

Memorandum

TO: HONORABLE MAYOR
AND CITY COUNCIL

FROM: William F. Sherry, A.A.E.
Julia H. Cooper
Jennifer A. Maguire

SUBJECT: AIRPORT SHUTTLE BUS
REDUCTION

DATE: April 30, 2012

Approved

Date

5/8/12

RECOMMENDATION

1. Adopt a resolution authorizing the City Manager to execute the following two agreements together with other documents necessary to complete the transaction:
 - a. First Amendment to the Restated Lease between the City of San José and Penske Truck Leasing Co., LP terminating the remainder of the lease term for fourteen compressed natural gas (CNG) shuttle buses (Fleet A) and sale to San José with San José's payment to Penske in the amount not to exceed \$4,407,508; and
 - b. Purchase Agreement between the City of San José and the City and County of San Francisco for the sale of Airport Shuttle Bus Fleet A for a total sales price of \$3,400,000.
2. Adopt the following 2011-2012 Appropriation Ordinance and Funding Sources Resolution amendments in the Airport Revenue Fund:
 - a. Increase the estimate for Earned Revenue by \$3,400,000; and
 - b. Increase the Reserve – Per Master Trust Agreement by \$3,400,000.

OUTCOME

By terminating the lease on 14 underutilized Compressed Natural Gas (CNG) shuttle buses from the Airport fleet and selling them to the San Francisco International Airport (SFO) for their use, the City will avoid additional unnecessary costs estimated at \$3,200,000 over the remaining three year term of the Lease Agreement.

BACKGROUND

On June 19, 2007, the City Council authorized the negotiation and execution of an Agreement with Penske for 14 CNG shuttle buses to transport Airport customers between the parking facilities and the rental car center. The buses were delivered and put into service in 2008.

In August 2009, a Restated Agreement was entered into to add 10 CNG buses to be used with the new Consolidated Rental Car Center which was under construction. The new buses, with entry/exit passenger doors on both sides, were put into service in June 2010 as the new roadways and facilities began operation.

In June 2011, the new parking facilities were opened and the Long Term parking facility on the west side of the Airport was closed. The closure of this lot eliminated the need for a long bus route, thus eliminating the need for 14 busses that were driving this route. In addition, this was the only route that allowed buses to be used with entry/exit doors on one side of the bus.

In July 2011, Airport Staff initiated discussions with Penske about reducing the size of the fleet. Penske and the Airport conducted considerable outreach regarding the possibility of recovering part of the remaining lease payments by finding a buyer for the buses. This outreach led to SFO making an offer to purchase the buses.

ANALYSIS

The Airport pays a fixed rate of \$7,674.50 per month per bus for the fourteen CNG buses. It was determined that continuing the lease payments for buses that were not being used on a regular basis would be less advantageous than selling the buses at a subsidized fair market price to another public entity.

SFO is in need of buses to replace their aging fleet. They have offered to pay \$3,400,000 for all fourteen buses. Airport staff has determined that this is a fair offer based on the estimated fair market value of the vehicles and the level of interest that was shown during the outreach process. Penske has had difficulty in obtaining buyers for previous fleets of our Airport buses and has supported us in the efforts to sell these buses.

The City and Penske have negotiated an Addendum to the Lease Agreement whereby Penske would allow the early termination and sale of the 14 buses that comprise Fleet "A" with San José's payment to Penske of \$4,407,508. The City will sell the Fleet to the City and County of San Francisco for San Francisco International Airport (SFO) for a total sales price of \$3,400,000. San Francisco will pay all transfer fees and sales taxes. San José will use the proceeds of the sale together with the difference of \$1,007,508 to make the buy out payment to Penske.

The Airport recommends this sale because it will result in a net cost avoidance by terminating the remaining 39 month term and thus avoiding the monthly lease payments. If the City

continues to pay the monthly lease on the 14 buses, the total expenditure would be \$4,190,277. Early termination will cost the City \$1,007,508 for a net cost avoidance of \$3,182,769 over the remaining 39 month term of the lease. The transaction will occur within the last two weeks of May 2012.

