



SAN DIEGO COUNTY
REGIONAL AIRPORT AUTHORITY
STAFF REPORT

Item No.
19

Meeting Date: **SEPTEMBER 2, 2010**

Subject:

Discussion and Possible Direction Regarding Taxicab and Vehicles For Hire Concessions

Recommendation:

Partner with the ground transportation industry in implementing service improvements at SDIA; provide timeframe for industry to establish business entities and sign MOUs with Authority governing new operational relationships; if performance does not improve, authorize staff to prepare a solicitation for concession services.

Background/Justification:

At the January 7, 2010 Board meeting, the Board adopted the Comprehensive Ground Transportation Management Plan and directed staff to prepare an implementation plan for concession services for ground transportation operations at SDIA. The Board further directed that an item be placed on a future Board meeting (September 2, 2010) agenda to discuss the issue of moving towards transportation concession agreements that would not totally disenfranchise the financial investment of current service providers.

Both industry groups (taxicabs and shuttles) have requested that the Authority not implement a concessions program until they have been given the opportunity to respond to the Authority's service performance concerns. They have offered to partner with the Authority to immediately address performance issues, particularly customer service deficiencies and environmental concerns, while they establish formal business entities. These proposed entities (Co-Ops and/or Consortiums) would enter into Memorandums of Understanding (MOU's) with the Authority to codify mutual expectations of performance and establish a successful working relationship. If, after a reasonable evaluation period, the industry's performance is not satisfactory, the Authority would be free to contract for ground transportation services with concessionaires.

Taxicab and Shuttle Operations

The goals of the Authority in addressing improvements to its ground transportation program center on measures to:

- Optimize Taxicab Fleet / Taxicab Availability
- Improve Management Structure / Oversight
- Strengthen Vehicle and Driver Standards
- Enhance Environmental Compliance
- Provide a Uniform Customer Service Experience

These program improvements can be addressed by one of three approaches:

- (1) Engage the services of taxicab and shuttle concessionaires governed by contract agreements.
- (2) Partner with service providers through industry formed business entities (Co-Op/Consortiums) governed by memorandums of understanding (MOU) for the purpose of improving ground transportation services at SDIA
- (3) Maintain the present management model with increased regulatory oversight and management attention to problem solving

Approach (1): Issue an RFQ/RFP for Exclusive Ground Transportation Services (Concession)

If approved, staff would solicit statements of interest and qualifications from potential bidders through a Request for Qualifications or Request for Proposals process. The selection criteria would include requirements that responders provide meaningful opportunities for current drivers to continue to serve the airport. Further, the successful candidate(s) must demonstrate a workable compensation plan that recognizes current owners' investment in their vehicles and permits. Additionally, current local owners/operators will be provided an opportunity and time to form business entities, structured to satisfy the legal requirements necessary to qualify as candidates for the concession contract(s).

Benefits: The advantages of operating with one or two service providers fall in three categories: (1) Administrative efficiency- administrative requirements are eased and regulatory compliance increased. (2) Reliable operational performance - uniform performance expectations and customer service satisfaction are more likely, given adequate contract oversight. and (3) Potential increased revenue- with a minimum annual guarantee, stable travel patterns and a positive customer demand forecast, the

Authority could realize somewhat greater revenue than is achievable with the present cost recovery model. Financial arrangements with the concessionaire(s) must recognize the long-term economic uncertainty in the air-travel industry and be adaptable enough to respond to rapidly changing demand conditions in the industry and locally in the San Diego/ Baja California region.

