

Item 4
File 11-0020

Department:
San Francisco International Airport (Airport)

EXECUTIVE SUMMARY

Legislative Objective

- The proposed resolution would approve the fifth and final one-year option to extend the existing lease and operating agreement between the San Francisco International Airport (Airport) and Smarte Carte for one year, from April 1, 2011 through March 31, 2012.

Key Points

- On April 22, 2002, the Board of Supervisors approved the existing lease and operating agreement for a not-to-exceed 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 through March 31, 2012 (File 01-2281). The Board of Supervisors has previously approved four one-year options to extend the existing lease and operating agreement until March 31, 2011 (Files 06-1664, 08-0052, 08-1619, and 10-0185).
- 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 Impacts

- 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 the Airport estimates at \$570,615 under the proposed fifth one-year option. The estimated Smarte Carte gross revenues for the proposed fifth one-year option are \$2,515,381. Given that 25 percent of \$2,515,381 is \$628,845, which is greater than the estimated MAG of \$570,615, the estimated rent payable by Smarte Carte to the Airport for the proposed fifth one-year option is \$628,845.
- Under the existing lease and operating agreement, the Airport pays Smarte Carte either the lesser of (a) the annual Customs Program fixed service fee, which is \$2,875,000 under the proposed fifth one-year option, or (b) \$1.20 per luggage cart used for the Customs Program. The Airport estimates that approximately 1,738,906 luggage carts would be used, resulting in Airport costs of \$2,086,687 (1,738,906 carts multiplied by \$1.20 per cart). Since \$2,086,687 is less than the annual Customs Program fixed service fee of \$2,875,000, the estimated payment by the Airport to Smarte Carte for the proposed fifth one-year option is \$2,086,687.
- Therefore, under the proposed fifth one-year option, the Airport would pay Smarte Carte an estimated net amount of \$1,457,842 (\$2,086,687 less \$628,845).
- The Airport advises that the January 2011 CPI data, which is used to adjust the MAG, has not been published as of the writing of this report. Therefore, the Airport used the MAG for the proposed fifth one-year option of \$570,615, which is the MAG for Option Year 4.

Recommendations

- Request the Airport to advise the Board of Supervisors in writing as to the final amount of the Minimum Annual Guarantee (MAG) payable by Smarte Carte to the Airport under the proposed fifth one-year option.
- Approve the proposed resolution.

MANDATE STATEMENT / BACKGROUND**Mandate Statement**

In accordance with the proposed resolution (File 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 between the Airport and Smarte Carte, Inc. are subject to approval by the Board of Supervisors.

Background

After a competitive Request for Proposal (RFP) process in the fall of 2001, the San Francisco International Airport (Airport) awarded the existing lease and operating agreement to Smarte Carte, which received the highest evaluation score of the three proposals received¹, for Smarte Carte to provide luggage cart service at the Airport. On April 22, 2002, the Board of Supervisors approved the existing lease and operating agreement (File 01-2281) between the Airport and Smarte Carte, with 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, and included five one-year options to extend until March 31, 2012. The Board of Supervisors has previously approved four one-year options to extend this agreement through March 31, 2011 (Files 06-1664, 08-0052, 08-1619, and 10-0185).

Under the existing lease and operating agreement, Smarte Carte (1) operates the Self-Service Luggage Cart Rental Program² 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 Program³ in the International Terminal, (b) Rental Car Facility Program⁴, and (c) AirTrain Failure Contingency Program⁵. 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

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 Under the Self-Service Luggage Cart Rental Program, Smarte Carte is required to provide at least 3,000 luggage carts to Airport passengers for rent at \$4.00 per cart at the Domestic and International Terminals.

³ Under the Customs Program, Smarte Carte is required to provide at least 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 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.

⁴ Under the Rental Car Facility Program, Smarte Carte is required to provide at least 500 luggage carts, free of charge, at the Airport's Rental Car Facility.

⁵ Under the AirTrain Failure Contingency Program, Smarte Carte is required to provide at least 500 additional luggage carts, free of charge, at the Airport's 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.

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)⁶, to operate the Self-Service Luggage Cart Program. The MAG, as shown in Table 1 below, is subject to an annual Consumer Price Index (CPI)⁷ adjustment every April 1. If the CPI decreases, the MAG will not decrease to a value less than the previous year's MAG under the provisions of the existing lease and operating agreement. Under this program, airport passengers rent luggage carts, paying \$4.00 per cart, with all such revenues accruing to Smarte Carte.

Under the existing lease and operating agreement, the MAG increased each year, beginning in Lease Year 5, as shown in Table 1 below, in accordance with annual CPI adjustments. However, according to Ms. Gigi Ricasa, Senior Principal Property Manager at the Airport, the MAG in Option Year 4 was unchanged from Option Year 3, due to a decrease in the CPI in 2010.

