Agenda - Council – July 20, 2011

Report – Standing Policy Committee on Infrastructure Renewal and Public Works – July 14, 2011

Item No. 1 Winnipeg Transit Automatic Fare Collection System Project

STANDING COMMITTEE RECOMMENDATION:

On July 15, 2011, the Executive Policy Committee concurred in the recommendation of the Standing Policy Committee on Infrastructure Renewal and Public Works submits the following to Council:

1. That the Chief Administrative Officer be delegated the authority to award a contract exceeding $10,000,000 for the Automatic Fare Collection System.

2. That the 2011 Capital Budget for the Transit Fare Collection System be increased by $2.5 million and that funding in this amount be transferred to this project as follows:

   A. $1,000,000 from surplus in the approved 2011 Transit Buses Capital Project; and

   B. $1,500,000 from the Transit System Fund's retained earnings.

3. That three additional Full Time Equivalent positions of Wireman/Bus Electronics Technician be approved to maintain the new fareboxes (one in 2012 and two in 2013) and that funding for these positions be referred to the 2012 to 2014 operating budget process.

4. That the Proper Officers of the City be authorized to do all things necessary to implement the foregoing.

Report - Standing Policy Committee on Infrastructure Renewal and Public Works – July 14, 2011

DECISION MAKING HISTORY:

EXECUTIVE POLICY COMMITTEE RECOMMENDATION:

On July 15, 2011, the Executive Policy Committee concurred in the recommendation of the Standing Policy Committee on Infrastructure Renewal and Public Works and submitted the matter to Council.

STANDING COMMITTEE RECOMMENDATION:

On July 14, 2011, the Standing Policy Committee on Infrastructure Renewal and Public Works concurred in the recommendation of the Winnipeg Public Service and submitted the matter to the Executive Policy Committee and Council.

ADMINISTRATIVE REPORT

Title: **WINNIPEG TRANSIT AUTOMATIC FARE COLLECTION SYSTEM PROJECT**

Critical Path: **SPC ON INFRASTRUCTURE RENEWAL AND PUBLIC WORKS - EPC - COUNCIL**

AUTHORIZATION

Author	Department Head	CFO	CAO
T.Dreolini	D. Wardrop	M Ruta CFO	P Sheegl CAO

RECOMMENDATIONS

1. That the Chief Administrative Officer be delegated the authority to award a contract exceeding $10,000,000.00 for the Automatic Fare Collection System.

2. That the 2011 Capital Budget for the Transit Fare Collection System be increased by $2.5 million and that funding in this amount be transferred to this project as follows:

   a) $1,000,000 from surplus in the approved 2011 Transit Buses Capital Project; and
   b) $1,500,000 from the Transit System Fund's retained earnings.

3. That three additional Full Time Equivalent positions of Wireman/Bus Electronics Technician be approved to maintain the new fareboxes (one in 2012 and two in 2013) and that funding for these positions be referred to the 2012 to 2014 operating budget process.

4. That the Proper Officers of the City be authorized to do all things necessary to implement the foregoing.

REASON FOR THE REPORT

Pursuant to B8.2 of the City of Winnipeg's Materials Management Policy, the Chief Administrative Officer has delegated authority to award a contract where the value of the contract does not exceed $10,000,000.00 and there are sufficient funds in a budget approved by Council.

The Materials Management Policy further provides that, in all other cases, the Chief Administrative Officer shall forward a recommendation to the appropriate Standing Committee including a recommendation, where appropriate, for funding the difference between the budgetary provision and the consideration to be paid by the City pursuant to the proposed contract. The award of the contract can be approved by the Standing Committee if it is able to identify sufficient available funds in an alternative budget approved by Council. Otherwise, Council approval is required for the award of the proposed contract.

The Standing Policy Committee on Infrastructure Renewal and Public Works does not have authority to delegate its Materials Management Policy award authority to an employee. However, pursuant to The City of Winnipeg Charter, Council has the authority to delegate any of its administrative powers, duties or functions to an employee.

