

File No. 100185

Committee Item No. 2

Board Item No. \_\_\_\_\_

### COMMITTEE/BOARD OF SUPERVISORS

#### AGENDA PACKET CONTENTS LIST

Committee BUDGET AND FINANCE

Date 3/31/10

Board of Supervisors Meeting

Date \_\_\_\_\_

#### Cmte Board

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| <input type="checkbox"/>            | <input type="checkbox"/> | Legislative Digest                           |
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| <input type="checkbox"/>            | <input type="checkbox"/> | Introduction Form (for hearings)             |
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| <input type="checkbox"/>            | <input type="checkbox"/> | Grant Budget                                 |
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#### OTHER

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Completed by: Gail Johnson

Date 3/26/10

Completed by: \_\_\_\_\_

Date \_\_\_\_\_

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



1 [Airport Lease and Operating Agreement]

2  
3 **Resolution Approving the Exercise of the Fourth of Five One-year Options to Extend**  
4 **the Term of Smarte Carte, Inc.'s Luggage Cart Lease and Operating Agreement**  
5 **No. 01-0343.**

6  
7 WHEREAS, Pursuant to Airport Commission Resolution No. 01-0343, adopted  
8 November 20, 2001, the Commission awarded the Luggage Cart Lease and Operating  
9 Agreement (the "Lease") to Smarte Carte; and

10 WHEREAS, The Board of Supervisors approved the award of the Lease and  
11 subsequent changes to the Lease provisions by Resolution No. 258-02, adopted April 22,  
12 2002, and ratified by the Mayor on May 3, 2002; and,

13 WHEREAS, Resolution No. 258-02 also required Board of Supervisors approval of any  
14 option term exercised; and

15 WHEREAS, Pursuant to Airport Commission Resolution No. 06-0168, adopted  
16 August 29, 2006, the Commission approved the first of five one-year option; and

17 WHEREAS, The Board of Supervisors approved the exercise of the first of five  
18 one-year option by Resolution No. 96-07, adopted February 27, 2007 and ratified by the  
19 Mayor on March 9, 2007; and

20 WHEREAS, Pursuant to Airport Commission Resolution No. 07-0231, adopted  
21 October 3, 2007, the Commission approved the second one-year option; and

22 WHEREAS, The Board of Supervisors approved the exercise of the second one-year  
23 option by Resolution No. 56-08, adopted February 5, 2008 and ratified by the Mayor on  
24 March 7, 2008; and

25

1           WHEREAS, Pursuant to Airport Commission Resolution No. 08-0195, the Commission  
2 approved the third one-year option; and

3           WHEREAS, The Board of Supervisors approved the exercise of the third one-year  
4 option by Resolution No. 38-09, adopted February 3, 2009 and ratified by the Mayor on  
5 February 13, 2009; and

6           WHEREAS, Pursuant to Airport Commission Resolution No. 09-0243, the Commission  
7 approved the fourth one-year option; now, therefore, be it

8           RESOLVED, That the Board of Supervisors hereby approves the Airport's exercise of  
9 the fourth option under Luggage Cart Lease and Operating Agreement No. 01-0343, for an  
10 extension term of April 1, 2010 through March 31, 2011 under the same terms and conditions.  
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<b>Item 2</b> <b>File 10-0185</b>	<b>Department(s):</b> San Francisco Airport (Airport)
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**EXECUTIVE SUMMARY**

**Legislative Objective**

- The proposed resolution would approve the fourth of five one-year options to extend an existing lease and operating agreement between the San Francisco Airport (Airport) and Smarte Carte for one year, from April 1, 2010 through March 31, 2011.

**Key Points**

- On April 22, 2002, the Board of Supervisors approved the existing lease and operating agreement in a not-to-exceed net amount of \$10,121,000, payable by the Airport to Smarte Carte, from April 1, 2002 through March 31, 2007, which includes five one-year options to extend until March 31, 2012 (File No. 01-2281). The Board of Supervisors has approved three one-year options to extend the existing lease and operating agreement until March 31, 2010 (Files No. 06-1664, 08-0052, 08-1619). Smarte Carte provides (a) luggage carts at \$4.00 per luggage cart under the Self-Service Luggage Cart Rental Program; and (b) free luggage carts under the Customs, Rental Car Facility and AirTrain Failure Contingency Programs.

