File No. 120015 Committee Item No. 3
Board Item No. _____

COMMITTEE/BOARD OF SUPERVISORS

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Board of Supervisors Meeting **Date** _____

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Completed by: Victor Young **Date** May 4, 2012
Completed by: Victor Young **Date** _____

An asterisked item represents the cover sheet to a document that exceeds 25 pages.
The complete document can be found in the file.

[Airport Lease and Operating Agreement - Smarte Carte, Inc.]

Resolution approving the Luggage Cart Lease and Operating Agreement between Smarte Carte, Inc. and the City and County of San Francisco, acting by and through its Airport Commission.

WHEREAS, The Airport Commission has requested proposals for the Luggage Cart Lease and Operating Agreement; and

WHEREAS, Smarte Carte, Inc. was the sole proposer; and,

WHEREAS, Smarte Carte met the minimum qualifications and submitted a responsible and responsive proposal;

WHEREAS, The Airport Commission approved Resolution No. 11-0301, adopted December 20, 2011, awarding the Luggage Cart Lease and Operating Agreement to Smarte Carte, Inc.; now, therefore, be it

RESOLVED, That the Board of Supervisors hereby approves the Luggage Cart Lease and Operating Agreement No. 11-0301, copies of which are contained in Board of Supervisors' File No. 120015.

Item 3 File 12-0015	Department: San Francisco International Airport (Airport)

EXECUTIVE SUMMARY

Legislative Objective

The proposed resolution would approve a new lease and operating agreement between the San Francisco International Airport (Airport) and Smarte Carte, Inc. (Smarte Carte) for five years, anticipated to begin July 1, 2012 through June 30, 2017, with one two-year option to extend.

Key Points

- The Board of Supervisors previously approved the existing lease and operating agreement between the Airport and Smarte Carte to operate the luggage cart service, for an initial five-year term and five one-year options to extend, from April 1, 2002 through March 31, 2012. Smarte Carte is currently operating the luggage cart service on a month-to-month basis.
- The Airport issued a Request for Proposals (RFP) for a new luggage service provider in September 2011. Smarte Carte, which is the largest luggage service provider at U.S. airports, was the sole respondent.
- Smarte Carte provides (a) luggage carts in the Airport terminals and Rental Car Center for a fee of $5.00 per luggage cart, and (b) free luggage carts in the International Terminal's Customs Area.

Fiscal Impacts

- Under the proposed lease and operating agreement, Smarte Carte will pay to the Airport annual rent, equal to the greater of (a) the Minimum Annual Guarantee (MAG) of $610,000, adjusted annually by the Consumer Price Index (CPI) or (b) 25% of gross revenues.
- Under the proposed lease and operating agreement, the Airport will pay Smarte Care, for the International Terminal's Customs Program to provide free luggage carts, the lesser of the Customs Program annual service fee of $2,300,000 adjusted each year by an amount included in the proposed agreement, or $1.20 per cart, adjusted annually by the CPI.
- During the initial five-year term of the proposed lease and operating agreement, the Airport projects that Smarte Carte will pay to the Airport annual percentage rent of 25% of gross revenues, which is higher than the MAG, and the Airport will pay to Smarte Carte $1.20 per luggage cart, which is less than the Customs Program annual service fee. Therefore, the Airport's estimated net payment to Smarte Carte over the initial five-year term of the proposed agreement is $7,325,153.
- The proposed resolution does not specify the not-to-exceed amount for the Airport's net payments to Smarte Carte for the initial five-year term of the agreement. The Budget and Legislative Analyst recommends amending the proposed resolution to include a not-to-exceed amount of $9,406,000 for the Airport's net payments to Smarte Carte, which equals the difference between the MAG and the Customs Program annual service fee over the initial five-year term.

Recommendations

- Amend the proposed resolution to include the not-to-exceed amount of $9,406,000 for the Airport's total net payment to Smarte Carte over the initial five-year term of the agreement.
- Approve the proposed resolution as amended.

MANDATE STATEMENT / BACKGROUND

Mandate Statement

In accordance with City Charter Section 9.118, any lease or agreement having anticipated revenue of $1,000,000 or more is subject to approval by the Board of Supervisors.

