of the TTC's fare collection business needs, the PRESTO system, and the issues and challenges facing the implementation of open payments at the TTC. Therefore, in addition to having the necessary expertise and qualifications to perform the work, Mr. Korczak is able to complete the work required in a shorter duration due to similar work performed and his familiarity with the needs

of the TTC.

Based on previous work with Chicago and Philadelphia, Mr. Korczak has outlined the following three phased approach:

Phase 1 – Delivery of a Business Plan Outline

Phase 2 – Development and Execution of a Managed Bid Process

Phase 3 – Project Management support and Implementation

The phased approach reflects a fundamental premise that the key issue in moving to open payments is not technical. An open payments system is based on proven technology that is to be adapted to the transit environment. The key outcome from the procurement process is the development of a business model and relationships with third parties that will enable an open payments system to be developed, implemented and operated at the TTC in a cost effective and business supportive manner.

Phase 1 is important to develop the preliminary business case and ensure that key stakeholders gain a greater understanding of the potential costs, benefits and impacts of moving to an open payments system. This will help to reaffirm the role that open payments should play in the TTC's future fare collection system. This Phase will also provide the TTC the opportunity to define the parameters for a future business model that includes private partners. At the end of Phase 1, a decision will be made whether to proceed to Phase 2.

Phase 2 is the key step in that it finalizes the business case for open payments at TTC and involves the development of procurement documents based on this. Further, this Phase includes all procurement related activities, including the negotiation of a contract with the potential private partners. At the end of Phase 2, the Commission would review the contract and make a determination on whether to proceed with the contract or not. Should the Commission approve the contract developed in Phase 2, the implementation of the open payments system at TTC would occur in Phase 3. This may include a pilot phase.

The staged approach provides the Commission the opportunity to review the progress of the project at key points in the process. There would be no commitment to implementing an open payments system unless the business model and agreements established in Phases 1 and 2 are acceptable to the Commission. For this reason, staff recommends awarding a contract for Phase 1 and 2 with the option to exercise Phase 3 after successful completion of Phase 2 subject to negotiated rates, at the sole discretion of the Commission. Authorization to proceed with the optional Phase 3 would be subject to further Commission approval.

There are significant issues and challenges that will need to be addressed during Phases 1 and 2. The TTC must fully understand how adopting an open payments system will impact customers, and existing TTC operations and business processes. There are significant questions that will need to be addressed prior to a decision about implementing open

payments at the TTC. Many of these relate to the role that the private business partners may play in a future TTC fare collection system. Phases 1 and 2 will need to provide the time for the Commission to address these and other policy and business questions appropriately.

The overall schedule for Phases 1 and 2 has not been finalized. During preliminary discussions with Mr. Korczak, he has indicated that it may be possible to complete Phase 2 by October, 2010. This is an aggressive schedule that will need to be confirmed during detailed discussions with Mr. Korczak.

The Province of Ontario has been advised of the Commission direction regarding open payments. The Province has restated its commitment to implementing the PRESTO system within the GTAH and Ottawa. The approach to open payments outlined in this report does not change the Commission direction regarding PRESTO that was approved at the November, 2009 Commission meeting. TTC staff will continue to undertake discussions with the Province to develop operating and financial agreements necessary to resolve the issues outlined in that report.

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