Legislative Department
Seattle City Council
Memorandum

Date: February 16, 2016

To: Transportation and Sustainability Committee

From: Calvin Chow, Council Central Staff (x4-4652)

Subject: **CB 118618 - Pronto Bike Share**

In the 2016 Proposed Budget, the Executive allocated $5 million of Street Use fees for expansion of the Bike Share system. Street Use fees may only be used for transportation purposes, and this funding was initially intended as local match for a larger federal TIGER grant. When the City was unsuccessful in securing the grant, the Executive proposed to use the funding for a more modest expansion of Bike Share. The Bike Share system is currently owned by a non-profit organization (Pronto) and operated under contract by a for-profit service vendor (Motivate).

During the budget presentation, the Executive acknowledged that the existing program was operating at a loss. To make the system financially self-sustaining, the Executive proposed that the City take over ownership of the system from Pronto (to reduce overhead costs) and use system expansion as an opportunity to renegotiate the service contract with Motivate.

In the 2016 Adopted Budget, Council placed a spending proviso on the $5 million, prohibiting spending until authorized by future ordinance. The proviso asked for a detailed spending and implementation plan and financial analysis of the expansion and long-term operations of the Bike Share program.

The proposed legislation (CB 118618) would release the proviso on $1.4 million of the $5 million, and allow the Executive to purchase the Bike Share system from Pronto. This action is intended to stabilize the Bike Share system and allow it to continue operations in 2016, while the Executive explores options for the expansion and future operations of the system.

Following approval to acquire the Bike Share system, the Executive intends to issue a Request for Proposals (RFP) to expand or redeploy the system. Vendors may propose using the current bicycle/dock model or deploying new equipment and technology (including electric bikes or next generation docks/stations). The RFP would also explore options for managing the financial risk of operations. Based on the RFP responses, the Executive would engage Council on options for future Bike Share expansion, and potentially seek legislation to lift the remaining budget proviso ($3.6 million) in mid-2016.

Pronto Bike Share Operations

Table 1 shows Pronto's financial performance from start-up in 2013 through 2015, and includes the bridge financing used to support capital expenditures. The Bike Share program launched service in October 2014; the system's first full year of operations was 2015. Total outstanding debt on the system is $1,237,500. The system includes 54 bike stations, 500 bikes, and serves 3,000 annual members.

Table 1: Pronto Bike Share

	2013	2014	2015
Capital Expenses	(4,545)	(3,546,751)	(230,948)
Vendor Expenses (Motivate)	0	(288,073)	(1,307,945)
Contract and Program Administration	(846)	(20,259)	(33,353)
Non-Profit Expenses (Pronto)	(71,190)	(149,359)	(189,391)
Total Expenses	***(76,581)***	***(4,004,442)***	***(1,761,637)***
Grants	70,360	1,797,898	8,565
Sponsorships	520,000	793,600	702,700
System Revenue (User Fees)	0	134,552	615,838
Total Revenues	***590,360***	***2,726,050***	***1,327,103***
Net Revenue (Loss)	***513,779***	***(1,278,392)***	***(434,534)***
Bridge Financing (Loan Proceeds)	0	1,475,000	412,500
Principal Repayment	0	0	(650,000)
Debt Service	0	(34,472)	(54,332)
City Operational Support	0	0	65,000
Cash Balance	***513,779***	***675,915***	***14,549***
Outstanding Debt	***0***	***(1,475,000)***	***(1,237,500)***

Source: SDOT/CBO

To keep the Bike Share system in operation in 2015, SDOT provided $305,000 to pay the vendor contract through February 2016 ($65,000 in 2015 and $240,000 in 2016). Pronto will be unable to pay Motivate's upcoming March invoice (due March 31st) and will subsequently cease operations.

As part of the start-up of Bike Share, the City of Seattle secured a $1 million federal grant on Pronto's behalf. If Pronto ceases Bike Share operation, the City would be responsible for repaying the grant to the federal government. It may be possible to transfer the grant (and the Bike Share assets) to another municipality to avoid this financial liability; however, this is speculative. The bike model and docking stations used in the current system are unique to Seattle, which may limit the secondary market for the equipment.

