Sent to Council:

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OCT 25 2011

City Manager's Office

CITY OF SAN JOSE
CAPITAL OF SILICON VALLEY

Memorandum

TO: HONORABLE MAYOR AND CITY COUNCIL

FROM: Leanna Bieganski

SUBJECT: Early Council Packet

DATE: October 25, 2011

Approved

Date 10/25/11

EARLY DISTRIBUTION COUNCIL PACKET FOR NOVEMBER 8, 2011

Please find attached the Early Distribution Council Packet for the November 8, 2011 Council Meeting.

3.x Report on Request for Proposal for Citywide Janitorial Services.

Recommendation: Report on Request for Proposal for Citywide Janitorial Services and adoption of a resolution authorizing the City Manager to:

(a) Execute five separate agreements with GCA Services Group Inc. (Alviso, CA) for Janitorial Services, with an initial three year term ending October 31, 2014 for each agreement, and a cumulative total amount not to exceed $19,118,608. Year two and three of the contract are subject to the appropriation of funds.

Department	Year One Cost	Max. Compensation (three years)
Public Works (Citywide Facilities)	$2,951,232	$8,853,696
Airport	2,576,126	7,728,377
Parks, Recreation & Neighborhood Services	462,597	1,387,790
Environmental Services	369,718	1,109,154
Office of Cultural Affairs	13,197	39,591
Total	**$6,372,870**	**$19,118,608**

(b) Execute amendments as required to add or delete facilities, or change service levels due to seasonal changes or budget constraints, subject to the appropriation of funds.

(c) Execute five one-year options to renew each of the agreements subject to the appropriation of funds.

CEQA: Not a Project, File No. PP10-066(e), Services that involve no physical changes to the environment.

6.x Implementation of Per Day Rental Car Customer Facility Charge at the Airport.

Recommendation: Adopt a resolution:

(a) Imposing a customer facilities fee and customer transportation fee (collectively, "CFC") of $6.00 per day, up to a maximum of five days per rental car contract effective December 1, 2011, for customers renting vehicles from On-Airport Rental Car Companies, for the purpose of paying the costs of the financing, design and construction of the Consolidated Rental Car Garage, and the costs of providing a common-use transportation system to transport rental car customers between Terminal A and the Consolidated Rental Car Garage;

(b) Subject only to the State Controller's Office substantiating the continued need for the rate increase at that time, increasing the CFC from $6.00 to $7.50 per day, up to a maximum of five days per rental car contract effective January 1, 2014, for customers renting vehicles from On-Airport Rental Car Companies, for the purpose of paying the costs of the financing, design and construction of the Consolidated Rental Car Garage, and the costs of providing a common use transportation system to transport rental car customers between Terminal A and the consolidated Rental Car Garage;

(c) Authorizing the City Manager to reinstate and impose a CFC of $10 per rental car contract in the event that the per day CFC provided for herein is held to be invalid or unenforceable; and

(d) Repealing Resolution No. 74039, effective December 1, 2011.

CEQA: Statutorily Exempt, File No. PP10-067(a), CEQA Guidelines Section 15273, Rates/Tolls/Fares/Charges. (Airport)

The following item is related to the November 8, 2011, Joint Meeting of the City Council and the San José Diridon Development Authority:

x.x Option Agreement for Sale of Property to Athletics Investment Group LLC.

Recommendation: It is recommended that the San José City Council and the San José Diridon Development Authority Board (Authority) conduct a public hearing and take the following actions:

(a) The City Council and the Authority Board adopt resolutions affirming prior resolutions adopted by the City Council and Redevelopment Agency Board in support of the efforts of the Oakland Athletics organization to move the team to San Jose, including Resolution No. 74908 adopted in May, 2009, Resolution No. 75513 adopted in August, 2010, and Resolution 75567 adopted in September, 2010; and Resolution No. 5985 adopted in September, 2010; and

(b) The City Council adopt a resolution:

  (i) Approving the potential sale of certain real property (Property) located along South Montgomery Street between West San Fernando Street and Park Avenue in San José (see attachment no. 1) to the Athletics Investment Group, LLC (AIG) pursuant to an Option Agreement for the Sale of Property between AIG and the Authority, and

  (ii.) Accepting the Summary Report and Re-Use valuation, and;

  (iii.) Finding that the sale of the property will assist in the elimination of blight, is consistent with the Implementation Plan for the Strong Neighborhoods Initiative Redevelopment Project Area, and that the consideration for the property is not less than the fair reuse value for the proposed use with the covenants and conditions to be imposed under the Option Agreement and the potential costs of the proposed project; and

(c) The Authority Board adopt a resolution approving the Option Agreement for the Sale of Property with AIG and authorizing the Executive Director to negotiate and execute the purchase agreement and other ancillary documents contemplated by the Option Agreement, with proceeds of the sale to be paid to the San José Redevelopment Agency as consideration for the original transfer of the Property to the Authority; and

(d) The City Council and the Authority Board approve the establishment of a new fund for the San José Diridon Development Authority; and

(e) The City Council and the Authority Board adopt the following Appropriation Ordinance and Funding Source Resolution amendments in the San José Diridon Development Authority Fund:

  a. Establish an estimate for Earned Revenue in the amount of $200,000;

  b. Establish an estimate for Transfers from the Redevelopment Agency in the amount of $60,000;

  c. Establish an appropriation to the Office of Economic Development for Non-Personal/Equipment expenses in the amount of $30,000;

d. Establish an appropriation to the Office of Economic Development for Administration expenses in the amount of $10,000; and

e. Establish an Ending Fund Balance in the amount of $220,000.

CEQA: Resolution to be adopted. This resolution will be based upon the information contained in that certain Final Environmental Impact Report for the Baseball Stadium in the Diridon/Arena Area, certified by the Planning Commission on February 28, 2007 by Resolution No. PC07-009, as supplemented by the information contained in that certain Final Supplemental Environmental Impact Report for the Baseball Stadium in the Diridon/Arena Area, certified by the City Council on June 16, 2010 by Resolution No. 75432.

TO BE DISTRIBUTED SEPARATELY
14-DAY POSTING REQUIREMENT WAIVER TO BE REQUESTED

These items will also be included in the Council Agenda Packet with item numbers.

/s/
LEANNA BIEGANSKI
Agenda Services Manager

COUNCL AGENDA: 11/08/11
ITEM:

CITY OF SAN JOSE
CAPITAL OF SILICON VALLEY

Memorandum

TO: HONORABLE MAYOR AND CITY COUNCIL

FROM: Julia H. Cooper

SUBJECT: SEE BELOW

DATE: October 17, 2011

Approved

Date 10/25/11

SUBJECT: REPORT ON REQUEST FOR PROPOSAL FOR CITYWIDE JANITORIAL SERVICES

RECOMMENDATION

Report on Request for Proposal for Citywide Janitorial Services and adoption of a resolution authorizing the City Manager to:

a) Execute five separate agreements with GCA Services Group Inc. (Alviso, CA) for Janitorial Services, with an initial three-year term ending October 31, 2014 for each agreement, and a cumulative total amount not to exceed $19,118,608. Year two and three of the contract are subject to the appropriation of funds.

Department	Year One Cost	Max. Compensation (three years)
Public Works (Citywide Facilities)	$2,951,232	$8,853,696
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Office of Cultural Affairs	13,197	39,591
Total	**$6,372,870**	**$19,118,608**

b) Execute amendments as required to add or delete facilities, or change service levels due to seasonal changes or budget constraints, subject to the appropriation of funds.

c) Execute five one-year options to renew each of the agreements subject to the appropriation of funds.

OUTCOME

Provide quality and cost effective janitorial services to City of San José owned and operated facilities used by employees, residents and visitors.

BACKGROUND

Prior to July 2011, the City both in-sourced and out-sourced custodial services for City owned facilities. City employees provided custodial services at the Airport, City Hall for the daytime shift, Police Department and park restrooms. Vendors provided custodial services at community centers, libraries, and backup at the Airport, the graveyard shift at City Hall, and certain facilities at the Water Pollution Control Plant. These services were performed under four separate agreements with two vendors.

In July 2010 and March 2011, the City amended its existing agreements to outsource remaining custodial services that were performed by City Staff at all City facilities with the exception of restrooms located in City parks.

In June 2011, an interim agreement was executed with GCA Services, Inc., to outsource custodial services in restrooms located in City parks.

All of the amendments were executed on an interim basis to allow sufficient time for staff to develop a consolidated scope for citywide custodial services and issue a competitive Request for Proposal (RFP) to provide the City with the best and most competitive rates and service.

ANALYSIS

On March 8, 2011, the Finance Department released a RFP for Citywide Janitorial Services on the City's e-procurement system. This comprehensive RFP included the diverse requirements of all of the City departments requiring custodial services. For example, the requirements for the Airport and Community Centers where there is a high degree of contact with the public are significantly different than the office environment at City Hall. Concerns were expressed that the size of a citywide agreement would exclude all but the largest vendors from the ability to compete, the RFP allowed contract award by City department. Independent teams from each department evaluated and recommended the highest ranked proposal for their respective departments.

A total of 160 companies viewed the RFP, and eleven proposals were received by the April 25, 2011 deadline as follows:

- Able Building Maintenance, Inc, (Foster City, CA)
- ABM Services, Inc. (Irvine, CA)
- Clean Innovation, Inc. (Santa Clara, CA)
- GCA Services Group, Inc. (Alviso, CA)
- ISS Facility Services, Inc. (San Carlos, CA)
- OJS Systems, Inc. (Acworth, GA)
- Service by Medallion, Inc. (Mountain View, CA)
- Triangle Services, Inc. (Valley Steam, NY)
- T&T Janitorial, Inc. (San Diego, CA)
- Uniserve Facilities Services, Inc. (Los Angeles, CA)
- Universal Building Services and Supply, Inc. (Richmond, CA)

Evaluation Team

Five, three-member evaluation teams were named, one team for each department represented in the RFP: Public Works, Airport, Environmental Services, Parks, Recreation and Neighborhood Services and Office of Cultural Affairs. Proposals were independently evaluated and scored by each team.

Evaluation Criteria

Minimum Qualifications: The initial review consisted of a pass/fail assessment to ensure that all minimum qualifications were met and that all proposals were complete. Two proposals were deemed non responsive for not meeting the minimum criteria.

Proposals submitted by T&T Janitorial and Service by Medallion did not provide one reference servicing at least one million square feet of cleanable floor space, and Service by Medallion did not provide one reference where employees were required to be in contact with the general public in the performance of their duties. Both companies were notified in writing that their proposals would not be subject to further evaluation.

Technical Evaluation (55%): The technical evaluation consisted of a thorough review of each company's written proposal for company experience and technical capabilities.

Cost Proposals (30%): Cost proposals were opened and scored at the conclusion of the technical proposal evaluation.

Environmental Stewardship (5%): Proposers were required to specifically address how their proposals would support the goals and objectives of the City's EP3 program.

Local and Small Business Preference (10%): Pursuant to City policy, ten percent of the total evaluation points were reserved for local and small business preference. Three Proposers requested consideration for the City's local business preference. The application of the local business preference had no effect on the recommendation of award.

Protest Period: The RFP process included a ten-day protest period in accordance with City purchasing rules. No protests were received.

Recommendation Summary: Proposal scores for each Department's evaluation committee are summarized in Attachment A to this memorandum. Each evaluation team independently recommended GCA Services Group as the most advantageous and "best value" solution based on the evaluation criteria set forth in the RFP. GCA's proposal met or exceeded all of the RFP requirements, provided the most detailed and comprehensive proposal, and demonstrated a superior understanding of the City's requirements. GCA's proposal was found to be superior in the following key areas:

- Demonstrated experience. GCA has provided a high level of quality service and professionalism for the City. Currently, GCA provides custodial services for Public Works (through management of citywide facilities), Parks, Recreation and Neighborhood Services, the Airport and the Office of Cultural Affairs.
- A comprehensive staffing plan ensuring optimal cleaning levels and cost efficiencies.
- A complete training program to ensure that staff is well qualified and cross-trained.
- Incentives to retain employees and avert turnover and high absenteeism, such as recognition events that include group dinners, luncheons, and holiday celebrations.
- A transition plan that minimizes service interruptions.
- Provided the most cost effective and just-in-time delivery plan for saving the City money on usage of supplies, materials and consumables.

Wage Requirements: GCA will be required to pay the City's established prevailing wage rates for custodial services provided at City Hall, the Police Department, Libraries, Community Centers, Parks, Citywide public art locations and the Water Pollution Control Plant. GCA will be required to pay the City's established Airport living wage rates for custodial services provided at the Airport under the Airport's Living Wage ordinance.

Labor Peace: GCA operates under a collective bargaining agreement with the Service Employees International Union (SEIU).

Worker Retention: Applies and Office Equality Assurance oversees these requirements. In this case, GCA is the incumbent service provider at all of the facilities, except the Water Pollution Control Plant. The current contractor at the Plant will be requested to cooperate with the transition of its workers to GCA.

Summary of Agreement: The requirements and service levels are different for each department responsible for managing the custodial services under their purview. As a result, it was determined that it would be more efficient to enter into five separate agreements. Each agreement will have identical business and legal terms and conditions, but the scope of service and schedule of performance are department specific for each agreement.

Each agreement includes a detailed scope of services, schedule of performance and a fixed price compensation schedule contingent on the successful completion of work. Pricing shall be firm fixed for the initial three year period of the agreements. After the initial three-year period, price adjustments may be considered if GCA can demonstrate to the satisfaction of the City that a price increase is justifiable. Any such increase shall not exceed 3% annually.

All of the agreements have provisions that allow staff to request additional non-scheduled services. In addition, staff will be able to add, delete and change scheduled services through a process similar to a change order, in order to meet the janitorial service needs of the organization.

EVALUATION AND FOLLOW-UP

This memorandum will not require any follow-up from staff.

