



**STAFF REPORT
ACTION REQUIRED
With Confidential Attachment**

BIXI Toronto – Next Steps

Date:	June 18, 2013
To:	Executive Committee
From:	General Manager, Transportation Services
Wards:	All
Reason for Confidential Information	This report involves the security of property belonging to the City or one of its agencies, boards and commissions
Reference Number:	P:\2013\Cluster B\TRA\TIM\ex13009tim

SUMMARY

Executive Committee, on April 23, 2013, considered a staff report and confidential attachment which presented options for restructuring the City's relationship with BIXI Toronto due to financial difficulties experienced by BIXI.

Following the April 23, 2013 meeting of the Executive Committee staff issued a non-binding Request for Information (RFI) for the purposes of collecting information on bike-share operations and assessing market interest in assuming the BIXI program. Six responses were received in response to the RFI. None of the six respondents to the RFI were of the view that the BIXI Toronto operation could be assumed by a private operator/owner without some level of City subsidy; however there appears that there could be some potential to reduce the City's financial risk, to some extent, through a new arrangement with a private sector firm. To protect the City's financial interest, the Confidential Attachment to this report discusses the options for restructuring the City's relationship with BIXI. The Confidential Attachment will be distributed in advance of the July 3, 2013 meeting of Executive Committee.

RECOMMENDATION

The General Manager, Transportation Services recommends that:

1. City Council adopt the confidential recommendations as contained in the Confidential Attachment to this report with respect to the BIXI public bicycle program;
2. City Council direct staff to report back to the October 30, 2013 meeting of the Executive Committee on the recommended strategy for continuing the BIXI public bicycle program; and
3. City Council direct that the recommendations and information contained in the Confidential Attachment remain confidential as it contains information respecting the security of the property of the City.

Financial Impact

There is no immediate financial impact associated with this report. City Council previously approved entering into an agreement for the provision of the BIXI public bicycle program and provided a loan guarantee for a 10-year term loan in the amount of up to \$4.8 million to pay for the program's capital assets as a municipal capital facility for transportation and recreational purposes. BIXI borrowed \$4.5 million and the loan balance as at December 31, 2012 was \$3.9 million which the City would have to assume under the City loan guarantee, if called upon by BIXI's lender, the National Bank. To protect the City's financial interest, the Confidential Attachment to this report presents options for the BIXI Toronto program and addresses the \$3.9 million capital debt and other potential financial liabilities associated with the program.

The Deputy City Manager and Chief Financial Officer has reviewed this report and concurs with the financial impact information.

DECISION HISTORY

Executive Committee, on April 23, 2013, considered a staff report and confidential attachment, entitled: *Restructuring the Relationship with BIXI Toronto Inc.* (EX31.13) and provided confidential instructions to staff.

ISSUE BACKGROUND

There are a variety of funding and operating models for public bicycle programs. The BIXI Toronto operating model is unique in North America in that the City of Toronto did not provide a revenue guarantee or permit advertising at BIXI stations to fund the program. Therefore, the system relies solely on operating revenues to cover the operating costs as well as pay down the capital loan over the 10-year loan period. However, the first two years of operation have clearly demonstrated that BIXI's operating revenues have not

been sufficient to support the capital debt. BIXI needs a significant increase in revenues or a decrease in operating costs for the program to be financially sustainable without subsidy.

In addition, Public Bicycle System Company (PBSC), BIXI Toronto's parent company, is in the process of restructuring by selling the part of their business that manufactures and sells the BIXI system and services to other cities. When the sale is completed all aspects of the BIXI system, including sales and service to cities worldwide will be owned by a private company. The Montreal BIXI program will be operated by PBSC as an entity wholly owned by the Societe de Transport de Montreal ("STM", Montreal's transit authority). STM will not continue to support the BIXI Toronto program beyond 2013.