Background

In 2001, after a competitive Request for Proposal (RFP) process to provide luggage cart service, the San Francisco International Airport (Airport) awarded the lease and operating agreement to Smarte Carte, which received the highest evaluation score of the three proposals received.[1] On April 22, 2002, the Board of Supervisors approved the lease and operating agreement (File 01-2281) between the Airport and Smarte Carte, with a not-to-exceed net amount of $10,121,000 (for the initial term of five years) payable by the Airport to Smarte Carte, for the five-year period from April 1, 2002 through March 31, 2007, and five one-year options to extend until March 31, 2012, for a total of ten years. The Board of Supervisors subsequently approved all five one-year options to extend the agreement through March 31, 2012 (Files 06-1664, 08-0052, 08-1619, 10-0185 and 11-0020). Following the expiration of the lease and operating agreement on March 31, 2012, the agreement went on a month-to-month basis.[2] According to Ms. Gigi Ricasa, Senior Principal Property Manager at the Airport, the current lease and operating agreement is expected to continue on a month-to-month basis until June 30, 2012 to allow for the new proposed lease and operating agreement to begin on July 1, 2012.

Under the proposed lease and operating agreement Smarte Carte provides luggage carts in the following programs:

- *Self-Service Luggage Cart Rental Program* - Smarte Carte is required to provide at least 4,500 luggage carts to Airport passengers for a charge of $5.00 per cart (existing charge is $5.00), in the Domestic and International Terminals (other than the Customs Area in the International Terminal).

- *Customs Program* - Smarte Carte is required to provide at least 1,500 luggage carts, free of charge, for arriving international passengers in the Customs Area in the International Terminal.[3]

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[1] Smarte Carte received a total of 83.5 points out of the maximum of 100 points, Airport Carts, LLC received 70.2 points, and Top Cart, LLC's proposal was rejected for failing to meet the minimum qualifications of the RFP.

[2] The agreement became month-to-month following March 31, 2012, upon the terms of the previous agreement except that the Minimum Annual Guarantee (MAG) is not applicable and the Base Rent is the Percentage Rent (25% of Smarte Carte gross revenues). The holdover period is not to be considered a renewal or extension of the lease and operating agreement.

[3] The Airport provides free carts to arriving international passengers in the Customs Area of the International Terminal because (a) the Airport is an international gateway, (b) international passengers often have greater amounts of luggage, (c) arriving international passengers often do not have dollar currency to rent a cart, (d) United States Customs officials have repeatedly refused to permit a currency exchange service inside the Customs area, and (e) various other international airports provide similar free luggage cart services.

- *Rental Car Center Program* - Smarte Carte is required to provide at least 500 luggage carts for a charge of $5.00 per cart (existing charge is $5.00), at the Airport's Rental Car Center.

- *AirTrain Failure Contingency Program* - Smarte Carte is required to provide the luggage carts in the Rental Car Center, free of charge, upon notification from the Airport that there is or may be an AirTrain failure.[4]

Additionally, Smarte Carte is responsible for the (a) installation, maintenance, and repair of the luggage carts, (b) installation, maintenance, and repair of the vending machines, which automatically dispense luggage carts to Airport passengers, and (c) collection and relocation of luggage carts for the Customs, Rental Car Center, and AirTrain Failure Contingency programs.

Smarte Carte's Rent Payments to the Airport under the Existing 10-Year Lease and Operating Agreement

Under the existing lease and operating agreement, Smarte Carte pays rent to the Airport equal to the greater of the (a) Minimum Annual Guarantee (MAG) or (b) percentage rent equal to 25% of gross operating revenues. The initial MAG in the first year of the existing agreement was $450,000, increasing annually by a formula based on the Consumer Price Index (CPI), resulting in a MAG in the tenth year of the agreement, from April 1, 2011 through March 31, 2012 of $600,503 (compared to the MAG in the first year of the proposed agreement of $610,000). Because percentage rent exceeded the MAG in each year of the existing agreement, Smarte Carte paid percentage rent, totaling $6,548,013 over the 10-year term.

The Airport's Annual Payment to Smarte Carte under the Existing 10-Year Lease and Operating Agreement

Under the existing lease and operating agreement, the Airport paid Smarte Carte for the Customs Program's free luggage cart service the lesser of (a) the Customs Program annual service fee, for which the amount and annual increases were set by the agreement, or (b) $1.20 per actual luggage cart used. Because the payment of $1.20 per luggage cart was less than the Customs Program annual service fee, the Airport paid Smarte Carte the payment of $1.20 per luggage cart in each year of the agreement, totaling $19,383,281 over the ten-year term.

