



## Legislation Text

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**File #:** RES 17-0105, **Version:** 1

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**TO:**  
Honorable Mayor and Members of the City Council

**THROUGH:**  
Mark Danaj, City Manager

**FROM:**  
Andy Sywak, Economic Vitality Manager

**SUBJECT:**  
Update on Downtowner Pilot Program and Request for Program Extension (Economic Vitality Manager).

**ADOPT RESOLUTION NO. 17-0105 AND PROVIDE DIRECTION**

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**RECOMMENDATION:**

Staff recommends that Council extend the term of the Downtowner pilot program for one year and authorize an amendment to the agreement to allow for alcohol advertising with appropriate guidelines.

**EXECUTIVE SUMMARY:**

Since its launch on Feb. 1, 2017, the Downtowner has transported approximately 28,040 passengers in its first five months of operation. The six-month pilot program expires on July 31, 2017. The Downtowner would like to extend the term of the pilot program for one additional year and be permitted to have advertisements featuring alcohol content on their vehicles to increase revenue and enhance the viability of the current program.

They are also proposing to expand the service area, which would cost approximately \$647,000-\$840,000 annually. Staff has undertaken a review of possible funding sources to support an expanded program but has not identified a reliable grant funding source to fund a service of this magnitude.

**FISCAL IMPLICATIONS:**

The fiscal implications vary greatly depending on what action Council takes.

1. A year-long extension of the term of the existing program and service area would come at no cost to the City.
2. A citywide service expansion of the current model would cost the city approximately \$840,000 annually and \$647,000 if expanded eastward only to Sepulveda. Should City Council consider expanding services throughout the city, staff recommends releasing an RFP to ensure that the City receive the greatest value of service for a more permanent, city-wide program. A full analysis of funding sources and impacts to other city programs would be needed if this option is selected.

## **BACKGROUND:**

In 2015, the City of Manhattan Beach and the Downtown Manhattan Beach Business & Professional Association (DBPA) were approached by an electric shuttle service called the Downtowner. This company currently operates six-seater electric vehicles in Manhattan Beach that pick up passengers in a defined geographical area through a ride-hailing mobile app (like Uber/Lyft) for short trips. The service is paid for through advertising revenue received by the Downtowner (the vehicles are wrapped in large graphics promoting brands). The rides are free for passengers and the viability of the service depends on the vendor's ability to attract sufficient advertising revenue. Another possible vendor was also introduced to the City and the item was brought before the Council to determine whether there was direction to pursue a pilot program for this type of service.

On June 21, 2016, the City Council approved a six-month pilot program, and authorized the City Manager's office to select a vendor. The pilot program also authorized the vendor to utilize an unoccupied area at the Metlox garage to store and charge its vehicles. The pilot program was originally approved to be limited to a geographical area west of Sepulveda Boulevard, north to El Segundo and south to Hermosa Beach. The Council expressed concern about the types of advertising to be featured on the vehicles. Further, Council inquired whether Measure R transportation funds could be used to expand the service should the pilot be successful.

After careful consideration, the City Manager's office selected the Downtowner as the vendor for the pilot program. Subsequently, the Downtowner requested, and the City approved, that the eastern boundary of the service area be west of Pacific Avenue to limit wait times. In October of 2016, the Downtowner and the City signed two contracts (Attachment 1 - License Agreement: Installation of Shuttle Service Charging Stations; Attachment 2 - License Agreement: Shuttle Service Pilot Program) authorizing the program to go forward. The City negotiated the rights to advertise on one of the six vehicles as compensation for allowing the Downtowner to operate out of the Metlox garage, and terms of the agreement prohibited alcohol advertising. Per the terms of the agreement, either party may opt out for any reason or no reason with 30 days' written notice.

The Downtowner installed its charging stations at Metlox in December of 2016 and the pilot program officially launched on Feb. 1, 2017 with six vehicles operating out of the Metlox garage seven days a week from 11 a.m. - 11 p.m. The Downtowner was able to sell advertising to wrap two additional vehicles in addition to the one covered with City graphics. However, three vehicles continue to operate with very little advertising on the exterior of the vehicles.

## **Pilot Program Ridership Numbers**

Through the first five months of the program ending June 30, 2017, the Downtowner has provided a total of 12,467 rides and transported 28,040 passengers (See Attachment 3 - Downtowner Manhattan Beach Analytics Report Feb. 1 - June 2017). The number of rides and passengers increased dramatically from February to March and stayed constant through May before jumping again in June. The Downtowner reports that the average wait time is just over 12 minutes.

There have been no reports of safety violations or accidents and the City has received many favorable emails from residents who appreciate the service.

## **DISCUSSION:**

Per the terms of the contract, the pilot program will end on July 31, 2017. The Downtowner would like

to extend the term for an additional one year and modify the existing contract to allow for alcohol advertising on its vehicles (See Attachment 4 - Amendment to Professional Services Agreement with Downtowner; Attachment 5 - Resolution 17-0105). The Downtowner has said that it would be able to fill much of its available advertising space with alcohol content if it were permitted, thus enhancing the viability of the business model.

The Downtowner has also proposed expanding its service with options for either (a) service eastward to Sepulveda; or (b) citywide service (See Attachment 6 - Downtowner Citywide Funding Service Proposal). The Downtowner estimates that it would need approximately \$647,000-840,000 from the City to operate expanded service for one year. Unlike the current program, where drivers are not paid but only receive gratuities, drivers would receive hourly compensation.

Under the citywide proposal, the company would purchase nine Chevy Bolts using public funds to serve the entire city. The current fleet of 6 GEM vehicles would be retired in favor of purchasing Bolts, which have a longer battery life and can drive on the major arterials in the City (Sepulveda, Rosecrans, Aviation, Artesia). GEM vehicles are prohibited on major streets due to their low vehicle speed.