**Fiscal Impact**

- Under the existing lease and operating agreement, Smarte Carte pays the Airport an annual rent of either the greater of (a) 25 percent of annual Smarte Carte gross revenues, or (b) the Minimum Annual Guarantee (MAG) for the Self-Service Luggage Cart Rental Program, which is \$570,615 under the proposed fourth one-year option. The estimated Smarte Carte gross revenues for the proposed fourth one-year option would be \$2,116,445. Given that 25 percent of \$2,116,445 is \$529,111, which is less than the MAG of \$570,615, the estimated rent for the proposed fourth one-year option would be \$570,615.
- Under the existing lease and operating agreement, the Airport pays Smarte Carte either the lesser of (a) the annual Customs Program fixed service fee, or (b) \$1.20 per luggage cart used for the Customs Program, which is \$2,850,000 under the proposed fourth one-year option. The Airport estimated that approximately 1,530,975 carts would be used, resulting in Airport costs of \$1,837,170 (1,530,975 carts x \$1.20). Since \$1,837,170 is less than the annual Customs Program fixed service fee of \$2,850,000, the estimated Airport payment to Smarte Carte for the proposed fourth one-year option would be \$1,837,170.
- Therefore, under the proposed fourth one-year option, the Airport would pay Smarte Carte an estimated net amount of \$1,266,555 (\$1,837,170 less \$570,615). In option year 3, the Airport will pay Smarte Carte an estimated net amount of \$1,308,311.

**Recommendation**

- Approve the proposed resolution.

**BACKGROUND/MANDATE STATEMENT****Background**

In the fall of 2001, the San Francisco Airport (Airport) issued a Request for Proposal (RFP) for the existing lease and operating agreement to provide luggage cart service at the Airport. The Airport received proposals from the following three firms (1) Smarte Carte; (2) Airport Carts, LLC; and (3) Top Cart, LLC. The Airport awarded the existing lease and operating agreement to Smarte Carte, which received the highest evaluation score<sup>1</sup> of the three firms. On April 22, 2002, the Board of Supervisors approved the existing lease and operating agreement (File No. 01-2281) in a not-to-exceed net amount of \$10,121,000, for the first five years of the existing lease. The existing lease and operating agreement has a term for five years, from April 1, 2002 through March 31, 2007. The existing lease and operating agreement included five one-year options to extend from April 1, 2007 through March 31, 2012.

Under the existing lease and operating agreement, Smarte Carte (1) operates the Self-Service Luggage Cart Rental Program<sup>2</sup> in the Domestic and International Terminals (other than the Customs Program Area in the International Terminal); and (2) provides luggage carts free of charge under the (a) Customs Program<sup>3</sup> in the International Terminal, (b) Rental Car Facility Program<sup>4</sup>, and (c) AirTrain Failure Contingency Program<sup>5</sup>. In addition, 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 Facility, and AirTrain Failure Contingency programs.

Smarte Carte's Annual Rent Payable to the Airport: Under the existing lease and operating agreement, Smarte Carte is required to pay the Airport an annual rent of either the greater of (a) 25 percent of annual Smarte Carte gross revenues, or (b) the Minimum Annual Guarantee (MAG), to operate the Self-Service Luggage Cart Rental Program. The MAG, as shown in Table

<sup>1</sup> Smarte Carte received a total of 83.5 points out of 100 points, Airport Carts, LLC received 70.2 points and Top Cart, LLC's proposal was rejected for failure to meet the minimum qualification requirements of the RFP.

<sup>2</sup> Smarte Carte is required to provide a fleet of no less than 3,000 luggage carts available to Airport passengers for rent at \$4.00 per cart at the Domestic and International Terminals.

<sup>3</sup> Under the Customs Program, Smarte Carte is required to provide no less than 2,000 luggage carts, free of charge for arriving international passengers, who are subject to Federal customs inspection services in the International Terminal. The Airport provides free carts to arriving 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 cart services.

