



**MEMORANDUM**

April 4, 2023

TO: AIRPORT COMMISSION  
Hon. Eleanor Johns, President  
Hon. Malcolm Yeung, Vice President  
Hon. Everett A. Hewlett, Jr.  
Hon. Jane Natoli  
Hon. Jose F. Almanza

23-0090

APR 4 2023

FROM: Airport Director

SUBJECT: Approval of Amendment No. 3 to the Airport Luggage Cart Lease and Operating Agreement No. 19-0069 with Smarte Carte Inc.

DIRECTOR'S RECOMMENDATION: (1) APPROVE AMENDMENT NO. 3 TO THE AIRPORT LUGGAGE CART LEASE AND OPERATING AGREEMENT NO. 19-0069 WITH SMARTE CARTE INC., MODIFYING THE METHODOLOGY USED FOR ESCALATING THE FLAT SERVICE FEE ASSOCIATED WITH THE PROVISION OF FREE LUGGAGE CART SERVICE IN THE FEDERAL INSPECTION SERVICE AREA, AND (2) DIRECT THE COMMISSION SECRETARY TO REQUEST APPROVAL OF THE AMENDMENT BY THE BOARD OF SUPERVISORS PURSUANT TO SECTION 9.118 OF THE CHARTER OF THE CITY AND COUNTY OF SAN FRANCISCO.

**Executive Summary**

Smarte Carte Inc. (Smarte Carte or Tenant) currently operates the luggage cart service at San Francisco International Airport (Airport) under the Airport Luggage Cart Lease and Operating Agreement No. 19-0069 (Lease). Historically, carts are rented in the Domestic Terminals, garages, and Rental Car Center and Tenant pays rent to the Airport for such operations. Additionally, Tenant provides luggage carts for free in the Federal Inspection Service (FIS) area, and Airport pays Tenant an Annual Service Fee, consisting of the lesser of a Per Cart Fee or a Flat Service Fee.

The Lease was competitively procured and entered into before the pandemic. It specified that the Flat Service Fee would escalate in 2023, 2024, and 2025 based on the average annual rate of change in projected international enplanement activity for Fiscal Years 2022 and 2023. In the post-pandemic recovery environment, that average rate of change is 95.2%. The rate was originally contemplated to be in the single digits, but for the pandemic, such an escalation is not reasonable and would result in the Flat Service Fee being so large as to be meaningless. Staff is recommending that a different escalation methodology be applied to the Flat Service Fee.

THIS PRINT COVERS CALENDAR ITEM NO. 11

AIRPORT COMMISSION CITY AND COUNTY OF SAN FRANCISCO

LONDON N. BREED  
MAYOR

ELEANOR JOHNS  
PRESIDENT

MALCOLM YEUNG  
VICE PRESIDENT

EVERETT A. HEWLETT, JR.

JANE NATOLI

JOSE F. ALMANZA

IVAR C. SATERO  
AIRPORT DIRECTOR

**Background**

On April 2, 2019, by Resolution No. 19-0069, the Commission awarded the Lease to Tenant with an initial term of three years with one 3-year option to extend the term exercisable at the Commission's discretion. The base term commenced on January 1, 2020. Tenant provides luggage carts for rent in the Domestic Terminals, garages, and Rental Car Center, for which it pays the Airport the greater of a Minimum Annual Guarantee of \$1,084,831.78 or 19% of Gross Receipts. Historically, Tenant provides luggage carts for free in the FIS area, for which Airport pays Tenant the lesser of a Per Cart Fee or a Flat Service Fee. The Per Cart Fee is \$1.47, and the Flat Service Fee was \$3,281,880.00 before it was suspended as further described below.

On October 6, 2020, by Resolution No. 20-0180, the Commission approved Amendment No. 1 to the Lease (Amendment No. 1) as part of the COVID-19 Emergency Rent Relief Program which provided for rent relief to address the severe economic impact of the COVID-19 pandemic. On January 5, 2021, by Ordinance No. 5-21, the San Francisco Board of Supervisors authorized the Airport to implement the COVID-19 Emergency Rent Relief Program and execute Amendment No. 1.

On March 16, 2021, by Resolution No. 21-0089, the Commission approved Amendment No. 2 to the Lease (Amendment No. 2) which: (i) authorized the conversion of luggage cart service in the FIS area from a free service to a paid service for which percentage rent would be assessed, and suspended the payment of the Annual Service Fee to Tenant; (ii) provided the Airport Director with the authority to, in the future if operating conditions warranted, reinstate the carts as a free service in the FIS area and resume payment of the Annual Service Fee to Tenant, and (iii) exercised the three (3) year option to extend the term of the Lease for an expiration date of December 31, 2025.

On January 3, 2023, the Airport notified Tenant that it should reinstate the free luggage cart service in the FIS as soon as practical. The transition requires the purchase of additional carts and adding staff. Tenant advises the resumption of the free luggage cart service will commence in May or June 2023. With the reinstatement of the free luggage cart program comes the reinstatement of Airport paying Tenant an Annual Service Fee for that portion of its operation.

The Lease is in the first year of the Option Term, and the Flat Service Fee is set to adjust annually based upon the average annual rate of change of projected international enplanement activity for Fiscal Years 2022 and 2023. That rate of change, as originally contemplated would have been in the single digits or very low double digits but in the pandemic recovery era is 313%. Such an escalation is not reasonable and would result in the Flat Service Fee being so large as to be meaningless.

**Proposal**

Staff recommends amending the Lease to provide that the Flat Service Fee is adjusted for each year of the Option Term and any subsequent year based upon the Consumer Price Index – All

Urban Consumers – Not Seasonally Adjusted – San Francisco/Oakland/San Jose, CA. This index is used to adjust both the Minimum Annual Guarantee and the Per Cart Fee.

For Calendar Year 2023, using the Consumer Price Index would result in the Flat Service Fee changing from \$3,281,880.00 to \$3,651,577.00, as opposed to \$13,554,164.00 under the existing Lease language. The Airport will pay Smarte Carte the lesser of the Flat Service Fee or the Per Cart Fee. It is likely in 2023 that the Per Cart Fee will be the lesser fee, at about \$2,500,000.00.

**Recommendation**

I recommend the Commission adopt the accompanying Resolution (i) approving Amendment No. 3 to the Airport Luggage Cart Lease and Operating Agreement No. 19-0069 with Smarte Carte Inc., which modifies the methodology for adjusting the Flat Service Fee for the provision of free luggage carts in the FIS area, and (ii) directing the Commission Secretary to request approval of the Amendment by the Board of Supervisors pursuant to Section 9.118 of the Charter of the City and County of San Francisco.



Sivar C. Satero  
Airport Director

Prepared by: Kevin Bumen  
Chief Financial and Commercial Officer

Attachment