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
4/1/2010 – 3/31/2011	Option Year 4	No Change	\$570,615

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.

⁶ Under the existing lease and operating agreement, Smarte Carte originally intended to develop and implement an advertising program, at the direction of the Airport Director. Smarte Carte's annual rent payable to the Airport would have been (1) the greater of: (a) the Minimum Annual Guarantee or (b) 25 percent of gross revenues, plus (2) 40 percent of all revenues generated by Smarte Carte's advertising program. However, Ms. Gigi Ricasa, Senior Principal Property Manager at the Airport, states that Smarte Carte never developed an advertising program and as such, no revenues have ever been generated from the advertising program.

⁷ The Consumer Price Index (CPI) represents changes in the 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.

The Airport does not pay Smarte Carte for providing luggage carts, free of charge, under the Rental Car Facility Program and 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	\$2,774,000
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

Approved One-Year Options to Extend: As shown in Table 3 below, the Board of Supervisors previously approved four resolutions authorizing four of the five one-year options to extend the existing lease and operating agreement from April 1, 2007 through March 31, 2011. The fifth one-year option is the subject of the proposed resolution.

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

Date Approved	Resolution	Period	Option Year
3/9/2007	File 06-1664	4/1/2007 - 3/31/2008	Option Year 1
2/7/2008	File 08-0052	4/1/2008 - 3/31/2009	Option Year 2
2/13/2009	File 08-1619	4/1/2009 - 3/31/2010	Option Year 3
4/6/2010	File 10-0185	4/1/2010 - 3/31/2011	Option Year 4

Because the subject resolution is the fifth and final option to extend the existing lease and operating agreement through March 31, 2012, Ms. Ricasa states that the Airport intends to issue a Request for Proposal (RFP) in April 2011 for luggage cart services at the Airport and anticipates awarding a new lease and operating agreement in December 2011, to commence on April 1, 2012.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would approve the fifth and final one-year option to extend the existing lease and operating agreement between the Airport and Smarte Carte for one year, from April 1, 2011 through March 31, 2012.

Under the existing lease and operating agreement, the proposed Customs Program fixed service fee amount for the fifth one-year option would increase by \$25,000, or 0.9 percent, from the fourth option year amount of \$2,850,000 to \$2,875,000.

Under the existing lease and operating agreement, the MAG, payable by Smarte Carte to the Airport under the Self-Service Luggage Cart Rental Program, is subject to an annual CPI adjustment according to the January CPI of the current year and adjusted on April 1. However,

Ms. Ricasa advises that because the January 2011 CPI has not been published as of the writing of this report, the proposed resolution uses the Option Year 4 MAG of \$570,615 for the estimated Option Year 5 MAG. If the recalculated Option Year 5 MAG, which will be recalculated after the January 2011 CPI is published, is less than the current Option Year 4 MAG of \$570,615, the MAG amount will remain at \$570,615 for Option Year 5. However, if the recalculated MAG is more than the current Option Year 4 MAG of \$570,615, the MAG amount for Option Year 5 will increase according to the January 2011 CPI, which Ms. Ricasa advises will be published on February 17, 2011.

FISCAL IMPACT

Past Expenditures of the Existing Lease and Operating Agreement

As discussed above, under the existing lease and operating agreement, based on a \$4.00 rental charge under the Self-Service Luggage Cart Rental Program, 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. 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 3, since that amount was greater than the MAG. The Airport anticipates that Smarte Carte will continue to pay the Airport 25 percent of annual Smarte Carte gross revenues in Option Years 4 and 5.

Table 4: Smarte Carte Payments to the Airport
Based on a \$4.00 Rental Charge Under the Self-Service Luggage Cart Rental Program

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 1	April 1, 2002	March 31, 2003	\$450,000	\$2,709,826	\$677,457	\$677,457
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	\$2,298,387	\$574,597	\$574,597
Option Year 4**	April 1, 2010	March 31, 2011	\$570,615	\$2,466,060	\$616,515	\$616,515
Option Year 5**	April 1, 2011	March 31, 2012	\$570,615	\$2,515,381	\$628,845	\$628,845

* According to Ms. Ricasa, Lease Years and Option Years are from April 1 - March 31, but totals for payments, revenues, carts used, and MAG amounts are based on Fiscal Years, from July 1 - June 30.

** Estimated by the Airport

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, where Airport passengers are

provided luggage carts free of charge. Table 5 below shows the total payments that the Airport was required to pay Smarte Carte. As reflected in Table 5, in 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 for
Luggage Carts Provided Free of Charge in the International Terminal**

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 1	April 1, 2002	March 31, 2003	\$2,223,000	1,627,125	\$1,952,550
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	1,561,636	\$1,873,640
Option Year 4**	April 1, 2010	March 31, 2011	\$2,850,000	1,704,810	\$2,045,772
Option Year 5**	April 1, 2011	March 31, 2012	\$2,875,000	1,738,906	\$2,086,687

* According to Ms. Ricasa, Lease Years and Option Years are from April 1 - March 31, but totals for payments, revenues, carts used, and MAG amounts are based on Fiscal Years, from July 1 - June 30.

