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May 9, 1997
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TO: BOARD OF DIRECTORS

FROM: LINDA BOHLINGER, INTERIM CHIEF EXECUTIVE OFFICER *L. Bohlinger*

SUBJECT: REDUCTION IN THE COMMISSION RATE PAID TO VENDORS FOR SELLING MTA PASSES AND TOKENS

RECOMMENDATION

Reduce the commission rate paid to vendors for selling MTA passes (including reduced fare stamps) and tokens from \$0.65 to \$0.45 per pass and from \$0.65 to \$0.20 per bag of ten tokens, effective July 1, 1997.

ORGANIZATIONAL IMPACT

The MTA has an established vendor network that sells passes and tokens at over 700 locations. Although some small vendors may stop selling our passes and/or tokens due to the lower commission rate, the vendor network is large and stable enough to absorb the reduction. Additionally, many low-volume vendors sell our passes and tokens in order to attract customers.

BUDGET IMPACT

Reducing the commission will result in an estimated commission savings of \$2.8 million in FY98 (see attached Table 1, Fare Media Commission).

ALTERNATIVES CONSIDERED

An alternative is not changing the commission rate. This alternative would result in the FY98 commission cost increasing to more than \$5 million as sales of weekly passes increase.

BACKGROUND

On May 21, 1997, this item was presented to the Board Finance and Budget Committee. It was carried over for one month in order to obtain information about L.A. County's distribution of MTA tokens to General Relief recipients. Based on information from the County Department of Public Social Services Finance Division, there are 42 outlets representing 10 vendors that provide approximately 244,000 MTA tokens to recipients each month. One vendor

distributes approximately 70% of this total. L.A. County reimburses these vendors \$.90 per MTA token for a total of approximately \$2.6 million per year.

Passes are sold on consignment to vendors at a commission of \$0.65 per pass. Tokens are sold to vendors at a net price equivalent to a commission of \$0.65 per bag of ten tokens. The \$0.65 commission rate was not adjusted when semi-monthly and weekly passes were introduced. This has resulted in a higher overall commission for fare media.

The current MTA commission rate is among the highest of transit agencies our size. For example, New York pays from 1% to 4% for a limited number of low value cards and 1% for delivered tokens, Baltimore pays 0.4% for passes and nothing for tokens, and Chicago pays 0.6% for passes and 2.95% for tokens (see attached Table 2, Commission Comparison). Even at a rate of \$0.45, our pass commission will still be among the highest in the country.

In FY96, the total quantity sold was 2.2 million passes and 55.3 million tokens. In FY97, the total quantity sold is projected to be 2.4 million passes and 66.4 million tokens. Approximately 85% of passes and tokens are sold by commissioned vendors. The monthly commission expense for passes was \$63,511 in November 1996, and increased to \$104,938 in March 1997, due in part to the introduction of the weekly pass. In FY96, the commission cost was approximately \$4.2 million. The commission cost at the current rate is projected to be \$4.8 million for FY97 and over \$5 million for FY98.

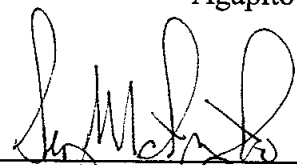
A commission rate of \$0.45 per pass and \$0.20 per bag of 10 tokens equates to an overall commission of approximately 2.1%: 4.1% for weekly passes, 2.1% for semi-monthly passes, 1.1% for monthly passes, and 2.2% for token bags.

ATTACHMENTS

Table 1. Fare Media Commission

Table 2. Commission Comparison

Prepared by: Rodney J. Dawson, Interim Executive Officer, Finance
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Terry Matsumoto
Interim Deputy Executive Officer

TABLE 1. LACMTA FARE MEDIA COMMISSION

CURRENT \$0.65 RETAIL VENDOR COMMISSION FOR SELLING MTA FARE MEDIA					
Fare Media	Current Rate Per Pass/Token Bag of 10	Current Equiv. %	Est. 96-97 Vendor Quantity	Est. 96-97 Vendor Gross Sales	Est. 96-97 Commission
Pass - Weekly	\$0.65	5.9%			
Pass - Semi	\$0.65	3.1%			
Pass - Monthly	\$0.65	1.5%			
Total Passes			2,014,000	\$44,835,000	\$1,309,000
Tokens (bag of 10)	\$0.65	7.2%	5,451,000	\$49,060,000	\$3,543,000
TOTAL			7,465,000	\$93,895,000	\$4,852,000

FY98 COMMISSION RATE							
Passes (sold on consignment) Tokens (sold at a discount)	Rate Per Pass/Token Bag of 10	Equiv. % Tokens	Equiv. % Weekly Passes	Equiv. % Semi Monthly Passes	Equiv. % Monthly Passes	Estimated Commission Cost*	Est. Annual Savings over 96-97 Est. Commission
Pass - Weekly, Semi, Monthly	\$0.45		4.1%	2.1%	1.1%	\$906,000	\$403,000
*Estimated commission cost is based on commission rate per pass times 96-97 quantity.							
Tokens (bag of 10)	\$0.20	2.2%				\$1,090,000	\$2,453,000
TOTAL						\$1,996,000	\$2,856,000

TABLE 2. TRANSIT AGENCY PASS/TOKEN VENDOR COMMISSION STRUCTURE COMPARISON

COMPARABLE TRANSIT AGENCIES	PASSES						TOKENS			
	WEEKLY			MONTHLY			Price	Quantity	\$	% or equiv
	Price	\$	% or equiv	Price	\$	% or equiv				
LACMTA current \$0.65	\$11.00	\$0.65	5.9%	\$42.00	\$0.65	1.5%	\$9.00	10	\$0.65	7.2%
LACMTA at \$0.45/\$0.20	\$11.00	\$0.45	4.1%	\$42.00	\$0.45	1.1%	\$9.00	10	\$0.20	2.2%
New York				\$15.00 value card Paid on delivery.	Small # of vendors only sell a low value card. Volume dependent: 1% to 4%. Most are sold by the NYMTA.		\$1.50	1		2% picked-up 1% delivered
Chicago	N/A			\$88.00	\$0.50	0.6%	\$13.50	10		2.95%
Baltimore	\$14.00	\$0.05	0.4%	\$54.00	\$0.20	0.4%	\$1.30	1	no commission	
Philadelphia	\$17.50	no commission		\$64.00	no commission		\$1.60 \$1.15	1 ea (2, 5, or 10)	no commission	
Atlanta	\$12.00	no commission		\$45.00	no commission		\$1.50,\$15, or \$25	1,10,20	no commission	
Washington DC	allows vendor to charge \$0.25 more						\$1.10	1	no commission	
	\$20.00	DC area bus only								
	\$34.00	3 zones bus only								
San Francisco Muni Rail	\$9.00	\$0.25	per transaction	\$35.00	\$0.25	per transaction	\$8.00	10	\$0.25	per transaction