



## Transportation Committee

February 28, 2017

### Draft Regional Bike Share Equipment and Operations Contract

**Issue:** Should SACOG award a contract to Social Bicycles (SoBi) for Regional Bike Share System Equipment and Operations?

**Recommendation:** That the Transportation Committee recommend that the Board authorize the Interim Chief Executive Officer to award a contract to Social Bicycles (SoBi) for 1) Regional Bike Share System Equipment not to exceed \$3,194,522.75 for one-time startup costs, and 2) Regional Bike Share System Operations support not to exceed \$675,000.

**Discussion:** To launch our regional bike share system, SACOG needs to enter into three different agreements between many bike share private businesses and public organizations to define roles and responsibilities. This report focuses on the key details of the Equipment and Operations agreement between SACOG and SoBi.

1. Equipment and Operations Agreement

This agreement between SACOG and SoBi describes:

- a. the business model that describes the flow of revenues, expenditures, and profit sharing,
- b. the sponsorship acquisition process that is shared between SACOG and SoBi,
- c. the planning process that includes SoBi tasks and Toole Design Group tasks,
- d. the system infrastructure that includes bikes, docks, kiosks, and other capital purchases,
- e. the launch timeline of tasks that begin after contract execution or sponsorship approval to system launch, and
- f. service level agreements to provide the desired level of service to system users during operations over 5 years.

2. Sponsorship Agreement

This agreement between SACOG and a private sponsor describes:

- a. the amount a private sponsor will pay SACOG for the opportunity to name and brand the regional bike share system assets,
- b. specific requirements for secondary sponsorships related to the primary sponsor,
- c. detailed requirements of the sponsor regarding branding design, messaging, or the role of equity program outreach, and
- d. payment timing, escalation, or fleet size indexing or caps to maintain the value of the sponsorship to support system operations.

3. Public Agency Memorandum of Understanding (MOU)

This agreement between SACOG and various Cities, Transit Operators, and Universities will

- a. provide structure for governance decisions necessary for on-going operations of the Bike Share System,
- b. establish the roles and responsibilities of each partner for on-going operations and maintenance of the Bike Share System,
- c. establish the cost responsibility for each partner for operations and maintenance,
- d. describe a detailed scope of work for SACOG's management of the Regional Bike Share System, and
- e. describe processes for planning, evaluating, and expanding the System, reconciling costs of partners, and adding new members to the system.

SACOG staff will report on the progress of the sponsorship and MOU agreements at a later date. To develop the Equipment and Operations Agreement, SACOG staff reviewed many bike share business models and public agency contracts, reviewed SoBi's proposed alternative business models, consulted project managers and directors of various bike share systems, and consulted with leaders in the North American Bike Share Association (NABSA).

If available prior to the March 2 Transportation Committee meeting, SACOG staff will provide the Committee with a complete draft contract. SACOG staff will also review the complete draft contract with the Bike Share Policy Steering Committee (PSC) at their next meeting to be scheduled for the week of March 6.

#### Business Model

The business model explains how revenues, costs, risks, and rewards are shared and distributed between the public owner and the private operator. Typical bike share business models for publicly owned and privately operated systems generally are "cost plus fixed fee" models:

1. Costs
  - a. A flat cost for equipment (bikes, docks, kiosks, etc.), and
  - b. A fixed fee, usually described in dollars per bike per year, to operate a specific number of bikes in the system.
2. Revenues
  - a. The public agency receives all sponsorship and membership revenues, then pays the operator the fixed fee, and
  - b. The public agency keeps any revenues not needed to pay the fixed fee (profit).
3. Risks
  - a. The public agency takes on the risk of fixed fee revenue shortfalls, such as low membership or sponsorship revenues.

All seven bike share proposals received in May 2016 contained some version of this business model, where several firms changed how profits are defined and split instead of the public agency taking all of the profit.

