

PORT OF SEATTLE
MEMORANDUM

COMMISSION AGENDA
STAFF BRIEFING

Item No. 7a

Date of Meeting September 8, 2015

DATE: August 24, 2015
TO: Ted Fick, Chief Executive Officer
FROM: James R. Schone, Director, Aviation Business Development
Jeff Hoebet, Senior Manager - Landside, Aviation Operations
SUBJECT: Airport Ground Transportation Services Briefing

SYNOPSIS

Ground transportation services, the method by which the traveling public gets to and from the airport, are an important component of the airport system. During the past several years, there has been tremendous change in commercial ground transportation services at Seattle-Tacoma International Airport (Airport) as well as airports across the country. As the contract for on-demand taxi service between Puget Sound Dispatch and the Airport nears its expiration, this briefing is intended to provide information on best practices for managing ground transportation services within the US airport industry as well as views of the stakeholders in the Airport's ground transportation system as to what changes should be made to improve the system.

BACKGROUND

During the past year, Port of Seattle (Port) staff have been preparing for the expiration of the agreement (10/31/2015) with Puget Sound Dispatch, dba Yellow Cab, for on-demand pick-up taxi service at Seattle-Tacoma International Airport (the Airport). During this period, there has been tremendous change within the ground transportation (GT) industry, most significantly the introduction of Transportation Network Companies (TNCs), such as UberX, Lyft, and Sidecar, as an alternative for the traveling public to existing modes of transportation including taxis, limousines, public transportation, and drop-off and pick-up by family/friends. TNCs utilize privately owned and operated vehicles for commercial transportation services. As the vehicles are privately owned, airports around the country have been challenged with the decision of whether to allow TNC activity on airport property and, if so, how to assimilate TNCs into existing GT systems with regulatory requirements including insurance coverage, vehicle standards, background checks, and other requirements of commercial ground transportation services, that are fair and consistent with existing GT providers. At the Airport, TNC activity began in late 2013 and increased during 2014 and into 2015. As a result, and in conjunction with the upcoming expiration of the taxi agreement, on May 26, 2015, Commission directed staff to develop options for their consideration regarding how best to structure the GT system at the Airport in light of the significant change within the GT industry. Commission's

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direction included evaluation of options against the following criteria or guiding principles:

1. Provide quality GT service for the traveling public
2. Provide adequate capacity to meet demand
3. Allow provision of service to be manageable
4. Generate income for the Port of Seattle
5. Promote small business
6. Expand economic opportunity
7. Minimize environmental impact

In response to the Commission's request, Port staff developed the following process to develop GT system options for the Commission's consideration:

Step 1: Staff contracted with a GT consultant and industry expert, Leigh Fisher. The firm was tasked with developing a survey of peer airports and then an airport GT system best practices report.

Step 2: Staff initiated a GT provider stakeholder outreach process in conjunction with a third party meeting facilitator/moderator, Norton-Arnold and Company.

Step 3: Staff analyzed other considerations, including methods to charge access fees, as well as legal and operational parameters associated with Airport facilities within the GT system, and TNC inclusion options.

Step 4: Staff and Leigh Fisher developed a range of options for GT system operation at Sea-Tac based on steps one through three.

GT System Description

GT systems at airports across the world are complex due to the array of services that are demanded by travelers and the various operational, legal, and regulatory parameters within each airport jurisdiction. Sea-Tac's GT system is no exception (see **Attachment A** for a description of GT providers at Sea-Tac). A few key distinctions are described below in order to create a better understanding of these systems.