PUBLIC OUTREACH/INTEREST

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

☐ **Criterion 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)**

☐ **Criterion 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 item meets Criterion 1 and will be posted on the Council Agenda for November 8, 2011.

COORDINATION

This memorandum was coordinated with Public Works (including the Office of Equality Assurance), Airport, Environmental Services, and Parks, Recreation & Neighborhood Services Departments, the Office of Cultural Affairs, the City Manager's Budget Office, and the City Attorney's Office.

FISCAL/POLICY ALIGNMENT

This Council item is consistent with Council approved Budget Strategy Memo General Principle #2, "We must focus on protecting our vital core City services."

COST SUMMARY/IMPLICATIONS

The following outlines the elements of the contract.

1. AMOUNT OF RECOMMENDATION/CONTRACT:

Description	Year One Cost*	Three Year Max. Compensation*
Public Works (Citywide Facilities)	$2,951,232	$8,853,696
Airport	2,576,126	7,728,377
Parks, Recreation & Neighborhood Services	462,597	1,387,790
Environmental Services	369,718	1,109,154
Office of Cultural Affairs	13,197	39,591
Total	**$6,372,870**	**$19,118,608**

* Includes base annual rate plus 10% for supplemental services (except for park services) to be directed by the City.

2. SOURCE OF FUNDING:

Public Works	Funds 001, 515, 290
Airport	Airport Maintenance and Operation Fund (523)
Parks, Recreation & Neighborhood Services	Fund 001
Environmental Services	San Jose-Santa Clara Treatment Plant Operating Fund (513)
Office of Cultural Affairs	Transient Occupancy Tax Fund (461)

BUDGET REFERENCE

The table below identifies the fund and appropriations proposed to fund the contract recommended as part of this memorandum.

Fund #	Appn #	Appn. Name	Total Appn.	Amount for Year One of Contract*	2011-2012 Proposed Budget Page**	Last Budget Action (Date, Ord. No.)
001	0572	PW non-personal	$8,004,530	$2,619,088	VIII-319	6/21/11, Ord. No. 28928
001	0722	Lib non-personal	$4,212,139	$302,927	VIII-218	6/21/11, Ord. No. 28928
515	0572	PW non-personal	$32,184	$22,134	XI-90	6/21/11, Ord. No. 28928

Fund #	Appn #	Appn. Name	Total Appn.	Amount for Year One of Contract*	2011-2012 Proposed Budget Page**	Last Budget Action (Date, Ord. No.)
001	0512	DOT non-personal	$9,956,815	$7,083	VIII-365	6/21/11, Ord. No. 28928
523	0802	Airport Non-personal/Equip	$37,581,440	$2,576,126	XI-3	6/21/11, Ord. No. 28928
001	0642	PRNS non-personal	$10,799,610	$462,597	VIII-240	6/21/11, Ord. No. 28928
513	0762	ESD Non-personal/Equip	$25,548,275	$369,718	XI-77	6/21/11, Ord. No. 28928
461	0096	Transient Occupancy Tax	$3,253,977	$13,197	XI-87	06/21/11 Ord. No 28928
		Total (Year One)		**$6,372,870**		

* Year two and three of the contract are subject to the appropriation of funds.
** The 2011-2012 Proposed Operating Budget was adopted by the City Council on June 21, 2011.

CEQA

Not a Project, File No. PP10-066(e), Services that involve no physical changes to the environment.

/s/
JULIA H. COOPER
Acting Finance Director

For questions please contact Mark Giovannetti, Purchasing Division Manager, Finance, at (408) 535-7052.

Attachment A – Evaluation Summary by Department

Public Works

Evaluation Criteria (weight)	OJS	Clean	UBS	Uniserve	ABM	Able	Triangle	ISS	GCA
Experience (25%)	12	10	10	14	14	9	18	19	22
Technical Capabilities (30%)	13	10	12	17	17	12	16	20	25
Environmental Stewardship (5%)	1	1	1	2	2	1	2	2	2
Cost (30%)	24	26	26	24	28	25	15	26	30
Local (5%)	0	0	5	0	5	0	0	5	0
Small (5%)	0	0	0	0	0	0	0	0	0
TOTAL	50	47	54	57	66	47	51	72	79

Norman Y. Mineta San Jose International Airport (Airport):

Evaluation Criteria (weight)	OJS	Clean	UBS	Uniserve	ABM	Able	Triangle	ISS	GCA
Experience (25%)	16	13	19	18	22	11	21	22	22
Technical Capabilities (30%)	22	10	17	23	25	10	16	26	28
Environmental Stewardship (5%)	3	0	2	3	2	0	2	3	3
Cost (30%)	30	25	21	21	24	26	23	17	26
Local (5%)	0	0	5	0	5	0	0	5	0
Small (5%)	0	0	0	0	0	0	0	0	0
TOTAL	71	48	64	65	78	47	62	73	79

Environmental Services (Water Pollution Control Plant):

Evaluation Criteria (weight)	OJS	Clean	UBS	Uniserve	ABM	Able	Triangle	ISS	GCA
Experience (25%)	15	11	15	16	16	9	14	18	19
Technical Capabilities (30%)	18	13	17	22	23	14	19	21	24
Environmental Stewardship (5%)	2	1	2	2	2	2	2	2	2
Cost (30%)	30	27	26	23	25	18	14	20	27
Local (5%)	0	0	5	0	5	0	0	5	0
Small (5%)	0	0	0	0	0	0	0	0	0
TOTAL	65	52	65	63	71	43	49	66	72

Parks Recreation & Neighborhood Services (PRNS):

Evaluation Criteria (weight)	OJS	Clean	UBS	Uniserve	ABM	Able	Triangle	ISS	GCA
Experience (25%)	17	17	23	20	23	24	23	23	24
Technical Capabilities (30%)	17	16	24	22	28	20	22	29	29
Environmental Stewardship (5%)	2	1	2	3	2	3	3	3	3
Cost (30%)	11	26	13	22	21	13	14	16	30
Local (5%)	0	0	5	0	5	0	0	5	0
Small (5%)	0	0	0	0	0	0	0	0	0
TOTAL	47	60	67	67	79	60	62	76	86

Office of Cultures Affairs (OCA):

Evaluation Criteria (weight)	OJS*	Clean	UBS	Uniserve	ABM	Able	Triangle	ISS	GCA
Experience (25%)	0	16	13	15	17	12	15	19	17
Technical Capabilities (30%)	0	16	18	19	20	17	13	22	24
Environmental Stewardship (5%)	0	1	1	0	1	1	2	2	2
Cost (30%)	0	18	18	30	7	9	3	12	23
Local (5%)	0	0	5	0	5	0	0	5	0
Small (5%)	0	0	0	0	0	0	0	0	0
TOTAL	0	51	55	64	50	39	33	60	66

*OJS did not submit a proposal for the cleaning of the City's public art collection.

COUNCIL AGENDA: 11/8/11
ITEM:

CITY OF SAN JOSE
CAPITAL OF SILICON VALLEY

Memorandum

TO: HONORABLE MAYOR AND CITY COUNCIL

FROM: William F. Sherry
Director of Aviation

SUBJECT: IMPLEMENTATION OF PER DAY RENTAL CAR CUSTOMER FACILITY CHARGE

DATE: October 20, 2011

Approved

Date 10/24/11

COUNCIL DISTRICT: NA

RECOMMENDATION

Adopt a resolution:

(a) Imposing a customer facilities fee and customer transportation fee (collectively, "CFC") of $6.00 per day, up to a maximum of five days per rental car contract effective December 1, 2011, for customers renting vehicles from On-Airport Rental Car Companies, for the purpose of paying the costs of the financing, design and construction of the Consolidated Rental Car Garage, and the costs of providing a common-use transportation system to transport rental car customers between Terminal A and the Consolidated Rental Car Garage,

(b) Subject only to the State Controller's Office substantiating the continued need for the rate increase at that time, increasing the CFC from $6.00 to $7.50 per day, up to a maximum of five days per rental car contract effective January 1, 2014, for customers renting vehicles from On-Airport Rental Car Companies, for the purpose of paying the costs of the financing, design and construction of the Consolidated Rental Car Garage, and the costs of providing a common use transportation system to transport rental car customers between Terminal A and the consolidated Rental Car Garage;

(c) Authorizing the City Manager to reinstate and impose a CFC of $10 per rental car contract in the event that the per day CFC provided for herein is held to be invalid or unenforceable; and

(d) Repealing Resolution No. 74039, effective December 1, 2011.

OUTCOME

Council's adoption of the recommended resolution would complete the requirements of current state law and authorize the Airport to require the rental car companies to collect from their Airport customers a $6 *per day* customer facilities fee and customer transportation fee (CFC) rather than the current $10 *per contract* CFC. The maximum number of days the per day CFC can be collected is five days. The additional revenue generated by the new rate would be applied to the debt service on the consolidated rental car garage (ConRac) and the customer transportation costs between Terminal A and the ConRac. The new per day rate would take effect on December 1, 2011. In January 2014, the $6 per day rate would increase to $7.50 per day, subject to the State Controller's Office (SCO) substantiating – or verifying – the Airport's continuing need for the rate increase.

EXECUTIVE SUMMARY

The Passage of SB 1192 and the Rental Car Customer Facility Charge

On September 30, 2010, Senate Bill (SB) 1192 became law, revising and updating California Civil Code Section 1936, which governs contracts between rental car companies and their customers. Section 1936 authorizes a company that rents vehicles to the public to collect a CFC. CFCs are a fee required by an airport to be collected to assist in paying for the cost of financing, designing and constructing rental car facilities and the capital and operating costs of common-use transportation systems to transport rental car customers between airport terminals and rental car facilities. Previously, rental car companies were authorized to charge a maximum CFC of $10 *per contract*. Beginning January 1, 2011, SB 1192 authorizes airports that wish to do so to collect an alternative CFC of $6 *per day* with the appropriate approval. The new law also allows for potential increases in the per day fee to $7.50 in 2014 and to $9.00 in 2017 (also with appropriate approval). The per day CFC may be charged for a maximum of five days for each rental car contract.

Airports are not required to collect the daily CFC but may do so if they chose and if they can "substantiate" or verify their "reasonable" costs and the need for the additional CFC revenue. The justification for a per day CFC requires an independent audit of the airport's forecasted revenues and actual or projected costs. The independent audit is reviewed by the SCO, who must substantiate the necessity for and amount of the per day CFC. The airport must then present information specified by law at a publicly-noticed meeting of its legislative body and obtain the body's approval. Only then can a per day CFC be implemented.

Per Day CFC Substantiated and Needed

As a result of the decline in air passenger traffic at the Airport, the current projected collection of $10 per contract CFC revenues is now significantly lower than originally projected when the rental car companies signed their concession agreements with the Airport in 2007. The decrease in projected CFC revenue has significantly increased the costs the rental car companies must now pay to cover the difference between the debt service on the rental car garage and the collection of projected CFCs from their customers. Because neither the rental car companies nor Airport staff believe this significant increase in cost can be sustained over the long-term amortization period of the debt service on the rental car facility (30 years), the Airport has elected to pursue the implementation of a per day CFC that staff believes will restore a sustainable balance of shared responsibility between the rental car companies and their customers for the repayment of the rental car garage over the full 30-year term of the ConRac facility's debt.

As required by SB 1192, the Airport retained the services of an auditing firm of Macias Gini & O'Connell (MGO) to first conduct the required independent audit. In late May 2011, the MGO independent audit was submitted to the State Controller's Office for review. The SCO reviewed the audit results and on October 13, 2011 issued its final report substantiating that the Airport had met the requirements of the state law needed to implement a per day CFC (Attachment A). In a publicly-noticed hearing, staff now needs to secure the approval of the Council by presenting information required by SB 1192 that demonstrates the Airport's need to go from a $10 *per contract* CFC to a $6 *per day* CFC.

Airport staff is also requesting that the Council adopt a resolution authorizing the implementation of the recommended per day CFC rate structure. If Council concurs, implementation would begin on December 1, 2011.

The ConRac has been financed with short-term commercial paper debt. However, the Airport will soon enter the bond market to issue long-term bonds. The revenues from a per day CFC will be used to pay the debt service on these long-term bonds.

As of the date of this report, interest rates have declined from those estimated in the spring and included in the independent audits that are discussed in this report. The impact of an interest rate decline would be a reduction in debt service and a reduction in facility rent to the rental car companies. Interest rates may continue to fluctuate until the bonds are sold. A change in the interest rates will have a direct impact on the debt service and rental car facility rent.

BACKGROUND

Rental Car Garage Development and Funding History

In 2005, the Terminal Airport Improvement Plan (TAIP) included $128.5 million for a 1,200-space ConRac for the eight rental car companies then operating on the Airport. The costs associated with the ConRac would be paid from the per contract CFCs to be collected over the life of the debt.

The Airport was authorized to require a maximum CFC fee of $5 per rental car contract to cover the capital costs of financing, designing and constructing the garage and the capital operating costs of a common-use bus system. State law then in place set limits on when the City could begin collecting the CFC fee, the maximum amount of revenues that could be collected and the maximum amortization period to service the debt. However, a 1,200-space garage would not have accommodated all the rental car companies. Based on the space needed to accommodate all the rental car companies, the cost of the appropriately-sized garage facility and the then restrictions of state law, Airport staff and the rental car companies concluded it was not possible to build the garage facility needed at the Airport.

To construct a garage able to accommodate all the rental car companies, Airport staff, prime contractor Hensel Phelps, and the rental car companies worked in close collaboration to develop the plans for an appropriately-sized facility containing the necessary space and operational facilities to accommodate all the rental car companies. That effort determined that the rental car garage should contain at least 3,000 spaces and needed facilities for an efficient operation (primarily a "quick turnaround facility" where vehicles could be quickly cleaned, fueled and readied for rental). To build the larger garage, the budget would need to increase from $128.5 million to $237.5 million – a $109 million increase in cost. This cost does not include the $13.5 million cost of 350 ground floor spaces for public parking, which is an Airport capital cost under the Terminal Area Improvement Program.

