

**Item 2**  
**File 11-0541**

**Department:**  
San Francisco International Airport (Airport)

## EXECUTIVE SUMMARY

### Legislative Objectives

- The proposed resolution would approve a new two-year lease agreement, with three one-year options to extend, or a total of five years, between Advanced Wireless Group (AWG), LLC and the City and County of San Francisco, acting by and through its Airport Commission (Airport).

### Key Points

- A five-year lease between T-Mobile and the Airport to operate and maintain the Airport's Wireless-Fidelity (Wi-Fi) system, effective on March 1, 2003, initially required T-Mobile to pay the Airport the greater of (a) ten percent of gross revenues realized by T-Mobile or (b) a Minimum Annual Guarantee that increased from \$60,000 in the first year to \$125,000 in the last three years. The Airport subsequently amended this lease to allow T-Mobile to continue operating the Airport's Wi-Fi system through June 30, 2011. On August 13, 2010, the Airport began offering free Wi-Fi service to users throughout the Airport, such that the Airport subsequently amended the T-Mobile lease and now pays T-Mobile each month to operate and maintain the Wi-Fi system at no charge to Airport users.
- On January 26, 2010, Airport staff issued a Request for Proposals (RFP) to select a vendor to operate and maintain the Airport's free Wi-Fi service to the public. After receiving and reviewing four proposals, the Airport selected the AWG to operate and maintain the Airport's Wi-Fi system.

### Fiscal Impacts

- Under the existing lease with T-Mobile, since August 13, 2010, the Airport pays T-Mobile \$135,000 per month for the first six months and \$125,000 per month thereafter, or a total of \$1,382,742 from August 13, 2010 through June 30, 2011.<sup>1</sup>
- The proposed lease with AWG would be for an initial two-year period, with three one-year options to extend, at the sole discretion of the Airport Commission. Under the proposed agreement, in consideration for authorizing AWG to advertise on the Wi-Fi system (see below), AWG would pay \$225,000 to the Airport for the first year and \$250,000 for the second year or a total of \$475,000 over the two-year proposed lease. For the three one-year extensions, the fee to be paid by AWG to the Airport would increase \$25,000 annually to \$275,000 in the third year, \$300,000 in the fourth year, and \$325,000 in the fifth year, for a total of \$1,375,000 over the five-year period.
- As part of the Airport's Lease and Use Agreement, 15 percent of concession and parking revenue generated at the Airport is paid to the City's General Fund as part of the Annual Service Payment, such that \$71,250 ( $\$475,000 \times .15$ ) would be paid to the City's General Fund over the initial two-year period and a total of \$206,250 ( $\$1,375,000 \times .15$ ) would be paid to the City's General Fund over the total five-year period.
- The proposed lease allows AWG to offset its rental costs to be paid to the Airport through advertising on the first page (the "welcome page") that users of the Wi-Fi system will be directed to upon logging

<sup>1</sup> This total amount was calculated based on an 11-month agreement: six months at \$135,000 per month with the rate for August, the first of the six months at \$135,000, prorated for 19 days at \$4,354.84 per day or \$82,741.94 for that first month.

into the network. The lease agreement also allows the Airport to realize revenues from Airport advertising on the welcome page of the Wi-Fi system. The Airport has not projected such potential Airport advertising revenues.

### **Recommendation**

- Approve the proposed resolution.

## **MANDATE STATEMENT / BACKGROUND**

### **Mandate Statement**

City Charter Section 9.118 (a) requires Board of Supervisors approval of any lease which would result in revenues to the City in excess of \$1,000,000 over the term of the lease.

### **Background**

Based on a competitive Request for Proposals process, the Airport and T-Mobile entered into a five-year lease, with two one-year extension options, commencing on March 1, 2003. According to Ms. Cathy Widener, the Airport's Government Affairs Officer, that agreement was not subject to Board of Supervisors approval because the agreement did not meet the \$1,000,000 revenue threshold. This agreement with T-Mobile stipulated the terms for operating and maintaining the Airport's Wireless-Fidelity (Wi-Fi) system. Following the expiration of this lease on February 28, 2010, the Airport entered into a short-term agreement (not to exceed two years) with T-Mobile that would allow for continued service through June 30, 2011. Under the original agreement, T-Mobile paid the Airport the greater of (a) ten percent of the gross revenues realized by T-Mobile from charging Airport users fees to access the Wi-Fi system or (b) a Minimum Annual Guarantee (MAG) that increased from \$60,000 during the first year to \$125,000 in the last three years. However, on August 13, 2010, the Airport began offering this Wi-Fi service at no charge to Airport users, resulting in a modified agreement with T-Mobile. The modified agreement will expire on June 30, 2011 and stipulates that the Airport pay T-Mobile \$135,000 each month for the first six months of free Wi-Fi service and \$125,000 each month thereafter for T-Mobile to operate and maintain the Wi-Fi system at no charge to Airport users.

On January 26, 2010, in anticipation of the expiration of the lease agreement with T-Mobile, the Airport issued a Request for Proposals (RFP) to select a vendor to upgrade the Airport's Wi-Fi system to accommodate increased broadband demand and to continue to operate and manage the upgraded Wi-Fi service at the Airport at no charge to Airport users.

According to Ms. Cathy Widener, the Airport's Government Affairs Officer, when the RFP was issued, Airport staff did not know whether qualified Wi-Fi operators would be able to offset all of their capital and operating costs with advertising revenues to make their proposals competitive. The Airport received four proposals from (1) Advanced Wireless Group, LLC (AWG), (2) AT&T Wi-Fi Services, (3) Concourse Communications Group, and (4) NetXperts. Three companies proposed annual payments by the vendor to the Airport and one company proposed payments to be made by the Airport to the vendor. All of the proposals were reviewed

by an Airport Evaluation Committee consisting of Airport staff. The Committee unanimously identified AWG as the highest-ranked proposer.