The first major distinction within GT systems is commercial vehicle operators vs. private owners/drivers. Commercial vehicle operators charge passengers for transportation services including, but not limited to, taxis, flat-rate for-hire, limousines, TNCs, and shared-ride operators (and for purposes of this briefing not including public transportation such as King County Metro or Sound Transit). Private owners/drivers typically are friends and family members transporting travelers to and from the Airport with no fees. This distinction in operator type is important for the following reasons:

- 1) Commercial operators are regulated by a variety of agencies, including local cities and counties and the Washington State Utility and Transportation Commission, while private vehicles are not subject to regulations;

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2) Commercial operators must obtain permission from the Airport, usually in the form of an operating agreement, to engage in commercial activity on Airport property. The agreements include access fees in the form of annual amounts, per-trip fees, or minimum annual guarantees and/or percentage of revenues. Private owners/drivers are not required to have operating agreements and are not charged access fees.

3) The introduction of TNCs, which is a private owner/driver engaging in commercial activity, has forced airports to evaluate commercial vehicle operating requirements in light of the overlap between private and commercial activity by vehicle operators.

The second major distinction for GT systems is drop-off vs. pick-up services for commercial activity. This distinction is important as airports treat drop-off and pick-up services differently, from whether and how each type is charged a fee, to location of operating areas for each type. At Sea-Tac currently, fees are generally only assessed on commercial pick-up trips (note: courtesy vehicle trips, including shuttles for local hotels and parking operators, are not separated into drop-off and pick-up trips as both occur simultaneously - i.e., travelers are simultaneously dropped off and picked up). In addition, the location of drop-off activity differs from pick-up activity, based on the type of service (described below). This separation is important to be able to identify types of trips for purposes of enforcement and payment confirmation.

The third major distinction is on-demand vs. pre-arranged for pick-up operations. On-demand service is requested by the traveler upon deplaning, with no prior transportation arrangements in place. Pre-arranged pick-up service has already been established by the customer prior to arrival. This distinction is important as airports impose different requirements and allocate separate operating areas for each type of service. At Sea-Tac, on-demand pick-up operations occur on the third floor of the parking garage adjacent to the terminal. Pre-arranged pick-up trips occur both on the third floor and on the Airport arrivals drive. This distinction is also important as airports must re-evaluate the definition of “on-demand” and “pre-arranged” as it pertains to the addition of TNCs as a ground transportation option. Utilizing a smartphone application to request a ride from a TNC may be considered by some to be on-demand. However, the general consensus within the industry is that TNC activity is considered pre-arranged.

History of GT at Sea-Tac

Overall, there are eight classes of GT service at Sea-Tac (see **Attachment A**). In 2014, there were more than 2.3 million pick-up trips (drop-off trips are not generally tracked) across all classes of GT service, generating more than \$8 million in non-aeronautical revenue to the Port of Seattle with associated direct operating costs of approximately \$2.5 million. The most relevant history within the Airport’s GT system pertains to taxi and limousine operations which currently (and historically) have been the primary services to accommodate on-demand pick-up trips at the Airport. Most other modes, including

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shared ride, courtesy vehicle, charter, flat-rate for-hire and more recently TNCs (not currently permitted), have primarily accommodated the pre-arranged pick-up demand, or have been offered on a scheduled basis. Drop-off services are open to all types of providers, including both commercial and private vehicles, are not charged an access fee by the Airport, and occur on the departures level of the Airport drive.

Taxi service accommodating on-demand pick-up trips has gone through several key changes over the last several decades. Prior to 1989, the Port allowed all individual owners/operators with valid operating permits from King County to provide taxi service at the Airport in what could be defined as an “open” system; however, that “open” system led to numerous challenges including poor customer service, inconsistent availability of taxis, poor vehicle conditions and disagreements between drivers competing for customers. In late 1989, the Port and a few key taxi owners collaborated on a plan to bring the owners together and create an association to provide enhanced taxi service to the traveling public.

Taxis are internationally understood by travelers and have maintained consistently strong performance at Sea-Tac throughout the years. Travelers expect taxis to be readily available and, in the Pacific Northwest particularly, there is an expectation that vehicles will be environmentally-friendly and operated by safe drivers committed to high levels of customer service. As a result of the collaboration in 1989, and the expectations for taxi service, Airport staff implemented an exclusive arrangement for on-demand pick-up taxi service which has allowed the Airport to require high environmental, vehicle and service standards to meet customer demand. These standards include: 1) 100% “green” fleets; 2) five minute maximum wait times for customers; 3) timely customer complaint response; and 4) 24/7 availability, during both peak and non-peak periods, during inclement weather and other major events.