Due to the large estimated operational costs, expanding the service territory would require releasing an RFP and undertaking a competitive bid process should City Council decide to pursue this option.

### **Measure R and Other Possible Funding Sources**

At the February 7, 2017 Council meeting, Council requested an information memo to evaluate potential funding sources that could be utilized to expand the Downtowner service citywide (See Attachment 7 - Potential Funding Sources for Expanding Downtowner Service City-wide). This memo includes information on Measure R as a potential funding source as previously requested by Council. The final guidelines for Measure M have not been released and thus not included as an available source of funds.

Many of the various local return funds used to finance transportation projects and programs have conditions upon their use that differ from how the Downtowner currently operates. For example, Measure R funds can be used if the service operates along fixed routes or as a shuttle for employees. It cannot be used for ride-hail services such as Uber, Lyft and the Downtowner. Prop A and Prop C funds also can be used for fixed route services with certain restrictions and qualifications on their use. However, these funding sources are already fully allocated to transportation and public infrastructure projects.

Motor Vehicle Subvention Funds (AB 2766) could be used to purchase electric vehicles, but could not be used to support the ride-hail service itself. Any expansion plan utilizing this funding source would need to consider other city programs using and/or eligible for AB 2766 funds.

Other communities that provide funding for a Neighborhood Electric Vehicle program such as the Downtowner have supported the program with parking meter revenue (Aspen, San Diego) or from their local conference and visitor's bureau or hospitality community (Santa Monica, Marina del Rey). The City of Manhattan Beach's existing parking funds are insufficient to meet existing Parking Fund operational and capital needs and would not be available to fund a city-wide service as proposed.

### **Next Steps:**

If Council is interested in extending the term of the pilot program, staff recommends the Council:

- a) Adopt Resolution 17-0105 to extend the term of the agreement to July 31, 2018, to allow the Downtowner to operate out of the Metlox garage.
- b) Direct the City Manager to amend the agreement to allow for alcohol advertising and prepare appropriate guidelines.
- c) Consider directing staff to generate an RFP for a city-wide ride-hailing transportation service.

## **POLICY ALTERNATIVES:**

### ***ALTERNATIVE # 1 (Staff's Recommendation):***

Extend the term for the pilot program an additional year and allow the Downtowner to advertise alcohol content with guidelines developed by Manager's office.

#### **PROS:**

Continuation of successful program that also enhances the ability of the Downtowner to attract advertising. By granting the Downtowner the ability to sell alcohol advertising, the City will make it easier for the company to increase revenue on vehicles currently without advertising. This bolsters the viability of their advertising-based business model which enables them to provide free rides to the public.

#### **CONS:**

Some residents may not approve of alcohol advertising.

### ***ALTERNATIVE # 2:***

Extend the term for the pilot program for an additional year with no modifications to the existing contract.

#### **PROS:**

Continuation of successful program.

#### **CONS:**

Downtowner may be unable to fill up existing vehicle advertising space, thus harming the viability of a business model dependent on advertising revenue to provide free rides.

### ***ALTERNATIVE # 3:***

Based on the Downtowner's funding proposal for expanded, city-wide service, create and circulate an RFP for a city-wide ride-hailing transportation service and identify funding sources. Council could also direct staff to research in more detail how other cities and civic organizations have funded a ride-hailing service similar to the Downtowner.

#### **PROS:**

Residents could enjoy on-demand city-wide ride-hailing service. Downtowner has indicated that it will not be possible to expand the service citywide without some allocation of public funding.

#### **CONS:**

Possible service would cost several hundred thousand dollars as proposed with no identified funding source. Any city-sponsored service could jeopardize annual city revenue from agreements with taxi companies which currently total approximately \$107,000.

### ***ALTERNATIVE # 4:***

End the pilot program and discontinue allowing the Downtowner to use the Metlox garage for vehicle storage on July 31.

#### **PROS:**

City could potentially utilize the space at Metlox where Downtowner stores and charges its vehicles.

**CONS:**

Popular service expires. Should the company wish to remain in Manhattan Beach, they would have to find private land on which to park and charge their vehicles and obtain necessary permits.

**PUBLIC OUTREACH/INTEREST:**

Staff has received emails from the public expressing support for the Downtowner including interest seeing the service expanded east from Pacific Avenue. Both the Downtown Manhattan Beach Business & Professionals Association (DBPA) and the Downtown Business Improvement District have stated their support for the company and the program and has officially adopted a position that they would like to see the service expanded (Attachment 8 - Letter of Support from DBPA for Downtowner; Attachment 9 - Letter of Support from Downtown BID).

**ENVIRONMENTAL REVIEW**

Pursuant to the California Environmental Quality Act ("CEQA"), the City has determined that the proposed project is Statutorily Exempt from the requirements of CEQA and the City's CEQA Guidelines as it is a temporary pilot program for electric shuttles and will not have a significant impact on the environment pursuant to CEQA Guidelines Section 15262 - Feasibility and Planning studies. Staff will return to Council in the future and any further environmental review will be considered at that time.

**LEGAL REVIEW**

The City Attorney has reviewed this report and determined that no additional legal analysis is necessary.

**Attachment/Attachments:**

1. License Agreement: Installation of Shuttle Service Charging Stations
2. License Agreement: Shuttle Service Pilot Program
3. Manhattan Beach Analytics Report Feb. 1 - June 30, 2017
4. Amendment to Professional Services Agreement with Downtowner
5. Resolution No. 17-0105
6. Downtowner Citywide Funding Service Proposal
7. Potential Funding Sources for Expanding Downtowner Service Citywide
8. Letter of Support from DBPA for Downtowner
9. Letter of Support from Downtown BID
10. PowerPoint Presentation