
Ad Hoc Committee on Airport Competitiveness
Meeting Report
June 16, 2011

PRESENT: Mayor Reed, Councilmembers Liccardo, Pyle and Herrera

ABSENT: NA

STAFF: City Manager Debra Figone, City Attorney Rick Doyle, Airport Director Bill Sherry, Director of Economic Development Kim Welsh, Sr. Deputy Attorney Kevin Fisher, Airport Director of Governmental Relations Jim Webb, Economic Development Policy Advisor Ru Weerakoon and Deputy City Clerk Tamara Davis.

A. Application of Prevailing Wage Policy at the Airport

Documents Filed: Memorandum from Director of Aviation William Sherry to Mayor Reed and Council dated June 15, 2011 regarding Application of Prevailing Wage to Airport Parking Operations and Management RFP.

Director Bill Sherry discussed the Airport parking RFP, which was issued on May 9, 2011. The current contract is with Ampco and expires on October 31, 2011. The current RFP contains only the Airport Living Wage Ordinance as the minimum compensation per discussion and action of the Council's December 7, 2010 meeting. Based on subsequent inquiries, the Airport is placing the parking RFP on hold to get clarification from Council regarding their intent about living wage vs. prevailing wage. The Airport will proceed with RFP once they get clarity and are hoping to bring the issue back before Council in early August

The Mayor suggested that Airport staff frame their presentation in context of how costs relate to the CPE problem and how this minimizes the problem.

Councilmember Liccardo questioned if the contractor will understand the City's budget position when they sign the contract.

Councilmember Pyle questioned how prevailing wage for the parking contract impacts the CPE. Director Sherry said it would raise the CPE.

Public Comments: Doug Bloch, Teamster 7, stated that he understands the need for a level playing field however members are working to take a 10% pay reduction, which will make their annual salary \$35-\$40K, making it hard to survive in this area.

Chuck Andrew urged the Committee to consider that parking workers have had their wages frozen for last two yrs and a 10% reduction is problematic. He further stated that not including a prevailing wage in the RFP could result in a 30% cut.

Action: The Committee did not take any action.

B. Police Outsourcing/Fire Outsourcing

Documents Filed:

Director Sherry updated the committee of the status of the Police & Fire Outsourcing for Public Safety services at the Airport. They are currently proceeding with SAFER grant for Fire. Staff is still pursuing options for Police services and is looking at all options including hybrid options. Airport staff still has seven months to review alternatives and bring recommendations to Council.

Action: The Committee did not take any action.

C. Closure of Terminal A+

Documents Filed: Memorandum from William Sherry, Director of Aviation to Mayor Reed and Council dated May 31, 2011 regarding Authorization to Negotiate and Execute First Amendments to the Host International, INC., Food & Beverage and Retail Concession Agreement.

The Airport has experienced nine months of consecutive growth, although it is anemic at 2%. Currently, the airport is oversized for the current traffic volume. Airport administration is considering options to help concessionaires with revenue losses. One option is to close off the Terminal A+ north appendage. Once traffic increases the terminal can easily be reopened. This will allow the Airport to provide better customer service and increase foot traffic in Terminal A. Concessionaires are 100% in agreement on the concept. The Airport will close gates 1-6.

This item will be on the June 21, 2011 Council agenda under consent calendar. Concessionaires will be relieved of the minimum annual guarantee until business picks back up. If the section stays closed for more than 4 years the Airport will buy out the concessions, which will cost \$300-400K.

Action: The Committee did not take any action.

D. West Side Development Strategy

Documents Filed: Issue Document: West Side Development Principles

Airport administration is consider three option for the West Side Development Strategy

The three options:

1. Do nothing - keep the lay out the same.

2. Increase the development area size by using runway 11/29 as a parallel taxiway.
3. Eliminate runway 11/29, which would create an even larger development area.

The Airport Commission is concerned that the closure of runway 11/29 could pose a safety issue. Airport staff will complete studies and bring forward development plans to Council in the fall to review the Airport master plan.

Councilmember Liccardo questioned if the FAA has a say in the changes of the master plan. Director Sherry indicated that the FAA looks at a 30 year frame to review whether the property can be used for aeronautical purposes. Option 3 poses the best opportunities for no aeronautical use.

Councilmember Pyle questioned if the Airport is encouraging general aviation. Director Sherry indicated that the Airport does encourage general aviation but is at a disadvantage because of the state property tax policy about aircraft.

Action: The Committee did not take any action.