The first exclusive contract, established in August 1989, was held by Seattle-Tacoma International Taxi Association (STITA). STITA continued to provide exclusive on-demand pick-up service until 2010, when a competitive bid process was undertaken and the contract was awarded to Puget Sound Dispatch, dba Yellow Cab. This contract expires 10/31/2015. Yellow’s contract requires a minimum annual guarantee (MAG) to the Port of Seattle of \$3.67 million, or 13% of gross revenues, whichever is greater.

Subsequent to the formation of an exclusive on-demand pick-up taxi service, a complementary, yet competing, product for on-demand pick-up limousine service was introduced in response to traveler demand for a more luxurious and up-scale option for transportation. In the late 1990’s, an exclusive arrangement for on-demand pick-up limousine service was established to allow for high customer service levels, similar to the arrangement with taxis. Seattle-Tacoma International Limousine Association (STILA) was the original provider of this service. The contract was put out for competitive bid in 2011 and STILA was selected as the winning bidder. The contract expires February 28, 2016, but has two, one-year extension options available. STILA is required to pay a

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MAG to the Port of Seattle of \$732,000 and \$4 per trip for each trip in excess of 38,000 per year. The service has grown in popularity with travelers over the years with double-digit percentage increases in trip volume year-over-year the past three years (see **Attachment B** for more details on GT operator trips, fees, and method of payment).

Step 1: Peer Airport Best Practices

Upon Commission's direction on May 26, Port staff contracted with Leigh Fisher, an airport GT industry expert, to survey peer airports and develop a GT best practices report (see **Attachment C** for full report and **Attachment D** for an executive summary of the report). The objectives of the survey and report were to describe how other airports manage and operate ground transportation at their airport and to develop best practices associated with airport GT operations. In conjunction with Port staff, Leigh Fisher selected the following 15 airports as part of the peer outreach:

San Francisco	Tampa	Fort Lauderdale
Denver	Philadelphia	Minneapolis/St. Paul
Boston	Detroit	Houston (Bush)
Miami	Portland	Washington (Dulles)
Phoenix	Baltimore	Vancouver, B.C.

Leigh Fisher selected the 15 peer airports based on the following criteria:

- Similar volume of origin and destination (O&D) passengers
- Serve a passenger mix similar to that of Sea-Tac (business vs. leisure passengers)
- Employ a range of ground transportation business structures or operating models including those considered to have best industry practices

The report included a best practices analysis of the business structures used at other airports focused on on-demand pick-up services. In addition, the report also described the following: 1) available ground transportation services; 2) airport fees charged; 3) responsibilities of and resources available to airport staff; 4) the airport facilities used by commercial services; and 5) the regulation of TNCs and peer-to-peer rental cars (new types of personal/private vehicle rental and sharing).

Leigh Fisher found that three types of models are available for managing on-demand pick-up services at airports: 1) open access; 2) exclusive access; and 3) hybrid blend of the two. Leigh Fisher also noted that the key differences between the models used were a) an airport's ability to provide the desired customer experience; b) the amount of airport staff effort required to manage and enforce day-to-day operations; and c) the degree of competition among businesses desiring to provide on-demand ground transportation service from an airport. For pre-arranged pick-up services, Leigh Fisher found that most airports use an open access model and allow any properly permitted vehicle to access the airport property.

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According to Leigh Fisher, the benefits of an open access model include greater opportunity for access to on-demand pick-up passengers by properly permitted GT providers; however, the drawbacks of an open access model include higher capital and operating costs and less control of customer service for the airport and lower income for the vehicle owner/operator. An exclusive access model limits access to on-demand pick-up to the contract holder. This allows for lower capital and operating costs as well as more control of customer service for the airport, and higher owner/operator income.