<sup>4</sup> Under the Rental Car Facility Program, Smarte Carte is required to provide no less than 500 luggage carts free of charge at the Airport's Rental Car Facility.

<sup>5</sup> Under the AirTrain Failure Contingency Program, Smarte Carte is required to provide no less than an additional 500 luggage carts free of charge at the Rental Car Facility, upon notification from the Airport that there is or may be an AirTrain failure. 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 these additional 500 luggage carts in the Rental Car Facility until the AirTrain service resumes or as otherwise directed by the Airport Director.

1 below, is subject to an annual Consumer Price Index (CPI)<sup>6</sup> adjustment on the anniversary date of the existing lease and operating agreement. If the CPI decreases, the rent will not decrease to a value less than the previous year's rent under the provisions of the existing lease and operating agreement.

Under the existing lease and operating agreement, the MAG increased each year beginning in the fifth year as shown in Table 1 below, in accordance with annual CPI adjustments.

**Table 1: The Existing Lease and Operating Agreement MAG Amounts**

Period	Lease/Option Year	Description	MAG
4/1/2002 – 3/31/2005	Lease Years 1-4	Existing Lease and Operating Agreement MAG is \$450,000	\$450,000
4/1/2006 – 3/31/2007	Lease Year 5	Increased the MAG by \$51,870, or 11.5 percent, from \$450,000 to \$501,870.	\$501,870
4/1/2007 – 3/31/2008	Option Year 1	Increased the MAG by \$28,561, or 5.7 percent, from \$501,870 to \$530,431.	\$530,431
4/1/2008 – 3/31/2009	Option Year 2	Increased the MAG by \$8,813, or 1.7 percent, from \$530,431 to \$539,244.	\$539,244
4/1/2009 – 3/31/2010	Option Year 3	Increased the MAG by \$31,371, or 5.8 percent, from \$539,244 to \$570,615.	\$570,615

Source: Airport

Airport's Annual Payment to Smarte Carte: Under the existing lease and operating agreement, the Airport is required to annually pay Smarte Carte either the lesser of (a) the Customs Program fixed service fee, or (b) \$1.20 per actual luggage cart used, for Smarte Carte to operate the free luggage cart services for the Airport's Customs Program in the International Terminal. The Customs Program fixed service fee, as shown in Table 2 below, was based on forecasts of international passenger traffic and was included in the existing lease and operating agreement. The Airport does not pay Smarte Carte for providing luggage carts free of charge under the Rental Car Facility Program and under the AirTrain Failure Contingency Program.

**Table 2: Custom Program Fixed Service Fee Amounts**

Period	Lease/Option Year	Amount
4/1/2002 – 3/31/2003	Lease Year 1	\$2,223,000
4/1/2003 – 3/31/2004	Lease Year 2	\$2,336,000
4/1/2004 – 3/31/2005	Lease Year 3	\$2,466,000
4/1/2005 – 3/31/2006	Lease Year 4	\$2,602,000
4/1/2006 – 3/31/2007	Lease Year 5	\$2,744,000
4/1/2007 – 3/31/2008	Option Year 1	\$2,775,000
4/1/2008 – 3/31/2009	Option Year 2	\$2,800,000
4/1/2009 – 3/31/2010	Option Year 3	\$2,825,000
4/1/2010 – 3/31/2011	Option Year 4	\$2,850,000
4/1/2011 – 3/31/2012	Option Year 5	\$2,875,000

Source: Airport

Approved One-year Options to Extend: As shown in Table 3 below, the Board of Supervisors previously approved three resolutions authorizing three of the five one-year options to extend the

<sup>6</sup> The CPI represents changes in prices of all goods and services for All Urban Consumers in the San Francisco-Oakland-San Jose area and is published by the Bureau of Labor Statistics under the United States Department of Labor.

existing lease and operating agreement from April 1, 2007 through March 31, 2010. The fourth one-year option is the subject of the proposed resolution and the fifth one-year option would be subject to future Board of Supervisors approval.