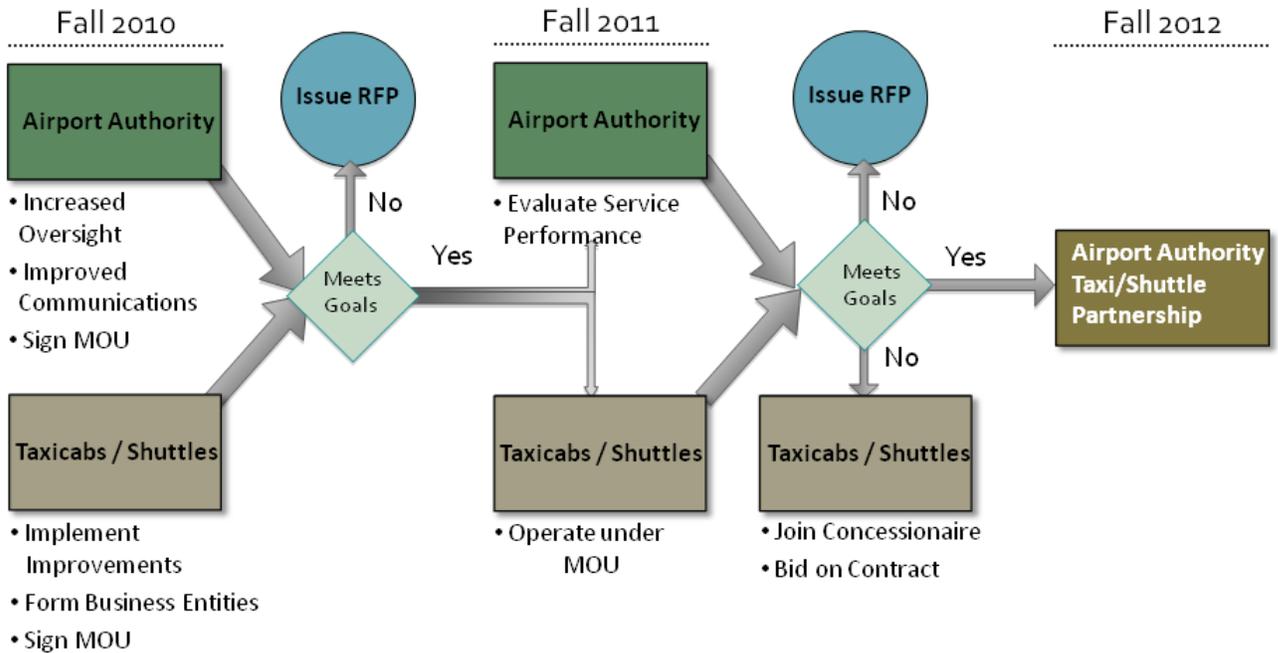
Challenges: (1) Adverse impacts to the existing service force with uncertainty over future employment, (2) Potential loss of investments in assets made by the current owner/operators, (3) Loss of operational control to the contract provider, (4) Loss of flexibility provided by the Authority's current cost recovery model that allows for annual recap of expenses in established recovery rates, (5) potential loss of opportunities for small business owners/operators.

Approach (2): Partner with Industry in Formal Business Relationship

This alternative would allow existing service providers to establish business entities that would implement and self-enforce Authority-directed service levels and improvements. The Authority would allow all interested service providers to organize into business entities for the purpose of meeting a set of published Authority performance requirements. No permit holder would be excluded from forming such an entity (Co-Op, Consortium and the like). The Authority would then select successful candidates for each industry group and sign MOU's. For standardization purposes, all permit holders would be required to join the organization(s) as a condition of operating at the airport. The entities would function as operational instruments of the Authority's Ground Transportation Department and respond to customer service issues, operational concerns and performance improvement initiatives.

This approach has the Authority partner with the industry groups over the coming year to immediately address the improvement issues while they form Co-Op/Consortiums and finalize MOU's with the Authority. If, after a reasonable time, there is insufficient improvement, or failure to finalize agreement(s), the Authority would act to issue an RFQ/RFP for concession services. Once the MOU's are in place and functioning the Authority will evaluate performance over the year to determine if the relationship is serving its purpose. If the program is unsuccessful, the Authority would be free to issue an RPQ/RFP for concession services. The industry has the expectation that in spending time and money on establishing such entities that the concept would have sufficient longevity and not be abandoned by the Authority without sufficient cause. The following is a diagram of this approach.

Ground Transportation Service Improvement Plan – Approach (2)



Benefits: (1) Maintains livelihood of current service providers and provides strong incentives for their improved performance, (2) Allows opportunity and evaluation period for industry to remedy performance deficiencies, form suitable business entities, sign MOUs and execute under the new working relationship. (3) Provides single point of contact for problem solving and enforcing standards, (4) Provides owners fair notice and time to realize investment in vehicles and permit, if the Authority acts in the future to declare airport permits are non-transferrable.