Leigh Fisher concluded that an exclusive access system represents the best practice for the management of on-demand pick-up transportation service at airports. Details on the benefits and limitations of each type of model are included in the full report and executive summary (**Attachments C and D**).

Step 2: Stakeholder Outreach Process

Concurrent to the peer airport survey and development of the GT best practices report by Leigh Fisher, staff contracted with Norton-Arnold and Company to coordinate a GT service provider stakeholder outreach process. Meetings were convened in late July with participants from five classes of operators, including 1) taxis; 2) flat-rate for-hire; 3) limousines; 4) shared-ride; and 5) TNCs. Each session lasted two hours and was facilitated by Norton-Arnold. Participants were asked to respond to several questions including how they currently operate at the Airport and what changes they would like to see with the current GT system (see **Attachment E** for an actual meeting agenda and questions).

Upon conclusion of the five stakeholder outreach meetings, Norton-Arnold produced a summary of the findings of the individual meetings (see **Attachment F**). A summary of the findings from Norton-Arnold are below:

- The most frequent issue raised during the sessions was the demand for a “level playing field” among ground transportation operators.
- All of the operators attested to their successes and unique attributes associated with their customer service. Each class of operators believed they are offering high-quality customer service.
- Transparency and honesty were important to the operators and they asked that the Port inform them if any changes to the system would be made, as well as the rationale for those changes.
- Several operators noted the importance of ongoing meetings between operators, staff, and managers.
- Operators asked that the Port be fair in its deliberations.

Subsequent to the completion of the individual stakeholder meetings, Norton-Arnold facilitated a follow-up meeting with all the operator stakeholders (one meeting with all participants) to share the results of the best practices report and each individual

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stakeholder meeting with the broader group (see **Attachment G** for the meeting agenda). The objective of the meeting was to review the Leigh Fisher best practices report and allow all the participants to provide feedback on the report, and in general. A variety of comments and suggestions were received and are documented in the meeting summary (**Attachment H**).

Step 3: Other Policy Considerations

One key policy consideration is how to balance the benefits and costs of allowing an open access system. As mentioned before, the benefits of an open system include greater opportunity for properly permitted providers; however, the drawbacks of an open system include higher capital and operating costs, less control of customer service and lower owner/operator income.

Other key policy considerations include:

Access Fee Determination

One component of commercial GT operations at airports is the determination of fees associated with access to airport property. At Sea-Tac, GT fees are an important source of non-aeronautical revenue that is used to fund a variety of Airport infrastructure projects. In 2014, more than \$8 million was paid to the Airport by commercial GT providers.

Airports have established GT access fees based on guidance from the FAA, and state or local authorities. Per FAA Airport Compliance Manual Order 5190.6B chapter 17.11, self-sustainability for non-aeronautical rates, airport rates are to be based on fair market value. The State of Washington, per RCW 14.08.120(6), requires that rates set by airports must be fair and reasonable. Generally, airports in the U.S. have used two rate setting methodologies for GT access fees. The first, which is the most prevalent, is called cost-recovery. The airport determines the overall cost of the GT system, including capital and operating costs, and then allocates those costs to each of the GT providers. The airport then collects the costs allocated to each provider in the form of a per-trip access fee, an annual permit fee, or some other form of payment. The second methodology is to allow the fees to be set by a competitive bid process. An exclusive contract is established for the right for on-demand pick-up for a class of service, e.g. taxi service, and the contract is put out to bid in the market. The rate is then determined through the competitive bid process.

At Sea-Tac, both models of access fee determination are utilized. All pre-arranged pick-up classes of service, including taxis, limousines, flat-rate for-hire, shared ride, courtesy shuttles, and charters are assessed fees based on cost recovery. The rates for on-demand pick-up services, including taxis and limousines, are determined through a competitive bid process associated with exclusive contracts.

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Operational and Legal Parameters

An important consideration for GT services is ensuring safe and equitable operations. Equity requires that similar operators be in the same place and safety requires careful design of operational areas for GT service providers.

