Agenda - Council – July 18, 2012

Report - Standing Policy Committee on Infrastructure Renewal and Public Works – July 3, 2012

Item No. 5 Changes to the Sales and Distribution System for Winnipeg Transit Fare Products

STANDING COMMITTEE RECOMMENDATION:

On July 11, 2012, the Executive Policy Committee concurred in the recommendation of the Standing Policy Committee on Infrastructure Renewal and Public Works, and submits the following to Council:

1. That the following changes to Transit policies be adopted upon implementation of the new Transit Automatic Fare Collection System (AFCS):

    A. Transit Fare Product Sales Agents (FPSAs) be determined in the following manner:

        i. A Request for Proposals (RFP) process be used to select Winnipeg Transit's corporate chain fare product sales agents (chain FPSAs).

        ii. That the selection of chain FPSAs be based on evaluation criteria determined by Winnipeg Transit, including geographic coverage, commission rate, number of outlets, staff training programs and projected sales volumes.

        iii. That the selected chain FPSAs provide accessible geographic coverage within the five civic communities.

        iv. A subsequent Request for Proposals process, subject to similar evaluation criteria used for the chain FPSA's, be used to select independent Fare Product Sales Agents (independent FPSAs).

        v. That the geographic distribution of independent retail FPSA's be complementary to and not duplicative of the coverage provided by the chain FPSA's.

    B. That the three largest post-secondary educational institutions (University of Manitoba, University of Winnipeg, Red River College) that currently sell transit fare products in addition to the Post-Secondary Monthly Pass, be permitted to continue to sell the other transit fare products.

Report - Standing Policy Committee on Infrastructure Renewal and Public Works – July 3, 2012

C. That all post-secondary institutions be required to continue to confirm student eligibility for the Post-Secondary Passes.

D. That post-secondary educational institutions and Ecopass partners not participate in the chain or independent FPSA RFP process.

E. That the agent commission for FPSA's be determined by competitive bids through the RFP. The ceiling for the commission in the bids would be 1.0%.

F. That the FPSA contract be awarded for a three-year period with an option for three mutually agreed upon renewals of two-year periods each.

G. That effective immediately no new retail outlets be approved through the existing application process other than existing corporate chain outlets that may construct a new location.

H. That new FPSAs approved be required to sell existing paper based fare products for up to six months leading up to and during the implementation of the smart card system.

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

Report - Standing Policy Committee on Infrastructure Renewal and Public Works – July 3, 2012

DECISION MAKING HISTORY:

EXECUTIVE POLICY COMMITTEE RECOMMENDATION:

On July 11, 2012, 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 3, 2012, 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: Changes to the Sales and Distribution System for Winnipeg Transit Fare Products

Critical Path: SPC on Infrastructure Renewal and Public Works – EPC - Council

AUTHORIZATION

Author	Department Head	CFO	CAO
L. Gervino	D. Wardrop	J Ferrier o/b M Ruta	D Joshi COO

RECOMMENDATIONS

That the following changes to Transit policies be adopted upon implementation of the new Transit Automatic Fare Collection System (AFCS):

1. Transit Fare Product Sales Agents (FPSAs) be determined in the following manner:
    a. A Request for Proposals (RFP) process be used to select Winnipeg Transit's corporate chain fare product sales agents (chain FPSAs).
    b. That the selection of chain FPSAs be based on evaluation criteria determined by Winnipeg Transit, including geographic coverage, commission rate, number of outlets, staff training programs and projected sales volumes.
    c. That the selected chain FPSAs provide accessible geographic coverage within the five civic communities.
    d. A subsequent Request for Proposals process, subject to similar evaluation criteria used for the chain FPSA's, be used to select independent Fare Product Sales Agents (independent FPSAs).
    e. That the geographic distribution of independent retail FPSA's be complementary to and not duplicative of the coverage provided by the chain FPSA's.
2. That the three largest post-secondary educational institutions (University of Manitoba, University of Winnipeg, Red River College) that currently sell transit fare products in addition to the Post-Secondary Monthly Pass, be permitted to continue to sell the other transit fare products.
3. That all post-secondary institutions be required to continue to confirm student eligibility for the Post-Secondary Passes.
4. That post-secondary educational institutions and Ecopass partners not participate in the chain or independent FPSA RFP process.
5. That the agent commission for FPSA's be determined by competitive bids through the RFP. The ceiling for the commission in the bids would be 1.0%.