Challenges: (1) Requires commitment by both sides to work together in solving operational issues and improving customer service at SDIA. (2) Staff time and some small expense will be incurred in setting up the framework for the new relationships and measuring progress in solving problem areas. (3) Uncertainty of the viability of the Co-Op/Consortiums and ultimate success in implementing the MOUs satisfactorily.

Approach (3): Maintain Status Quo with Improvement Changes

This approach significantly increases management's attention to problem areas, requires the cooperation and assistance of the industry groups, and relies on greater conformance by individual owners and drivers. It provides for increased liaison and periodic meetings to implement improvement changes and introduces new customer service programs, as well as, addresses industry needs. New and far more stringent

driver performance and customer service standards will be developed. Vehicle appearance and safety condition standards, with frequent inspections, are planned. Enforcement will come with increased administrative penalties. SDIA Rules and Regulations will be revised to include expanded driver training requirements, including annual refresher training, and vehicle condition standards. Attention will be given to regulations to ensure that taxicab service will be available at all times.

Benefits: (1) Maintains present management system with increased accountability and oversight, (2) Increases communication with industry with frequent meetings and one-on-ones, (3) Provides for improvements in performance standards, together with enforcement penalties.

Challenges: (1) The most costly alternative in terms of Authority staff expenditure of time and some funds will be required to support a formal driver training program, (2) Does not address the difficulty of managing a very large, markedly dissimilar, collection of independent minded service providers, (3) Provides the highest uncertainty of attaining the program performance goals adopted by the Authority.

Recommendation and Action

In staff's judgment it would be in the best interest of the community and the Authority to adopt the second approach and partner with the industry. With it, the airport recognizes the legitimate aspirations of long term services providers who expect to be given an opportunity to correct performance issues and they, in turn, realize they must bear accountability for performance shortfalls. Recently, with the introduction of a landside cost recovery system, they also understand the need to share in the expense of building and maintaining facilities they use for their livelihood. Overall, the relationship of the Airport Authority with its ground transportation service providers is based primarily on shared objectives. This approach provides the time and a fair opportunity for the industry do its part in meeting those objectives. It does not preclude the Authority from moving toward a pure concession model if, during the next two years, conditions do not satisfactorily improve.

Staff Actions: If approved, staff's will work with the industry to implement and sustain improvement measures, assist in framing up workable business entities, governed by MOUs and closely monitor conditions for compliance and customer satisfaction.

Fiscal Impact:

The projected expenses for all three approaches will not entail greater cost than provided for in the FY 2011 adopted budget. Approach Three will entail increased costs

and investments in additional formal training programs, inspection visits by regulatory agencies, and potential staff increases.

Environmental Review:

- A. This Board action, as an administrative action, is not a project that would have a significant effect on the environment as defined by the California Environmental Quality Act ("CEQA"), as amended. 14 Cal. Code Regs. §15378. This Board action is not a "project" subject to CEQA. Pub. Res. Code §21065.
- B. California Coastal Act Review: This Board action is not a "development" as defined by the California Coastal Act Pub. Res. Code Section 30106.

Equal Opportunity Program:

Not applicable.

Prepared by:

VERNON EVANS
VICE PRESIDENT, FINANCE/TREASURER



SAN DIEGO COUNTY REGIONAL AIRPORT AUTHORITY

Board Communication

Date: August 27, 2010

To: Board Members

From: Thella F. Bowens, President/CEO

A handwritten signature in blue ink, appearing to read "Thella F. Bowens".

Subject: Ground Transportation Concession Opportunity – Issue Summary

The purpose of this memorandum is to provide a summary of the major issues in the ground transportation concession agenda item scheduled for presentation at the September Board meeting. A comprehensive presentation, with supporting material, will be provided at the meeting. However, I wanted you to have additional information regarding the taxicab and For Hire Vehicles (shuttles) policy options that staff has been developing for your consideration.