COMMENTS

Assessing Private Sector Interest in BIXI Toronto Program

Request for Information (RFI) No 9101-13-7145 was prepared by staff from Transportation Services and Purchasing and Materials Management Division (PMMD), in consultation with staff from Legal Services and Corporate Finance. The RFI was posted on the City's Online Call Document System on May 13, 2013 and notice of the RFI was sent to all known bike share service providers in North America as well as to people/firms who contacted the City to express their interest in potential future involvement in the BIXI Toronto program. The RFI was prepared in cooperation with BIXI Toronto Inc. as the current owner and operator of the system.

The purpose of the RFI was to invite qualified respondents to provide information to assist the City and BIXI Toronto Inc. to determine the possible options for the assumption of ownership, operation and delivery of the program by a third party and the most appropriate business model for continuing the BIXI bike share program in Toronto. The RFI clearly stated that it did not bind the City to any particular course of action and was intended to solicit information only for the purposes of determining next steps and would not be used to evaluate, rank, select or pre-qualify respondents for a subsequent competitive bidding process.

The RFI closed on June 4, 2013 and responses were submitted by the following six firms:

- Alta Bicycle Share
- B-cycle
- CycleHop
- Four Square Integrated Transportation Planning
- StartUpNorth
- Toole Design Group

Staff subsequently sought clarification from some respondents as permitted under the RFI to attempt to ensure that as much information as possible was provided and that the responses could be fully understood.

The responses of the RFI did not yield a clear cut business case for a private sector firm to assume the BIXI Toronto program. An assessment of the responses leads to the conclusion that a new operator would be unlikely to assume the outstanding capital debt and operating liabilities incurred by BIXI Toronto without some level of City subsidy. However, the respondents identified a variety of options for continuing the BIXI Toronto program or providing a new bike share system while potentially reducing the City's overall financial risk.

Summary of Concepts Identified by Respondents:

- The City could retain a firm to assist in developing a new business plan;
- The BIXI program could be operated by a private firm on a fee-for-service basis;
- The City could explore the possibility of selling the existing BIXI equipment to reduce the \$3.9 million capital debt and replacing it with a different bike share system operated by a private firm; and
- There would be interest in owning and operating a Toronto bike share program if the City assumed the \$3.9 million capital debt, provided that there might be the potential to share this liability if other sources of revenue or investment could be found or generated through various means (e.g. increased sponsorship revenue, private investment, outdoor advertising revenue, more favourable agreement terms).

There was a general consensus among the RFI respondents that bike share programs cannot fund the start-up capital equipment costs through membership and usage fees and sponsorship contributions. Bike share programs generally require some form of funding for the initial capital investment, either through municipal funding, government grants or a large title (i.e. naming rights) sponsorship. Cities that have been successful in achieving significant corporate sponsorship revenues (e.g. New York City's \$41 million investment by Citibank) have done so with high level political support.

Some specific comments about the BIXI Toronto program were provided in the responses based on a review of the financial statements and system metrics provided as part of the RFI process. In summary, the respondents observed that the BIXI Toronto program:

- Has reasonable operating costs;
- Has a low number of members per bicycle compared to other systems;
- Is generating a large number of trips per bicycle;
- Has a cost-recovery, through membership and usage fees, that is generally in line with other comparable systems;
- Appears to have a lower than expected level of sponsorship revenue on a per bike basis; and
- Could increase membership, stimulate usage and generate sponsorship opportunities by expanding the system.

Conclusion & Next Steps

The fundamental question facing the City is whether the City should support the BIXI program and, if so, at what cost and under what conditions? The City currently has a capital investment in the system in the form of its guarantee to the bank for the outstanding \$3.9 million loan amount. To protect the City's financial interest, staff submitted a confidential report to Executive Committee for its April 23, 2013 meeting on options available to the City under the terms of the Agreement between the City and BIXI Toronto Inc. The Confidential Attachment to this report provides further information and presents additional options for the consideration of Executive Committee and City Council based on the results of the RFI. The Confidential Attachment will be distributed in advance of the July 3, 2013 meeting of Executive Committee.

Staff analysis of the review of the responses can be provided to Councillors in an in-camera presentation if requested by members of Council.

CONTACT

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SIGNATURE

Stephen Buckley
General Manager, Transportation Services

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ATTACHMENT 1 – Confidential Information