In late August, both the Bike Share PSC and SACOG Transportation Committees reviewed various business models that shifted risk and reward between SACOG and SoBi. Both committees advised SACOG staff to further develop a business model that reduces risk to public agency operating subsidies while balancing the risk to launch a system in a timely manner with sufficient projected revenues. At the time, this approach made the most sense for SACOG and our bike share partners when the potential for low sponsorship revenues presented a large risk to

launching the system. However, this model did not take into account public agency staffing costs to support implementation of the System. Bike Share partner agency staff counseled SACOG to pursue funding sources for staff within the business model rather than requesting additional funds through Public Agency MOU negotiations.

After initial meetings with potential system sponsors, SACOG and SoBi have reevaluated this risk potential and have jointly developed the following proposed business model:

	Bike Share Business Models		
	SoBi RFP Response Model	September 2016 Model	Proposed Model
<b>Startup Cost</b>	<ul style="list-style-type: none"> <li>\$3,194,522.75 for all tasks and equipment prior to launch</li> </ul>	<ul style="list-style-type: none"> <li>Same</li> </ul>	<ul style="list-style-type: none"> <li>Same</li> </ul>
<b>Fixed Fee</b>	<ul style="list-style-type: none"> <li>\$1,800 per bike per year (pbpy)</li> </ul>	<ul style="list-style-type: none"> <li>\$1,670 pbpy</li> </ul>	<ul style="list-style-type: none"> <li>\$1,670 pbpy</li> </ul>
<b>Sponsorship Revenues</b>	<ul style="list-style-type: none"> <li>Split 50/50 after fixed fee covered.</li> <li>SACOG acquires sponsor.</li> </ul>	<ul style="list-style-type: none"> <li>Split 80/20 SoBi/SACOG after fixed fee covered.</li> <li>SoBi acquires sponsor.</li> </ul>	<ul style="list-style-type: none"> <li>SoBi receives the first \$1,000 pbpy of sponsorship revenues.</li> <li>SACOG and SoBi split amounts in excess of \$1,000 pbpy 50/50</li> <li>SACOG and SoBi jointly acquire sponsor.</li> </ul>
<b>Membership Revenues</b>	<ul style="list-style-type: none"> <li>Split 50/50 after fixed cost covered</li> </ul>	<ul style="list-style-type: none"> <li>Split 80/20 SoBi/SACOG after fixed fee covered</li> </ul>	<ul style="list-style-type: none"> <li>SoBi receives 100% of membership revenues until their total revenue shares cover the fixed fee of \$1,670 pbpy.</li> <li>Split membership 80/20 SoBi/SACOG, after fixed fee covered.</li> </ul>
<b>Revenue shortfall and cost overrun risks</b>	<ul style="list-style-type: none"> <li>SACOG covers revenue shortfalls against fixed fee costs.</li> <li>SoBi covers operations cost overruns.</li> </ul>	<ul style="list-style-type: none"> <li>If SoBi cannot recover \$1,670 pbpy, SoBi may access up to \$675,000 in public funds*. Additional revenue shortfalls are covered by SoBi.</li> <li>SoBi covers operations cost overruns.</li> </ul>	<ul style="list-style-type: none"> <li>If SoBi cannot recover \$1,670 pbpy, SoBi may access up to \$675,000 in public funds. Additional revenue shortfalls are covered by SoBi.</li> <li>SACOG also may access public funds to collect at least \$350,000 per year. But, SoBi has priority to reach \$1,670 pbpy and the \$350,000 may be revisited.</li> </ul>
<b>Other Incentives</b>	<ul style="list-style-type: none"> <li>None</li> </ul>	<ul style="list-style-type: none"> <li>Split profits 90/10 SoBi/SACOG if the</li> </ul>	<ul style="list-style-type: none"> <li>SoBi will add 100 bikes each year revenues exceed \$2,000</li> </ul>

		system exceeds 2.0 trips per bike per day.	pbpy, up to 1,200 system bikes.
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\* \$675,000 in public funds are local funds previously committed by cities, transit operators, universities and the SMAQMD as matching funds to start the system. \$395,000 is expected to be available in the first year of operations and \$675,000 fully available by the fourth year of operations.

