SUBJECT: GTA Fare System Project
Rationalization of HSR Bus Pass and Ticket Vendor Network
(PW04117c) - (City Wide)

RECOMMENDATION:
That the General Manager of Public Works be authorized and directed to undertake a rationalization of the HSR Bus Pass and Ticket Vendor Network for implementation of the GTA Fare System in 2009.

Scott Stewart, C.E.T.
General Manager
Public Works

EXECUTIVE SUMMARY:
The Recommendation within this report is intended to allow staff to carry out necessary steps to rationalize the HSR bus pass and ticket vendor network in preparation for implementation of the GTA Fare System between now and 2009.

Rationalization of the HSR vendor network is necessary to bring HSR into alignment with other GTA Service Providers, whose current and anticipated networks are much smaller than that employed by HSR. Fare structure alignment and vendor network rationalization are among the key activities of the GTA Fare System Project which are being undertaken cooperatively with the other Service Providers. While there are about 180 existing HSR bus pass and ticket vendors, the future number under the GTA Fare System will be approximately ninety.
The process staff will undertake to rationalize the network will include the issuance of requests for Expression of Interest (EOI) from those existing and potential vendors interested in being a GTA Fare System Third Party Agent (TPA), and the selection of proponents based on a system of ranking to be determined prior to issue of the requests for EOI, but taking into account such criteria as geographic location within Hamilton, past performance with HSR, and willingness to operate under GTA Fare System terms and conditions.

While there will be no immediate impact on existing vendors, and each of these will have an opportunity to apply to become a Third Party Agent under the GTA Fare System, it may be expected that some vendors will react negatively to the impending loss of their status as sales agencies. While the vendors currently only attract a relatively modest commission of 1%, the more important consideration is that the transit users are compelled to come to their stores to purchase their bus tickets and as such the retail outlet benefits from these individuals purchasing additional goods from them.

Implementation of the recommendation in this report will result in a GTA Fare System Project capital cost reduction for HSR of $220,000; and will further result in future operating cost savings for HSR of $930,000 over the ten year GTA Fare System Agreement. All capital and operating costs referred to in this report are as previously approved by Council under Reports PW04117a and PW04117b.

**BACKGROUND:**

The information/recommendations contained within this report have City wide implications and relate to matters/facilities/programming/property within the entire City.

HSR maintains a network of vendors that distribute HSR bus tickets and monthly bus passes to the public; there are approximately 180 stores and other institutions dispersed widely throughout the City. The network has been in place for about thirty years, substantially in the form that it is today. Vendors apply to HSR to sell tickets and passes, and are approved where HSR requires further network coverage to serve the public. HSR maintains contracts with each of these vendors, and pays a uniform 1% commission on sales. Most vendors pay for tickets as they receive them, and are issued with monthly passes on consignment. Most vendors pay HSR by means of cash or cheque, with a limited number set up on an Account Receivable basis. Many vendors order and sell only the minimum volume which allows them to maintain their status with HSR.

As previously reported to Council in Reports PW04117a and PW04117b, HSR will be implementing the GTA Fare System over the next three years, along with all other 905 area code municipalities and GO Transit, in a project lead by the Province. HSR will be receiving 1/3 capital funding assistance from the Province.

A common set of fare standards are being adopted by the participants, and a common form of fare payment will be in use through stored value on a Farecard. For those HSR users who currently purchase tickets and monthly bus passes, this will mean that they will be able to load value on to their Farecard at any Agency throughout the GTA and Hamilton, as well as by pre-authorized automatic loading, and ad hoc phone and internet purchase.
Staff believe that the GTA Fare System’s capability to load value through pre-authorized automatic reload, internet and Central System phone access; complemented by a widened network of sales Agencies throughout the GTA, including those in Hamilton, allows for an overall reduction in the number of dedicated Agencies within Hamilton itself.

Participants in the GTA Fare System have agreed that central management of the Third Party Agency (TPA) network will be employed, with the Central System Manager providing centralized system support and infrastructure, and holding common contracts with each Agency. This is expected to result in lowest cost and best, most consistent quality of sales network to serve the public. Each municipality will select and nominate Agencies for retention, each of whom must enter into and abide by the terms of the Central System Manager. Hamilton has the largest TPA network, by any observable measure, of any of the participating municipalities. With a wider variety of purchase options available to users, there is a lesser need to maintain as large a TPA network as Hamilton currently has. Participation in the GTA Fare System presents both an opportunity and a need for rationalization of the size of the network in Hamilton.

While the existing cost of servicing the public through the HSR network is largely fixed through the Transit staffing and infrastructure required, and does not vary greatly as Agencies are added or deleted, the future cost of fare sales through the GTA Fare System will be directly proportional to the size of the TPA network maintained. There will be a fixed capital cost of supplying and setting up each Agency within the municipality with a sales terminal, and a further monthly operating cost for the management of those terminals and Agencies by the Central System Manager.

Through review of the practice at other participating municipalities, review of the likely necessary distribution of sales outlets within the City, and an analysis of capital and longer term operating costs, Transit staff has determined that the existing network must be reduced by at least half to be operationally sustainable within expected budgets.

For each Agency in Hamilton, HSR must bear the capital and ongoing operating costs. In developing the Business Case for HSR participation in the GTA Fare System, staff had assumed retention of as many as 150 Agencies, including Municipal Service Centres and institutions, such as McMaster University and the Hamilton Wentworth District School Board, that assist HSR in the delivery of specialized programs. The Recommendation within this Report will result in a lesser number of Agencies being retained than had been anticipated within the Business Case, with an optimal maximum number of ninety being set as the target. This would still maintain a sales network within Hamilton that is as large, or larger, than those in other participating municipalities.