6. That the FPSA contract be awarded for a three-year period with an option for three mutually agreed upon renewals of two-year periods each.
7. That effective immediately no new retail outlets be approved through the existing application process other than existing corporate chain outlets that may construct a new location.
8. That new FPSAs approved be required to sell existing paper based fare products for up to six months leading up to and during the implementation of the smart card system.

REASON FOR THE REPORT

Council approval is required for any changes to Transit commission rates, including the method of determination. The changes to the process for determining sales outlets are significant and thus Council approval is requested.

IMPLICATIONS OF THE RECOMMENDATIONS

Sales Agents

The new automatic fare collection system will enable passengers to load fare products or e-cash onto their smart cards either on-line or by telephone. This is expected to reduce the number of in-person sales that will be required to be handled by FPSAs. With fewer fare product sales being handled by FPSAs, fewer FPSA retail locations than are currently in place will be required. Since the operation of an Attended Add Value Machine (AAVM) will require a certain level of training and computer communications connectivity, the required attributes of a qualified FPSA will be different than the attributes of a current retail sales agent. Through the RFP process, Winnipeg Transit will stipulate these attributes and will fairly and competitively select the best FPSAs to suit the requirements for the new automatic fare collection system.

Since the machines required to add value to smart cards (AAVMs) will cost approximately $3,300 and will require ongoing maintenance, the FPSA must maintain a minimum sales volume to permit Winnipeg Transit to recover the cost of providing and maintaining the AAVM.

The change of the commission paid to fare product sales agents may require a budget adjustment to Transit in 2013. The amount of the adjustment is dependent on the bids received.

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.

On January 24, 2012 the contract for the Automatic Fare Collection System was awarded to Garival Inc.

DETERMINATION OF TRANSIT FARE PRODUCT SALES AGENTS

Current Process

The number of private outlets that currently sell and distribute Transit fare products are:

- 150 standard retail outlets (this includes 124 outlets that are part of five corporate chains – Shoppers Drug Mart, PharmaPlus, 7-Eleven, Mac's and Safeway)
- 110 Ecopass outlets
- 40 Post-secondary outlets

In addition there are five City of Winnipeg locations where passengers may currently purchase Transit Fare products.

Currently, any retail outlet that wishes to sell Transit products applies to Winnipeg Transit to become an authorized sales outlet. Winnipeg Transit conducts a review of the geographic area served by the outlet to determine whether the outlet is required. Winnipeg Transit generally does not approve new sales outlets if there is another sales outlet in close proximity; however, exceptions may be allowed depending on:

- Population density (e.g. more are allowed in close proximity to downtown)
- Traffic flow (e.g. more are allowed along highly-trafficked arterial streets)
- An existing agreement with a corporate chain (e.g. two different chain locations may be located in close proximity to one another).

Proposed Process

With the use of on-line and telephone sales expected to begin in the fall of 2013, the overall demand for service at FPSAs will decrease as many customers will be able to purchase their fare products by telephone and on-line. To provide each FPSA with an opportunity to earn a reasonable return on the sale of transit fare products, it is expected that the total number of FPSAs required will be reduced from current levels.

Winnipeg Transit fare products will be available for in-person sale to passengers either at Transit Customer Service Offices or at third party retail FPSA. These FPSAs may be part of a retail chain ('chain FPSA') or may be a single outlet ('independent FPSA').

All current sales agents will have the opportunity to bid as a chain or as an independent FPSA thereby creating a fair process for FPSA procurement for current and potential agents.

The primary FPSA channel will be through chain FPSAs that provide Winnipeg Transit with the following benefits:

- Consistent information for customers as to where they can purchase transit fare products. i.e. 'all stores of xxxxx corporate chain'.
- Consistent store equipment and staff training.
- Cost savings to the City to deliver fare media to one head office location rather than to multiple locations around the City, as well as less administration related to collection of revenue from each outlet.
- Opportunity for consistent marketing, promotion and distribution of Transit fare products across multiple locations.