IMPLICATIONS OF THE RECOMMENDATIONS

Recommendation 1:

Upon approval of this recommendation, the CAO will be able to approve an award of contract to the successful bidder without further Standing Policy Committee or City Council approval, thereby avoiding a delay to project timelines.

Recommendation 2:

Financial submissions to RFP 925-2010 Automatic Fare Collection System have identified a need to increase the project budget by $2,500,000.00 from available funds in alternative budgets approved by Council.

Recommendation 3:

Three additional positions in the department's Plant and Equipment Division will be required to maintain the new fareboxes. The fareboxes contain electronic and mechanical components that will require the expertise of Wiremen and Bus Electronics Technicians.

HISTORY

On February 22, 2006, Council approved the report submitted by the Transit Department entitled Implementation Plan for Rapid Transit Task Force Recommendations. The implementation plan included a recommendation that the existing fareboxes be replaced with an automated fare collection system. The existing fareboxes date back to the early 20th Century and have been out of production for decades. The inherent weaknesses of this obsolete fare collection system include the following:

- There are significant difficulties obtaining replacement fareboxes and spare parts;
- The existing equipment restricts the types of fares that can be offered;
- All pre-paid fare media (tickets, passes and transfers) must be paper-based, which are all susceptible to counterfeiting;
- Fare validation is visual by the driver and can lead to driver/passenger disputes and fare evasion.

Fare collection is a core element of Transit's business and has an impact on the operations of every division within the department. In 2010, over 45.2 million Transit customers paid a fare to access the service. The characteristics of the current fare collection equipment have dictated fare policies and fare collection processes for decades. The implementation of a new fare collection system will modernize and simplify the fare collection process, provide more convenience and options for passengers, and improve the security of fare collection. In particular, the project goals are to:

- Improve system convenience and appeal for customers;
- Improve system flexibility to accommodate fare policy adjustments seamlessly;
- Provide flexible marketing tools to promote ridership growth;
- Reduce cash fare, transfer and pass fraud;
- Provide more detailed ridership and revenue data;
- Increase the efficiency of fare collection and revenue management operations;
- Provide modern fare collection equipment with readily available parts and service support.

The Fare Collection System Project has a total budget of $15.24 million. At its meeting of February 22, 2011, Council approved the 2011 Capital Budget that included funding in the amount of $2.37 million for this project. Previous budgets included approvals for funding totaling $12.87 million.

RFP 925-2010 for an Automatic Fare Collection System was issued on January 18, 2011, and closed on March 23, 2011. This is an extremely complex technology project involving the installation of electronic validating fareboxes on Transit's fleet and the implementation of a smart card based automatic fare payment system that is supported by the necessary financial and information technology hardware and software systems.

Due to the complexity of the project, bid evaluations have been time consuming and have required all bidders to make presentations on their fareboxes and smart card systems to the evaluation committee. Bidder presentations occurred the week of May 9 – 13, 2011 and responses to clarifications resulting from these presentations were submitted on May 24, 2011.

Two issues have arisen during the course of the evaluation. Firstly, prevailing market conditions and the current state of development of these systems have caused bid prices to exceed the budget estimates identified for this project. An additional $2.5 million is required to complete this project with the required functionality and contingencies. Proposed funding sources are:

2011 Transit Buses project anticipated surplus:	$1,000,000
Winnipeg Transit Retained Earnings	$1,500,000

Secondly, further assessment and verification of the features and capabilities of the proposed systems is necessary to ensure that the recommended solution is capable of performing the functions required by Transit. This due diligence must be completed before a recommendation can be made and is expected to take several additional weeks. Consequently, an award cannot be made by the SPC on IR&PW on June 28, 2011. Delaying the award to its next meeting on September 6, 2011 would jeopardise the contractor's ability to meet the project deadline of December 31, 2012. Approval of a contract award report by the CAO can be accomplished more quickly and would allow an award to be made in July. This timing would allow the required due diligence to be performed and allow the project to remain on schedule.