The capital cost per unit to HSR to purchase and implement each terminal is about $4,500, and the annual operating cost of each terminal to HSR within the current project budget, is about $1,100. Staff estimates that reducing the Third Party Agency (TPA) network to approximately 75 Agencies and approximately fifteen institutional partners, or ninety total units, will yield a reduction in anticipated HSR GTA Fare System Project capital costs (see Table 1 below), and a saving in future annual HSR operating costs (see Table 2 below) after GTA Fare System implementation.

Under the TPA design for the GTA Fare System, each Agency will be responsible to:
- act as a Fare Card issuer and collect the Fare Card issuance fee;
hold sufficient stock of Fare Cards to meet customer demand;
coordinate stock requirements with the Central System Manager;
load value or period passes to Fare Cards;
distribute Fare Card instructions, and applications for Fare Card Registration, Auto-
load, and Requested Reload;
provide Fare Card holders with a balance of value and/or period pass expiry date;
accept cash payments for value or passes loaded on the Fare Card, and may offer
debit and credit payment options at their discretion;
be paid a 5% commission on all Fare Cards issued;
be paid a 1% commission on all value or passes loaded to Fare Cards;
meet and maintain specific credit criteria established by the GTA Fare System and
set out in the TPA Contract;
sign and operate under the terms of the TPA Contract, such Contract to be
administered by the Central System Manager; and
pay the Central System for all GTA Fare Card transactions carried out, net of
applicable fees and commissions, through the Agency’s nominated bank account by
means of pre-authorized debit on a daily settlement basis.

ANALYSIS/RATIONALE:
Through the implementation of the approach recommended within this report, HSR will
achieve a project capital cost reduction and future operating cost savings.
The following tables outline Project capital costs and ongoing ten year operating costs
associated with the Third Party Agency (TPA) network, based on the network levels
budgeted within the existing GTA Fare System project business case for HSR, and the
network levels resulting from the approach recommended within this report.

Table 1: Capital Costs

<table>
<thead>
<tr>
<th>Costs Under Current Project Budget</th>
<th>Costs Resulting From Report Recommendation</th>
<th>Project Capital Cost Reduction</th>
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</thead>
<tbody>
<tr>
<td>Capital Cost - TPA Terminal Development Fee and Unit Set-Up</td>
<td>$320,000</td>
<td>$190,000</td>
</tr>
<tr>
<td>Capital Cost - Purchase of TPA Terminals (net of Provincial subsidy)</td>
<td>$220,000</td>
<td>$130,000</td>
</tr>
<tr>
<td><strong>Total Capital Cost</strong></td>
<td><strong>$540,000</strong></td>
<td><strong>$320,000</strong></td>
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Table 2: Ten Year Operating Costs

<table>
<thead>
<tr>
<th>Costs Under Current Project Budget</th>
<th>Costs Resulting From Report Recommendation</th>
<th>Future Operating Cost Savings</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ten Year TPA Equipment Technical Support</td>
<td>$1,740,000</td>
<td>$1,580,000</td>
</tr>
<tr>
<td>Ten Year TPA Management Fee</td>
<td>$430,000</td>
<td>$210,000</td>
</tr>
<tr>
<td>Ten Year TPA Support Services</td>
<td>$1020,000</td>
<td>$470,000</td>
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ALTERNATIVES FOR CONSIDERATION:

Council could direct that staff not rationalize the existing vendor network maintained by HSR, resulting in a larger Third Party Agency network being maintained in Hamilton under the GTA Fare System, with the corresponding capital and operating budget implications outlined within the Analysis/Rationale section of this Report.

FINANCIAL/STAFFING/LEGAL IMPLICATIONS:

The financial implications of the recommendations within this report are a one-time project capital cost reduction of $220,000; and future annual operating cost savings of $93,000, after implementation of the GTA Fare System in Hamilton.

There are no staffing implications associated with the recommendations.

There are no legal implications associated with the recommendations.

POLICIES AFFECTING PROPOSAL:

There are no policies affecting this proposal.

RELEVANT CONSULTATION:

Finance & Corporate Services staff were involved in the preparation of the report.

CITY STRATEGIC COMMITMENT:

By evaluating the “Triple Bottom Line”, (community, environment, economic implications) we can make choices that create value across all three bottom lines, moving us closer to our vision for a sustainable community, and Provincial interests.

Community Well-Being is enhanced. ☑ Yes  ☐ No
Participation in the GTA Fare System, utilizing the approach described, will provide a positive benefit to the community through broad access to Transit fares and interoperability with other GTA Transit providers.

Environmental Well-Being is enhanced. ☑ Yes  ☐ No
Improved means of access to local and other GTA Transit systems leads to greater transit use, resulting in a positive environmental impact.

Economic Well-Being is enhanced. ☑ Yes  ☐ No
The Transit fare program is maintained at a favourable and sustainable cost level over the 10 years or more of expected participation in the GTA Fare System.

Does the option you are recommending create value across all three bottom lines? ☑ Yes  ☐ No
Community, environmental, and economic impacts are positive.

Do the options you are recommending make Hamilton a City of choice for high performance public servants? ☐ Yes  ☐ No
N/A