



Memorandum

TO: HONORABLE MAYOR AND
CITY COUNCIL

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

SUBJECT: See Below

DATE: April 23, 2012

Approved

Date

5/1/12

SUBJECT: APPROVAL OF CONSULTANT AGREEMENT WITH RICONDO & ASSOCIATES FOR AIRPORT FINANCIAL CONSULTANT SERVICES

RECOMMENDATION

Approve an agreement with Ricondo & Associates, Inc. for airport financial consultant services for an initial three year term from July 1, 2012 to June 30, 2015, providing compensation not to exceed a maximum of \$500,000, with up to two, one-year options to extend the agreement at the City's sole discretion.

OUTCOME

Approval of the proposed agreement will provide continuity for ongoing and as needed strategic planning and financial consulting services, as well as preparation of bond feasibility reports for potential bond refundings related to Norman Y. Mineta San José International Airport.

BACKGROUND

In June 2005, based on the results of a competitive procurement process, Council approved a resolution authorizing the City Manager to execute a consultant agreement with Ricondo & Associates, Inc. (Consultant) to serve as the Airport financial feasibility consultant for the Airport Master Plan for a term of three years, with compensation of \$300,000. The contract included two, one-year options to extend the term of the Agreement. The City exercised its second and final extension of the contract in June 2009 and the Agreement expired June 30, 2010. The primary services incorporated in the original contract included developing an activity and financial forecast model and feasibility report to: support the Airport development program; support airline lease negotiations; and issue debt.

Ricondo & Associates is currently performing services under a City Manager executed contract necessary to complete two bond issues prior to the expiration of the commercial paper letters of credit, and to assist with airline lease negotiations. This contract expires June 30, 2012.

ANALYSIS

Ricondo & Associates has provided the City with Airport financial analyses, bond feasibility reports, economic analyses, and assistance with airline lease negotiations since 2005 and, as such, has particular expertise and knowledge on various issues associated with the Airport's finances. The Agreement with Ricondo & Associates will serve to ensure that the City has the ongoing resources of an airport financial consultant who is an integral partner in assisting staff with forecasting options to address the Airport's financial challenges. Ricondo & Associates would also provide bond feasibility reports for potential bond refundings in an effort to achieve debt service savings for the Airport. Ricondo & Associates' experience in working with the Airport through airline lease negotiations, the Terminal Area Improvement Program debt financings, and the current fiscal challenges provides valuable assistance, insight and continuity of knowledge during a time of declining staff resources.

San Jose Municipal Code Section 4.12.210 requires that the City engage in a competitive procurement on all professional services contracts with a payment amount exceeding \$10,000. Council may make a determination that an unusual or unique situation exists that makes the application of the requirements for competitive procurement of services included in a consultant agreement contrary to the public interest. Staff recommends that Council determine that it is not practical or expedient to engage in a new competitive procurement due to insufficient resources to undertake a competitive process at this time. In addition, the continuation of the Consultant's services is critical to the timeliness in developing and implementing options to address the Airport's financial future. The Consultant's experience and knowledge regarding the Airport is therefore sufficient basis for a determination that a unique situation exists that would make the application of the requirements for the new competitive procurement contrary to the public interest.

EVALUATION AND FOLLOW-UP

No subsequent Council action on this item is anticipated. If this action is approved, staff will monitor this contract and provide information to the City Council as appropriate.

POLICY ALTERNATIVES

Alternative 1: Do not enter into consultant agreement for airport financial consultant services.

Pros: Potential budget expenditure savings by not procuring such services.

Cons: City would not be able to adequately conduct the financial analyses to support an Airport bond refinancing, and would not be able to develop time critical forecasting options to address the Airport's fiscal challenges.

Reason for not recommending: Financial projections and analysis, and potentially a bond feasibility report, would be required for a future debt refinancing. Given the various issues surrounding the Airport's finances, timely consultant expertise is critical to decision makers.

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Alternative 2: Direct staff to conduct a new competitive procurement for an Airport Financial Feasibility Services Consultant.

Pros: Compliance with the City Qualifications Based Consultant Selection Procurement Procedures in Chapter 4.12 of the Municipal Code.

Cons: The time and expense related to a new Request for Proposals process does not ensure that the best expertise is available for the analysis required and does not guarantee lower service cost resulting from the process.

Reason for not recommending: Given the potential range and time-critical nature of airport financial and feasibility services that may be needed, retention of Ricondo & Associates under a new contract is preferable for the following reasons:

- Ricondo & Associates has an established financial forecasting model that works in conjunction with the Airport's rates & charges budget model. The transfer of information between these models is easy and readily available.
- Ricondo & Associates' involvement in the airline lease negotiations provides specific insight on the rate methodology outlined in the lease, and options to address the Airport's fiscal challenges.
- Ricondo & Associates has been part of a team working through the application of the 2007 unspent bond proceeds. Options on the use of the unspent proceeds are incorporated into the financial model to determine how best to achieve the desired outcome/cost per enplaned passenger (CPE) for the future.
- Finally, the Airport anticipates another bond refunding in 2012. Since Ricondo & Associates prepared the reports for the two bond deals in 2011, updating the existing financial feasibility report would be more efficient than creating a new model and report.

Without a surge in passenger traffic, the Airport will continue to experience financial challenges through (at least) the next five years. Maintaining continuity of knowledge will be essential as staff transitions take place. Ricondo & Associates can assist in the transition based on their experience in working with Airport staff through these difficult years.

PUBLIC OUTREACH

- Criteria 1:** Requires Council action on the use of public funds equal to \$1 million or greater. **(Required: Website Posting)**
- Criteria 2:** Adoption of a new or revised policy that may have implications for public health, safety, quality of life, or financial/economic vitality of the City. **(Required: E-mail and Website Posting)**
- Criteria 3:** Consideration of proposed changes to service delivery, programs, staffing that may have impacts to community services and have been identified by staff, Council or a Community group that requires special outreach. **(Required: E-mail, Website Posting, Community Meetings, Notice in appropriate newspapers)**

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This memorandum does not meet any of the criteria listed. However, it will be posted on the City's website for May 15, 2012 Council agenda.

COORDINATION

This memorandum has been coordinated with the City Attorney's Office, and the City Manager's Budget Office.

COST IMPLICATIONS

The feasibility consultant fees will be paid out of the Airport's Maintenance & Operations Fund. It is anticipated, however, that the Airport's Maintenance & Operations Fund could be reimbursed from costs of issuance from a bond issue for services related to the preparation of a bond feasibility report.

BUDGET REFERENCE

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

Fund #	Appn #	Appn. Name	RC #	Total Appn	Amt. for Contract	2011-12 Adopted Operating Budget Page*	Last Budget Action (Date, Ord. No.)
523	0802	NP/Equip-Airport	105110	\$35,764,440	\$500,000	Page XI-3	11/29/2011 Ord No. 28998

*The 2012-2013 Operating Budget is scheduled for approval by the City Council on June 12, 2012

CEQA

Not a Project, File No. PP10-066(d), Consultant Services for Design/Study/Research/Inspection.

/s/

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