## DETAILS OF PROPOSED LEGISLATION

Based on a complete Request for Proposals process, the proposed resolution would approve a new two-year lease, with three one year options to extend the lease, between AWG and the Airport, to operate and maintain the Airport's Wi-Fi System at no charge to Airport users, including implementation of any Airport required upgrades to address increased broadband demand.

The proposed lease agreement would commence July 1, 2011 and extend through June 30, 2013, with three additional one-year options to extend, or through June 30, 2016, at the sole discretion of the Airport Commission.

At the end of the second year, in order to determine whether to exercise the three one-year options to extend the lease, the Airport will assess the quality of services previously provided by AWG based on passenger feedback and observations by Airport employees. The Airport will also assess the current and projected Wi-Fi usage, the suitability of the existing infrastructure, industry trends, new technologies, users' expectations, and potential changes in advertising through Wi-Fi systems to determine whether to extend the agreement.

Under the proposed lease agreement, as shown in the Table below, AWG would be required to pay rent of \$225,000 to the Airport in the first year and \$250,000 in the second year. This annual fee would increase by \$25,000 in each of the following three years to \$275,000 in the third year, \$300,000 in the fourth year, and \$325,000 in the fifth year, subject to the Airport Commission's approval of each of the three additional one-year options, for a total of \$1,375,000, if the lease is extended for the entire five-year period.

**Proposed AWG Lease**

Period	Lease/Option Year	Description	Airport Revenue
7/1/2011 – 6/30/2012	Lease Year 1	First year of proposed lease with AWG.	\$225,000
7/1/2012 – 6/30/2013	Lease Year 2	Annual fee increases by \$25,000.	250,000
7/1/2013 – 6/30/2014	Option Year 3	Annual fee increases by \$25,000.	275,000
7/1/2014 – 6/30/2015	Option Year 4	Annual fee increases by \$25,000.	300,000
7/1/2015 – 6/30/2016	Option Year 5	Annual fee increases by \$25,000.	325,000
<b>Total</b>			<b>\$1,375,000</b>

The proposed lease would allow AWG to recoup its operating expenses through placing advertisements on the Wi-Fi welcome page and through video commercials lasting up to 30 seconds at the beginning of each Wi-Fi session. Under the proposed lease, the Airport would not participate in any revenue sharing from such advertisements sold by AWG, but could generate revenue through its own advertising in the Wi-Fi system. While the proposed lease also allows the Airport to sell such advertising, the Airport has not made any projections regarding such potential Airport advertising revenues.

## FISCAL IMPACT

### Expenditures Under the Existing Wi-Fi Lease Agreement

Prior to August 13, 2010, T-Mobile paid the Airport the greater of (a) ten percent of T-Mobile's gross revenues realized from charges to Wi-Fi users at the Airport or (b) a Minimum Annual Guarantee (MAG) that increased from \$60,000 during the first year of the lease to \$125,000 in the last three years. According to Mr. Gerardo Fries, Project Manager at the Airport, T-Mobile paid the Airport approximately \$300,000 per month or \$3,600,000 annually under this earlier lease agreement, based on ten percent of T-Mobile's revenues. However, as noted above, this T-Mobile agreement was amended on August 13, 2010 when the Airport decided to offer free Wi-Fi services at the Airport. The existing modified agreement with T-Mobile for the free Wi-Fi, which will expire on June 30, 2011, stipulates that the Airport pay T-Mobile \$135,000 per month for the first six months and \$125,000 per month thereafter, or a total of \$1,382,742 from August 13, 2010 through June 30, 2011.<sup>2</sup>

### Estimated Fiscal Impact of the Proposed Lease Agreement

Based on a competitive Request for Proposals process, the proposed resolution would enable the Airport to enter into a new two-year lease agreement, with AWG, with three one-year options to extend, such that the Airport will receive \$225,000 in the first year and \$250,000 in the second year of the lease. As shown in the Table above, if the three one-year options are exercised and the lease is extended for the full five years, the Airport would receive a total of \$1,375,000 in lease revenues over the proposed lease which would provide free Wi-Fi services to Airport users. Conversely, under the existing agreement with T-Mobile, the Airport will have paid T-Mobile a total of \$1,382,742 from August 13, 2010 through June 30, 2011 for comparable free Wi-Fi service.

In addition, as noted above, both the Airport and AWG would be authorized under the proposed lease to realize revenues through advertising on the Wi-Fi system. As of the writing of this report, the Airport has not made any projections regarding potential Airport advertising revenues which it would be authorized to realize under the proposed lease agreement.

As part of the Airport's Lease and Use Agreement, 15 percent of all concession revenue generated at the Airport is paid to the City's General Fund as part of the Annual Service Payment, such that \$71,250 ( $\$475,000 \times .15$ ) would be paid to the City's General Fund over the initial two-year period and a total of \$206,250 ( $\$1,375,000 \times .15$ ) would be paid to the City's General Fund over the total five-year period, if the three one-year options are exercised.

## RECOMMENDATION

Approve the proposed resolution.

<sup>2</sup> This total amount was calculated based on an 11-month agreement: six months at \$135,000 per month with the rate for August, the first of the six months at \$135,000, prorated for 19 days at \$4,354.84 per day or \$82,741.94 for that first month.