** Estimated by the Airport

Because Ms. Ricasa anticipates an increase in international passenger traffic, the Airport estimates that approximately 1,738,906 luggage carts would be used in the proposed fifth one-year option, an increase of 34,096 luggage carts, or two percent more than the 1,704,810 luggage carts projected to be used in the current Option Year 4.

Table 6 below shows the annual net Airport payments made to Smarte Carte, from Lease Year 1 (April 1, 2002 through March 31, 2003) through Option Year 5 (April 1, 2011 through March 31, 2012). Option Years 4 and 5 have been estimated.

Table 6: Annual Net Airport Payments to Smarte Carte

Lease/ Option Year*	Lease/ Option Year Dates		Total Smarte Carte Payments to Airport	Total Airport Payments to Smarte Carte for the provision of Luggage Carts free of charge	NET Airport Payments to Smarte Carte
	Start	End	(a)	(b)	(b) less (a)
Lease Year 1	April 1, 2002	March 31, 2003	\$677,457	\$1,952,550	\$1,275,093
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	574,597	1,873,640	1,299,043
Option Year 4**	April 1, 2010	March 31, 2011	616,515	2,045,772	1,429,257
Option Year 5**	April 1, 2011	March 31, 2012	628,845	2,086,687	1,457,842
TOTALS			\$6,489,626	\$19,658,397	\$13,168,771

* According to Ms. Ricasa, Lease Years and Option Years are from April 1 - March 31, but totals for payments, revenues, carts used, and MAG amounts are based on Fiscal Years, from July 1 - June 30.

** Estimated by the Airport

Estimated Fiscal Impact of the Proposed Fifth One-Year Option

Smarte Carte's Annual Rent Payable to the Airport: As discussed above, because the MAG is adjusted according to the January 2011 CPI, which will not be published until February 17, 2011, the proposed resolution uses the Option Year 4 MAG of \$570,615 (see Table 1 above) for the estimated Option Year 5 MAG. Ms. Ricasa anticipates that Smarte Carte will realize an estimated \$2,515,381 in annual Self-Service Luggage Cart Rental Program gross revenues in the proposed fifth one-year option, which is \$49,321, or two percent, more than the projected \$2,466,060 (see Table 4 above) Smarte Carte gross revenues in Option Year 4. Twenty-five percent of the estimated \$2,515,381 of gross revenues is \$628,845, which is \$12,330 greater than the projected amount of \$616,515 (see Table 4 above) in Option Year 4. Since under the Self-Service Luggage Cart Rental Program Smarte Carte must pay the Airport the annual rent of either the greater of (a) 25 percent of annual gross revenues or (b) the MAG, which is estimated at \$570,615 for the fifth one-year option, to operate the Self-Service Luggage Cart Rental Program, the estimated rent, based on a \$4.00 rental charge under the Self-Service Luggage Cart Rental Program, for the proposed fifth one-year option payable by Smarte Carte to the Airport would be the percentage rent of \$628,845.

Airport's Annual Payment to Smarte Carte: Based on the Airport's estimate of 1,738,906 luggage carts used in the proposed fifth one-year option, the Airport would pay Smarte Carte \$2,086,687 (1,738,906 carts multiplied by \$1.20 per cart) for the free luggage carts used by passengers in the Customs Program Area of the Airport's International Terminal. Since the Airport must pay Smarte Carte either the lesser of (a) \$2,875,000 or (b) \$1.20 per actual luggage

cart used, the estimated amount to be paid by the Airport to Smarte Carte for the proposed fifth one-year option is \$2,086,687 (see Table 5 above).

Therefore, as shown in Table 6 above, under the proposed fifth one-year option, the Airport would pay Smarte Carte, under the Customs Program to provide luggage carts free of charge in the International Terminal, an estimated net amount of \$1,457,842 (\$2,086,687 (see Table 5 above) required payment by Airport to Smarte Carte less the \$628,845 (see Table 4 above) required payment by Smarte Carte to the Airport).

As shown in Table 6 above, the estimated net payment of \$1,457,842 from the Airport to Smarte Carte under the proposed Option Year 5 is \$28,585 (\$1,457,842 in Option Year 5 less \$1,429,257 for Option Year 4), or two percent, more than the estimated net payment of \$1,429,257 to be made by the Airport to Smarte Carte under Option Year 4.

RECOMMENDATIONS

1. Request the Airport to advise the Board of Supervisors in writing as to the final amount of the Minimum Annual Guarantee (MAG) payable by Smarte Carte to the Airport under the proposed fifth one-year option.
2. Approve the proposed resolution.