**Table 3: One-year Options to Extend Approved by the Board of Supervisors**

Date	Description
3/9/2007	<b>Resolution File No. 06-1664</b> authorized the first one-year option to extend the existing lease and operating agreement from April 1, 2007 through March 31, 2008.
2/7/2008	<b>Resolution File No. 08-0052</b> authorized the second one-year option to extend the existing lease and operating agreement from April 1, 2008 through March 31, 2009.
2/13/2009	<b>Resolution File No. 08-1619</b> authorized the third one-year option to extend the existing lease and operating agreement from April 1, 2009 through March 31, 2010.

Source: Airport

### Mandate Statement

In accordance with File No. 01-2281 (Resolution No. 258-02), as previously approved by the Board of Supervisors on April 22, 2002, all five one-year options to extend the existing lease and operating agreement exercised by the Airport are subject to Board of Supervisors approval.

### DETAILS OF PROPOSED LEGISLATION

The proposed resolution would approve the fourth of five one-year options to extend an existing lease and operating agreement between the Airport and Smarte Carte for one year, from April 1, 2010 through March 31, 2011.

As stated in the existing lease and operating agreement, the proposed Customs Program fixed service fee amount for the fourth one-year option would increase by \$25,000, or 0.9 percent, from the third option year amount of \$2,825,000 to \$2,850,000.

Also, as stated in the existing lease and operating agreement, the increase to the MAG is subject to an annual CPI adjustment. According to Ms. Cheryl Nashir, Associate Deputy Airport Director of the Airport, since the CPI decreased in the current year, the MAG for the proposed fourth one-year option will remain at \$570,615, which is the MAG for option year 3 as shown in Table 4 below.

### FISCAL ANALYSIS

#### Past Expenditures of the Existing Lease and Operating Agreement

As noted above, under the existing lease and operating agreement, Smarte Carte is required to pay the Airport an annual rent of either the greater of (a) 25 percent of annual Smarte Carte gross revenues, or (b) the MAG, as listed in Table 4 below, for the Self-Service Luggage Cart Rental Program. Table 4 below shows the total payments that Smarte Carte is required to pay the Airport. As reflected in Table 4 below, Smarte Carte paid the Airport 25 percent of annual



Smarte Carte gross revenues from Lease Year 2 through Option Year 2, since that amount was greater than the MAG. The Airport anticipates that Smarte Carte will pay the Airport the MAG in Option Year 3.

**Table 4: Smarte Carte Payments to the Airport**

Lease/ Option Year*	Lease/ Option Year Dates		MAG	Smarte Carte Gross Revenues	25% of Smarte Carte Gross Revenues	Total Annual Smarte Carte Rental Payments to Airport
	Start	End				
Lease Year 2	April 1, 2003	March 31, 2004	\$450,000	\$2,644,411	\$661,103	\$661,103
Lease Year 3	April 1, 2004	March 31, 2005	\$450,000	\$2,723,245	\$680,811	\$680,811
Lease Year 4	April 1, 2005	March 31, 2006	\$450,000	\$2,778,883	\$694,721	\$694,721
Lease Year 5	April 1, 2006	March 31, 2007	\$501,870	\$2,629,409	\$657,352	\$657,352
Option Year 1	April 1, 2007	March 31, 2008	\$530,431	\$2,601,701	\$650,425	\$650,425
Option Year 2	April 1, 2008	March 31, 2009	\$539,244	\$2,587,199	\$646,800	\$646,800
Option Year 3**	April 1, 2009	March 31, 2010	\$570,615	\$2,227,837	\$556,959	\$570,615

\* Financial data for Lease Year 1 is not directly comparable to subsequent years, because according to Ms. Cheryl Nashir, Associate Deputy Airport Director of the Airport, the Smarte Carte payment to the Airport in Lease Year 1 was either the greater of (a) 15 percent of annual Smarte Carte gross revenues, or (b) MAG of \$225,000, pursuant to the previous Agreement, which expired on March 31, 2002.