Background and Summary

The Comprehensive Ground Transportation Management Plan (CGTMP) identified taxicab/shuttle operations as areas that could be improved with the implementation of concession programs. The Board voted to adopt the CGTMP recommendations in January, but directed staff to return with a program that did not totally disenfranchise the financial investment of our many long term airport taxicab service providers. In subsequent meetings, some Board members expressed a desire to hear different approaches to achieve service improvements without immediately implementing a concession program. As the Board is aware, the prospect of the Authority changing its current program, populated by a large, diverse group of independent operators to one operated by one or more exclusive concessionaires is of vital concern to the ground transportation community. Both industry groups (taxicabs and shuttles) have asked that the Authority not change its management model until they have been given the opportunity to respond to the Authority's service performance concerns. They have offered to partner with the Authority to immediately address performance issues, particularly customer service deficiencies and environmental concerns, while they establish formal business entities. These proposed entities (Co-Ops and/or Consortiums) would enter into Memorandums of Understanding (MOU's) with the Authority to codify mutual expectations of performance and establish a successful working relationship. If, after a reasonable evaluation period, the Authority is not satisfied with industry's service

performance, the Authority would be free to contract for ground transportation services with concessionaires. This approach will be presented to the Board, together with a second option that implements a competitive process for engaging concession services and a third option that maintains our current program, but with significantly improved standards and increased oversight and enforcement.

Taxicab and Shuttle Operations

The goals of the Authority in addressing improvements to its ground transportation program center on measures to:

- Optimize Taxicab Fleet / Taxicab Availability
- Improve Management Structure / Oversight
- Strengthen Vehicle and Driver Standards
 - Safety Features and Vehicle/ Driver Appearance
- Enhance Environmental Compliance
 - Conversion to Alternative Fuels
- Provide a Uniform Customer Service Experience
 - Curbside Operations
 - ADA Equivalent Service

These program improvements can be addressed by one of three approaches:

- (1) Engage the services of taxicab and shuttle concessionaires governed by contract agreements
- (2) Partner with service providers through industry formed business entities (Co-Op/Consortiums) governed by memorandums of understanding (MOU) for the purpose of improving ground transportation services at SDIA
- (3) Maintain the present management model with increased regulatory oversight and management attention to problem solving. This approach will require sizeable expenditures in staff time and program investments.

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If approved, staff would solicit statements of interest and qualifications from potential bidders through a Request for Qualifications or Request for Proposals process. The selection criteria would include requirements that responders provide meaningful opportunities for current

drivers to continue to serve the airport. Further, the successful candidate(s) must demonstrate a workable compensation plan that recognizes current owners' investment in their vehicles and permits. Additionally, current local owners/operators will be provided an opportunity and time to form business entities, structured to satisfy the legal requirements necessary to qualify as candidates for the concession contract(s).

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Challenges: (1) Adverse impacts to the existing service force with uncertainty over future employment, (2) Potential loss of investments in assets made by the current owner/operators, (3) Loss of operational control to the contract provider, (4) Loss of flexibility provided by the Authority's current cost recovery model that allows for annual recap of expenses in established recovery rates, (5) Potential loss of opportunities for small business owners/operators.