The proposed business model improves on the initial business model by:

1. Lowering SoBi’s proposed fixed cost, from \$1.62m to \$1.5m per year,
2. Limiting dependence on public funds to previously committed amounts,
3. Commits SoBi to partner with SACOG to acquire a sponsor,
4. Creates stable SACOG program funding in early operating years without asking for additional support from partner agencies,
5. Creates opportunities for system expansion funds at high sponsorship and membership revenue levels, and
6. Creates incentives for both SACOG and SoBi to drive system success.

Sponsorship Acquisition Process

SACOG released two RFPs in May 2016: one for equipment and operations, the other for a sponsorship broker. SACOG received one sponsorship broker proposal from The Superlative Group. While this proposal was responsive to SACOG’s request for service, The Superlative Group proposed a comparatively high 25% commission against all sponsorship sales. After reviewing other system sponsorship contracts and consulting with NABSA members, typical broker commissions for bike share sponsorship have been between 13-18%, while most are 15%. On November 2, 2016, the Bike Share PSC compared this proposal with SoBi’s alternative proposal of building some of these services into their scope of work for no additional costs. SACOG was able to negotiate these services into SoBi’s contract by building incentives into the business model, saving SACOG from making commission payments to a third party.

Both SACOG and SoBi have been working diligently to secure a system sponsor since November 2016. Ryan Ryzpecki, SoBi CEO, has personally participated in sponsorship sales presentations, provided system data, and equity program data. Remaining tasks described in the contract include additional sponsorship meetings and presentations, negotiation support, sponsorship contract services, and other draft system branding and design work. Final sponsorship acquisition deliverables include 1) a draft 5-year operating budget based on proposed sponsorships, including projected cash flow on quarterly reconciliation reports/invoices, and 2) a proposed program User Fee schedule for SACOG Board approval.

Pre-Sponsorship Planning Tasks

Prior to acquiring a system sponsor, there are planning tasks that will help prepare public system partners to plan, evaluate, and expand the system.

Toole Design Group, SoBi’s subconsultant for system planning, will:

1. Review Permitting Needs and Develop Station Siting Guidelines, as needed,
2. Create an Initial Service Area and Draft Station Area Map,
3. Engage regional bike share partners and draft a memo documenting the system’s site planning methodology and revisions,

4. Create a Draft Station Map based on a Preliminary Map of 250 possible sites, and
5. Work with SACOG and SoBi to provide input to develop the Public Input Campaign related to refining the Draft Station Map.

SoBi will:

1. Design Custom Website Landing Page for SACOG approval, including plan for customer status verification,
2. Draft site-specific privacy policy, user agreement, liability waiver, and other required policies and documents, for SACOG approval,
3. Connect Card Interoperability and Compatibility Plan for SACOG approval,
4. Draft Brand Concept Plan for Program, for SACOG approval, and
5. Draft Marketing Plan for SACOG review and approval.

#### Post-Sponsorship Planning and System Installation Tasks

Once a System sponsor is secured, SACOG can send SoBi a notice to proceed with public planning, permitting, and installation tasks without running this risk of purchasing equipment or hiring local operations staff without sufficient operating dollars. SoBi has committed to being ready to launch the system within seven months of acquiring a sufficient sponsor, assuming that system planning is not delayed by the permitting agencies and that the system would not launch during Winter months. SACOG staff will work to resolve permitting issues as quickly as possible between SoBi and public agency partners.

Toole Design Group will:

1. Complete any pre-sponsorship tasks,
2. Implement the Public Input Campaign and Equity Strategy, including all meeting/technology costs and publication costs,
3. Finalize Station Map with input from public, bike share partner agencies, and SACOG
4. Conduct site visits and draft station drawings, and
5. Apply for station permits and submit copies of all approved permits

SoBi will:

1. Final Marketing and Branding Plan,
2. Acquire Program: Establish local facility and offices; purchase all capital program equipment (bikes, docks, kiosks, etc.),
3. Test Equipment and Connect Card Interoperability,
4. Hire and train program staff (local SoBi staff for daily operations), and
5. Launch Program.

