



Board Report

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FINANCE, BUDGET AND AUDIT COMMITTEE  
SEPTEMBER 20, 2017

SUBJECT: METRO FARE MEDIA VENDOR COMMISSION  
ACTION: RECEIVE AND FILE

RECOMMENDATION

RECEIVE AND FILE status report on the increase of sales commissions for Metro third-party vendors from the current 1.75% to 3.50% in 2017, to 3.75% in 2018 and to 4.00% in 2020.

ISSUE

TAP retail vendors are reporting that the benefit of selling TAP products for a commission of 1.75% is not covering their costs. The California minimum wage <<https://www.gov.ca.gov/news.php?id=19368>> increased to \$10.50 per hour on January 1, 2017 for businesses with 26 or more employees, and then will increase each year until reaching \$15 per hour in 2022. Vendors have raised issues regarding increases in: 1) staffing costs to administer the program due to the minimum wage increase; 2) time needed to process transactions and; 3) administrative work. Many potential TAP vendors report that the current sales commission of 1.75% is not competitive with other higher paying commission programs such as the California Lottery, which pays a minimum of 4%.

DISCUSSION

**History**

Over the years, the vendor commission rates have fluctuated. Third party vendors have experienced rates as high as 5.9% in 1982, and as low as 1.46% in 2014.

In May of 1999, the vendor commission was lowered. Customers had shifted from purchasing monthly passes once a month to purchasing four weekly passes. This meant that the flat rate being paid to vendors at the time was quadrupling. In 1999 the vendor network included 750 locations that provided passes and tokens and there was no recognized need for expansion.

Table 1 offers brief historical context of vendor commission rate activity.

Table 1

Year	Commission Rate
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1982	5.8%
1997	5.9%
1999	1.46%
2014	1.75%
2015	1.75%
2016	1.75%
2017	1.75%

In the past 18 months, the TAP Vendor Support team canvassed more than 1,000 businesses in LA County. As a result, the retail vendor network increased by 13%. Business owners who decided not to do business with Metro cited the low commission rate of 1.75% as their main concern. Many of the business owners agreed to reconsider the program if the commission rate increased.

Over the last several months TAP has worked with Continental Currency, TAP's largest vendor by both sales volume and locations, to review the existing commission structure. Continental Currency expressed that the existing rate is too low to offset the expense incurred. Continental Currency has 43 of the TAP network's 415 vendor locations, servicing approximately 25,000 riders a month. Should Continental Currency leave the program, Metro will experience the same negative impact to the sale of fare media that occurred in 2014 when NIX Check Cashing withdrew their 40 locations from the TAP vendor network. To ensure the stability of TAP's vendor network, it is important to implement a new commission structure with increased rates. The loss of a large vendor, such as Continental Currency, will negatively impact ridership because it limits access to TAP cards, which are used to ride not only Metro, but also 23 other TAP-enabled systems. Continued vendor expansion will ensure that cash collection issues will continue to decrease. In comparison to cash fare payment, TAP is much faster, safer and offers better data that can be used for system evaluation and improvement.

In the next 60-90 days, plans call for 16 new TAP installations with 7-Eleven, Inc. While the existing commission rate will support this pilot program, the executives at 7-Eleven have also requested a higher commission rate in order to sustain business with additional locations in their network. 7-Eleven operates hundreds of stores in LA County and has the potential to more than double TAP's current vendor network and vastly increase our customers' accessibility to purchase TAP cards and fare media throughout Los Angeles County.

Currently customers may purchase TAP cards and fare products at 415 retail vendor locations, 93 Metro Rail stations, 18 Orange Line Stations, 10 Silver Line Stations and online at [taptogo.net](http://taptogo.net). Recently, 35 County Libraries were added to the network and up to 52 additional libraries may be added in the future. Customers can use a vendor location directory published twice a year or go to [taptogo.net](http://taptogo.net) to find a convenient place to purchase TAP.

## Commission Rate

TAP vendors are paid a commission based on the dollar value of their sales. In FY16, TAP vendors sold over \$64 Million in fare products. Not all the products sold are commissionable. Table 2 contains a comparison of the payout for the current 1.75% commission rate and the projected payouts for the increased commission rates, based on 2016 commissionable sales. Commissions will be reassessed each year prior to increasing the rates.

**Table 2**

<b>Comparison of TAP Yearly Commission Payouts*</b>						
	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>
<b>Commission %</b>	1.75%	3.50%	3.75%	3.75%	4.00%	4.00%
<b>Commission \$</b>	\$854,038	\$1,708,076	\$1,830,081	\$1,830,081	1,952,087	1,952,087
<b>Increase Paid to Vendors</b>	N/A	\$854,038	\$976,043	\$976,043	1,098,049	1,098,049

\*Based on 2016 Commissionable Sales of **\$48,802,171**

This commission structure offers an incentive that will encourage the TAP vendor network to grow and also make the program more accessible and convenient for customers. Metro plans to implement this new TAP vendor commission structure, effective November 1, 2017.

Table 3 outlines the current TAP vendor network, including current vendor pilots.

**Table 3**

<b>Vendor Type</b>	<b>Locations</b>	<b>Status</b>
Grocery Stores	60	Active
Convenience Stores	81	Active
Library	38	Active
City	60	Active
Check Cashing	156	Active
Schools	8	Active
Senior/Community Centers	11	Active
<b>Total</b>	<b>414</b>	
7-Eleven (Pilot)	17	November 2017
7-Eleven	509	Pending Pilot
Library	52	January 2018

Total	578
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**FINANCIAL IMPACT**

No additional funding is required to execute this action as TAP vendors are paid a commission that is based on their total gross sales of Metro fare media. With a change of commission in the first year from 1.75% to 3.50%, the financial impact to Metro will be a 1.75% decrease in total gross revenue from TAP Sales. Based on 2016 sales, this revenue decrease would be \$854,038. However, the network will be incentivized to expand, so this revenue loss may be offset by new business. Another positive revenue impact of moving more customers to TAP includes reduced cash collection costs throughout the Metro system.

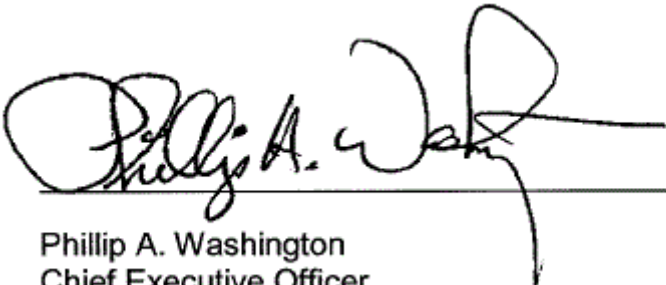
**NEXT STEPS**

TAP will:

- Re-visit the business owners that chose not to do business with Metro due to the low commission rate.
- Continue development of a Wi-Fi-enabled vendor tablet with plans to release in Spring of FY18. This new technology will eliminate the need for analog phone lines and will reduce vendor expenses.
- Continue development of a TAP Mobile Payment App, with plans to release by Summer of FY18.
- Release a request for proposals within Spring of 2018 to sell TAP cards at gift card kiosks at chain stores throughout Los Angeles County.

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