To secure at least part of the additional $109 million needed for the ConRac, in 2007 the City Council authorized the City to sponsor new state legislation that would allow the Airport to gain the same benefits in provisions of state law applicable to CFC collection and debt repayment available to other California airports (earlier collection, no total collection limit and no amortization limit). In 2007, SB 641 (carried by Senator Ellen Corbett) was passed by the Legislature and signed into law by the Governor in July 2007.

In September 2007, the City increased the budget for the ConRac from $128.5 million to $237.5 million. At the same time, the City entered into an operations agreement and lease with the On-Airport rental car companies for operations at the ConRac. Among the terms, the agreement included requiring a $10 per contract CFC to be collected by On-Airport rental car companies beginning in January 2008. From January 1, 2008 until the completion and occupancy of the ConRac, $5 of the CFC was applied to the construction costs and $5 went towards paying for the costs of the common-use transportation system.

In February 2008, to address the higher than estimated costs of the project, the agreement was amended to extend the repayment term from 25 years to 30 years. The original term remained ten years but the 15-year renewal term was amended to two, ten-year terms. With the extension, the rental car companies were able to maintain the scope of the project while increasing the overall project budget by $22.9 million. The amendment increased the overall estimated cost of the rental car garage from $237.5 million to $260.4 million.

Since the rental car companies began operations in the new facility in June 2010, the full $10 per contract CFC has been applied to the debt service of the rental car garage with the rental car companies paying the full cost of the common-use transportation system between Terminal A and the ConRac. (Common-use transportation costs are also CFC-eligible.)

Rental Car Company Payment of Debt Service on the Rental Car Garage

To cover the debt service on the ConRac, the City relies on two sources of revenue:

1) CFCs; and
2) Facility rent paid by the rental car companies under the terms of the agreement.

The Airport determines the facility rent to be paid by the rental car companies each year as the sum of:

1) Any difference between the debt service cost for the ConRac and CFCs collections; and
2) The cost of operating the buses that transport customers between Terminal A and the ConRac.

From the beginning of the agreement, based on the forecast of rental car transactions at that time, it was anticipated that CFCs alone would not be sufficient to pay the debt service and the costs of the common-use transportation system during the term of the agreement and that it would be necessary to use facility rents to make up the difference between the debt service and the amount of CFCs collected to cover the debt service. When the lease agreement was initially signed in late 2007, facility rent (excluding transportation costs) was estimated to be approximately $4.8 million a year. This amount was to be apportioned among the on-Airport rental car companies. Facility rent revenue was expected to generate an estimated $121 million over the original 25-year term of the debt. Facility rent, combined with CFCs, was expected to be sufficient to cover the debt service and transportation costs associated with the ConRac.

In February 2008, a five-year extension of the agreement allowed the rental car companies to maintain the same estimated amount of annual facility rent ($4.8 million a year) while increasing the overall project budget and the rental car companies' share of the project funding. Rental car company facility rents (excluding transportation costs) over the new thirty-year term of the debt were now expected to generate $145 million (compared to $121 million under the previous 25-year term).

In agreeing to use facility rent to cover the difference between collected CFCs and the debt service, the rental car companies understood that the amount of facility rent paid is directly tied to the amount of CFCs collected. In the years when customer activity is higher and CFC collections are higher, the facility rent would be lower and in the years when customer activity is lower and CFC collections are lower, the facility rent would be higher. In theory, if the customer activity levels generated sufficient CFCs to cover the debt service and transportation costs, the rental car companies would not have to pay any facility rent at all. However, that is unlikely to happen anytime in the foreseeable future.

It is important to note that while it is expected the City and the rental car companies will agree that the terms of the lease agreement will be extended when the original ten-year term expires, should the City or the rental car companies occupying the facility decide at the end of the ten-year term not to extend the lease agreement, the Airport will not be able to continue to collect CFCs if the on-Airport rental car companies vacate the ConRac. Should that occur, the Airport will be responsible for the payment of the remaining debt service on the rental car garage from other Airport funds.

Financing the Rental Car Facility

The Airport Commercial Paper Program was established to provide interim financing for Airport capital needs in anticipation of issuing Airport revenue bonds that would replace the commercial paper with permanent long-term financing. Commercial paper is considered a form of variable-rate debt, with maturities between one and 270 days. Municipal commercial paper programs typically require the issuer to obtain credit support through one or more letters of credit provided by a commercial bank. Due to the financial crisis in 2008, many banks have reduced their capacity to issue or renew letters of credit. The letters of credit supporting the Airport's Commercial Paper Program expire in January 2012, January 2013, and January 2014.

Interim funding for the ConRac was accomplished through the Airport Commercial Paper Program. Consistent with the long-term financing strategy of the Terminal Area Improvement Program, the Airport will be seeking Council approval to refinance approximately $225 million of commercial paper debt associated with the ConRac with long-term General Airport Revenue Bonds (GARBs). The refinancing will significantly reduce the Airport's exposure to credit renewal risk, particularly in light of the diminishing availability of letter of credit facilities, and provide a level of certainty for long-range financial planning for the Airport. The revenue generated by the recommended per day CFC will be vital to payment of the debt service on the GARBs.

Airport Pursuit of a Per Day CFC

A 25% decline in passenger activity and a 33% decline in the number of flights over the past two years has resulted in a 32% decline in rental car customers at the Airport. With the significant decline in rental car passengers, there has been a parallel and significant decline in the collection of the CFCs that are the primary source of revenue to pay for the new ConRac. Over the past two-plus years the projected shortfall gap between CFC revenues collected and the debt service on the ConRac has increased significantly. For this reason, staff believes it is necessary to pursue the implementation of a per day CFC rate structure.

With the passage of SB 1192 in 2010, since January 2011 airports have been authorized to levy a per day CFC if they meet the implementation requirements of state law. As of this writing, Burbank Bob Hope Airport is the only other airport in the state that has met the state requirements to proceed with the implementation of a per day CFC. However, several other California commercial airports are either actively pursuing implementation or are considering pursuing the implementation of a per day CFC.

ANALYSIS

Senate Bill 1192

On September 30, 2010, then Governor Arnold Schwarzenegger signed Senate Bill 1192 into law. SB 1192, sponsored by the City of Los Angles and supported by several airports and the rental car industry, revises and updates California Civil Code Section 1936, which governs contracts between rental car companies and their customers (e.g. insurance requirements, theft, damage, repair costs, fees, financial responsibilities of the company and the customer, notifications, etc.). As noted earlier, current state law authorizes rental car companies to charge a maximum CFC of $10 *per contract*. Some airports – and many rental car companies – believe the current $10 per contract fee set by the state has not kept up with the costs to build rental car garage facilities and the capital and operating costs of a common-use transportation system and have advocated for the CFC rates to be increased and/or the fee methodology to be changed.

The most significant revision contained in SB 1192 is that it authorizes a *per day* CFC following the "substantiation" (validation) of "reasonable" costs by the State Controller's Office and a publicly noticed hearing and finding by the legislative body of the airport that the current CFCs collected do not generate sufficient revenue to finance and operate the consolidated rental car facility and/or common-use transportation system.

Collection of the per-day fee was authorized to begin January 1, 2011. The maximum amount that can be collected is $6 per day. In 2014 the maximum authorized amount will rise to $7.50 per day (with proper approval) and in 2017 the maximum authorized daily fee amount will rise to $9 a day (with proper approval). The maximum number of days the per-day fee can be charged is five.

Significant State Oversight Requirements

Consumer protection was – and remains – an area of great concern to the State Legislature. In passing SB 1192, the State Legislature's overriding intent was to require regular and close state monitoring of the legislation to ensure the full costs for the design and construction of new rental car garage facilities and the capital and operating costs of common-use transportation systems are apportioned reasonably between the rental car companies and their customers and not simply transferred to rental car customers. In addition, the Legislature wants to ensure that no more revenue than that needed to cover the reasonable costs of the rental car facilities and common-use transportation systems is collected. Towards those ends, SB 1192 contains a significant amount of state oversight for those airports that seek to collect the daily CFC, including a review by the State Controller's Office, which must verify the need for the daily CFC rate sought by an airport before it can be collected. Airports collecting a per day CFC will also be required to provide *annual* reports to the Senate and Assembly Committees on Judiciary (the State legislative committees focused on consumer protection issues) detailing:

- The total amount of CFC revenues collected;
- How the funds were spent;
- The amount of and reason for any changes in the airport's budget or financial needs; and
- Whether certain concession fees have increased since the prior report.

In addition, airports charging a per day CFC must conduct an independent audit:

- Prior to the initial collection of the per day CFC;
- Prior to any increase; and
- Every three years after initial collection and any increase.

Implementation Process

The implementation of a per day CFC is a three-step process:

1. An Independent Audit is Required

Airports *are not required* to charge a per day CFC but SB 1192 requires that any airport that wishes to do so must first have an independent audit conducted. The responsibility of the independent auditor is to determine the reasonableness of the airport's projected costs to design, construct and/or operate the rental car facility and to attest that the projected amount of per day CFC revenue to be collected will not exceed the reasonable cost of the rental car facility. The independent auditor must also consider the reasonable costs of providing the common-use transportation system to transport customers between the rental car facility and the terminal(s).

2. A State Controller's Office Review is Required

The responsibility of the SCO is to review the independent auditor's report to determine the reasonable basis for the expressed opinion. In addition, the SCO must independently examine and substantiate the necessity for, and the amount of, the per day CFC. The Controller subsequently reports its conclusions to the State Legislature, including:

- Whether the airport's actual or projected costs are supported and justified;
- Any steps the airport may take to limit costs;
- Potential alternatives for meeting the airport's revenue needs other than the collection of the fee; and
- Whether and to what extent car rental companies or other businesses or individuals using the facility or common-use transportation system may pay for the associated costs other than the fee from rental customers.

3. Public Hearing and Legislative Body Approval Required

If the State Controller's Office substantiates the airport has met the requirements of the law, the airport must then obtain the approval of its legislative body by holding a publicly-noticed hearing to review the costs of financing the design and construction of a ConRac and the design, construction, and operation of any common-use transportation system in which all of the following must occur:

- The airport establishes the amount of revenue necessary to finance the reasonable cost to design and construct a consolidated rental car facility and to design, construct, and operate any common-use transportation system, or acquire vehicles for use in that system based on evidence presented during the hearing.

- The airport finds, based on evidence presented during the hearing, that the $10 per CFC will not generate sufficient revenue to finance the reasonable costs to design and construct a consolidated rental car facility and to design, construct, and operate any common-use transportation system, or acquire vehicles for use in that system.

- The airport finds that the reasonable cost of the project requires the additional amount of revenue that would be generated by the proposed daily rate.

In addition, at the public hearing the airport must also address:

- Steps it has taken to limit costs.

- Other potential alternatives for meeting its revenue needs other than the collection of the fee.

- The extent to which rental car companies or other businesses or individuals using the facility or common-use transportation system will pay for the costs associated with these facilities and systems other than the fee from rental customers

When the legislative body finds that all of these requirements have been met, the airport may require the rental car companies to collect the per day CFC.

Status of the Per Day Implementation Process

As required by state law, staff began the implementation process by having an independent audit conducted on the costs to finance, design, and construct the ConRac and the forecasted revenues to pay those costs. The audit was conducted by the auditing firm of Macias, Gini and O'Donnell (MGO). The audit was completed in May 2011. The results of the audit, contained in Attachments B (CFC revenues and ConRac expenditures for 2005-2010) and C (forecasted CFC and facility rent revenues and debt service costs – 2010-2041), were provided to the State Controller's Office for review in late May 2011. The State Controller's Office review included field work to examine supporting documentation residing at the Airport. Staff is now bringing the results of these reviews forward for Council review and decision at the required public hearing.

Per Day CFC Justified

Based on the data reviewed by the independent auditor and the findings contained in the State Controller's Office subsequent review of the auditor's opinion (Attachment B), the Airport has demonstrated the need to implement a per day CFC by meeting the following three primary criteria of SB 1192:

1. The project costs are reasonable.
2. The forecasted revenues are insufficient to cover the project costs.
3. The Airport needs the per day CFC to help cover the project costs.

<u>The Project Costs are "Reasonable"</u>

MGO conducted an independent audit of the Airport's actual CFC revenues and expenditures related to the rental car garage from 2005 through 2010 (see Attachments B). MGO also audited forecasted CFC revenues and costs for the rental car garage from July 1, 2010 through June 30, 2041 (see Attachment C). MGO also reviewed the assumptions used by the Airport's independent consultants of Ricondo & Associates to prepare the forecasts. The audits were conducted in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and in accordance with attestation standards established by the American Institute of Certified Public Accountants.

MGO documented total costs for the ConRac for the period July 2000 through June 2010 (actual costs) and July 2010 through June 2041 (projected costs) in a total amount of $836.6 million (pg. 3 of Attachment C). This cost includes project costs, financing costs (bond issuance and interest expense), the commercial paper costs and common-use transportation costs.

Regarding its opinion on the Airport's forecasted revenues and costs for the rental car garage, the MGO independent audit stated:

"In our opinion, the accompanying Forecasted Schedule is presented in conformity with guidelines for presentation of forecasted information established by the American Institute of Certified Public Accountants, and the underlying assumptions provide a reasonable basis for management's forecast."

In the cover letter of its report, dated October 13, 2011 (see page 2, Attachment A), the State Controller's Office made the following statement on the costs to construct and operate the ConRac:

"The San José Airport's projected costs are supported and justified."

MGO's independent audit and the State Controller's Office review establish the reasonableness of costs associated with the construction, financing, and operation of the ConRac.