In addition, the GT system at the Airport utilizes the main roadway system accessing the terminal, the parking facility adjacent to the terminal building, and vehicle holding lots on various parcels of land around the Airport campus. The system is constrained by vehicle travel flows and the availability of operating areas sufficient to accommodate passenger drop-off and pick-up. The Airport's physical infrastructure is an important component in decision-making regarding the structure and layout of GT operations.

Moreover, the financing used in the past to fund the construction of the physical assets used for GT purposes contains restrictions which also must be considered when determining how GT activities and operations are accommodated. Most notably, the parking garage adjacent to the terminal was funded with six tax-exempt municipal bond issues. Per IRS rules, tax-exempt bonds have restrictions pertaining to private use (vs. public use) for the assets constructed and funded by the tax-exempt bond. The IRS imposes limits to private use which must be managed for the life of the bonds. The Port's earlier use of the garage for rental cars (a private use) means that the SeaTac garage is more restricted for additional private uses than other airport garages.

With the assistance of outside legal counsel, K&L Gates, Port staff has reviewed the GT uses within the Airport parking garage to determine what, if any, activities were (and are) private use. According to K&L Gates, the two major determinants of private use include 1) the term of any contract with a GT provider, which must be less than 50 days to not be considered private use; and 2) the nature of the contract, whether it be a qualified management agreement or a profit share model. A qualified management agreement, or an agreement in which the Port pays a flat, fixed fee for management of a service, does not constitute private use. Alternatively, an agreement in which the operator or provider shares in the profitability of a service or activity does constitute private use. Based on the IRS rules, the current exclusive contracts for on-demand pick-up taxi and limousine services constitute private use; however, even if these exclusive contracts remain in place, the Port *will not exceed* the private use limitations. Changes to the GT system that would increase private use activity must be carefully considered against the IRS limits.

TNC Inclusion Options

As described above, TNCs are currently not permitted to provide pick-up service on Airport property; however, similar to all other modes of transportation, both commercial and private, TNCs are allowed to drop off passengers at the Airport. A key policy issue is whether or not to allow TNCs the ability to pick up passengers and if so, the

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appropriate contracting mechanism for allowing this to occur. Major areas of consideration with the inclusion of TNCs into the Airport's GT system include access fees, operating areas, vehicle staging areas, activity tracking and reporting, vehicle operator proof of insurance, vehicle standards, and background checks as determined by applicable regulatory agencies, such as King County and/or Washington State Department of Licensing.

Customer/Traveler Feedback

Since 2011, Sea-Tac has participated in the quarterly ACI Airport Service Quality (ASQ) Survey. The ASQ Survey is used in airports across the world and is the only international survey measuring passengers' satisfaction while at the airport. Within the survey, participants are asked to rate GT to/from the airport on a 5-point scale from poor to excellent, or to indicate they did not use GT. In the past calendar year, Q3 2014 through Q2 2015, more than 80% of survey respondents have rated GT to/from Sea-Tac as "Excellent" or "Very Good", the two top ratings. Ratings at Sea-Tac tend to be slightly higher than at peer airports. Sea-Tac ratings were higher than the average ratings at 24 peer airports in 15 of the last 18 quarterly surveys.

Step 4: GT System Options

After the conclusion of steps 1-3, Port staff re-engaged Leigh Fisher to craft potential options for the Airport's GT system for Commission's consideration that 1) were based on the guiding principles from Commission; 2) incorporated the peer airport survey results and best practices findings from Leigh Fisher; 3) incorporated and reflected the provider stakeholder outreach feedback and comments; and 4) were consistent with the other considerations including access fee options, operational and private use constraints associated with the financing of the Airport parking garage, and TNC inclusion considerations. Three options were identified in addition to the current operating structure at Sea-Tac:

Current GT Structure

Currently, on-demand pick-ups are accommodated through an exclusive taxi contract with Yellow Cab, and an exclusive limousine contract with STILA. There is a small amount of on-demand business associated with shared ride activity as well.

