



Memorandum

TO: HONORABLE MAYOR AND
CITY COUNCIL

FROM: William F. Sherry, A.A.E.

SUBJECT: On Airport Rental Car Agreements

DATE: December 4, 2006

Approved

Date

12-12-06

COUNCIL DISTRICT: Citywide

RECOMMENDATION

- a) Approval of Sixth Amendments to the On-Airport Rental Car Operations Agreement and Leases with Enterprise Rent-A-Car Company Of San Francisco, Fox Rent A Car, Inc., and Thrifty Rent-A-Car System, Inc., changing the definition of Gross Revenues, reallocating space, providing rent credits for required refurbishments, requiring reporting of Disadvantage Business Enterprise participation, and extending the term of the agreements from January 31, 2007 to June 30, 2010.
- b) Approval of Sixth Amendments to the Amended and Restated On-Airport Rental Car Operations Agreement and Leases with Avis Rent A Car System, Inc., Vanguard Car Rental, USA, Inc. dba Alamo/National, Budget Rent-A-Car Systems, Inc., DTG Operations, Inc d/b/a Dollar Rent A Car, and The Hertz Corporation, changing the definition of Gross Revenues, reallocating space, providing rent credits for required refurbishments, requiring reporting of Disadvantage Business Enterprise participation, and extending the term of the Agreements from January 31, 2007 to June 30, 2010.
- c) Approval of Third Amendments to the Rental Car Storage Ground Leases with Enterprise Rent-A-Car Company Of San Francisco, Fox Rent A Car, Inc., and Thrifty Rent-A-Car System, Inc., extending the term of the Agreements from January 31, 2007 to June 30, 2010.
- d) Approval of Ninth Amendments to the Rental Car Service Center Ground Leases with Avis Rent A Car System, Inc., Vanguard Car Rental, USA, Inc. dba Alamo/National, Budget Rent-A-Car Systems, Inc., DTG Operations, Inc d/b/a Dollar Rent A Car, and The Hertz Corporation, extending the term of the Agreements on the same terms and conditions from January 31, 2007 to June 30, 2010.

CEQA: Resolution Nos. 67380 and 71451, PP 06-192.

OUTCOME

Should Council approve the Agreement extensions, the rental car companies will continue to occupy their current space until beneficial occupancy of the new Consolidated Rental Car Facility (ConRAC) or June 30, 2010 whichever occurs first and the City will generate an additional net revenue in the first year of \$1.1 million due to a new definition of Gross Revenues and one time rent credit to the industry in return for refurbishment of the rental car facilities at the Airport.

BACKGROUND

Nine rental car companies operate on-Airport rental car concessions at the Airport at an interim rental car facility that opened on May 7, 2000, pursuant to operations agreements and leases that extend through January 31, 2007.

The Airport Master Plan originally called for a consolidated rental car facility consisting of a 10,000-stall parking garage (2,000 spaces for customer ready/return and 8,000 spaces for vehicle storage) and adjacent vehicle servicing, initially located at the existing interim rental car ready/return parking lot. The Airport Master Plan was subsequently amended to locate the consolidated rental car facility south of the existing Terminal C public parking lot across from the proposed Central Terminal and its South Concourse. In November 2004, City Council approved an amendment to the Master Plan to lease a 52-acre site on the west side of Coleman Avenue (former FMC property) for interim Airport rental car, employee parking and construction staging uses. The City had planned to relocate all the existing on-Airport rental car operations to the Coleman Avenue site until completion of the Master Plan rental car facility project. On November 15, 2005 Council accepted a revised Terminal Area Improvement Plan (TAIP) that recommended a much smaller garage for rental car facilities immediately across from a new Terminal B and potentially co-located with a public short-term parking garage. This facility would accommodate projected ready/return parking and vehicle servicing functions, but only limited vehicle storage. The approved TAIP contemplates the completion of the RAC garage in 2010. As a result, the previously proposed interim move to the FMC site is no longer financially feasible. Overflow storage, most of which is currently located off-Airport in private lots, could be provided at the former FMC property. These revisions were formally incorporated into the Airport Master Plan as part of the amendment approved by Council on June 13, 2006.

ANALYSIS

An amendment to the existing rental car agreements will be necessary in order to extend the agreements that expire January 31, 2007 to June 30, 2010 or beneficial occupancy of the new ConRAC, whichever occurs first. Airport Staff has negotiated with the companies to extend the agreements and to revise the following terms:

1. Revised definition of Gross Revenues to be all-inclusive, removing the exclusion for fuel and insurance. This is consistent with the City Auditor's recommendation in June 2004, simplifying the audit process and increasing revenue to the City by approximately \$1.6 million annually.