\*\* Estimated by the Airport

In addition, under the existing lease and operating agreement, the Airport is required to pay Smarte Carte either the lesser of (a) the Customs Program Fixed Service Fee, as listed in Table 5 below, or (b) \$1.20 per actual luggage cart used, for Smarte Carte to operate the free luggage cart services for the Airport's Customs Program in the International Terminal. Table 5 below shows the total payments that the Airport was required to pay Smarte Carte. As reflected in Table 5, each year of the existing lease and operating agreement, the Airport made payments to Smarte Carte based on the actual number of luggage carts used multiplied by \$1.20 since that amount was less than the Customs Program Fixed Service Fee amount.

**Table 5: Airport Payments to Smarte Carte**

Lease/ Option Year	Lease/ Option Year Dates		Customs Program Fixed Service Fee	Total Number of Carts Actually Used	Total Airport Payments at \$1.20 per cart to Smarte Carte
	Start	End			
Lease Year 2	April 1, 2003	March 31, 2004	\$2,336,000	1,505,442	\$1,806,530
Lease Year 3	April 1, 2004	March 31, 2005	\$2,466,000	1,614,365	\$1,937,238
Lease Year 4	April 1, 2005	March 31, 2006	\$2,602,000	1,635,041	\$1,962,048
Lease Year 5	April 1, 2006	March 31, 2007	\$2,744,000	1,666,838	\$2,000,206
Option Year 1	April 1, 2007	March 31, 2008	\$2,775,000	1,648,403	\$1,978,084
Option Year 2	April 1, 2008	March 31, 2009	\$2,800,000	1,679,702	\$2,015,642
Option Year 3*	April 1, 2009	March 31, 2010	\$2,825,000**	1,565,772	\$1,878,926

\* Estimated by the Airport

\*\* Additional \$25,000 for Option Year 4 or \$2,850,000

Table 6 below shows the annual Airport payments required to be paid to Smarte Carte net of the total payments that Smarte Carte was required to pay the Airport, from Lease Year 2 (April 1, 2003 through March 31, 2004) through Option Year 3 (April 1, 2009 through March 31, 2010).

**Table 6: Annual Net Airport Payments to Smarte Carte**

Lease/ Option Year	Lease/ Option Year Dates		Total Smarte Carte Payments to Airport (a)	Total Airport Payments to Smarte Carte for the provision of Luggage Carts free of charge (b)	NET Airport Payments to Smarte Carte (b) less (a)
	Start	End			
Lease Year 2	April 1, 2003	March 31, 2004	\$661,103	\$1,806,530	\$1,145,427
Lease Year 3	April 1, 2004	March 31, 2005	681,811	1,937,238	1,255,427
Lease Year 4	April 1, 2005	March 31, 2006	694,721	1,962,048	1,267,327
Lease Year 5	April 1, 2006	March 31, 2007	657,352	2,000,206	1,342,854
Option Year 1	April 1, 2007	March 31, 2008	650,425	1,978,084	1,327,659
Option Year 2	April 1, 2008	March 31, 2009	646,800	2,015,642	1,368,842
Option Year 3*	April 1, 2009	March 31, 2010	570,615	1,878,926	1,308,311
<b>TOTALS</b>			<b>\$4,585,971</b>	<b>\$13,578,674</b>	<b>\$9,015,847</b>

\* Estimated by the Airport

### Estimated Expenditures of the Proposed Fourth One-year Option

Smarte Carte's Annual Rent Payable to the Airport: As stated above, since the CPI decreased in the current year, the MAG for the proposed fourth one-year option will remain at \$570,615, which is the MAG for option year 3 (see Table 4 above). Ms. Nashir advises that there has been a decline over the last five years in gross revenue for the Self-Service Luggage Cart Rental Program because airport passengers are traveling with less luggage and therefore, fewer passengers are renting luggage carts. Based on the average decrease in gross revenues over the past three years, Ms. Nashir estimates that Smarte Carte will realize an estimated \$2,116,445 in annual Self-Service Luggage Cart Rental Program gross revenues in the proposed fourth one-

year option, which is \$111,392 less than the projected \$2,227,837 (see Table 4 above) Smarte Carte gross revenues in option year 3. Twenty-five percent of the estimated \$2,116,445 of gross revenues is \$529,111, which is \$27,848 less than the projected amount of \$556,959 (see Table 4 above) in option year 3. Since Smarte Carte must pay the Airport an annual rent of either the greater of (a) 25 percent of annual gross revenues, or (b) the MAG of \$570,615 to operate the Self-Service Luggage Cart Rental Program, the estimated rent for the proposed fourth one-year option payable by Smarte Carte to the Airport would be the MAG of \$570,615.