The project will create new costs for the department such as salaries in the Plant and Equipment Division for preventative maintenance and repairs of the new fareboxes. Electronic fareboxes contain complex electronic and mechanical subsystems that count coins, print and read transfers and read and update electronic fare cards. Transit's experience with new technologies, such as electronic destination signs, is that it is significantly more costly to send electronic components to third parties for repair than the costs of salaries, benefits and repair components to establish an in-house repair capability. The department will require one position in 2012 and three positions beginning in 2013.

In addition, as a significant portion of Transit customers are expected to shift their purchasing patterns from third party sales outlets to Winnipeg Transit's new website to purchase their fare products, credit card processing fees incurred by the department will increase significantly. The department has estimated 40% of all non-cash paying passengers will purchase their fare products via Winnipeg Transit's website.

Once the warranty period of the project is complete there will be additional annual maintenance costs required to be paid to the contractor for support of the fare collection system. These costs are estimated to commence in 2015.

The additional costs to support the automatic fare collection system are expected to be offset by increases in revenue through reduced fare evasion by passengers. Fare evasion occurs in a variety of ways including depositing insufficient cash into the farebox, using expired transfers, misusing reduced fare tickets and passes and forging tickets and passes. The new fare collection system will provide the bus operator verification that passengers are using the correct fare products and valid transfers. It will still be up to the operator to enforce fare policies. It is extremely difficult to estimate the level of fare evasion occurring in any system; however, a range of 1% to 5% of revenue is estimated by Transit industry sources. An increase of 1% of passenger revenue, or $729,450 in 2013, is estimated through the implementation of the Automated Fare Collection System project. Provincial grant revenue would be reduced based on the cost sharing agreement by $60,210 for a net revenue increase of $669,240. Direct cost increases of $609,031 are expected in 2013 which include salaries of $211,816 and credit card processing fees of $397,215. Therefore, the net financial impact of the project in 2013 is a benefit of $60,209.

FINANCIAL IMPACT

Financial Impact Statement

Date: June 22, 2011

Project Name:

Winnipeg Transit Automatic Fare Collection System Project

First Year of Program **2011**

	2011	2012	2013	2014	2015
Capital					
Capital Expenditures Required	$ 2,500,000				
Less: Existing Budgeted Costs					
Additional Capital Budget Required	$ 2,500,000	$ -	$ -	$ -	$ -
Funding Sources:					
Cash to Capital					
Retained earnings	1,500,000				
Transfer from 2011 Transit Bus Project	1,000,000				
Reserves, Equity, Surplus					
Other - Enter Description Here					
Total Funding	$ 2,500,000	$ -	$ -	$ -	$ -
Total Additional Capital Budget Required	$ 2,500,000				
Current Expenditures/Revenues					
Direct Costs	$ -	$ 63,355	$ 609,031	$ 628,771	$ 987,219
Less: Incremental Revenue/Recovery		31,678	669,240	693,166	878,071
Net Cost/(Benefit)	$ -	$ 31,677	$ (60,209)	$ (64,395)	$ 109,148
Less: Existing Budget Amounts	-	-	-	-	-
Net Budget Adjustment Required	$ -	$ 31,677	$ (60,209)	$ (64,395)	$ 109,148

Additional Comments: Additional budget is required in order to award a contract for the Fare Collection System Project. Funding sources have been identified from the 2011 Transit Bus Project as well Winnipeg Transit's Retained Earnings. Direct costs include increased salaries, increased credit card processing fees as well as maintenance costs in 2015 after warranty period ends. Incremental revenue includes the increase to revenue expected due to reduced fare evasion estimated at 1% of budgeted revenue, less the effect of provincial cost sharing on the above costs and revenues.

original signed by
T. Yanchishyn, CA
Manager of Finance & Administration

CONSULTATION

In preparing this report there was consultation with: N/A

SUBMITTED BY

Department: Transit
Division: Plant and Equipment
Prepared by: T. VanDekerkhove
Date: June 20, 2011
File No. 925-2010