The secondary FPSA channel will be through independent FPSAs that will be awarded to augment the geographic coverage provided by the chain FPSAs to ensure that every area of the City has adequate and reliable FPSA service. The RFP for the independent FPSA's will be issued subsequent to the responses received to the chain RFP. The geographic areas that require additional independent FPSAs will be specified in the RFP.

The use of an RFP process to select fare product sales agents for the new Transit fare system:

- Provides for a fair process for determining FPSA's.
- Allows for a competitive market environment for determining the commission rate under the new system

POST SECONDARY EDUCATIONAL INSTITUTIONS

Students attending approved post-secondary educational institutions are eligible to purchase the Post-Secondary Monthly Pass. A post-secondary educational institution that wishes to sell Post- Secondary Monthly passes must obtain authority from Winnipeg Transit to do so. There is a significant amount of administrative work and responsibility assumed by the post-secondary educational institution to sell the passes, including the verification of student eligibility. Since only the institution can provide the verification tools, it is not appropriate to have them participate in the RFP process.

The larger post-secondary educational institutions (University of Manitoba, University of Winnipeg, Red River College) currently sell high volumes of other transit fare products in addition to post-secondary passes. Because retail locations with the attributes of a chain or independent FPSA currently do not operate at these institutions, these post-secondary educational institutions will continue to sell all transit products. This will maintain service currently being offered to the customers purchasing their products at these institutions.

ECOPASS PARTNERS

The Ecopass bus pass program is a reduced fare pass program approved by Council. The Ecopass is a discounted price bus pass offered to employees at participating companies. The discount is subsidized by a combination of the employer and Winnipeg Transit and consequently not subject to a commission. Each company is responsible to ensure the Ecopass is sold only to eligible employees. Because neither a chain nor independent FPSA can provide this verification service, it is not appropriate for Ecopass partners to participate in the RFP process.

ATTENDED ADD VALUE MACHINES

Winnipeg Transit will supply and install each new FPSA location with an AAVM electronic device and will provide ongoing maintenance.

COMMISSION

The current commission rate paid to sales outlets is 1%. This rate will remain for Post-Secondary outlets. The FPSAs commission rate will be determined by competitive bid up to a maximum of 1%. The commission rate will form part of the evaluation criteria of the RFP.

The budget implication of the commission rates will not be known until bids are received. It is possible FPSA's may bid below the current 1% rate if the sale of transit products is important to their business.

CONTRACT TERM

At present all outlet contracts exist indefinitely but may be terminated on short notice. It is important that the fare product sales outlets remain consistent so passengers know where they can go to purchase transit products. A contract with a three-year period with an option for three mutually agreed upon renewals of two-year periods each is recommended. With the implementation of a new system an initial term of three years will be long enough for both parties to determine if the arrangement is one worth continuing. Having option years allows consistency in outlets offering fare products for a longer duration.

IMPLEMENTATION

Any new FPSAs will be required to sell existing paper based fare products for up to three months in advance of implementation. This will ensure that when customers visit an FPSA to obtain their new smart card in advance of implementation they will also be able to purchase existing paper based fare products, instead of travelling to a second location.

In addition, implementation is expected to be phased in to different fare categories over potentially a three month period. During this period FPSAs will sell both electronic fare products to those passenger categories already transitioned, and paper based fare products to those categories not yet transitioned.

FINANCIAL IMPACT

Financial Impact Statement Date: June 15, 2012

Project Name:
Changes to the Sales and Distribution System for Winnipeg Transit Fare Products

COMMENTS:

All recommendations other than those related to the method for determining commissions paid to sales agents relate to policy and do not have a financial implication. The financial implication of the change in policy to the commission rate paid to fare product sales agents will not be known until bids are received, however this amount will not exceed the existing budgeted amounts.

original signed by
Tanis Yanchishyn, CA
Manager of Finance & Administration

CONSULTATION

In preparing this report there was consultation with:

SUBMITTED BY

Department: Winnipeg Transit
Division: Finance and Administration
Prepared by: Lou Gervino
Date: *June 15, 2012*