2. Revision of language to be consistent with recent changes to state law regarding amounts that may be charged to rental car customer. Newly revised state law allows rental car companies to pass through airport concession and tourism promotion fees to consumers who rent from tourist locations. In turn the rental car industry will provide funding to the California Travel and Tourism Commission. Prior to these revisions to state law, the industry was not able to separately state and collect from customers the concessions fee that the Airport charges the rental car companies. The concession fee is the 10% fee assessed on gross revenues derived from operations at the Airport. The proposed amendments allow the rental car companies to pass the concession fee on to their customers.
3. Reallocation of vacant space in one of the customer service buildings.
4. Provide for rent credits to the companies, in total not to exceed \$553,000, to reimburse them for costs associated with the refurbishment of the facilities in order to provide a better level of customer service for the extended life of the agreement. Refurbishments will include replacing restrooms, carpet and upgrades of the sewer system. Because Airport funds in the form of rent credits will be used to pay up to \$553,000 for the improvements, the improvements are a public works project under the City Charter. The rental car companies will therefore follow the City's public bidding process and award the construction work to the lowest responsible bidder. The contractor will also be required to pay prevailing wages pursuant to State law provisions applicable to public works projects.
5. Require the Rental Car Companies to report Disadvantaged Business Enterprise (DBE) participation pursuant to the City's new Airport Concession DBE policy and delete the provisions that determined selection order for ready return stalls based upon the efforts of the rental car companies to increase participation by DBE's and Small Business Concerns (SBC's) which is consistent with the new policy. Selection order for ready return stalls will be based upon market share, and the rental car companies will report DBE participation as required pursuant to the City's new Airport Concession DBE policy. Currently, the City's goals for DBE participation in Airport rental car operations has been submitted and approved by the FAA as undetermined, pending additional direction from the FAA on this segment of the ACDBE plan.

The rental car companies currently occupy sites at the north end of the Airport under either a Rental Car Storage Ground Lease or Rental Car Service Center Ground Lease. These sites may need to be contracted, relocated or removed depending on phasing of the TAIP projects. As such Staff recommends the Council allow the Director the authority to contract, relocate or remove space from these leases much like what is already provided for in the Concession Agreements.

Staff is currently in the process of terminating the agreements with KRH Enterprises, Inc. dba Payless Rent A Car ("Payless") for failure to pay rent. Therefore, staff does not recommend any further extension of the Concession Agreement and Ground Lease with Payless. The space currently allocated to Payless will be re-allocated to the remaining eight rental car companies pursuant to the terms of the agreements.

Other than the changes noted above, all other major terms and conditions contained in the existing RAC agreements remain in place. The current agreements require living wage. Office of Equality Assurance staff will continue working with the companies to maintain compliance.

POLICY ALTERNATIVES

Alternative #1: The City could release a request for proposals for on-airport rental car operations to bridge the gap between the current facilities expiring and the new facility coming online.

Pros: This approach could allow opportunities for more companies to bid on the operation.

Cons: In 2000 the Airport offered the RAC operations to all RAC's who wanted to operate at the Airport under specific terms and conditions. The number of companies increased from five to ten and is now serviced by most of the companies who operate at airports. In addition, this approach would be time consuming for the City and the outcome would likely produce what already has been negotiated with the companies in this amendment.

Reason for not recommending: Opportunities to operate at the Airport in the new ConRAC will be made available to all companies that are interested in participating at that time.

PUBLIC OUTREACH/INTEREST



Criteria 1: Requires Council action on the use of public funds equal to \$1 million or greater.
(Required: Website Posting)



Criteria 2: Adoption of a new or revised policy that may have implications for public health, safety, quality of life, or financial/economic vitality of the City.
(Required: E-mail and Website Posting)



Criteria 3: Consideration of proposed changes to service delivery, programs, staffing that may have impacts to community services and have been identified by staff, Council or a Community group that requires special outreach. **(Required: E-mail, Website Posting, Community Meetings, Notice in appropriate newspapers)**

This memo is posted on the City's website for the January 9, 2006 Council Agenda.

COORDINATION

This amendment has been coordinated with the City Attorney's Office, the Budget Office and the Office of Equality Assurance.

BUDGET REFERENCE

Not applicable

COST IMPLICATIONS

Not applicable

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CEQA

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Director of Aviation

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