Under the existing lease and operating agreement, the Airport's total payments of $19,383,281 to Smarte Carte to operate Customs Program exceeded the Smarte Carte's total rent of $6,548,013 paid to the Airport, resulting in a net cost to the Airport of $12,835,268 over the ten-year term of the agreement, or an average annual net cost to the Airport of $1,283,527.

[4] AirTrain transports Airport passengers from the Airport terminals to the Rental Car Facility. In the event of an AirTrain failure, buses would be used to transport passengers from the Airport terminals to the Rental Car Facility. Smarte Carte is required to provide the luggage carts free of charge in the Rental Car Facility until the AirTrain service resumes or as otherwise directed by the Airport Director.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would approve a new five-year lease and operating agreement, with one two-year option, between the Airport and Smarte Carte, Inc., to provide luggage cart service at the San Francisco International Airport. The terms of the proposed lease and operating agreement are shown in Table 1 below.

Table 1
Terms of the Proposed Lease and Operating Agreement

Services	- Provide luggage cart service throughout the Airport at a fee, charging Airport passengers $5.00 per cart and; - Operate the free luggage cart service in the International Terminal's Customs Area for arriving international passengers.
Lease Premises	- Luggage cart vending units throughout the Airport, including terminals, limited areas in the domestic boarding areas, roadway curbsides, parking garages, and Rental Car Center. - Initial Cart Vending unit sites (108, with five pending) have been designated, but future sites may be designated by the Airport Director
Term	- Five years, anticipated to begin July 1, 2012 through June 30, 2017 - One two-year option to extend
Rent to be Paid by Smarte Carte to the Airport for the Provision of Luggage Carts for a $5.00 fee in the Various Terminals: Minimum Annual Guarantee (MAG) Percentage Rent	Higher of: - $610,000 MAG, adjusted annually by a formula that compares the CPI in the base year to the current year; or - 25% of gross revenues
Payment by the Airport to Smarte Carte for the Provision of Free Luggage Carts in the International Terminal's Customs Area	Lesser of: - $2,300,000 Customs Program annual service fee (annual), adjusted annually by the CPI; or - $1.20 per luggage cart

Selection of Smarte Carte

The Airport issued an RFP for luggage cart service in June 2011. Smarte Carte, the current service provider, was the sole respondent. According to Ms. Ricasa, Smarte Carte is the luggage cart service provider at most of the major U.S. airports. The two other luggage cart service providers that operate at U.S. airports are (1) Flight Services & Systems, Inc. (FSS) at the airport

in Anchorage, Alaska, and (2) Bagport America, LLC at Phoenix International Airport. Ms. Ricasa reports that both companies were informed of the RFP in writing, and Airport staff also attempted to reach out to both companies via telephone; however, only Smarte Carte attended the informational conference held on July 13, 2011 and submitted a proposal.

The Airport Commission approved award of the proposed lease to Smarte Carte on December 20, 2011.

Smarte Carte's Annual Rent Payable to the Airport

Under the proposed lease and operating agreement, Smarte Carte is required to pay the Airport an annual rent equal to the greater of (a) 25% of annual Smarte Carte gross revenues, or (b) the MAG of $610,000. Under the proposed lease and operating agreement, airport passengers rent luggage carts, paying $5.00 per cart, with all such revenues accruing to Smarte Carte.[5]

Airport's Annual Payment to Smarte Carte

Under the proposed lease and operating agreement, the Airport is required to annually pay Smarte Carte the lesser of (a) the Customs Program annual service fee, or (b) $1.20 per actual luggage cart used, adjusted annually by the CPI, for Smarte Carte to provide airport passengers with free luggage carts in the International Terminal's Customs Area.

The Customs Program annual service fee, as shown in Table 2 below, was based on forecasts of international passengers. The Customs Program annual service fee of $2,300,000 in the first year of the proposed lease and operating agreement is $575,000 or 20% less than the Customs Program annual service fee of $2,875,000 under the existing lease and operating agreement.

Table 2
Customs Program Annual Service Fee

Lease Year	Amount
Lease Year 1	$2,300,000
Lease Year 2	2,392,000
Lease Year 3	2,487,000
Lease Year 4	2,587,000
Lease Year 5	2,690,000
Five-Year Lease Total	**$12,456,000**

Under the proposed lease and operating agreement, the total number of luggage carts provided by Smarte Carte is reduced from 5,500 to 4,500 in the Domestic and International Terminals (other than the Customs Area in the International Terminal) and from 2,000 to 1,500 in International Terminal's Customs Area. According to Ms. Ricasa, luggage cart rentals have decreased due to federal restrictions on carry-on luggage and fees charged on checked luggage.