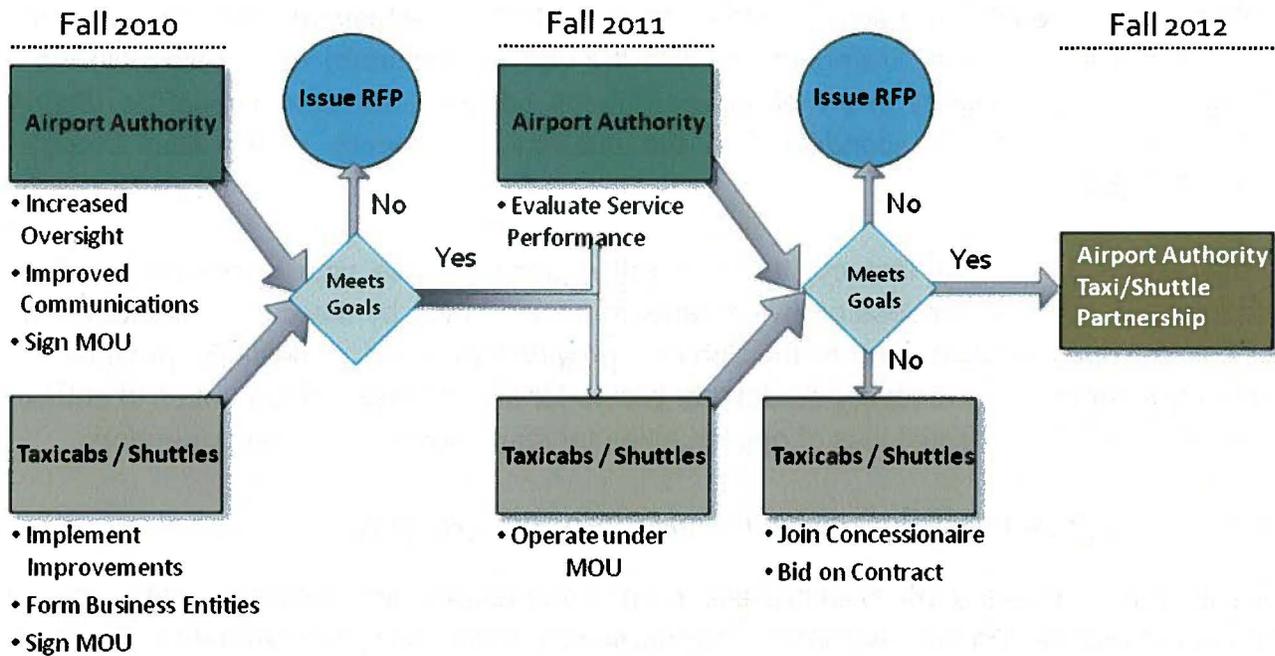
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I hope this information is useful. If I can provide additional information, please contact me.



SAN DIEGO
INTERNATIONAL
AIRPORT

SAN ORG



San Diego International Airport



Ground Transportation Concession Update Evaluation

Vernon D. Evans, CPA

Vice President Finance/Treasurer and CFO

September 2, 2010

Agenda

- Background
- Three Approaches to Improving Program
- Industry Dialogue and Status
- Recommendation
- Next Steps

Comprehensive Transportation Management Plan (CGTMP)

- CGTMP Adopted by Board January 2010
Addresses Potential Improvement Areas
 - Optimize Taxicab Fleet / Taxicab Availability
 - Improve Management Structure/Oversight
 - Require Vehicle and Driver Standards
 - Enhance Environmental Compliance
 - Uniform Customer Service Experience
 - Move Forward to Implement Taxicab/Shuttle Concession

Taxicab/Shuttle Concession Opportunity

- Taxicab/Shuttle Industry Groups Generally Oppose
- Offer to Immediately Address Operational Performance Issues
 - Eliminate Taxi Shortages
 - Uniform Dress and Vehicle Appearance
 - Resolve Safety and ADA Requirements
 - Convert to Alternative Fuels
 - Establish Business Entities as Single Point of Contact & Sign MOUs with Authority

Three Approaches to Addressing Concession Opportunity

1. Authorize Preparation of RFQ/P for Concession Services
2. Partner with Industry in New Working Relationship to Implement Improvements

Establish Evaluation Period
 - Year One - Form Business Entities and Sign MOU
 - Year Two - Evaluate Operational Performance
3. Maintain Status Quo with Greater Regulatory Oversight and Management Attention

Approach No. 1 - Contract with Concessionaire

- Authority Solicits for Service Proposals
 - Requires Proposers to Provide Local Service Providers with Employment Opportunities
 - Requires Proposers to Address Permit Holder Investment in Vehicle/Medallion
 - Local Companies Encouraged to Form Business Entities and Propose
 - Authority Selects Concession(s) for Taxicab and Shuttles

Approach No. 1 - Contract with Concessionaire

Pros:

- Uniform Performance and Increased Service Reliability
- Administrative Ease in Management
- Increased Environmental & Regulatory Compliance
- Equal or Greater Revenues to Current Cost Recovery Model

Approach No. 1 - Contract with Concessionaire

- Cons:
 - Disenfranchises present service community
 - Loss of Operational Control and Financial Flexibility
 - Potential Loss of Business Opportunities for Small Businesses

Financial Evaluation of Concession Approach

- Current Cost Recovery Program at SDIA Based on Annual Expenses for Providing Business Base:
- Taxicabs --\$1.65m
- Shuttles -- \$228k
- Recovery Fees Phased in Over Four Years

Concession Revenue Evaluation- Taxicabs

Possible Financial Cost Recovery Models that Approximate the Current Cost Recovery Program