The Forecasted $10 Per Contract CFC Revenues are Insufficient to Cover the Project Costs

When the rental car agreements were negotiated in late 2007/early 2008, it was anticipated that the total cost of the garage (including interest) over a 30-year period would be $648.7 million. Of that amount, CFC collections were projected to total $503.3 million (77%) over the 30-year period of the facility debt service. It was anticipated that the rental car companies would need to pay the difference of $145.4 million (23%) in facility rent over the 30-year period. The combination of the CFCs and facility rents were expected to fully cover the entire debt service for the ConRac. In addition, the rental car companies were also obligated to cover annual transportation costs for their customers.

However, due to the significant decline in air traveler activity at the Airport, CFC revenues have declined by 32% since 2007, causing most of the debt for the rental car garage to be shifted from the projected CFC revenues generated by the rental car customers to the facility rents to be paid by rental car companies. As a result, the rental car companies' share of the debt service for the new rental car garage has increased from a projected 23% in 2008 to nearly 60% today, based on the $10 per contract CFC. Because of the increase in the rental car companies' share of the ConRac facility's debt service, the facility rent now needed to cover the difference between the projected CFC revenues and the debt service is projected to increase by approximately *283%* over the anticipated $4.8 million a year negotiated in 2007 and 2008.

With the declining CFC revenue resulting in nearly threefold increases in their facility rent payments on the debt service obligation on the garage, the rental cars companies are asking the Airport to look at ways to reduce the unexpected – and significant – increase in the facility rents they now face by implementing a per day CFC rate structure.

To close the significantly larger gap between CFC revenue collection and the debt service on the ConRac, Airport staff recommends implementation of a per day CFC rate structure.

Based on the aforementioned decline in CFC revenues, the Airport requested the State Controller's Office validation for a $6 per day CFC that would increase to $7.50 per day beginning in 2014.

In reviewing the MGO independent audit opinion and supplemental information provided by staff, in its cover letter of October 13, 2011 (Attachment A), the SCO reached the following conclusion:

"Based on our review, we determined that the alternative CFC revenues are not expected to exceed the reasonable costs projected to finance, design, and construct consolidated airport car facilities."

MGO's independent audit and the conclusion of the State Controller's Office verifies the fact that the alternative CFC of $6 per day and then increased to $7.50 per day in 2014 at the Airport are insufficient to cover the costs of the ConRac. By substantiating that the Airport's projected per day CFCs are not expected to exceed the reasonable costs to finance, design and construct the ConRac, the SCO, by definition, substantiated that the current $10 per contract CFC is insufficient to cover the reasonable projected ConRac costs.

<u>Additional Per Day CFC Revenue is Needed to Help Cover the Project Costs</u>.

As estimated in the audit, the total costs for the ConRac, including costs for financing, design and construction amount to $708.6 million. Estimated transportation costs through FY 2041 amount to $128 million, for total CFC eligible costs of $836.6 million. A $6 per day CFC that would increase to $7.50 per day in 2014 is projected to generate $593.7 million in revenue during the amortization period between FY 2011 and FY 2041. An additional $15.6 million in $10 per contract CFC revenue is projected to be raised through FY 2012 for a total of $609.3 million in CFC revenues to be applied to the cost of the ConRac. The rental car companies would be responsible for the difference in the total cost of the ConRac less CFC revenues or $99.3 million. The rental car companies would also be required to pay the $128 million in projected transportation fees. Total facility rent to be paid by the rental car companies is estimated to be $227.3 million through FY 2041.

These projected costs and revenues demonstrate that even with the additional revenues expected to be generated by a per day CFC rate, the project costs will still exceed the amount of revenues by more than $99 million through FY 2041. In addition to the costs of financing, design and construction of the rental car garage, the rental car companies will be paying an additional $128 million in facility rents pertaining to the cost of the common-use transportation system through FY 2041 (see page 3 of Attachment C).

Transportation costs are also eligible to be covered by CFCs. Since the common-use transportation system is used only by passengers who arrive or depart from Terminal A, the City would need to implement a lower CFC for passengers who arrive or depart from Terminal B in the event that the City elects to use a portion of the CFC revenue for common-use transportation costs at some point in the future. Altogether, the rental car companies will be paying $227.3 million in facility rent over the term of the debt service to cover CFC-eligible cost related to the ConRac. Overall, the rental car companies will be paying approximately 27% of the total costs to finance, design and construct the ConRac and operate the transportation system.

By substantiating that the Airport's projected per day CFCs are not expected to exceed the reasonable costs to finance, design, and construct the ConRac, the SCO, by definition, substantiated that the Airport will need a per day CFC revenues to help cover the projected project costs.

Additional SB 1192 Information Requirements

In addition to the primary criteria of reasonable costs, insufficient revenue and the need for additional revenue generated by the per day CFC, SB 1192 also requires information in the following areas to be presented as part of the public hearing:

1. Steps taken by the Airport to limit project costs;

2. The airport's consideration of potential alternatives for meeting its revenue needs other than the collection of the fee; and

3. The Airport's consideration of whether and to what extent car rental companies or other businesses or individuals using the facility or common-use transportation system may pay for the costs associated with the rental car garage and common-use transportation systems other than the fee from rental customers.

As part of its review, the SCO also reviewed information related to the three aforementioned areas. Staff's responses to these three areas of consideration are as follows:

<u>Steps Taken by the Airport to Limit Project Costs</u>

The ConRac is unique in the United States and does not readily lend itself for direct cost comparisons with other such facilities in operation today. There were, however, four specific strategies that focused on cost-effective construction while still meeting the facility needs of the rental car industry.

- *Use of Design-Build Construction:* The facility was constructed using a design-build methodology as one element of several facilities being constructed simultaneously. The design-build contract established a single point of responsibility for coordination of design and construction issues, as well as phasing, with other adjacent projects. In addition, the design-build methodology allows for direct communication between designer and builder, ensuring that constructability issues are vetted as a normal part of the design process, improving the efficiency of construction and reducing costly change orders. Design-build also allowed the schedule to be accelerated by beginning construction while design was still in process. Construction of the foundation commenced when 30% of the design was completed, reducing the overall cost of the facility by reducing construction escalation and overhead costs. The offsite fabrication of the structure's concrete pillars and beams and their just-in-time delivery also reduced manufacturing and storage costs.

- *Maintaining Tight Control of the Project Scope:* Careful control of the project scope was maintained to ensure that costs associated with "scope creep" were avoided. The contract included a specific "Program Criteria Document" describing the specific functional and physical requirements of the project against which all design decisions were measured. The budget and schedule were set, leaving scope as the only variable which could impact the cost of the facility. As design progressed, the contractor provided a guaranteed maximum price for the facility at the 30%, 60%, and 100% stages of design. The City maintained an independent, third party cost estimator to evaluate all costs proposals from the contractor.

- *Maintaining Tight Control of Agreed Upon Costs:* The contract called for the City to pay for the facility at cost to the contractor (no mark up of the cost charged by the subcontractor) and for a guaranteed maximum price. All directly performed and subcontractor work on the project was either performed at cost, validated by independent third party auditors retained by the City, or was bid consistent with the City's low bid requirements.

- *Providing Incentives to Keep Costs Down:* The contract for the rental car garage included provisions for shared savings of the contingency fund between the contractor and the City (25% to the contractor and 75% to the City), thus motivating the contractor to keep costs down by drawing down on the contingency fund only when necessary since drawing down on the contingency fund meant drawing down on potential shared savings.

Through the four strategies outlined above, the City completed construction of the rental car garage approximately $27 million *under* its $260.4 million budget and six months *ahead* of schedule. The overall design of the facility achieved the goal of an operationally cost-efficient facility for the rental car industry and a customer-friendly facility for the public.

Although not directly related to reducing project capital costs, it is worth noting several measures that help keep operating costs down. For example, the ConRac contains the only multi-story quick turn around (QTA) facility in the nation. The multi-story, integrated QTA area allows the rental car industry to process vehicles with a minimal movement of cars, thus reducing their overall operating costs. The location of the facility directly across from Terminal B (where 70% of flights depart) and within walking distance of Terminal A reduces the need for busing operations, thus reducing transportation costs associated with moving passengers between the terminals and the rental car garage. Finally, the 3.5-acre solar farm on the roof of the garage reduces the power costs for rental car operations. At least 20% of the power for the rental car garage comes from solar energy generated by garage's own 4,500-panel solar farm. That further reduces the building's operating costs by reducing its electrical power costs.

<u>Potential Alternatives to the Collection of the Per Day Fee</u>

As noted earlier, the impact of the national recession and the related decline in passenger activity has created a significant impact on rental car activity, projected CFC revenues, and the payment obligations on the ConRac debt service. Rental car companies are already required to pay facility rent to offset any shortfall in the collection of CFC revenues. As noted earlier, facility rent associated with the debt service has increased approximately 283% over the amount anticipated when the rental car agreements were negotiated. This level of additional facility rent is not sustainable for the rental cars companies.
Two significant measures were initiated by the Airport to reduce the growing gap between the total debt and the projected per transaction CFC revenues to cover that debt, including:

- *Reductions in the building's cost:* As noted earlier, the rental car garage was completed six months early and approximately $27 million under budget. This level of budgeted savings has been incorporated into the sizing of the planned ConRac bond financing.

- *Interim financing:* The Airport utilized short-term variable rate debt (commercial paper) through the entire construction period of the ConRac. During this interim period, the Airport was able to secure very low taxable interest rates (often less than 1%) to reduce the borrowing costs during construction.

However, there are no other significant revenue sources or other alternatives available to finance the ConRac facility beyond CFC revenues and rental car companies facility rent paid to the

Airport. And there are certainly *no* other revenue sources or other financing alternatives available that could effectively mitigate the growing amount of the car industry share of the debt funding for the garage over the 30-year period of the debt. Staff believes the only viable option to address the increased funding gap is to implement a per day CFC.

Reviewing Rental Car Companies' and Other Businesses' Share of the Cost beyond Per Day CFCs

The Airport currently uses the first floor of the seven-story rental car garage for public parking. The design and construction costs of the public parking share represent 5.4% of the total costs of the facility. Accordingly, the rental car portion of the facility represents 94.6% of the total design and construction costs. The Airport's financial share associated with the public parking operations have been excluded from the amounts discussed in the analysis of the ConRac.

In 2008, when the agreements with the rental car companies were signed, the rental car companies were projected to pay approximately 23% of the debt service of the ConRac facility. As a result of the recession and the decline in activity and CFC revenues, the rental car companies are now projected to pay approximately 60% of the debt service of the ConRac based on a $10 per transaction CFC fee. Assuming the alternative CFC rate of $6.00 per day becomes effective December 1, 2011 and $7.50 per day rate becomes effective January 1, 2014, the rental car companies are projected to pay approximately 14% of the debt service on the ConRac. However, as noted earlier, when common-use transportation costs and related project financing costs are also included, the rental car companies will be paying 27% of the total cost to finance and operate the ConRac.

Implementing a per day CFC rate structure is needed to help find a sustainable balance of responsibility between the rental car companies and their customers for the payment of a facility the rental car companies need to conduct their business and rental car customers want for their convenience.

SCO Findings Substantiate the Need for a Per Day CFC

In reviewing staff's responses to the aforementioned additional information required by SB 1192, the SCO declared the following:

- *"The San José Airport has taken steps to limit the projected costs."*[1]
- *The San José Airport has identified and considered potential alternatives for meeting its revenue needs other than the collection of the alternative CFC."*[2]
- *The San José Airport has assessed the extent to which rental car companies or other businesses or individuals using these facilities may pay for the costs of these facilities."*[3]

[1] Attachment A – State Controller's Office cover letter of October 13, 2011, page 2.
[2] *ibid*
[3] *ibid*

Additional State Controller's Office Findings

While finding the Airport had demonstrated its need to implement a per day CFC, the SCO did identify two findings. Those findings, and staff's responses, are as follows:

SCO Finding #1 – The Airport understated revenues: The SCO concluded the Airport understated its revenues, because approximately $18.5 million of projected interest earnings on the ConRac debt service reserve fund were not recognized and recorded as alternative revenues and recommended that these understated revenues be considered in determining the future alternative CFC rate.

Airport Response: The Airport disagreed with the finding that the projected revenues were understated and requested that the SCO reconsider its finding that approximately $18.5 million of projected interest earnings on the ConRac debt service reserve fund were not recognized and recorded as alternative revenues. The Airport elected to issue a General Airport Revenue Bond (GARB) and not a special facility bond to significantly reduce the financing costs of the ConRac. The Airport's financial advisor estimated the cost savings of issuing a GARB to be in excess of *$60 million*, depending on market conditions at the time of the bond sale. This is one of the steps the Airport has taken to limit the projected costs. Because the GARB is backed by general Airport revenues, the interest earnings on the GARB debt service reserve fund are considered general Airport revenue under the terms of the Airport Master Trust and must therefore flow to the General Airport Revenue Fund. Interest earnings should follow the specific fund/principal only if the Airport were issuing special facility bonds to fund the ConRac, rather than a GARB.

Finding #2 – The Airport overestimated its costs: The SCO noted that approximately $1 million of the forecasted ConRac facility costs were overstated and recommended these overestimated expenditures be considered in determining the future alternative CFC rate.

Airport Response: Approximately $1 million in estimated costs were not supported, but the Airport provided the following clarification to the SCO: The estimates for construction costs and financing costs included in the independent auditor's report were rounded upward by approximately $1 million in aggregate (or 0.47% of the bond sizing estimate) to account for contingencies and unanticipated costs associated with the closing out of the ConRac project and proposed bond financing. The actual bond sizing amount will include the most accurate amounts available at the time the bonds are issued. As required by statute, the Airport will provide annual reports to the Senate and Assembly Committees on actual customer facility charges collected and how the funds were spent. The report will also include a reconciliation between actual revenues and expenses against the estimates used in the May 2011 independent auditor's report.