All pre-arranged pick-ups are open access for taxis, limousines, for-hires, and the majority of shared ride services. TNC access for pick-ups is not currently allowed as there is no approved operating agreement in place.

All GT management activities are performed by Port of Seattle staff.

Option 1

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The goal of Option 1 is to create parity of access to GT providers for the traveling public and would include the following steps/changes:

- Allow any taxi, for-hire, or limo provider with a valid permit from local regulatory agency access to on-demand pick-up customers
 - All on-demand classes would have dedicated curb space on third floor plaza in garage
 - All pre-arranged classes of service will be provided operating area on third floor of garage
- One year pilot program for TNC operation as a pre-arranged option on the third floor of the garage

Some key considerations of Option 1 include:

- Creates operational equity among GT providers
- Allows increased number of participants but likely reduces income levels for operators
- Reduces ability to manage customer service, environmental standards and vehicle condition
- Increases resources required to manage: either POS or third party
- Could lead to over-supply but this can be managed through caps or rotations
- Could increase difficulty to ensure adequate capacity 24/7 and during bad weather
- Can set rates higher than cost-recovery but must be reasonable and uniform
- Requires significant capital investment to expand curb space and off-site staging areas, must also expand operational area on third floor
- Single lane entry/exit on third floor commercial area could lead to congestion
- Potential for higher risk to customer safety and service levels due to congestion

Option 2

Option 2 is the same as Option 1, except that pre-arranged classes of service would continue to operate on the drives or on the third floor, as they do currently. Some of the changes for Option 2 include:

- Allow any taxi, for-hire, or limo provider with a valid permit issued by the local regulatory agency access to on-demand customers
 - All on-demand classes of service have dedicated curb space on third floor of garage
- Create a one year pilot program for TNC operation as a pre-arranged option on the third floor of the garage

The key considerations of Option 2 are very similar to Option 1 with the following changes:

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- Requires less capital investment to add curb space and off-site staging areas
- Less congestion and risk to customer safety

Option 3

Option 3 would:

- Create a single exclusive contract that allows either taxi and/or for-hire operators to compete for and provide on-demand service
- Maintain an exclusive contract for on-demand limos
- Maintain an open structure for pre-arranged classes of service
- Main pre-arranged classes of service ability to operate on the drives or on the third floor
- Create a one year pilot program for TNC operation as a pre-arranged option on the third floor of the garage

The key considerations for Option 3 include:

- Creates best customer service due to vested interest in contract and single point of contact
- Allows all taxi and for-hire operators ability to compete for access to on-demand customers
- Provides adequate capacity 24/7 and during bad weather due to contract requirements
- Provides best justification for rates above cost-recovery as rate set by competition through RFP
- Allows better enforcement of customer service, vehicle and environmental standards
- Least impact to staff resources required for management and enforcement
- Of all proposed options, requires least amount of investment for additional queueing/staging space

Current GT Services at Cruise Terminals

The system of ground transportation at cruise operations is significantly different from that of the airport. Please refer to the attached presentation for more details.

ANTICIPATED FUTURE ACTIVITIES

Staff plans to return to Commission later in September with a recommendation for their consideration.

ATTACHMENTS TO THIS BRIEFING

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Attachment A: GT description

Attachment B: GT operator details

Attachment C: Leigh Fisher full report

Attachment D: Leigh Fisher executive summary

Attachment E: Individual outreach meeting agenda

Attachment F: Individual meetings summary

Attachment G: All stakeholder meeting agenda

Attachment H: All stakeholder meeting summary

PREVIOUS COMMISSION ACTIONS OR BRIEFINGS

- November 30, 2009 – Briefing on status of RFP for On-Demand Taxi Service at the Airport.
- December 15, 2009 – Authorization to award Puget Sound Dispatch, Inc., dba Yellow Cab Taxicab Association, the contract for On-Demand Taxi Services at the Airport.
- May 26, 2015 – Briefing on Airport Taxi Service and Transportation Network Companies.