#### Service Level Agreements

Service level agreements (SLAs) provide the desired levels of service to system users during operations, measured through key performance indicators, including the “percent of bicycle fleet in operations” and “bike maintenance intervals.” Detailed customer service indicators include “Customer Satisfaction Ratings by Surveys.” Some public goal-oriented indicators include “trips per bike per day” or “trips connected to transit.”

Failure to meet SLAs often results in liquidated damages tied to lower monthly fixed costs. Some operators have complex point or credit schemes that warn the operator of potential liquidated

damages prior to enforcing them. Some point schemes also reward the operator for exceeding expectations of the SLAs. The North American Bike Share Association (NABSA) warns contract drafters that incentives are more important than attempting to reduce all risk through SLAs:

- *Better contracts will align incentives and will position cities/owners to take advantage of technology enhancements and adapt to business changes.*
- *The back-end vendor should have contractual incentives to work with you on the cycle of development and to help you achieve usage and revenue goals.*
- *Revenue-sharing or incentives based on a combination of sales and usage growth are effective ways to align long-term incentives.*

Within this draft agreement, SACOG staff recommends including mostly outcomes-based SLAs vs. prescriptive procedural SLAs to create incentives for increase ridership and membership without creating burdensome or administratively difficult public oversight. The Bike Share Project Management Team and Policy Steering Committee considered a range of SLAs during their Fall 2016 meetings. Below is the current proposed SLAs that are part of this draft contract.

	<b>Performance Indicator</b>	<b>Description</b>	<b>Measurement Tool</b>	<b>Minimum Performance Standard</b>	<b>Reporting Frequency</b>
1.	Overall Bicycle Availability	Percentage of Bicycle Fleet in service and available to rent	Web-based tool	90%	Any given point in time/ Monthly
2.	Kiosk Connectivity	Number of Kiosks Operational	Web-based tool	90%	Any given point in time/ Monthly
3.	Bicycles Inspection and Maintenance	Inspect bicycles and stations and perform preventative maintenance	Web-based tool	Bicycles inspected once every month or every 150 miles	Any given point in time/ Monthly
4.	Station Inspection and Maintenance	Inspect station and stations and perform preventative maintenance	Web-based tool	Stations inspected once every week	Any given point in time/ Monthly
5.	Time to Respond (Bike Repairs)	Address Repair Upon Notification	Web-based tool	24 hours from issue found and/or reported	Any given point in time/ Monthly

	Performance Indicator	Description	Measurement Tool	Minimum Performance Standard	Reporting Frequency
6.	Time to Respond (Vandalism or other damage)	Address Repair Upon Notification	Web-based tool	48 hours from isolated incidents of graffiti reported; 48-96 hours from other issues reported	Any given point in time/Monthly
7.	Bicycle Distribution and Zone Availability	See Description of Zone Availability below			
8.	Website in Service	Percentage of time that the website and mobile app are in service	Web-based tool	99% uptime	Any given point in time/Monthly
9.	Time to Respond (Customer Service)	Customer satisfaction rating (percentage)	Web-based /User Surveys	1-hour complaint acknowledgement; 24-hour complaint resolution plan	Any given point in time/Monthly
10.	Equity Outreach	To be determined by jointly by SACOG and SoBi, shaped by public input.			

*Corrective Action Plan if SLAs are violated*

Instead of liquidated damages for violating SLAs, SACOG agrees with NABSA and SoBi about avoiding simple punitive measures and creating a method to collaborate within a cycle of development to improve the system together. The draft contract creates a process for SoBi to address violated SLAs through Corrective Action Plans, where SoBi must submit the plan within 10 days of the reported SLA violation. After the plan is approved by SACOG, SoBi will have 45 days to implement the plan to meet SLAs. A repeat of SLA failures and ineffective plans could lead to contract termination.

*Adjustments to SLAs if SoBi’s fixed fee of \$1,670 per bike per year is not met*

SoBi may also ask to adjust SLAs if the system is not generating \$1,670 per bike per in revenues distributed to SoBi through the business model. Any changes would have to be agreed to by SACOG.