The Airport will retain the 10 remaining buses leased from Penske and will continue to successfully service the two Airport bus routes.

The San Francisco International Airport has reviewed and approved the terms of the Agreement. The Airport Commission of the City and County of San Francisco has adopted a resolution authorizing the purchase of the vehicles.

EVALUATION AND FOLLOW-UP

This agreement allows the Airport to reduce its budgetary expenses while maintaining the customer service requirements for its passengers and tenants. It is anticipated that the savings as a result of the reduction in the shuttle bus lease costs in 2012-2013 will be approximately \$1,290,000. The Administration will bring forward recommendations for appropriation adjustments to reflect the savings as part of the approval of the 2012-2013 Budget.

POLICY ALTERNATIVES

Alternative: Not entering into this agreement with Penske and SFO to reduce the Airport shuttle bus fleet.

Pros: Not entering into the agreement would maintain the fleet at 24 buses, as well as the full requirement of the Airport to pay the almost \$4,200,000 remaining on the lease.

Cons: Avoidance of additional lease payments of \$3,182,769 over 39 months would not be realized and excess buses would need to be maintained, insured and safeguarded at additional expense.

Reason for not recommending: The buses are not necessary for customer service functions at the Airport and the savings from the Agreement will benefit the Airport budget condition.

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 memo will be posted on the City Council agenda for the May 22, 2012 City Council meeting.

COORDINATION

This memo has been coordinated with the City Attorney's Office.

FISCAL/POLICY ALIGNMENT

This Council item is consistent with Council approved 2012-2013 Budget Balancing Strategy Guidelines, #2, "Balance ongoing expenditure needs with ongoing revenues to ensure no negative impact on future budgets and to maintain the City's high standards of fiscal integrity and financial management".

COST SUMMARY/IMPLICATIONS

Funding for the early termination of the shuttle bus lease is available from one-time Airport savings. These savings are associated with the reduction of the lease period and other fixed maintenance costs; the renegotiated agreement with the Santa Clara County Valley Transportation Authority (VTA) approved by Council on August 16, 2011, which modified compensation; and the reduction in shuttle bus operator service hours which are managed to correspond to the peaks and valleys in Airport activity.

1. AMOUNT OF RECOMMENDATION:

Payment to Penske:	\$4,407,508
<u>Sales Payment from SFO:</u>	<u>\$3,400,000</u>
Remaining Lease Buy-out:	\$1,007,508

2. SOURCE OF FUNDING: Airport Maintenance and Operating Fund (#523)

FISCAL IMPACT: Cost for the term of the addendum is funded by existing appropriations and results in a net one-time cost of \$1,007,508, with total savings over the lease period in excess of \$3,100,000.

BUDGET REFERENCE

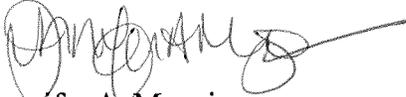
Fund #	Appn #	Appn. Name	RC #	Total Appn.	Amt. of Addendum	2011-2012 Adopted Operating Budget Page	Last Budget Action (Date, Ord. No.)*
523	0802	Airport Non-Personal/Equipment	405140	\$35,764,440	\$1,007,508	XI-3	11/29/11 Ord # 28998

CEQA

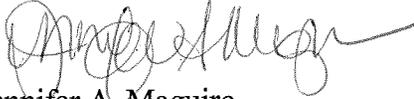
Not a Project, File No. PP10-066(e), Services that involve no physical changes to the environment.

/s/ Kimberly B. Aguirre for
William F. Sherry A.A.E.
Director of Aviation

/s/
Julia H. Cooper
Acting Director of Finance


Jennifer A. Maguire
Budget Director

I hereby certify that there will be available for appropriation in the Airport Revenue Fund in the Fiscal Year 2011-2012 moneys in excess of those heretofore appropriated there from, said excess being at least \$3,400,000.


Jennifer A. Maguire
Budget Director

For questions please contact Bob Lockhart, Airport Operations Manager at 408-392-3514