Airport's Annual Payment to Smarte Carte: Based on the average number of carts actually used in the Customs Program over the past five years and the Airport's projection of international passenger traffic, Ms. Nashir estimates that in the proposed fourth one-year option, there would be approximately 1,530,975 carts used, which would result in a required payment by the Airport to Smarte Carte of \$1,837,170 (1,530,975 carts multiplied by \$1.20) for the free luggage carts used in the Customs Program Area of the International Terminal. Since the Airport must pay Smarte Carte either the lesser of (a) \$2,850,000 or (b) \$1.20 per actual luggage cart used, the estimated payment by the Airport to Smarte Carte for the proposed fourth one-year option is \$1,837,170. Therefore, the estimated net annual payment by the Airport to Smarte Carte under the proposed option year 4 would be \$1,266,555 (\$1,837,170 required payment by the Airport to Smarte Carte less \$570,615 required payment by Smarte Carte to the Airport).

As shown in Table 6 above, the Airport estimates that \$1,308,311 will be the net payment from the Airport to Smarte Carte in option year 3 or \$41,756 (\$1,308,311 less \$1,266,555), or 3.2 percent more than the estimated net payment of \$1,266,555 to be made by the Airport to Smarte Carte under the proposed option year 4.

## RECOMMENDATION

Approve the proposed resolution.





San Francisco International Airport

P.O. Box 8097  
San Francisco, CA 94128  
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Fax 650.821.5005  
www.flysfo.com

February 26, 2010

Ms. Angela Calvillo  
Board of Supervisors  
City Hall  
1 Dr. Carlton B. Goodlett Place, Room 244  
San Francisco, CA 94102

Subject: Smarte Carte, Inc.'s Luggage Cart Lease and Operating Agreement  
No. 01- 0343 – Exercise Fourth of Five One-Year Options to Extend  
the Term

AIRPORT  
COMMISSION  
CITY AND COUNTY  
OF SAN FRANCISCO

Dear Ms. Calvillo:

GAVIN NEWSOM  
MAYOR

Pursuant to Section 9.118 of the City Charter, I am forwarding for the Board of Supervisors' approval the resolution authorizing the Airport to exercise the fourth of five one-year options to extend the term of Luggage Cart Lease and Operating Agreement No. 01-0343 between the City and County of San Francisco, acting by and through its Airport Commission, and Smarte Carte, Inc. The lease term extension was approved by Airport Commission Resolution No. 09-0243, adopted October 20 2009, for an extension term of April 1, 2010 through March 31, 2011.

LARRY MAZZOLA  
PRESIDENT

LINDA S. CRAYTON  
VICE PRESIDENT

CARYL ITO

ELEANOR JOHNS

RICHARD J. GUGGENHIME

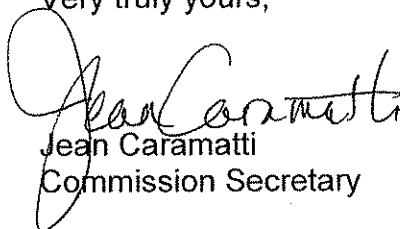
The following is a list of accompanying documents (five sets):

JOHN L. MARTIN  
AIRPORT DIRECTOR

- Board of Supervisors Resolution;
- Approved Airport Commission Resolution No. 09-0243;
- Form SFEC-126.

You may contact Cathy Widener, Governmental Affairs Administrator, at (650) 821-5023 regarding this matter.

Very truly yours,

  
Jean Caramatti  
Commission Secretary

Enclosures

cc: Cathy Widener  
Cheryl Nashir

RECEIVED  
BOARD OF SUPERVISORS  
SAN FRANCISCO  
2010 FEB 24 PM 2:07  
BY SK