Conclusion

Based on MGO's opinion from the data reviewed for the independent audit and the State Controller's Office findings, staff believes the data, facts and conclusions presented in this report meet the requirements of SB 1192 to demonstrate that:

1. The costs of the ConRac are reasonable.

2. The current authorized *per contract* CFC will not generate sufficient revenues to finance those costs.

3. The additional revenues generated by a *per day* CFC are needed to help cover the costs of the ConRac.

The independent audit of Macias, Gini & O'Connell concluded the assumptions used by the Airport in presenting its forecasted costs are reasonable.

In addition, the SCO examined the data and conclusion of the independent audit, reviewed the supporting documentation and spoke with Airport staff. Except for the findings noted above, the SCO:

- ✓ Verified the Airport's actual and projected costs are supported and justified;
- ✓ Examined and substantiated the need for and the amount of the per day CFC;
- ✓ Determined the Airport has taken steps to limit projected costs;
- ✓ Determined the Airport identified and considered potential alternatives for meeting its need for additional revenue other than the collection of the per day CFC; and
- ✓ Determined the Airport has adequately assessed the extent to which rental car companies or other businesses or individuals using the ConRac may pay for the cost of the ConRac.

Based on the data, facts, and the conclusions of the independent auditor and the conclusions of the SCO, as presented in this report, staff is recommending the Council authorize the implementation of a *per day* CFC rate structure for rental car customers at the Airport. The new rate would be $6.00 per day for a maximum of five days. It would take effect on December 1, 2011. On January 1, 2014, the rate would increase to $7.50 per day, for a maximum of five days, subject to the State Controller's Office substantiating the continued need for the rate increase at that time.

Because the current CFC of $10 per rental car contract is not subject to review and substantiation by the SCO, staff further recommends that Council authorize the City Manager to reinstate and impose a CFC of $10 per rental car contract in the event that the per day CFC provided for herein is held to be invalid or unenforceable.

POLICY ALTERNATIVES

Alternative #1: Do not charge a per day Customer Facility Charge.

Pros: Keeps costs down for rental car customers.

Cons: Current $10 per contract CFC generates insufficient revenue to close the current debt service funding gap.
Reason for not recommending: Given the significant decline in the projected amount of collected CFCs and the significant increase in debt service payments on the rental car companies, maintaining the current $10 per contract CFC would very likely not be sustainable for the rental car companies over the long term. To cover the debt service, there needs to be a sustainable balance of shared funding responsibility between the rental car customers and the rental car companies. The proposed per day CFC achieves that objective.

Alternative #2: Levy a lower per day CFC rate structure.

Pros: Eases impact on rental car customers while still generating additional needed CFC revenue.
Cons: Would likely raise insufficient revenue to maintain a sustainable balance between the rental car companies and their customers and still cover the debt service.
Reason for not recommending: Given the increased size of the debt service gap the rental car companies must take on as the result of declining projected per contract CFC revenues - and the resulting 283% increase in facility rents – the Airport needs to implement the recommended per day CFC rate structure to establish a sustainable balance of responsibility between the rental car companies and their customers and still cover the debt service on rental car garage.

PUBLIC OUTREACH/INTEREST

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

☐ **Criterion 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)**

✓ **Criterion 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)**

Copies of this staff report were distributed to the rental car companies and will be posted to the City's website for the November 8, 2011, Council Meeting.

Airport Commission Discussion and Recommendation

In addition, staff orally presented its proposal to implement a per day CFC to the Airport Commission at its meeting of August 1, 2011. Because the SCO had not concluded its review of the Airport's request for a per day CFC before the Commission's August 1 2011, meeting and staff presumed this would need to be presented to Council before the Commission's next scheduled meeting of October 17, 2011, the Commission did not have the benefit of the SCO's findings. However staff presented its recommendations, and the reasons for those recommendations, to the Commission. Although not having any findings from the SCO for consideration, the Commission nevertheless engaged in a lengthy and full discussion of staff's proposed recommendation to implement a per day CFC rate structure. In general, Commission members expressed concerns in three major areas:

1. At least one Commissioner expressed significant concerns that the imposition of a per day CFC would add costs to renting a car in San José that would discourage customers – particularly business customers – from renting cars. The Commissioner asked if there were other means to cover the debt service costs besides raising the CFC rate.

2. Other Commissioners, while generally supportive of the need for a per day CFC, expressed concerns about the planned increase from $6 to $7.50 in the per day fee in 2014. They questioned the need to incorporate a rate increase as part of the implementation of a per day fee. The concern was if customer rental car activity increased, the Airport might generate more revenue than is needed to cover its costs.

3. Some Commissioners were concerned that the proposed per day CFC rates – particularly the increase from $6 to $7.50 – was putting too much of the costs on the rental car customer.

Staff responded to all three of the Commission's concerns:

1. *Other means to cover the debt service costs:* There are only three possible sources of revenue to pay for the garage: 1) the rental car companies; 2) the rental car customers; and 3) Airport general revenues. The current cost allocation is too great for the rental car companies to sustain over the long term. It is only fair that the customers, who are the primary beneficiaries of the garage's facilities and operation, pay some additional cost for the new facility.

2. *The need to incorporate an increase as part of the implementation:* The financial analysis indicated the additional revenue will be needed. Even including the planned increase in the fee in 2014, assuming rental activity performs as projected, the total revenue raised ($609.3 million) will be still about $99.3 million *less* than the projected cost of the ConRac. While not specifically mentioned at the Commission meeting, the Airport's ability to increase the per day CFC from $6.00 to $7.50 in 2014 will be subject to the State Controller's Office substantiating the continuing need for the increased revenue at that time.

3. *Customer vs. the rental car companies' share of the cost:* While per day CFC fees from the customers are projected to generate $594 million over the 30-year term of the bond, rental car companies will be still be responsible for about $227 million in CFC-eligible costs related to the rental car facility ($99 million for the garage and over $128 million for the costs of the common-use transportation system). This demonstrates that the rental car companies will continue to have a significant financial obligation in the payment of the rental car garage and the common-use transportation system.

After a thorough discussion, the Commission voted 6-1 to support the implementation of a per day CFC but only at the $6 level at this time.

COORDINATION

Preparation of this report was coordinated with the City Attorney's Office and the City Manager's Office.

FISCAL IMPACT

Implementation of the alternative CFC at $6.00 per day and increasing to $7.50 per day in 2014 is projected to generate $593.7 million through FY2041. 100% of these revenues will be allocated to the costs of the debt service of the consolidated rental car garage.

CEQA

CEQA: Statutorily Exempt, File No. PP10-067(a), CEQA Guidelines Section 15273, Rates/Tolls/Fares/Charges.

/s/
WILLIAM F. SHERRY, A.A.E.
Director of Aviation

For questions please contact James Webb, Jr., Assistant to the Director for Government & Legislative Affairs, at (408) 392-3609.

Attachments:
A: October 13, 2011 Cover Letter and Review Report from State Controller's Office
B: Independent Audit Report – Customer Facility Charge Schedules of Revenues and Expenditures for Years Ended June 30, 2005 and 2006; Years Ended June 30, 2007 and 2008; and Years Ended June 30, 2009 and 2010
C: Independent Audit Report – Schedule of Forecasted Revenues and Costs of the Consolidated Rental Car Facility for the Period July 1, 2010 through June 30, 2041

Attachment A:

October 13, 2011 Review Report from the State Controller's Office (Cover Letter and Review Report)

NORMAN Y. MINETA SAN JOSÉ INTERNATIONAL AIRPORT

Review Report

ALTERNATIVE CUSTOMER FACILITY CHARGE

JOHN CHIANG
California State Controller

October 2011

JOHN CHIANG
California State Controller

October 13, 2011

California State Legislature
State Capitol, Room 3044
Sacramento, CA 95814

Dear Senators and Assembly Members:

The City of San José submitted to the State Controller's Office (SCO), independent auditor's reports (Attachments A through C) concerning Norman Y. Mineta San José International Airport's proposed alternative customer facility charge (CFC) for its Consolidated Rental Car (ConRAC) facility. The SCO has reviewed these independent auditor's reports and performed other procedures to determine whether the proposed alternative CFC complies with the requirements of California Civil Code section 1936 as amended by Senate Bill (SB) 1192 (Chapter 642, Statutes of 2010).

The responsibility of the independent auditor is to determine the reasonableness of San José Airport's projected costs to finance, design, construct, and/or operate allowable CFC facilities, and to attest that the projected aggregate amount of the alternative CFC collected shall not exceed the reasonable costs of allowable facilities. In the case of a transportation system, the independent auditor shall consider the reasonable costs of providing the transit system or busing network.

The SCO's responsibility is to review the independent auditor's report to determine the reasonable basis for the expressed opinion. In addition, the SCO shall independently examine and substantiate the necessity for, and the amount of, the alternative CFC. The SCO will report to the California Legislature on its conclusion, including whether the airport projected or actual costs are supported and justified, as specified in California Civil Code section 1936 as amended by SB 1192.

Based on our review, we determined that the alternative CFC revenues are not expected to exceed the reasonable costs projected to finance, design, and construct consolidated airport car rental facilities. However, we noted that approximately $18.5 million of projected interest earnings on the ConRAC debt service reserve fund were not recognized and recorded as alternative revenues. In addition, approximately $1 million of the forecasted ConRAC facility costs ($84,000 for the Owner Controlled Insurance Program and $963,000 for commercial paper to be refunded) were overstated.

As revenues and expenses for the ConRAC facility primarily are based on forecasts and projections, and are subject to change, these estimates should be considered and the future alternative CFC rate should be reassessed during the next required audit.

In addition, except for the issue noted above, our review found that:

- The San José Airport's projected costs are supported and justified.
- The San José Airport has taken steps to limit the projected costs.
- The San José Airport has identified and considered potential alternatives for meeting its revenue needs other than the collection of the alternative CFC.
- The San José Airport has assessed the extent to which rental car companies or other businesses or individuals using these facilities may pay for the costs of these facilities.

If you have any questions, please contact Andrew Finlayson, Chief, State Agency Audits Bureau, at (916) 324-6310.

Sincerely,

Original signed by

JEFFREY V. BROWNFIELD
Chief, Division of Audits

JVB/sk:wm

cc: Assembly Judiciary Committee
Senate Judiciary Committee
Assembly Transportation Committee
Senate Transportation and Housing Committee
The Honorable Chuck Reed
Mayor of the City of San José
Debra Figone, City Manager
City of San José
William Sherry, Director of Aviation
Norman Y. Mineta San José International Airport
James Webb, Jr., Assistant to the Director
Legislative and Government Affairs
Norman Y. Mineta San José International Airport

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Review Report

Summary

The City of San José submitted to the State Controller's Office (SCO), independent auditor's reports (Attachments A through C) concerning Norman Y. Mineta San José International Airport's (San José Airport) proposed alternative customer facility charges (CFCs) for its Consolidated Rental Car (ConRAC) facility. The SCO has reviewed the independent auditor's reports and performed other procedures to determine whether the proposed alternative CFC complies with requirements of California Civil Code section 1936 as amended by Senate Bill (SB) 1192 (Chapter 642, Statutes of 2010).

The responsibility of the independent auditor is to determine the reasonableness of the San José Airport's projected costs to finance, design, construct, and/or operate allowable CFC facilities and to attest that projected aggregate amount of the alternative CFC collected shall not exceed the reasonable costs of allowable facilities. In the case of a transportation system, the independent auditor shall consider the reasonable cost of providing the transit system or busing network.

The SCO's responsibility is to review the independent auditor's report to determine the reasonable basis for the expressed opinion. In addition, the SCO shall independently examine and substantiate the necessity for, and the amount of, the alternative CFC. The SCO will report to the California Legislature on its conclusion, including whether the San José Airport's projected or actual costs are supported and justified, as specified by California Civil Code section 1936 as amended by SB 1192.

Based on our review, we determined that the alternative CFC revenues, do not exceed the reasonable costs projected to (1) finance the constructed consolidated airport car rental facilities, and (2) operate the common use transportation system.

However, we noted that approximately $18.5 million of projected interest earnings on the ConRAC debt service reserve fund were not recognized and recorded as alternative revenues. In addition, approximately $1 million of the forecasted ConRAC facility costs ($84,000 for the Owner Controlled Insurance Program and $963,000 for commercial paper to be refunded) were overstated. As revenues and expenses for the ConRAC facility primarily are based on forecasts and projections, and are subject to change, these estimates should be considered and the future alternative CFC rate should be reassessed during the next required audit.

Background

Senate Bill (SB) 1192 (Chapter 642, Statutes of 2010) amended California Civil Code section 1936 (vehicle rental agreements, losses, liability, and remedies) to allow publicly owned airports to impose an alternative CFC on rental car company customers to finance, design, construct, and operate specific types of airport facilities. Airports can impose either (1) a standard CFC fee structure of up to $10 per rental car contract, or (2) an alternative CFC fee structure of up to $6[1] per rental car day, for no more than five days, for each individual rental car contract. The SCO has oversight responsibilities only for airports that impose the alternative CFC.

Airports can impose a CFC on rental car customers to:

- Finance, design, and construct consolidated airport car rental facilities;
- Finance, design, construct, and operate common-use transportation systems that move passengers between the airport terminal and car rental facilities and acquire vehicles for use in that system; and
- Finance, design, and construct terminal modifications solely to accommodate and provide customer access to common-use transportation systems.

Airports that impose an alternative CFC must submit an independent auditor's report to the SCO (1) prior to the initial collection, (2) prior to any increase, and (3) every three years after initial collection or any increase thereafter until the alternative CFC becomes inoperative. The purpose of the independent auditor's report is to determine the reasonable costs of the facilities, and to attest that the projected aggregate amount of the alternative CFC collected shall not exceed the reasonable costs of allowable facilities. In the case of a transportation system, the independent auditor shall consider the reasonable costs of providing the transit system or busing network. Upon receipt of the independent auditor's report, the SCO initiates its review in accordance with Civil Code section 1936 as amended by SB 1192.