E. Implementation of SB 1192 for Daily CFC Rental Car Rate

Documents Filed:

Jim Webb outlined a SB 1192, a new state law that went into effect on January 1, 2011. The Daily CFC Rental Car fee allows airports to collect money to assist in paying for the cost of building rental car facilities. Previously, the Customer Facility Charge (CFC) was a maximum of \$10 per contract regardless of the length of contract. The change in the CFC will allow a \$6 per-day fee for up to five days. There are three phases for implementation of the new fees. Phase one includes an independent outside audit, which finished in early June. Phase two is a review of the independent by the State Controller's Office which begins at the end of June. The State Auditor will review the first audit and generate a report regarding the new per day fee. Phase three is bringing the request for a per day fee to the Council for approval. The State should finish its review in early- to mid-August. Airport administration anticipates bringing to Council in early September.

Action: The Committee did not take any action.

F. Airport Bond Issue

The airport expansion was financed through various funds: General Airport Revenue Bonds, Commercial Paper Notes, federal grants and airport funds. Currently, the Airport is looking to convert commercial paper notes to fixed rates.

In May, the Airport presented to rating agencies and confirmed the City can keep the CPE below \$12 through 2017. There is \$96 million in the bank of which \$90 million will need to be used. If growth doesn't materialize, costs come in higher, or if any other revenue erodes it could cause the CPE to rise. The rise in the CPE will increase the interest rate of the fixed rate. Commercial paper notes are extremely labor intensive and the current market interest rates are attractive enough to make the conversion.

Action: The Committee did not take any action.

G. Airport Marketing Communications Consultant Contracts

Dave Vossbrink updated the Committee on the status of the Airport's Marketing RFP. They have identified two firms. The item will be on the June 21, 2011 Council agenda.

The Mayor expressed his concern about the contract amount, since it is spending \$1 million over 4 years. He questioned the goal of the marketing contract.

The Airport's goal is more flights equal more passengers, which increases revenue. Airport staff is actively marketing to 13 airlines and is wooing another half dozen. Staff is trying to take advantage of new technology versus traditional marketing efforts. Additionally, staff will develop a plan to guide the marketing agency so they understand the City's needs and vision. Furthermore, staff is talking to other city leaders and surveying their demographics to get an idea of how they play into the success of SJC.

The City Manager requested that the workplan be brought back to the Committee for review and that periodic updates be provided to the Committee. Dave Vossbrink mentioned that he will provide an update at the Committee's August meeting.

Public Comments: Doug Rice commented that San Jose is in a foot race with a lot of other cities and they are competing for access to the planes. He questioned what the incentive and investment would be to use SJC. He suggested partnering with airlines to get the service SJC needs.

Action: The Committee did not take any action.

H. Business Engagement Strategy

Kim Walesh reported that OED is building stronger partnerships with the business community. Joe Hedges has been outreaching to other Chambers of Commerce to get them to target business in their area to demonstrate the need of increased air service at SJC. The Silicon Valley Leadership Group is looking to put together a survey for Japan and China flights that can be disseminated to businesses to access the need for the international routes. Additionally, staff is looking to work with Consulate Generals of countries that are based in San Francisco to utilize them to advocate for SJC airport support. Furthermore, staff is working with businesses that have contracts with United and American to leverage their influence for increased flights into SJC. Staff intends to show airline carriers the need and support for more flights into and out of SJC.

Action: The Committee did not take any action

I. Air Service Update

Tokyo anticipates taking ownership of the new Boeing 787 in August/September. The new aircraft will be available for training. They do not have winter flights scheduled.

However, they hope to have them in the summer 2012. Airport Administration believes a second trip is necessary to Tokyo to highlight the customers and businesses that guarantee the flights to and from SJC. By coming to SJC, ANA can partner with Japan and United Airline passengers. Staff is in discussions with three Asian air carriers. In July staff will be meeting with Jet Blue about service at SJC. Additionally, in an upcoming meeting in Berlin, staff will be meeting with 10 airlines: four Asian carriers, five European carriers and one US carrier.

Follow-up Question(s)

How many more passengers need to use the Airport to reduce the CPE by \$1? (Liccardo)

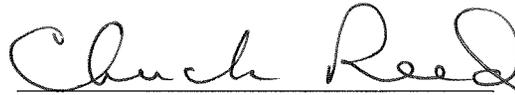
Director Sherry indicated that SJC would need another 400,000 enplaning passengers or 800,000 enplaning and deplaning passengers, which represents a 10% increase in flights.

Next Meeting Date & Time

Thursday, August 18, at 1:30 p.m. City Manager's Conference Room (CH – Tower 1734)

J. Adjournment

The meeting was adjourned at 3:07 p.m.



Mayor Chuck Reed

Ad Hoc Committee on Airport Competitiveness