[5] Smarte Carte may raise the $5.00 per cart rental rate with the Airport Director's prior written consent, which may be granted or withheld in the Airport Director's sole discretion.

FISCAL IMPACT

Over the initial five-year term of the proposed agreement, if Smarte Carte pays to the Airport the MAG rent, or the minimum amount that Smarte Carte can pay to the Airport, and the Airport pays to Smarte Carte the Customs Program annual service fee, or the maximum that the Airport can pay to Smarte Carte, the Airport's net payment to Smarte Carte is $9,406,000, as shown in Table 3 below.

Table 3
Projected Minimum Annual Guarantee Compared to the Customs Program Annual Service Fee

	Minimum Annual Guarantee (MAG)* Paid by Smarte Carte for Luggage Cart Rentals	Customs Program Annual Service Fee Paid by the Airport for the Free Luggage Carts in the International Terminal	Net Difference
Lease Year 1	$610,000	$2,300,000	$1,690,000
Lease Year 2	610,000	2,392,000	1,782,000
Lease Year 3	610,000	2,487,000	1,877,000
Lease Year 4	610,000	2,587,000	1,977,000
Lease Year 5	610,000	2,690,000	1,999,000
TOTALS	$3,050,000	$12,456,000**	$9,406,000

* Because the CPI adjustment in lease years 2 through 5 is not known, the adjustment is not included in the calculation.
** See Table 2 above.

However, the Airport projects that Smarte Carte will pay to the Airport percentage rent equal to 25% of gross revenues. Over the five year initial term of the agreement, the percentage rent is projected to be $3,703,622, which is higher than the total MAG of $3,050,000 as shown in Table 3 above. Further, the Airport projects that it will pay to Smarte Carte $1.20 per luggage cart or $11,028,775, which is less than the Customs Program annual service fee of $12,456,000 as shown in Table 3 above. Therefore, the Airport's estimated net payment to Smarte Carte over the initial five-year term of the proposed agreement is $7,325,153 ($11,028,775 less $3,703,622).

The resolution for the initial five-year existing agreement, as previously approved by the Board of Supervisors,spe cified a not-to-exceed net amount of $10,121,000 to be paid by the Airport to Smarte Carte. However, the proposed resolution does not specify a not-to-exceed amount for the Airport's net payments to Smarte Carte for the initial five-year term of the proposed agreement. Therefore, the Budget and Legislative Analyst recommends amending the proposed resolution to include a not-to-exceed amount of $9,406,000 as shown in Table 3 above, to be paid by the

Airport to Smarte Carte, which equals the difference between the MAG and the Customs Program Annual Service Fee over the initial five-year term of the proposed agreement.

RECOMMENDATIONS

1. Amend the proposed resolution to include the not-to-exceed amount of $9,406,000 (as shown in Table 3 above) for the Airport's net payments to Smarte Carte over the initial five-year term of the proposed agreement.

2. Approve the proposed resolution as amended.

AIRPORT COMMISSION

CITY AND COUNTY OF SAN FRANCISCO

RESOLUTION NO. 11-0301

AWARD OF THE LUGGAGE CART LEASE AND OPERATING AGREEMENT TO SMARTE CARTE, INC. FOR A MINIMUM ANNUAL GUARANTEE OF $610,000 FOR THE FIRST YEAR OF THE LEASE

WHEREAS, by Resolution No. 11-0097, adopted April 5, 2011, the Airport Commission authorized staff to commence a competitive selection process for the Luggage Cart Lease and Operating Agreement ("Lease") through a Request for Proposals; and

WHEREAS, by Resolution No. 11-0179, adopted August 16, 2011, the Commission authorized staff to accept proposals for the Lease; and

WHEREAS, on November 9, 2011, staff received one proposal submittal from Smarte Carte, Inc.; and

WHEREAS, staff determined that Smarte Carte, Inc. met the minimum qualification requirements, and staff convened a three-member panel which, upon review, deemed the proposal responsive and responsible; now, therefore, be it