Objective, Scope, and Methodology

California Civil Code section 1936(m)(1)(I)(ii) establishes requirements for airports that seek to impose or that are imposing an alternative customer facility charge on airport rental car customers. These requirements establish the SCO review and reporting responsibilities that are the basis of the following review objectives:

- To review the independent auditor's report submitted by the airport.
- To independently examine and substantiate the necessity for, and the amount of, the alternative CFC.
- To verify that the airport's actual or projected costs are supported and justified.

[1] The alternative fee structure maximum amount as of January 1, 2011, was $6.00, increasing to $7.50 per contract day on January 1, 2014, and to $9.00 on January 1, 2017. Airports that impose the alternative CFC must submit an independent audit report to the SCO no later than January 1, 2018.

- To determine whether the airport has taken adequate steps to limit the projected costs.
- To determine whether the airport has adequately identified and considered potential alternatives for meeting its revenue needs other than the collection of the alternative CFC fee.
- To determine whether the airport has adequately assessed the extent to which rental car companies or other businesses or individuals using these facilities may pay for the costs of these facilities.

Actual and Projected Revenues

We reviewed the San José Airport's actual revenues of approximately $8 million from July 1, 2000, through June 30, 2010, and projections of alternative CFC and other revenues of approximately $828 million from July 1, 2010, through June 1, 2041. The San José Airport's actual and projected revenues were disclosed in the independent accountant's dated May 26, 2011.

Actual and Projected Costs

We also reviewed the San José Airport's actual costs of approximately $233 million that were incurred from July 1, 2000, through June 30, 2010. These costs are based on amounts disclosed in the independent accountant's report dated May 26, 2011.

We also reviewed the San José Airport's projections of $604 million in costs to be incurred, specifically debt service financing costs and operating costs for the common-use transportation system, from July 1, 2010, through June 30, 2041. These costs are based on amounts disclosed in the independent accountant's report dated May 26, 2011.

Review of the Independent Accountant's and Auditor's Reports

The purpose of our review of the independent accountant's and auditor's reports were to determine the nature and extent of the evidence obtained by the independent accountant and auditor, in order to design procedures to independently examine and substantiate the necessity for, and amount of, the proposed alternative CFC. We did not review, nor did we conclude upon, the overall quality of the independent accountant's and auditor's reports, the accountant's and auditor's adherence to professional standards, the technical qualifications of the personnel assigned to the engagement, or the independence of the audit organization and its staff in relation to the San José Airport.

We did not review the City of San José's financial statements. The scope and review of the San José Airports' financial statements, accounting records, and source documents were limited to alternative CFC-related financial and forecast activities.

Projections

Our review encompasses projections through the life of the alternative CFC as proposed by the San José International Airport, and we believe our review and examination provides a reasonable basis for our conclusions. However, there may be differences between the forecasted and actual results, because events and circumstances frequently do not occur as expected, and those differences may be material. We have no responsibility to update this report for events and circumstances occurring after the date of this review report.

Conclusion

Our review disclosed that, except for the items discussed in the Finding and Recommendation section of this report, the Norman Y. Mineta San José International Airport complied with Civil Code section 1936, as amended by SB 1192, for the period from project inception (July 1, 2000) through June 30, 2041 (Forecasted Schedule).

However, we noted that approximately $18.5 million of projected interest earnings on the ConRAC debt service reserve fund were not recognized and recorded as alternative revenues. In addition, approximately $1 million of the forecasted ConRAC facility costs ($84,000 for the Owner Controlled Insurance Program and $963,000 for commercial paper to be refunded) were overstated. As revenues and expenses for the ConRAC facility primarily are based on forecasts and projections, and are subject to change, these estimates should be considered and the future alternative CFC rate should be reassessed during the next required audit.

Views of Responsible Officials

We issued a draft report on September 21, 2011. William F. Sherry, Director of Aviation, Norman Y. Mineta San José International Airport, responded by letter dated October 5, 2011 (Attachment), disagreeing with the results.

The airport argues and reiterates its position that by proposing a General Airport Revenue Bond (GARB), the airport has taken measures to limit the bond issuance costs, as GARB financed bonds are less costly compared with the stand-alone bond financing. Furthermore, the airport argues that pursuant to the Master Trust Agreement between the City and the Financial Advisor, the interest earnings on the GARB Debt Service Reserve Fund is considered general airport revenues. As for the expenses, the airport acknowledges that the costs were overstated due to rounding up and the actual costs will be determined, reconciled, and annually reported to the legislature when the bonds actually are issued.

Restricted Use

This report is solely for the information and use of Norman Y. Mineta San José International Airport, the City of San José, the California Legislature, and the SCO; it is not intended to be and should not be used by anyone other than these specified parties. This restriction is not intended to limit distribution of this report, which is a matter of public record.

Original signed by

JEFFREY V. BROWNFIELD
Chief, Division of Audits

October 13, 2011

Attachment B:

Independent Audit Report – Customer Facility Charge Schedules of Revenues and Expenditures for Years Ended June 30, 2005 and 2006; Years Ended June 30, 2007 and 2008; and Years Ended June 30, 2009 and 2010

NORMAN Y. MINETA
SAN JOSE INTERNATIONAL AIRPORT

Customer Facility Charge Schedules of
Revenues and Expenditures for
Years Ended June 30, 2005 and 2006;
Years Ended June 30, 2007 and 2008; and
Years Ended June 30, 2009 and 2010

MGO **Certified Public Accountants.**

NORMAN Y. MINETA
SAN JOSE INTERNATIONAL AIRPORT

Customer Facility Charge Schedule of Revenues and Expenditures for
Years Ended June 30, 2005 and 2006;
Years Ended June 30, 2007 and 2008; and
Years Ended June 30, 2009 and 2010

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Independent Auditor's Report on the
Schedule of Customer Facility Charge Revenues and Expenditures

The Honorable City Council
City of San José, California

We have audited the basic financial statements of the Norman Y. Mineta San José International Airport (the Airport), a Department of the City of San José, California (the City) as of and for the years ended June 30, 2005 and 2006, and have issued our report thereon dated September 29, 2006. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Our audits were made for the purpose of forming opinions on the basic financial statements of the Airport taken as a whole. The accompanying Schedule of Customer Facility Charge Revenues and Expenditures for the years ended June 30, 2005 and 2006 is presented for purposes of additional analysis as specified in the *California Civil Code Section 1936, as amended by SB 1192*, and is not a required part of the Airport's basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of management, the City Council of the City, and the California State Controller's Office, and is not intended to be and should not be used by anyone other than these specified parties.

Macias Gini & O'Connell LLP

Walnut Creek, California
September 29, 2006

NORMAN Y. MINETA SAN JOSE INTERNATIONAL AIRPORT
Schedule of Customer Facility Charge Revenues and Expenditures
Years Ended June 30, 2006 and 2005

	2006	2005
Revenues		
Customer facility charges:		
$5 per transaction designated for the Consolidated Rental Car Facility Project	$ -	$ -
Expenditures		
Consolidated Rental Car Facility Project	$ 89,426	$ 8,971

See accompanying notes to the schedules of customer facility charge revenues and expenditures.

Independent Auditor's Report on the Schedule of Customer Facility Charge Revenues and Expenditures

The Honorable City Council
City of San José, California

We have audited the basic financial statements of the Norman Y. Mineta San José International Airport (the Airport), a Department of the City of San José, California (the City) as of and for the years ended June 30, 2007 and 2008, and have issued our report thereon dated October 7, 2008. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States.

Our audits were made for the purpose of forming opinions on the basic financial statements of the Airport taken as a whole. The accompanying Schedule of Customer Facility Charge Revenues and Expenditures for the years ended June 30, 2007 and 2008, is presented for purposes of additional analysis as specified in the *California Civil Code Section 1936, as amended by SB 1192,* and is not a required part of the Airport's basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of management, the City Council of the City, and the California State Controller's Office, and is not intended to be and should not be used by anyone other than these specified parties.

Macias Gini & O'Connell LLP

Walnut Creek, California
October 7, 2008

NORMAN Y. MINETA SAN JOSE INTERNATIONAL AIRPORT

Schedule of Customer Facility Charge Revenues and Expenditures

Years Ended June 30, 2008 and 2007

	2008	2007
Revenues		
Customer facility charges:		
$5 per transaction designated for the Consolidated Rental Car Facility Project	$ 2,095,395	$ -
Expenditures		
Consolidated Rental Car Facility Project	$ 36,018,695	$ 3,995,729

See accompanying notes to the schedules of customer facility charge revenues and expenditures.

Independent Auditor's Report on the
Schedule of Customer Facility Charge Revenues and Expenditures

The Honorable City Council
City of San José, California

We have audited the basic financial statements of the Norman Y. Mineta San José International Airport (the Airport), a Department of the City of San José, California (the City) as of and for the years ended June 30, 2009 and 2010, and have issued our report thereon dated November 22, 2010. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Our audits were made for the purpose of forming opinions on the basic financial statements of the Airport taken as a whole. The accompanying Schedule of Customer Facility Charge Revenues and Expenditures for the years ended June 30, 2009 and 2010, is presented for purposes of additional analysis as specified in the *California Civil Code Section 1936, as amended by SB 1192*, and is not a required part of the Airport's basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of management, the City Council of the City, and the California State Controller's Office, and is not intended to be and should not be used by anyone other than these specified parties.

Macias Gini & O'Connell LLP

Walnut Creek, California
November 22, 2010

NORMAN Y. MINETA SAN JOSE INTERNATIONAL AIRPORT
Schedule of Customer Facility Charge Revenues and Expenditures
Years Ended June 30, 2010 and 2009

	2010	2009
Revenues		
Customer facility charges:		
$5 per transaction designated for the		
Consolidated Rental Car Facility Project	$ 3,012,460	$ 3,347,900
Expenditures		
Consolidated Rental Car Facility Project	$ 73,568,383	$ 110,146,584

See accompanying notes to the schedules of customer facility charge revenues and expenditures.

NORMAN Y. MINETA SAN JOSE INTERNATIONAL AIRPORT
Notes to the Schedules of Customer Facility Charge Revenues and Expenditures
Years Ended June 30, 2005 and 2006;
Years Ended June 30, 2007 and 2008 and
Years Ended June 30, 2009 and 2010

(1) General

California Civil Code §1936, as amended by Senate Bill 1192 (Code), permits an airport sponsor to require rental car companies to collect from a renter a Customer Facility Charge (CFC) to finance, design and construct a consolidated airport rental car facility [§1936 (a)(4)(A)(i)]; to finance, design, construct, and operate common-use transportation systems that move passengers between airport terminals and those consolidated car rental facilities, and acquire vehicles for use in that system [§1936 (a)(4)(A)(ii)]; and to finance, design, and construct terminal modifications solely to accommodate and provide customer access to common-use transportation systems [§1936 (a)(4)(A)(iii)].

The City of San José currently imposes a $10.00 per transaction CFC on vehicles rented at the Norman Y. Mineta San José International Airport (the Airport) in accordance with §1936(m)(1)(D) to help pay for capital costs and related debt service associated with the Consolidated Rental Car Facility (ConRAC) and certain operating expenses related to the transportation of rental car customers between Terminal A and the ConRAC. The City began collecting a $5.00 CFC per transaction in May 2000 for operating expenses and subsequently increased the CFC and began collecting the current $10.00 transaction in January 2008.

Beginning in January 2008, the City designated $5.00 of the per transaction CFC to help pay for debt service and other capital costs associated with the ConRAC and designated the remaining $5.00 to help pay for certain operating expenses related to the transportation of rental car customers.

The City's project includes the design and construction of a multi-level 3,000 space ConRAC facility, including ready/return parking and a quick turnaround facility for washing, fueling and minor servicing of rental cars. The facility also includes 320 public parking spaces on the ground floor providing direct access to the Terminal B Concourse. The design and construction costs of the public parking share of the facility represents 5.4 percent of the total facility costs and these costs have been excluded from the accompanying schedules. On June 30, 2010, the Airport opened ConRAC coinciding with the opening of the first phase of Terminal B.

(2) Basis of Presentation

The accompanying schedules are presented using the accrual basis of accounting for program expenses accounted for in the Airport funds as described in Note 1 to the Airport's basic financial statements.

(3) Relationship to the Basic Financial Statements

Expenditures for ConRAC are reported in the City's basic financial statements as additions to capital assets in its enterprise fund.

The Airport financed the project costs of the ConRAC through the issuance of City of San José, Norman Y. Mineta San José International Airport subordinated commercial paper notes and the Customer Facility Charges designated for the ConRAC facility. Under the commercial paper program, the Airport is able to issue commercial paper notes at prevailing interest rates for periods of maturity not to exceed 270 days.

(4) Schedules of Facility Charge Revenues and Expenditures

The accompanying Schedules of Customer Facility Charge Revenues and Expenditures (Schedules) presents the revenues earned from Customer Facility Charges designated for the ConRAC facility and project costs incurred on the ConRAC facility. The revenues and project costs reported in the accompanying Schedules agree or can be reconciled with the amounts reported in the Airport's basic financial statements.

Independent Auditor's Report on Compliance with Requirements of the Customer Facility Charge Program and on Internal Control over Compliance

The Honorable City Council
City of San José, California

Compliance

We have audited the Norman Y. Mineta San José International Airport's (the Airport), a Department of the City of San José, California (the City), compliance with the compliance requirements described in the *California Civil Code Section 1936, as amended by SB 1192*, applicable to its customer facility charge program for the years ended June 30, 2005, 2006, 2007, 2008, 2009 and 2010. Compliance with the requirements referred to above is the responsibility of the Airport's management. Our responsibility is to express an opinion on the Airport's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *California Civil Code Section 1936, as amended by SB 1192*. Those standards and the *California Civil Code Section 1936, as amended by SB 1192* require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a material effect on the customer facility charge program occurred. An audit includes examining, on a test basis, evidence about the Airport's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Airport's compliance with those requirements.

