



COUNTY OF SAN MATEO
Inter-Departmental Correspondence
 County Manager's Office



DATE: March 30, 2016
BOARD MEETING DATE: April 12, 2016
SPECIAL NOTICE/HEARING: None
VOTE REQUIRED: Majority

TO: Honorable Board of Supervisors
FROM: John L. Maltbie, County Manager
SUBJECT: Intergovernmental Agreement with SFO Airport Commission

RECOMMENDATION:

Adopt a resolution authorizing the President of the Board to enter into an Intergovernmental Agreement with the Airport Commission of the City and County of San Francisco relating to the reimbursement of services and the sharing of Hotel Transient Occupancy Tax.

BACKGROUND:

During the summer of 2015 the County Manager's Office was approached by representatives from the City and County of San Francisco and the San Francisco International Airport Commission (SFO) on two matters requiring an Intergovernmental Agreement ("Agreement"). The first was SFO's plan to build and operate a new 350-room hotel and enter into a revenue sharing agreement with the County for a portion of the new hotel's Transient Occupancy Tax (TOT) for the first five years of operation, and the second was to identify a way that SFO could reimburse the San Mateo County Emergency Services Council Joint Powers Authority (JPA) without becoming a member of the JPA. SFO has long held that they can't become a JPA member for two reasons: one, the Federal Aviation Administration (FAA) requires that SFO only reimburse agencies for activities that happen on airport property and two, SFO cannot enter into a mutual aid agreement, as on-duty emergency personnel and vehicles at SFO are not permitted to leave airport property.

DISCUSSION:

SFO has selected Hyatt Corporation as the operator of the hotel, and they've entered into agreements with an architect and a construction firm. They anticipate that the hotel will be completed and ready for occupancy on or about July 1, 2019. As an Enterprise Fund, any losses sustained by the hotel would be passed on to the airlines. SFO representatives have requested a share of the TOT to offset anticipated losses during the early years until the hotel has matured into a viable, profitable business. Based on projections provided by SFO staff, it is believed that total TOT to be paid by the hotel for the first five years would approximate \$16 million with the County sharing up to \$8 million

of TOT revenues with SFO pursuant to the terms of the Agreement. As the Airport is a major economic engine for the County and the region, County staff believe that this arrangement is in the County's best interest in order to minimize the impact of anticipated early losses sustained by the hotel. Notwithstanding the foregoing, the County is in no position to contribute half of its TOT from the hotel if the County experiences a decrease in the County's Measure A half-cent sales tax as a result of the FAA's contention that such proceeds from the sale of jet fuel must be utilized to fund airport operations, capital construction and maintenance. Therefore, pursuant to the proposed Agreement, the County and SFO agree to share the TOT for an amount not to exceed \$8 million, provided that the amount of TOT shared with SFO would be reduced on a dollar for dollar basis if the County is required to utilize Measure A sales tax revenue from jet fuel sales for airport operations, construction, and maintenance. The term for this economic incentive will end when the Airport receives the cumulative amount of \$8 million or on June 30, 2029, whichever occurs first. (The extended term is provided in case the opening of the hotel is delayed or revenues are lower than anticipated.)

This agreement also sets forth a process by which the Airport can reimburse the JPA that is agreeable to all parties, including the FAA. The FAA requires that any reimbursements to outside agencies represent out-of-pocket costs for services that benefit the Airport, including its employees, travelers and visitors. After reviewing several options, the agreed upon approach is to invoice SFO for its share of the overall 9-1-1 call volume multiplied by Public Safety Dispatch's (PSC) net cost. This meets FAA requirements as the 9-1-1 call volume represents a real and measurable service and PSC's net cost represents those expenditures not reimbursed by other agencies, including the Sheriff's Office. Based on actuals for the past three fiscal years, it is estimated that six percent of the overall call volume comes from SFO, which equates to approximately \$160,000 of the annual net cost. The term for the payment of these services is July 1, 2015 through June 30, 2020.

In addition to the terms described above, either party may terminate this agreement in its entirety without cause at the end of any fiscal year upon at least thirty (30) days prior written notice.

On March 15, 2016, the Airport Commission approved the Agreement. It will go to the San Francisco Board of Supervisors following approval by this Board.

Adoption of this resolution contributes to the Shared Vision 2025 outcome of a Collaborative Community by partnering with the San Francisco International Airport on matters that will ultimately benefit the residents and visitors of San Mateo County, as well as the local economy.

County Counsel has reviewed the resolution and agreement as to form.

FISCAL IMPACT:

With the adoption of this Agreement, the County would receive approximately \$160,000 annually for the ESC JPA, with a not-to-exceed amount over the five-year term of \$1 million. A portion of these funds may be transferred to Public Safety Communications to

compensate them for performing the reimbursement calculations. In addition, the County would share approximately \$16 million in TOT with SFO for the first five years the new hotel is in operation. Once the Airport has received \$8 million, through a combination of TOT and jet fuel sales tax, all TOT thereafter will accrue to the County. Airport staff project that TOT for the first ten years of hotel operation will approximate \$38 million.

RESOLUTION NO. 074439

BOARD OF SUPERVISORS, COUNTY OF SAN MATEO, STATE OF CALIFORNIA

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RESOLUTION AUTHORIZING THE PRESIDENT OF THE BOARD TO ENTER INTO AN INTERGOVERNMENTAL AGREEMENT WITH THE AIRPORT COMMISSION OF THE CITY AND COUNTY OF SAN FRANCISCO RELATING TO THE REIMBURSEMENT OF SERVICES AND SHARING OF HOTEL TRANSIENT OCCUPANCY TAX

RESOLVED, by the Board of Supervisors of the County of San Mateo, State of California, that

WHEREAS, the City and County of San Francisco owns and operates the San Francisco International Airport (“Airport”) through the Commission; and

WHEREAS, the County provides certain emergency response services to the Airport and the Commission wishes to pay the County for the cost of these services; and

WHEREAS, the Commission is planning to build and own a Grand Hyatt hotel located on Airport property in an unincorporated area of the County that will be managed and operated by Hyatt Corporation under a Hotel Management Agreement between the Commission and Hyatt; and

WHEREAS, the County levies a Transient Occupancy Tax (“TOT”) on the guests of hotels located in the unincorporated area of the County and is willing to provide an economic development incentive related to the sharing of TOT for a limited term in order to assist the Commission in building a successful hotel at the Airport; and

WHEREAS, the sharing of TOT under the Intergovernmental Agreement will be adjusted on a dollar for dollar basis by the amount of sales tax proceeds from aviation fuel sales that the County is required to transfer to the Airport, if any, pursuant to the Federal Aviation Administration's amended Revenue Use Policy; and

WHEREAS, this Board has been presented with a form of such Intergovernmental Agreement and has examined and approved same as to both form and content, and desires to enter into same;

NOW, THEREFORE, IT IS HEREBY DETERMINED AND ORDERED that the President of this Board of Supervisors be, and is hereby authorized to, execute the Intergovernmental Agreement with the Airport Commission of the City and County of San Francisco for and on behalf of the County of San Mateo, and the Clerk of this Board shall attest the President's signature thereto.

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