

**Metro**Los Angeles County  
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metro.net**FINANCE, BUDGET & AUDIT COMMITTEE  
November 5, 2014****SUBJECT: RESTRUCTURE AND INCREASE METRO FARE MEDIA VENDOR  
COMMISSION****ACTION: RECEIVE AND FILE STATUS REPORT****RECOMMENDATION**

Receive and file status report on the restructure and increase of Metro fare media vendor commission.

**ISSUE**

After 34 years of service the second largest TAP vendor, Nix Check Cashing, with 40 locations, withdrew from the TAP vendor network effective June 30, 2014. Nix Check Cashing was recently acquired by Kinecta Federal Credit Union, whose management decided to adopt a different business strategy which no longer includes the sale of fare media. Moreover, TAP retail vendors are finding the benefits of continuing to sell Metro fare products and TAP cards out of balance with the associated costs. Vendors have raised issues of increased costs to administer program, additional time needed to process transactions, and extensive administrative work involved with the current commission structure. The largest vendor, Continental Currency Services Inc., has informed Metro that since the roll-out of the TAP program in 2008 they now lose time and money due to the additional costs the program requires – phone lines and administrative duties.

In response to these concerns, Metro will implement a new TAP vendor commission structure, effective December 1, 2014:

- Commissions will be based on total monthly gross sales, inclusive of stored value, instead of the current practice of a fixed amount per unit sold which varies by fare product; and
- Increase the commission rate from an average of 1.46% today to 1.75%.

This will result in an increase of about \$506K in annual paid commissions. Staff will also work with the large vendors to transition them to internet communications to help reduce their costs. These changes will help maintain the network of over 375 vendors.

## **DISCUSSION**

TAP customers have the option of purchasing TAP passes in five different ways: online (taptogo.net), by phone, TAP vending machines, aboard Metro buses (Metro Day Pass only), and at over 375 commission vendor locations. When the commission program started in the late 1970's, vendors sold paper passes. The transactions were simple and fast. Vendor responsibility consisted of collecting payment and handing the pass to the customer. TAP is electronic and requires a phone line to communicate with the TAP sales device. TAP benefits vendors by allowing easier stock inventory control and the ability to receive reports of sales activity organized by clerk and location. However, each TAP transaction now takes approximately 30 to 60 seconds to complete compared to the original manual system of 10 to 20 seconds. Moreover, since the program's implementation, the cost of living, labor and utility costs have increased. As nearly all of the Municipal Transit Agencies join TAP by early 2015, all the region's transit customers will benefit from the largest vendor network in the nation. About 1.2 million Metro and Muni customers depend on these outlets to purchase their passes each month. For the month of September, 2014, 78% of Metro's bus and rail riders used TAP. Refer to Attachment D for Metro's bus and rail demographic data.

To ensure the stability of TAP's customer convenient network it is important to increase the commission to maintain and build the TAP vendor network. If Metro does not implement a new TAP vendor structure and increased commission rate, Metro may continue to lose TAP vendors (e.g. Nix Check Cashing – 40 locations). In turn, this may negatively impact ridership because of limited access to TAP fares and cards.

### **Current Commission Rate**

TAP vendors are paid a commission based on a per product structure, ranging from \$0.25 to \$0.40 per pass type. In FY14, TAP vendors sold \$67M (41% of Metro's fare revenues) in fare media and paid \$984K in vendor commissions, which has remained relatively consistent over the past few years. Instead, commissions have remained idle since 2002. Several regional transit agencies have their own vendor locations with their own commission structure, however there is no commission paid on regional stored value since its release in 2009. Stored value is anticipated to be a popular product with the new fare policy now in effect and with more regional operators joining the TAP program. Since Metro's per-product commission structure consists of three different commission values it requires additional administrative time to ensure the correct commission is applied to the specific pass type sale.

Compared to peer transit agencies, Metro has the second lowest vendor commission rate averaging 1.46% of gross sales, see Attachment A. Additionally, most peer transit agency's commission structure is based on total monthly gross sales, see Attachment A.

### New Commission Rate

The new commission rate structure will be based on gross sales to include stored value, rather than per transaction. This commission structure is an incentive that will encourage the TAP vendor network to grow and in turn make the program more accessible and more convenient for customers as they find nearby locations to purchase their passes. Additionally, the new commission structure is easier to use, understand, sustain, and control versus Metro's current commission system. The structure of percentage of total monthly gross sales would require less administrative work and allow for an easier calculation method, independent of the pass type sale.

An additional 10 municipal operators will be joining the TAP program by early 2015. With more transit agencies converting to the growing TAP smart-card system it is crucial that Metro attract more TAP vendors. Restructuring and increasing Metro's vendor commission rate will keep Metro in balance with peer agency commission rates and will provide a greater incentive to be a pass vendor.

### Regional Stored Value

Regional transit agencies that have their own vendor locations have a commission structure that ranges from 2.00 - 3.00%, based on total monthly gross sales. City of Santa Clarita Transit pays \$0.25 per transaction regardless of the pass type sale. Note not all regional transit agencies have vendors. It is anticipated that as new agencies join TAP the demand for stored value will increase as well. Last month, General Managers and the Bus Operations Subcommittee approved a 1.75% commission for vendor stored value sales.

### **FINANCIAL IMPACT**

No additional funding is required to execute this action as TAP Vendors are paid a commission based on a percentage of their total monthly gross sales of Metro fare media.