RESOLVED, that the Airport Commission awards the Luggage Cart Lease and Operating Agreement to Smarte Carte, Inc. under the conditions set forth in the staff memorandum on file with the Commission Secretary, including, but not limited to a Minimum Annual Guarantee of $610,000 for the first year of the lease, a term of five (5) years with one (1) two-year option, exercisable at the sole and absolute discretion of the Airport Commission and a Maximum Annual Service Fee for free carts in the customs program of the lesser of $1.20 per cart used or $2,300,000 for Lease Year 1, $2,392,000 for Lease Year 2, $2,487,000 for Lease Year 3, $2,587,000 for Lease Year 4 and $2,690,000 for Lease Year 5; and, be it further

RESOLVED, that this Commission Secretary is hereby directed to request approval of the Lease by Resolution of the Board of Supervisors pursuant to Section 9.118 of the Charter of the City and County of San Francisco.

I hereby certify that the foregoing resolution was adopted by the Airport Commission

at its meeting of DEC 20 2011

Jean Caramatti

Secretary

LEASE AGREEMENT FOR

LUGGAGE CART LEASE AND OPERATING AGREEMENT

AT SAN FRANCISCO INTERNATIONAL AIRPORT

by and between

SMARTE CARTE, INC.,
as Operator

and

CITY AND COUNTY OF SAN FRANCISCO
ACTING BY AND THROUGH ITS AIRPORT COMMISSION,
as landlord

Edwin M. Lee
Mayor

AIRPORT COMMISSION
Hon. Larry Mazzola, President
Hon. Linda S. Crayton, Vice President
Hon. Eleanor Johns
Hon. Richard J. Guggenhime
Hon. Peter A. Stern

John L. Martin
Airport Director

December 2011

Lease No.11-0301

** Complete copy of document is located in

File No. 120015

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2/23/2012
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File No. 120015

FORM SFEC-126:
NOTIFICATION OF CONTRACT APPROVAL

(S.F. Campaign and Governmental Conduct Code § 1.126)

City Elective Officer Information *(Please print clearly.)*	
Name of City elective officer(s):	City elective office(s) held:
Members, SF Board of Supervisors	Members, SF Board of Supervisors

Contractor Information *(Please print clearly.)*	
Name of contractor:	
Smarte Carte, Inc.	
Please list the names of (1) members of the contractor's board of directors; (2) the contractor's chief executive officer, chief financial officer and chief operating officer; (3) any person who has an ownership of 20 percent or more in the contractor; (4) any subcontractor listed in the bid or contract; and (5) any political committee sponsored or controlled by the contractor. Use additional pages as necessary.	
Edward D. Rudis, President and CEO James N. Meyer, CFO Philip R. Hagberg, COO Smarte Carte, Inc. does not sponsor or control any political committee.	
Contractor address:	
4455 White Bear Parkway, St. Paul, MN 55110-7641	
Date that contract was approved:	Amount of contract:
Pending	MAG of $610,000 or 25% of Gross Revenues. Airport shall pay Operator for the Customs Cart Program the lesser of $1.20 for each luggage cart distributed free of charge to the public in Customs or as follows: 1st year - $2.3,000,000; 2nd year - $2,392,000; 3rd year - $2,487,000; 4th year - $2,587,000; 5th year - $2,690,000.
Describe the nature of the contract that was approved:	
Lease was awarded through a Request for Proposal process	
Comments:	
Requesting to approve new Lease and Operating Agreement with Smarte Carte.	

This contract was approved by (check applicable):

☐ the City elective officer(s) identified on this form

☑ a board on which the City elective officer(s) serves San Francisco Board of Supervisors
Print Name of Board

☐ the board of a state agency (Health Authority, Housing Authority Commission, Industrial Development Authority Board, Parking Authority, Redevelopment Agency Commission, Relocation Appeals Board, Treasure Island Development Authority) on which an appointee of the City elective officer(s) identified on this form sits

_____
Print Name of Board

Filer Information *(Please print clearly.)*	
Name of filer:	Contact telephone number:
Angela Calvillo, Clerk of the Board of Supervisors	(415) 554-5184
Address:	E-mail:
1 Dr. Carlton B. Goodlett Place, Room 244 San Francisco, CA 94102-4689	Board of Supervisors@sfgov.org

_____ _____
Signature of City Elective Officer (if submitted by City elective officer) Date Signed

_____ _____
Signature of Board Secretary or Clerk (if submitted by Board Secretary or Clerk) Date Signed