Decommissioning the Bike Share system is estimated to cost $200,000 for equipment removal and storage fees. Pronto has a $175,000 performance bond which would cover the bulk of these costs.

Executive's Proposal

Under the Executive's proposal, the City would acquire all of Pronto's assets, including equipment, the service contract, and sponsorship agreements. The proposed $1.4 million investment would be sufficient to retire Pronto's outstanding debt.

Table 2 provides a projection of Bike Share's financial performance under City ownership, with assumptions noted. SDOT anticipates that managing the system will require 0.25 FTE SDOT staff time; this represents a reduction in program overhead costs of roughly $190,000. Under the existing service contract, and at 2015 levels of sponsorship and user fees, the system would require roughly $115,000 of additional subsidy. SDOT's payment of the vendor contract through February 2016 eliminates this projected shortfall for 2016.

Table 2: City-Owned Bike Share

	2016 Projection	Assumptions
Capital Expenses	(83,600)	Annual helmet replacement.
Vendor Expenses (Motivate)	(1,307,945)	Existing contract cost.
Contract and Program Administration	(35,000)	0.25 FTE, SDOT staff
Non-Profit Expenses (Pronto)	0	No Pronto overhead
Projected Expenses	***(1,426,545)***	
Grants	0	No grants assumed.
Sponsorships	702,700	At 2015 sponsorship levels.
System Revenue (User Fees)	608,319	At 2015 user fee levels.
Projected Revenues	***1,311,019***	
Net Revenue (Loss)	***(115,526)***	
City Operational Support	240,000	
Projected Balance	***124,474***	

With the remaining $3.6 million under proviso, as well as additional grants, tax credits, and other revenues, the Executive anticipates that $5 million would be available for a future expansion of Bike Share. This level of investment could represent a system expansion of roughly 100 stations and 1,000 bikes. The Executive intends to solicit proposals through an RFP process, and present options to the Council in mid-2016.

Since the existing Bike Share system is proprietary, proposals may include decommissioning the existing system and deploying new equipment and technology. If the existing equipment is decommissioned as part of a new proposal, the City would be responsible for repaying the federal grant or transferring the equipment to another jurisdiction. These costs will need to be considered in evaluating the RFP proposals.

The successful RFP proposal would replace the existing service contract and may reduce operational costs. Proposals may include options for the vendor to assume financial responsibility for all operations, instead of charging a flat-fee for service. Such proposals would protect the City from financial risk, but would also forego potential revenue which could otherwise be used for capital replacement and expansion.

The RFP process could help identify the tradeoffs between expanded coverage range and station density; the targeted mix of users (casual vs annual members); subsidy to support low-income access; leverage of bicycle infrastructure; and other policy questions of interest to Council. The Executive will not be able to provide a complete business case and financial analysis of future expansion until it receives vendor proposals through the RFP.

It is important to note that the legislation currently before Council does not directly address the future expansion of the system. The City could still pursue an RFP for a new Bike Share system, even if Pronto dissolves and halts service in March. However, maintaining the continuity of the existing Bike Share service may have value in demonstrating the City's commitment to Bike Share to current and prospective users, sponsors, and vendors.

Options

A. ***Approve***

City acquires Bike Share assets. Bike Share continues to operate in 2016.

Financial cost:

- $1.4 million to acquire Bike Share
- $35,000 (0.25 FTE) staffing
- Projected annual operating shortfall of $115,000 (covered for 2016)

If approved, Central Staff recommends establishing a separate fund or account in the budget to manage Bike Share revenues and expenditures.

B. ***Do Not Approve***

Bike Share ceases operations in March.

Financial cost:

- $1 million to repay Federal grant
- $25,000 (net) to decommission system
- Foregone revenue to recoup City Operational Support (i.e., the $125,000 projected balance from Table 2)