The additional commission of \$330,000 anticipated in FY15 (Nov-14 through Jun-15) will be absorbed within the existing FY15 adopted budget in cost center 5110. In future years, the cost center manager is responsible for budgeting for the increased commission to the vendors.

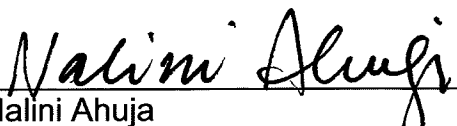
### **NEXT STEPS**

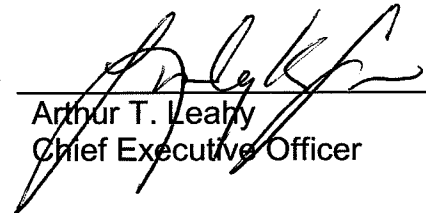
TAP will discontinue the per-transaction and pass type commission structure and implement the new structure and commission increase, effective November 1, 2014. Staff is currently working on implementing internet technology at large third party vendor locations to reduce overhead costs. Additionally, staff is researching computer software applications; as well as working with TAP participating transit agencies to implement a commission on stored value.

## **ATTACHMENTS**

- A. Peer Agency Comparison
- B. Projected Impact to Metro with a 1.75% Commission Structure
- C. FY14 Sales and Commission rate Comparison
- D. Metro's Bus vs. Rail Demographics

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Peer Agency Comparison

Metropolitan Area	Transit Agency	Annual Ridership (Millions)	Fare Revenue (Millions)	Commission Rate	Payment Technology	
					Smart Card	Magnetic Farecard
Boston, MA	MBTA	312.6	\$300.8	1.8% of Total Sales	Y	Y
Chicago, IL	CTA	516.9	\$511.0	1.5% of Total Sales	Y	Y
<b>Los Angeles, CA</b>	<b>LACMTA</b>	<b>460.4</b>	<b>\$316.4</b>	<b>1.46% Per Product</b>	<b>Y</b>	
San Francisco, CA	BART <sup>1</sup>	108.3	\$331.4	1% of Total Sales	Y	Y
	Muni <sup>1</sup>	208.0	\$160.3	1.5% of Total Sales	Y	
Seattle, WA	KC Metro <sup>2</sup>	109.0	\$130.8	2% of Total Sales	Y	
San Diego, CA	MTA <sup>3</sup>	79.0	\$82.3	Exchange of Value	Y	Y

<sup>1</sup>BART and Muni accept a common regional "Clipper" smart-card.

<sup>2</sup>Sells cards to vendors for wholesale price \$4, in turn vendors sell cards for \$5. (\$1 profit). Additionally, each vendor receives 2% commission of total sales.

<sup>3</sup>Largest vendor (39 Albertson's locations) receives no commission; they have an agreement to exchange services (i.e offers Albertson's advertising/marketing space on buses to exchange for selling smart-card). About six small vendors receive \$2,500 annually/\$208 monthly flat rate.

**ATTACHMENT B****Projected Impact to Metro with a 1.75% Commission Structure**

The table below shows the annual vendor commissions to be paid under the new commission rate of 1.75%, under varying stored value sales of \$1M, \$3M, \$5M and \$7M. Stored value sales is projected to increase with the new fare policy now in effect, thus we project total vendor commission sales for FY15 may be as high as \$1.56M.

<b>Regional Stored Value Sales</b>	<b>\$1M</b>	<b>\$3M</b>	<b>\$5M</b>	<b>\$7M</b>
Stored Value Commission	\$17.5K	\$52.5K	\$87.5K	\$122.5K
Annual Vendor Media Sales	\$85M	\$87M	\$89M	\$91M
<b>Vendor Commissions</b>	<b>\$1.49M</b>	<b>\$1.52M</b>	<b>\$1.56M</b>	<b>\$1.59M</b>

FY 2014 data, projected with fare increase (vendors only).

FY14 and FY 15 Sales and Commission Rate Comparison

	<b>Current Fare Media Revenue Structure (FY14)</b>	<b>New Commission Rate Structure and Projected Fare Media Revenue Structure with Fare Increase (FY15)</b>
<b>All Vendor Sales</b>	\$67M	\$85M
<b>All Fare Media Sales</b>	\$162M	\$185M
<b>Stored Value Sales</b>	\$893K <sup>1</sup>	\$1M
<b>Stored Value Commission</b>	None	\$17.5K
	<b>Based on per product</b>	<b>Based on % of total sales</b>
<b>Commissions Paid to Vendors</b>	\$984K	\$1.49M <sup>2</sup>

<sup>1</sup>No commissions paid to vendors

<sup>2</sup>Under new fare structure, this may be as high as \$1.56M, with the increased amount of stored value sold



Metro's Bus vs. Rail Demographics

	<b>Bus</b>	<b>Rail</b>	<b>Systemwide</b>
<b>Low Income Ridership<sup>1</sup></b>	68.7%	47.7%	67.5%
<b>Minority Ridership<sup>2</sup></b>	87.2%	76.7%	86.6%

<sup>1</sup>Defined as household income less than \$25K

<sup>2</sup>Defined as respondents who reported either American Indian, Asian/Pacific Islander, Black, or Latino as their ethnicity

**Data source: 2012 Customer Satisfaction Survey**