

Clipper® Executive Board

June 17, 2019

Agenda Item 3c

Change Order – Clipper® Contract Walgreens Commission Increase: Cubic Transportation Systems, Inc. (\$760,000 annually)

Subject: Request for approval to increase commission paid to Walgreens from 2% to 3%.

Background: Retailers participating in the Clipper program currently receive a commission of 2% of the Clipper value sold. Retailers receive the commission from Cubic, which manages the Clipper retail network. While MTC holds the contract and is responsible for the direct payment of Cubic's invoices, the Clipper Amended and Restated Memorandum of Understanding (MOU) specifies that the transit agencies are financially responsible for the costs associated with the retailer commissions. Accordingly, MTC invoices the transit operators for this expense according to the Clipper cost allocation formula approved by the operators in the MOU.

Walgreens, the largest Clipper retailer in terms of number of locations as well as sales volume and value, notified Cubic about six months ago that it would not extend its contract and remain a Clipper retailer without an increase in the percentage of commission paid on Clipper sales. After discussions with transit operator staff, Cubic entered into negotiations with Walgreens, which agreed to an increase of 1%, for a total commission of 3%.

Walgreens is responsible for more than 80% of total retail sales each month. The stores uniformly accept credit and debit cards for Clipper purchases, which can generate a significant amount of fees and financial risk. Walgreens is responsible for employee training, as well as any loss or theft of Clipper cards and value that occurs at their stores. Given these facts, MTC and transit operator staff feels that the increase of 1% is reasonable.

The proposed change order incorporates the increase in the commission into the price schedule of the Clipper Contract. Per the MOU, the transit agencies will bear the financial impact of the increase. Based on 2018 sales, the projected increase would be \$760,000 annually. A breakdown of the increased cost by operator is shown below in Exhibit 1.

Exhibit 1: Breakdown of Projected Annual Incremental Cost Increase by Operator (Based on 2018 Sales of ~\$75.5M)

AC Transit	\$72,000	Napa/Solano	\$3,000
BART	\$338,000	SamTrans	\$13,000
Caltrain	\$34,000	SFMTA	\$220,000
101 Group	\$500	SMART	\$4,000
East Bay Grp	\$10,000	Sonoma Co.	\$400
GG Ferry	\$8,800	Union City	\$800
GG Transit	\$10,000	VTa	\$30,000
Marin Transit	\$1,100	WETA	\$9,000

Issues: There are no issues with this amendment.

Recommendation: Staff recommends that the Clipper Executive Board approve a Contract Change Order with Cubic in an amount not to exceed \$760,000 per year for the increase in commission paid to Walgreens as described above.

Attachments: **Attachment A:** Clipper Sales by Channel

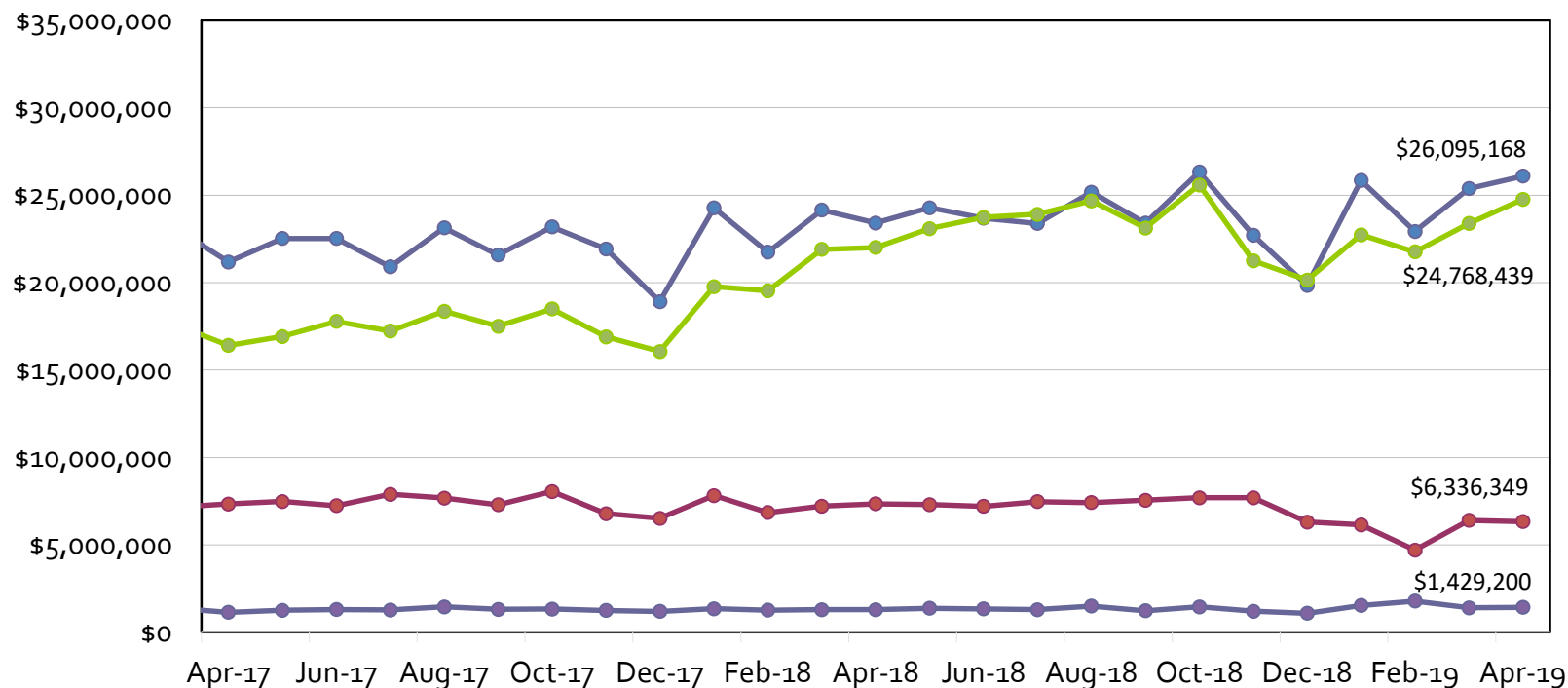

Carol Kuester

REQUEST FOR BOARD APPROVAL

Summary of Proposed Contract Change Order

Consultant:	Cubic Transportation Systems, Inc. Oakland, CA
Work Project Title:	Walgreens Commission Increase
Purpose of Project:	Increase commission amount paid to Walgreens
Brief Scope of Work:	Under this Change Order, Cubic will increase the commission paid to Walgreens on all Clipper sales from 2% to 3%
Project Cost Not to Exceed:	\$760,000/year (transit operator pass-through cost)
Funding Source:	Participating Operator funds
Fiscal Impact:	Funds subject to approval of the FY 2019-20 agency budget. Participating Operators will cover the costs per the Clipper Amended and Restated Memorandum of Understanding.
Motion by Committee:	That the Contract Change Order with Cubic Transportation Systems, Inc. as described herein and in the Clipper Executive Director's June 17, 2019 memorandum, is hereby approved by the Clipper Executive Board.
Clipper Executive Board:	<hr/>
	Denis Mulligan, Chair
Approved:	June 17, 2019

Clipper Sales by Channel



Legend

Autoload and Remote Add Value
Ticket Vending Machines
Retailers
Ticket Offices

Notes:

Walgreens is responsible for more than 80% of total retail sales each month.
Currently the Clipper Program has a total of 303 retailers of which 172 are Walgreens locations.