*Bicycle distribution, rebalancing and Zone Availability SLAs*

To a user, an empty station without bikes or a full station with no place to park means that the system has failed to provide users an expected level of service to meet their mobility needs. A significant portion of bike share system staffing costs can be consumed by rebalancing bikes between stations to avoid this failure. While SoBi’s smart bike technology helps alleviate issues with full docks (you can park near a dock and not be charged extra), empty docks are still an issue.

SoBi had proposed two system-wide bicycle availability SLAs:

- During peak periods, 90% of stations will have bikes available, and
- During off-peak periods, 95% of stations will have bikes available.

Unfortunately, this style of SLA can lead to periods where about 10 of 100 stations could be

empty during peak periods; this could easily be 10 stations surrounding busy transit hubs or light rail stations. More aggressive SLAs of this nature would lead to very high staffing costs for limited additional user benefit, such as “bottomless stations” where staff are on site circulating bikes and handing them to users as quickly as possible to meet demand.

As an alternative, SoBi and SACOG have agreed to develop a number of “High Priority Zones” where stations within a Zone will have a specific bicycle availability SLA tailored to that area. This would lead to SLAs where specific percent of the bike fleet will remain in that area as SoBi staff actively rebalance bikes to meet the SLA. From a user’s perspective, if they could not find a bike adjacent to a light rail station, they would likely find one nearby.

*Equity Outreach*

As part of Toole Design Group’s governance study work, Toole recommended specific staffing levels for SACOG’s Bike Share Team to provide project management, transit connectivity planning, and equity program outreach services. In an effort to provide the region with a cost-effective equity outreach program, SoBi has offered to provide specific staff positions for equity outreach within SoBi’s local operations staff instead of SACOG staff providing this service. SACOG and SoBi staff will work together to define the parameters of this program and its performance measures, with sufficient SoBi staffing to meet the program goals and performance measures. This service will be tailored to compliment other SACOG public outreach efforts related to transportation investments in disadvantaged communities.

**General Background:** A bike share system allows the public to rent a bicycle from a docking station and make a one-way trip for a small fare. On December 17, 2013, SACOG awarded \$3.9 million in funding from the 2014 SACOG Flexible Funding Round to the SMAQMD to procure and install a Regional Bike Share project in the cities of Sacramento, West Sacramento and Davis, and on the UC Davis, Sacramento State University, and Sacramento City College campuses.

In April 2015, the Regional Bike Share Project was added to SACOG's Overall Work Program to manage as the lead agency. On February 1, 2016, the Bike Share Policy Steering Committee of elected officials and local agency executive management reviewed findings from SACOG’s bike share consultant, Toole Design Group, and recommended the development of a SACOG owned and operated regional bike share system.

On July 14, 2016, the SACOG Regional Bike Share Policy Steering Committee (PSC) and Project Management Teams (PMT) interviewed the top three bike share operators that submitted proposals: Bewegen, Next Bike, and Social Bicycles (SoBi). Firms who submitted proposals but were not interviewed include Bicycle Transit Systems, CycleHop, and Shift Transit.

Bike Share PSC Members:

Christopher Cabaldon, Mayor of West Sacramento  
 Steve Hansen, City of Sacramento Councilmember  
 Jeff Harris, City of Sacramento Councilmember

Bike Share PMT Staff:

Judy Matsui-Drury, City of Sacramento  
 Chris Dougherty, City of West Sacramento  
 Jennifer Donofrio, City of Davis  
 Jeffrey Damon, Sacramento Regional Transit  
 Tim Bustos, University of California, Davis  
 Josh Neri, Sacramento State University



Lucas Frerichs, City of Davis  
Councilmember  
Mike McKeever, SACOG Executive  
Director  
Larry Greene, SMAQMD APCO

As authorized by the SACOG Board, the Bike Share PSC unanimously recommended that the CEO enter contract negotiations with SoBi for Regional Bike Share System Equipment and Operations. SoBi's proposal includes a "smart bike" fleet of 900 bikes with the ability to expand to 1200 bikes over 5 years and the potential to upgrade to pedal assist e-bikes in the near future. SoBi included Toole Design Group's bike share system planning services as a subconsultant within their proposal.

Approved by:

Kirk E. Trost  
Interim Chief Executive Officer

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Attachment

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