In our opinion, the Airport complied, in all material respects, with the compliance requirements referred to above that are applicable to the customer facility charge program for the years ended June 30, 2005, 2006, 2007, 2008, 2009 and 2010.

Internal Control over Compliance

The management of the Airport is responsible for establishing and maintaining effective internal control over compliance with the compliance requirements referred to above. In planning and performing our audit, we considered the Airport's internal control over compliance to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Airport's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct, noncompliance on a timely basis. A *material weakness* in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a compliance requirement will not be prevented, or detected and corrected, on a timely basis.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses in internal control over compliance. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, the City Council of the City, and the California State Controller's Office, and is not intended to be and should not be used by anyone other than these specified parties.

Macias Gini & O'Connell LLP

Walnut Creek, California
May 26, 2011

Attachment C:

Independent Audit Report – Schedule of Forecasted Revenues and Costs of the Consolidated Rental Car Facility for the Period July 1, 2010 through June 30, 2041

NORMAN Y. MINETA
SAN JOSE INTERNATIONAL AIRPORT

Independent Accountant's Report,
Schedule of Forecasted Revenues and Costs of the
Consolidated Rental Car Facility for the Period from
July 1, 2010 through June 30, 2041
(Forecasted Schedule) and
Notes to the Forecasted Schedule

MGO Certified Public Accountants.

NORMAN Y. MINETA
SAN JOSE INTERNATIONAL AIRPORT

Forecasted Revenues and Costs of the
Consolidated Rental Car Facility for the Period from
July 1, 2010 through June 30, 2041

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Independent Accountant's Report

The Honorable City Council
City of San José, California

California State Controller's Office
Sacramento, California

We have examined the accompanying Schedule of Forecasted Revenues and Costs of the Consolidated Rental Car Facility of the Norman Y. Mineta San José International Airport (Airport), a Department of the City of San José, California (City) for the period from July 1, 2010 through June 30, 2041 (Forecasted Schedule). The Airport's management is responsible for the Forecasted Schedule, which was prepared for compliance with California Civil Code Section 1936, related to Customer Facility Charges (CFC) and Consolidated Rental Car Facilities (ConRAC). Our responsibility is to express an opinion on the Forecasted Schedule based on our examination.

The "Actual Amounts" columns on the Forecasted Schedule represent the total amounts of the CFC receipts and disbursements for the years noted. Those amounts have been subjected to the auditing procedures applied in the audits of the Airport's basic financial statements as of and for the years ended June 30, 2005 and 2006; June 30, 2007 and 2008; and June 30, 2009 and 2010, as stated in our reports dated September 29, 2006; October 7, 2008; and November 22, 2010, respectively.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included such procedures as we considered necessary to evaluate both the assumptions used by management and the preparation and presentation of the Forecasted Schedule. We believe that our examination provides a reasonable basis for our opinion.

In our opinion, the accompanying Forecasted Schedule is presented in conformity with guidelines for presentation of forecasted information established by the American Institute of Certified Public Accountants, and the underlying assumptions provide a reasonable basis for management's forecast. However, there will usually be differences between the forecasted and actual results, because events and circumstances frequently do not occur as expected, and those differences may be material. We have no responsibility to update this report for events and circumstances occurring after the date of this report.

See all forecast assumptions described in detail in the Notes to the Forecasted Revenues and Costs of the Consolidated Rental Car Facility, beginning on page 5.

The accompanying Forecasted Schedule and our report are intended solely for the information and use of management, the City Council of the City, and the California State Controller's Office, and are not intended to be and should not be used by anyone other than these specified parties.

Macias Gini & O'Connell LLP

Walnut Creek, California
May 26, 2011

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Schedule of Forecasted Revenues and Costs of the Consolidated Rental Car Facility
For the Period from July 1, 2010 through June 30, 2041
(amounts in thousands)

	Actual Amounts		Forecasted	
	July 1, 2000 through June 30, 2004	July 1, 2004 through June 30, 2010	July 1, 2010 through June 30, 2041	Total
Revenues:				
Customer facility charge:				
$5 per transaction designated for the Consolidated Rental Car Facility	$ -	$ 8,456	$ 7,120	$ 15,576
At alternate rate (transaction per day)	-	-	593,650	593,650
Facility rent	-	-	227,299	227,299
Interest income	-	-	54	54
Total actual and forecasted revenues	$ -	$ 8,456	$ 828,123	$ 836,579
Costs:				
Consolidated Rental Car Facility project costs	$ 3,819	$ 223,828	$ 8,636	$ 236,283
Financing:				
Cost of bond issuance	-	-	2,151	2,151
Interest expense on Series 2011 Bonds	-	-	459,897	459,897
Commercial paper notes:				
Interest expense	523	4,779	1,303	6,605
Letter of credit and other fees	-	-	3,614	3,614
Transportation costs	-	-	128,029	128,029
Total actual and forecasted costs	$ 4,342	$ 228,607	$ 603,630	$ 836,579

See accompanying Notes to Schedule of Forecasted Revenues and Costs of the Consolidated Rental Car Facility.

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Notes to Schedule of Forecasted Revenues and Costs of the
Consolidated Rental Car Facility
For the Period from July 1, 2010 through June 30, 2041

(1) Summary of Significant Forecast Assumptions

The accompanying Schedule of Forecasted Revenues and Costs of the Consolidated Rental Car Facility (Schedule) presents, to the best of management's knowledge and belief, the Norman Y. Mineta San José International Airport (Airport) expected revenues generated for and reasonable costs of the financing of the Consolidated Rental Car Facility (ConRAC), for the period from July 1, 2010 through the fiscal year of the final payment of debt service on related bonds in 2041. Accordingly, the Schedule reflects management's judgment as of May 16, 2011 of the expected conditions and its expected course of action. This presentation is intended for the use by the Airport and the State Controller's Office in evaluating the revenue forecast and plan of funding, including the need to collect the alternative Customer Facility Charge (CFC) in accordance with §1936(m)(2) of the California Civil Code as amended by Senate Bill (SB) 1192 (hereinafter "Code"), in connection with the financing of the construction costs of the ConRAC. The assumptions disclosed herein are those that management believes are significant to the forecasted schedule. There will usually be differences between the forecasted and actual results because events and circumstances frequently do not occur as expected, and those differences may be material.

Pursuant to the Code, the Airport has determined the need for a ConRAC to provide for the safe, secure and efficient processing of rental car transactions for the traveling public, to enhance the choice afforded to rental car customers, and to mitigate the environmental impacts of the current rental car operations on the Airport's neighbors.

In order to provide for the long-term financing of the ConRAC, the Airport established collection of a CFC of $10.00 per rental transaction, in accordance with the Code, effective January 1, 2008 and designated $5.00 of the per transaction CFC to help pay for debt service and other capital costs associated with the ConRAC and designated the remaining $5.00 to help pay for certain operating expenses related to the transportation of rental car customers. Effective upon opening of the ConRAC, the $10.00 CFC per rental transaction is designated to help pay for debt service. Based on its forecasted revenue and plan of funding, the Airport has determined that it is necessary to collect the alternative CFC ($6.00/rental day) described in §1936(m)(2) of the Code.

All significant assumptions related to the forecasted revenues and costs are summarized in Note 6.

(2) Description of the Airport

The Charter of the City of San José created the Airport Department in 1965 as a department within the City. The City is a charter city that operates under a council-manager form of government. The eleven members of the City Council serve as the governing body that oversees the operation of the Airport. The Director of Aviation is responsible for the operation of the Department and reports directly to the City Manager. The Department operates the Airport, which is currently classified as a medium-hub domestic airport with some international service. The Department's mission is to meet the air transportation needs of the business and public communities in a safe, efficient, and effective manner.

The primary area served by the Airport consists of Santa Clara County, which is also the San José Primary Metropolitan Statistical Area and is commonly referred to as Silicon Valley. Furthermore, the primary service area includes the adjacent counties of Monterey, San Benito, and Santa Cruz and portions of two adjacent counties, Alameda and San Mateo (collectively, the "Air Service Area"). The Air Service Area is part of the larger San Francisco/San José/Oakland Area. The nearby counties of Merced, Stanislaus, and San Joaquin comprise a secondary service area. Three of the six Air Service Area counties belong to the Association of Bay Area Governments (ABAG) regional planning agency and rank within the top five most populated counties of the ABAG

Region, with Santa Clara and Alameda Counties ranking first and second, and the County of San Mateo ranking fifth. In addition to the Airport, two other commercial airports serve the San Francisco/San José/Oakland area: San Francisco International Airport and Oakland International Airport. A separate unit of local government operates each of the three facilities independently.

(3) New Consolidated Rental Car Facility

Currently, ten rental car company brands (associated with five rental car companies) operate at the Airport in the new seven-story ConRAC located immediately across the roadway from the entrance to the new Terminal B. The ConRAC, which is open, includes 3,000 ready/return spaces and approximately 320 hourly public parking spaces located on the first floor. The design and construction costs of the public parking share of the facility represents 5.4 percent of the total facility costs and these costs have been excluded from the accompanying schedule. On June 30, 2010, the Airport opened the ConRAC coinciding with the opening of the first phase of Terminal B.

The ConRAC includes all facilities necessary for each of the ten rental car company brands serving the Airport and their associated operations, including customer service, administrative offices, ready/return parking, fueling, and maintenance facilities. The ConRAC includes the first elevated "quick-turn-around" (QTA) facility to open at an airport in the United States. The QTA allows the rental car company brands to wash and fuel all their cars on site in order to return them to service efficiently. The three-level indoor elevated fueling station represents a significant technological and engineering achievement to ensure reliable and safe operations.

The ConRAC was constructed with a one megawatt solar power array on the roof, with more than 4,500 solar panels covering 3.4 acres. The City estimates that this solar power system provides approximately 20 percent of the power required by the ConRAC. The ConRAC also features a public art façade/mural, known as the "Hands", which faces the community to the east. The mural spans 1,200 feet, stands seven stories tall (visible miles away), and reflects the diverse spectrum of Silicon Valley's population.

(4) California Civil Code §1936, as amended by Senate Bill 1192 - Background and Overview

California Civil Code §1936, as amended by Senate Bill 1192 (Code), permits an airport sponsor to require rental car companies to collect from a renter a CFC to finance, design and construct a consolidated airport rental car facility [§1936 (a)(4)(A)(i)]; to finance, design, construct, and operate common-use transportation systems that move passengers between airport terminals and those consolidated car rental facilities, and acquire vehicles for use in that system [§1936 (a)(4)(A)(ii)]; and to finance, design, and construct terminal modifications solely to accommodate and provide customer access to common-use transportation systems [§1936 (a)(4)(A)(iii)]. The City currently imposes a $10.00 per transaction CFC on vehicles rented at the Airport in accordance with §1936(m)(1)(D) to help pay for debt service and other capital costs associated with the ConRAC and certain operating expenses related to the transportation of rental car customers between Terminal A and the ConRAC. The City began collecting a $5.00 CFC per transaction in May 2000 for operating expenses and subsequently increased the CFC and began collecting the current $10.00 transaction in January 2008 and designated $5.00 of the per transaction CFC to help pay for debt service and other capital costs associated with the ConRAC and designated the remaining $5.00 to help pay for certain operating expenses related to the transportation of rental car customers. Effective upon opening of the ConRAC, the $10.00 CFC per rental transaction is designated to help pay for debt service.

The Airport has determined that the base CFC rate of $10.00 per rental car transaction will be insufficient to pay for debt service associated with the ConRAC and operating expenses related to the transportation of the rental car customers.

The City plans to hold a public hearing in the summer of 2011 to obtain support of its intention to adopt an alternate CFC as permitted by §1936(m)(2) due to the insufficiency of the current CFC rate.

(5) Revenue Forecast and Plan of Refunding

The Airport financed the project costs of the ConRAC totaling $236.3 million through the issuance of City of San José, Norman Y. Mineta San Jose International Airport subordinated commercial paper notes and transaction customer facility charges. Under the commercial paper program, the Airport is able to issue commercial paper notes at prevailing interest rates for periods of maturity not to exceed 270 days. The City is planning to issue general airport revenue bonds (GARBs) to refund the subordinated commercial paper notes issued to help fund the costs of the ConRAC; to fund a capitalized interest fund, debt service reserve fund and a coverage fund; and to pay the cost of issuing the GARBs.

The GARBs will be repaid through future alternative CFC collections together with Facility Rent paid by the rental car companies. Although the GARBs will be secured by a pledge of net general airport revenues, the debt service associated with the bonds and certain transportation expenses are expected to be repaid solely from alternative CFCs collected from rental car transactions and Facility Rent paid by the rental car companies using the ConRAC.