1. Minimum Annual Guarantee (MAG) Model
Taxicab MAG = ~ \$1.65M
2. Deplanement Model
@ \$0.195/Deplanement (8.5M) = ~ \$1.65M
3. Per Trip Model
678,900 trips @ \$2.44/trip = ~ \$1.65M

Concession Revenue Evaluation Shuttles

Possible Financial Cost Recovery Models that
Approximate the Current Cost Recovery
Program

1. Minimum Annual Guarantee Model

VFH MAG = ~\$228K

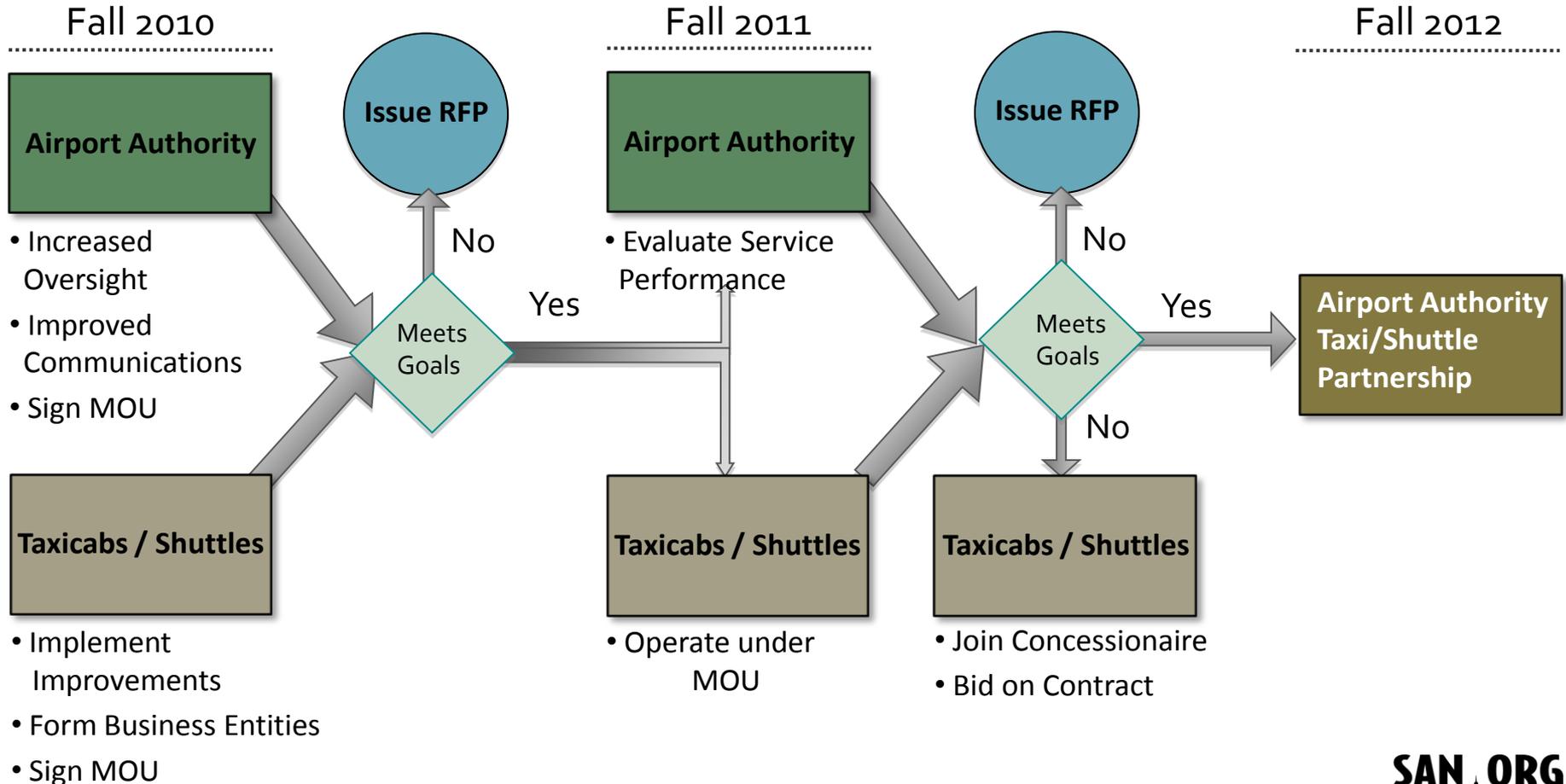
2. Per Trip Model

93,700 trips @ \$2.44/trip = ~\$228k

Approach No. 2 - Partner with Industry

- Authority Publishes Intention to Form Operating Partnership with Service Providers, Governed by MOU
- All Interested Industry Groups Form Business Entities and Respond
- Authority Selects Successful Candidate(s) and Develops MOUs
- Evaluates Service Performance, If Not Satisfactory, Authority Issues RFQ/P for Concessionaire

Ground Transportation Service Improvement Plan – Approach No. 2



Approach No. 2 - Partner with Industry

Pros:

- Implements Service Performance Improvements
- Provides Greater Industry Involvement and Accountability
- Strengthens Lines of Communication (MOU)
- Provides Single Point of Contact on Operational Issues

Approach No. 2 - Partner with Industry

Pros:

- Maintains Service Opportunity for Current Industry Members
- Allows Time for Owners to Realize Investment Value of Vehicles / Medallions
- Recognizes Long Term Service at SDIA

Approach No. 2 - Partner with Industry

Cons:

- Reduces, but does not Eliminate Management Challenges-Still Many Different Services Providers
- Uncertainty over Viability of Industry Performance in New Working Relationship

Financial Evaluation of Partnering Approach

- Authority Maintains Use of the Cost Recovery Program
 - Taxicabs --\$1.65m
 - Shuttles -- \$228k
- Recovery Fees Phased in Over Four Years

Approach No. 3 – Maintain Status Quo With Improvements

- Significant Increase in Regulatory Oversight
 - Numerous Compliance Inspections with Administrative Penalties
 - Additional Secret Shopping
 - Greater Airport Rules and Regulations Enforcement
- Formal Driver Training Program Expanded
 - Annual Refresher Requirements Imposed