(a) Summary of Sources and Uses

The funding program detailed below addresses the project costs of the ConRAC ($236.3 million) and commercial paper notes refunding requirements as follows (in millions):

Project costs:		
Prior to July 1, 2004	$	3.8
Fiscal year 2005 through 2010		223.8
Estimated costs for fiscal year 2011		8.7
Project costs		236.3
Customer facility charges applied towards project costs		(8.5)
Estimated commercial paper notes repaid in fiscal year 2011		(8.1)
Pro-rata charge of interest on commercial paper notes during construction		5.3
Estimated taxable commercial paper notes to be refunded	$	225.0

The commercial paper notes are to be refunded with GARBs. The estimated sources and uses for the GARBs are provided below (in millions):

Sources:		
Airport Revenue Bonds par amount	$	263.6
Uses:		
Refunding of the Taxable Commercial Paper Notes	$	225.0
Other fund deposits:		
Capitalized interest fund		6.1
Debt service reserve fund		26.4
Coverage fund		3.9
Cost of bond issuance and underwriter's discount		2.2
Total Uses	$	263.6

(b) Airport Revenue Bonds

The $263.6 million in Airport Revenue Bonds will be issued as GARBs on parity with its outstanding Airport Revenue Bonds. As of June 30, 2010, the Airport had the following outstanding Airport Revenue Bonds (in thousands):

Name of Issue	Date of Issuance	Original Principal Amount	Outstanding Principal Amount	Final Maturity Date
City of San Jose Airport Revenue				
Refunding Bonds, Series 1998A	01/27/1998	$ 14,015	$ 7,290	03/01/2018
Bonds, Series 2001A	08/14/2001	158,455	135,160	03/01/2031
Refunding Bonds, Series 2002A	01/09/2003	53,600	53,600	03/01/2018
Refunding Bonds, Series 2002B	01/09/2003	37,945	8,925	03/01/2012
Bonds, Series 2004C	06/24/2004	75,730	73,730	03/01/2026
Bonds, Series 2004D	06/24/2004	34,270	34,270	03/01/2028
Bonds, Series 2007A	08/22/2007	545,755	545,755	03/01/2047
Bonds, Series 2007B	08/22/2007	179,260	179,260	03/01/2037
		$ 1,099,030	$ 1,037,990	

Although the GARBs will be secured by a pledge of net general airport revenues, the bonds will be expected to be repaid solely from alternative CFCs collected from rental car transactions and Facility Rent paid by the rental car companies using the ConRAC.

The Airport's outstanding revenue bonds are rated A- by Fitch Ratings, A2 by Moody's Investors Service and A by Standard & Poor's, and were considered in developing other financing assumptions. The new GARBs are expected to be issued with a final maturity in 2041.

(c) Customer Facility Charges and Facility Rent

The City currently imposes a $10.00 per transaction CFC on vehicles rented at the Airport to help pay for debt service associated with the ConRAC construction costs and certain operating expenses related to the transportation of rental car customers from Terminal A to the ConRAC. The City began collecting $5.00 per transaction CFC for transportation operating expenses in May 2000. The City subsequently increased the CFC to fund capital costs and began collecting the current $10.00 per transaction CFC in January 2008.

The City opened the ConRAC in June 2010. Each of the five rental car companies that currently operate from the ConRAC (Airport Rental Car Companies) executed a Rental Car Operations Agreement and Lease with the City in February 2008, with an effective date June 2010, (Rental Car Agreement) for operations at the ConRAC. The Rental Car Agreement expires in June 2020, subject to two additional ten-year terms upon the mutual agreement of the parties. The Rental Car Agreement requires the Airport Rental Car Companies to pay certain concession, Facility Rent, and ground rent amounts to the City. Pursuant to the Rental Car Agreement, for a given Fiscal Year, the Airport Rental Car Companies must pay Facility Rent to the City equal to the annual debt service and transportation expenses associated with the ConRAC minus CFC Revenues.

In order to help keep Facility Rent to be paid by the Airport Rental Car Companies reasonable, the City plans to adopt an ordinance to impose the alternative CFC rate structure authorized by the State CFC Statute. The City anticipates approval from the State in the summer of 2011 and to begin collecting a $6.00 CFC per transaction day (subject to the 5-day maximum) per contract in September 2011. The City also plans to increase the CFC per transaction day to $7.50 (subject to the 5-day maximum) beginning January 1, 2014. Based on the consultant's analysis of historical rental car activity at the Airport in relation to prior increases in the cost of renting a car at the Airport (including but not limited to the increase in the CFC from $5.00 to $10.00 in January 2008), the City's plan to begin collecting a $6.00 CFC per transaction day and a $7.50 CFC per transaction day (subject to a five-day maximum) beginning January 2014 is not expected to have a significant impact on rental car activity at the Airport.

Should the City or the rental car companies determine at the expiration of the 10-year term not to extend the agreements, the City would not be able to continue to collect CFCs after the on-Airport rental car companies vacate the ConRAC. In such event, the City would be responsible for payment of the remaining ConRAC debt from other Airport revenues.

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Notes to Schedule of Forecasted Revenues and Costs of the
Consolidated Rental Car Facility
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(d) *Forecast Summary*

Based on the assumptions discussed in Note 6, the forecast summary for the period from July 1, 2010 through June 30, 2041 is as follows (in thousands):

Revenues:	
Customer Facility Charge	$ 600,770
Facility Rental	227,299
Interest income	54
Total revenues	828,123
Costs:	
Bond interest expense	459,897
Cost of bond issuance	2,151
Commercial paper notes debt service and other fees	13,046
Transportation expenses	128,029
Total costs	603,123
Total CFC project costs financed with GARBs	$ 225,000

Total revenues forecast to be collected for repayment of the Revenue Bonds total $828.1 million. The revenues are net of approximately $40.0 million not required for debt payment due from the release of the Capitalized Interest, Debt Service Reserve and Coverage Funds (see Note (5)(a)).

(6) Development of Financial Model and Assumptions Used

The Schedule of Forecasted Revenues and Costs is based on many assumptions that will be refined and revised once the Airport issues its GARBs. The primary assumptions in the forecast are as follows:

1. Bond issuance delivery date of August 30, 2011.
2. The $263.6 million in Airport GARBs is comprised of taxable bonds issued to refund outstanding subordinated commercial paper notes used previously to construct the ConRAC, which opened in June 2010.
3. First principal payment date is March 1, 2012 and final principal payment date is March 1, 2041.
4. True interest cost of 7.70 percent.
5. A portion of the proceeds of the GARBs will be used to fund approximately $6.1 million of capitalized interest.
6. A portion of the proceeds of the GARBs will fund a deposit to the Debt Service Reserve Fund calculated using "Lesser of three" test (10% Par Amount).
7. A portion of the proceeds of the GARBs will fund a deposit to the Coverage Fund calculated at 25% of fiscal year 2013 debt service and the Airport will deposit into the Coverage Fund a required coverage amount equal to 25% of the annual GARBs debt service.
8. Interest income from the Debt Service Reserve Fund and the Coverage Fund would be deposited with the Airport's Revenue Fund.

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9. Current bond ratings of A-/A2/A on Airport's outstanding revenue bonds were considered in development of other financing assumptions.

10. The Airport provided data on actual rental car transactions as reported by the car rental companies starting in fiscal year 2003. Rental car transaction activity at the Airport has generally followed the trends for Origination & Designation (O&D) deplaned passengers. Based on this relationship, the passenger projection for the Airport serves as the basis for the projection of rental car activity at the Airport.

11. The percentage of O&D deplaned passengers to total deplaned passengers at the Airport is assumed at 97.3 percent throughout the projection period, based on the percentage for fiscal year 2010. Total deplaned passengers are assumed to equal total enplaned passengers for the projection period.

12. The number of rental car transactions per O&D deplaned passenger is assumed to be 0.16 throughout the projection period, approximately equal to the level experienced for fiscal year 2010.

13. The number of rental car days per transaction is assumed to be 3.43 throughout the projection period based on fiscal year 2010 data reported by eight of the ten current airport rental car brands representing 97 percent of rental car gross sales at the Airport.

14. Transactions days are assumed to be adjusted downward by 15 percent to account for transaction days over the 5-day maximum. This reduction is based on calendar year 2009 and 2010 data received from four rental car brands representing approximately 56 percent of rental car gross sales at the Airport.

15. The economic base of the Air Service Area will remain stable and diversified during the projection period.

16. The Airport's passenger projections will be realized. Deplaned passengers are assumed to grow at 2.5 percent after 2017.

17. The current CFC of $10.00 per rental car transaction at the Airport is assumed to change to $6.00 per transaction day (subject to a 5-day maximum charge) beginning September 1, 2011, and to $7.50 per transaction day (subject to a 5-day maximum charge) beginning January 1, 2014.

18. The Airport Rental Car Companies will continue to operate at the Airport for the duration of the projection period. In the event one or more Airport Rental Car Companies leave the market, the Airport Rental Car Companies remaining (and any new entrant rental car companies) will act to serve demand and capture the market share of any departing company.

19. No significant changes in the forms of alternative transportation or expansion of existing modes of alternative transportation are expected at the Airport that would influence rental car demand during the project period.

20. Transportation expenses include operating costs related to the transport of rental car customers between Terminal A to the ConRAC. These costs are primarily based on the number of service hours charged by an outside bus operator (approximately 22,500 service hours for both fiscal years 2011 and 2012). These costs are assumed to grow at a 2.0 percent rate after 2012.

21. ConRAC project costs include estimated completion costs such as program management and other consulting services based on program manager's estimates and outstanding encumbrances.

22. Commercial paper interest expense for fiscal year 2012 is based on current interest rate of approximately 1 percent of the projected outstanding commercial paper notes payable. The letter of credit and other fees are based on assumed basis points of the total commercial paper capacity.

See below for forecasted debt service requirements on the ConRAC Bonds.

Fiscal Year	Debt Service Requirements: Principal	Debt Service Requirements: Interest	Debt Service Requirements: Total	Less Release of: Capitalized Interest Fund	Less Release of: Debt Service Reserve Fund	Less Release of: Coverage Fund	Net Debt Service
2012	$ 4,800	$ 9,963	$ 14,763	$ —	$ —	$ —	$ 14,763
2013	—	19,718	19,718	3,549	—	—	16,169
2014	—	19,718	19,718	2,130	—	—	17,588
2015	—	19,718	19,718	513	—	—	19,205
2016	70	19,718	19,788	—	—	—	19,788
2017	515	19,715	20,230	—	—	—	20,230
2018	880	19,688	20,568	—	—	—	20,568
2019	1,270	19,638	20,908	—	—	—	20,908
2020	1,705	19,560	21,265	—	—	—	21,265
2021	2,170	19,453	21,623	—	—	—	21,623
2022	2,680	19,314	21,994	—	—	—	21,994
2023	3,240	19,138	22,378	—	—	—	22,378
2024	3,850	18,919	22,769	—	—	—	22,769
2025	4,520	18,652	23,172	—	—	—	23,172
2026	5,255	18,328	23,583	—	—	—	23,583
2027	6,060	17,941	24,001	—	—	—	24,001
2028	6,960	17,479	24,439	—	—	—	24,439
2029	7,935	16,948	24,883	—	—	—	24,883
2030	8,995	16,342	25,337	—	—	—	25,337
2031	10,150	15,656	25,806	—	—	—	25,806
2032	11,400	14,881	26,281	—	—	—	26,281
2033	12,775	14,000	26,775	—	—	—	26,775
2034	14,265	13,013	27,278	—	—	—	27,278
2035	15,885	11,910	27,795	—	—	—	27,795
2036	17,645	10,682	28,327	—	—	—	28,327
2037	19,555	9,318	28,873	—	—	—	28,873
2038	21,585	7,807	29,392	—	—	—	29,392
2039	23,865	6,138	30,003	—	—	—	30,003
2040	26,445	4,293	30,738	—	—	2,515	28,223
2041	29,095	2,249	31,344	—	26,357	4,987	—
	$ 263,570	$ 459,897	$ 723,467	$ 6,192	$ 26,357	$ 7,502	$ 683,416

The financial model outputs the required annual cost to service the debt each year until all debts have been repaid. The estimate of annual bond debt service repayment cost is $723.5 million. Interest income from the capitalized interest fund; the release of the capitalized interest, debt service reserve and the coverage funds established at the issuance of the bonds; and additional required deposits to the coverage fund will be available to pay debt service costs. Thus the net debt service requirement to be recovered through Facility Rent and CFC collections is $683.4 million.

The next step in the financial model is to develop a plan to pay the annual net debt service requirements and transportation operating expenses. The City expects to pay these costs with Facility Rent paid by the Airport Car Rental Companies and CFC revenues. Thus, the final step in the financial model is the allocation of the costs between these two sources of revenue.

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Annual CFC receipts based on the alternative CFC collections starts on September 1, 2011 and ends on June 30, 2040 are estimated by the Airport to be $593.7 million. This estimate is based on an average transaction length at the Airport provided by Ricondo & Associates, Inc. (which obtained the information from the rental car companies) to be 3.43 days.

The summary of annual forecasted CFC and Facility Rent revenues is presented below.

Fiscal Year	Customer Facility Charge			Facility Rent	Revenues Available for Expenditures
	Transaction	Alternative	Total		
2011	$ 6,009	$ —	$ 6,009	$ 10,042	$ 16,051
2012	1,111	9,719	10,830	7,394	18,224
2013	—	11,906	11,906	7,514	19,420
2014	—	13,684	13,684	7,456	21,140
2015	—	15,560	15,560	7,310	22,870
2016	—	15,919	15,919	7,340	23,259
2017	—	16,314	16,314	7,418	23,732
2018	—	16,721	16,721	7,390	24,111
2019	—	17,137	17,137	7,385	24,522
2020	—	17,563	17,563	7,391	24,954
2021	—	17,998	17,998	7,387	25,385
2022	—	18,446	18,446	7,386	25,832
2023	—	18,906	18,906	7,388	26,294
2024	—	19,376	19,376	7,387	26,763
2025	—	19,857	19,857	7,389	27,246
2026	—	20,351	20,351	7,389	27,740
2027	—	20,856	20,856	7,385	28,241
2028	—	21,374	21,374	7,392	28,766
2029	—	21,906	21,906	7,390	29,296
2030	—	22,450	22,450	7,389	29,839
2031	—	23,008	23,008	7,391	30,399
2032	—	23,581	23,581	7,384	30,965
2033	—	24,167	24,167	7,387	31,554
2034	—	24,768	24,768	7,386	32,154
2035	—	25,382	25,382	7,387	32,769
2036	—	26,014	26,014	7,388	33,402
2037	—	26,662	26,662	7,388	34,050
2038	—	27,324	27,324	7,339	34,663
2039	—	28,002	28,002	7,398	35,400
2040	—	28,699	28,699	4,873	33,572
2041	—	—	—	5,456	5,456
	$ 7,120	$ 593,650	$ 600,770	$ 227,299	$ 828,069