- Increased Communication Efforts
 - Industry Liaison and One on Ones

Approach No.3 - Status Quo with Improvements

- Pros:
 - Provides for Greater Regulatory Oversight of Conditions & Management Attention to Problem Solving
 - Strengthening Lines of Communication with Industry

Approach No.3 - Status Quo with Improvements

- Cons:
 - Continues Present Unwieldy Management System and Untimely Resolution of Service Deficiencies
 - Greater Financial Cost in Staff and Investment in Remedial Programs
 - Uneven Service Performance Levels Remain

Financial Evaluation of Status Quo with Improvements

- Authority Maintains Use of the Cost Recovery Program
 - Taxicabs --\$1.65m
 - Shuttles -- \$228k
- Recovery Fees Phased in Over Four Years

Industry Outreach and Status

Taxicabs

- Met with Taxicab Representatives on July 22, 2010 & August 24, 2010
- Discussed Authority Requirements & Alternatives
- Received Taxicab Industry Response to Authority Requirements on August 20, 2010

Shuttle Vehicles

- Met with Representatives on July 22, 2010 & August 24, 2010 to Discuss Authority Requirements and Alternatives
- Received a SuperShuttle / Cloud 9 Response Regarding Concession Option
- Received Remaining (7) VFH Companies' Response to Authority Requirements on August 20, 2010

Staff Recommendation

Adopt Approach No. 2

- Partner with Ground Transportation Industry
- Implement Improvements in Operational Performance
- Establish Time Period for Industry to Organize into Business Entities
- Evaluate New Working Relationship Over Time (MOU)
- If Successful, Continue Partnership
- **If Not**— Authorize Staff to Prepare RFQ/P for Concession Services

Next Steps

- Approach No.1 Approved
 - Implement Service Improvement Measures
 - Commence Preparation of RFQ/P for Concession Services
- Approach No.2 Approved
 - Implement Service Improvement Measures
 - Assist with Industry Formation of Business Entities
 - Develop MOUs
 - Prepare Progress Reports to Board
- Approach No.3 Approved
 - Implement Service Improvement Measures
 - Intensify Administrative Oversight

Questions ?



San Diego International Airport