



Memorandum

TO: HONORABLE MAYOR
AND CITY COUNCIL

FROM: John Aitken

SUBJECT: SEE BELOW

DATE: December 14, 2020

Approved

Date

12/17/20

SUBJECT: APPROVAL TO INCREASE THE RENTAL CAR CONCESSIONS CUSTOMER FACILITY CHARGE AT THE NORMAN Y. MINETA SAN JOSE INTERNATIONAL AIRPORT AND DELEGATE AUTHORITY TO THE DIRECTOR TO ADJUST THE CUSTOMER FACILITY CHARGE BASED ON CURRENT BUDGET AND PASSENGER TRENDS

RECOMMENDATION

Adopt a resolution:

- (a) Increasing the Customer Facility Charge (“CFC”) from \$7.50 to \$9.00 per day, up to a maximum of five days per rental car contract, effective February 1, 2021, 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; and
- (b) Authorizing the Director of Aviation to adjust the CFC to accommodate current budget and passenger trends, but in no case set the rate above \$9.00 per day, up to a maximum of five days per rental car contract.

OUTCOME

Council's adoption of the recommended resolution would fulfill requirements of current state law which requires a public hearing to review the costs of financing the design and construction of the consolidated rental car facility and the costs of operating of the transportation system. Staff would then coordinate with the On-Airport Rental Car Companies to implement an increase to the rental car CFC rate collected from Airport rental car customers from \$7.50 to \$9.00 per day with a maximum number of five days per rental car contract.

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BACKGROUND

In 2005, the Terminal Area Improvement Plan (TAIP) budget included \$128.5 million for a 1,200 space Consolidated Rental Car Facility (“CONRAC”). However, a 1,200 space garage would not have accommodated all the On-Airport Rental Car Companies, and therefore the design and budget were increased to 3,000 spaces and \$271.8 million. In 2005 the City was subject to specific state legislation that set the maximum CFC collection at \$5 per contract.

To secure at least part of the additional construction cost, in 2007 the City Council authorized the City to sponsor new state legislation to allow the City to gain the same benefits in provisions of state law applicable to CFC collection and debt repayment that was available to other California airports. Benefits included allowance for earlier collection and no total collection and amortization limits. In 2007, SB 641 was passed by the legislature and signed by the Governor in July 2007.

In 2010, the rental car companies began operations in the new facility and the CFC was increased to the then maximum of \$10 per contract that was applied to the debt service payment of the rental car garage. The rental car companies paid the full cost of the transportation system between Terminal A and the CONRAC.

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

- 1) CFC’s; and
- 2) Facility rent paid by the On-Airport Rental Car Companies under the terms of their agreements.

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 costs for the CONRAC and CFC collections; and
- 2) The cost of operating the buses that transport customers between Terminal A and the CONRAC.

From the commencement of the current Rental Car Operating agreements, based on forecasts of rental car transactions, it was anticipated that CFC’s alone would not be sufficient to pay debt service as well as the transportation costs, and, as described above, the On-Airport Rental Car Companies would make up the difference as part of the facility rent.

With the passage of SB 1192 in 2010, airports were able to change their CFC collection to a per day CFC if they met the implementation requirements of state law. The maximum daily amount was \$6.00 per day with an increase in 2014 to \$7.50 and in 2017 to \$9.00 per day.

On November 11, 2011, Council approved Resolution No. 76048 that, in pertinent part:

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- (a) Imposed 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; and
- (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;

Subsequent to the Council approval of Resolution No. 76048, the State through budget action, removed the requirement that the State Controller’s Office substantiate the continued need for the rate increase. Based on this change in the law, City Staff implemented an increase to the CFC from \$6.00 per day, up to a maximum of five days per rental car contract, to \$7.50 per day, up to a maximum of five days per rental car contract, effective January 1, 2014.

The maximum \$7.50 per day rate has been in place and was sufficient to cover the debt service and transportation costs, until the current COVID pandemic impacted the number of passengers renting cars as well as the associated CFC collections. Based on current projections for 2021 through 2041, CFC collections at the current maximum rate will be insufficient to cover the debt service and the transportation costs between Terminal A and the Consolidated Rental Car Garage.

ANALYSIS

City Staff continues to monitor Airport traffic and is closely working with Airport tenants to develop a stable recovery plan. Staff is recommending flexibility to adjust the CFC rate to help the Airport provide stability to our tenants that are in danger of default during this unprecedented economic slowdown, ensure tenants are able to endure the impacts and continue to provide vital services to the traveling public and ensure debt service and transportation costs are adequately funded. The intent is to raise the CFC rate to the maximum of \$9.00, monitor the revenues and costs, and adjust the rate based on annual updates of actual data. In no case will the CFC be higher than \$9.00 per day per for a maximum of five days.

As required by state law, Airport staff began the CFC increase implementation process by conducting a review of the CFC revenues, debt service and transportation costs which results are

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contained in Attachment A (forecasted CFC and facility rent revenues and debt service costs - 2010-2041). Airport staff has conducted a review of the current CFC collections and projected costs of debt service and transportations costs for the CONRAC. The results of this review demonstrate that while the proposed increased CFC rate will significantly increase CFC collections, neither the current maximum CFC rate nor the proposed increased rate of \$9.00 per day will generate sufficient revenue to cover the costs of the debt service and transportation costs.

Airport Staff have performed the following tasks pursuant to state law (CA Government Code Section 50474.3):

- (i) The Airport completed an independent audit prior to the initial collection of the customer facility charge. Copies of the audit have been posted to the Airport's website since 2011.
- (ii) The Airport has updated the information provided in the initial collection audit completed back in 2011 and will post the update on the Airport's website.

City Staff is requesting that the City Council approve the updated findings that the CFC fee authorized in state law for On-Airport Rental Car Operations increase from \$7.50 per day (up to a maximum of five days) to \$9.00 per day (up to a maximum of five days), commencing February 1, 2021.

CONCLUSION

Based on City Staff's review of the data from the independent audit and the State Controller's Office findings, staff believes the data, facts and conclusions presented in this report meet the applicable state law requirements to demonstrate that:

1. The City has established the amount of revenue necessary to finance the reasonable costs of designing and constructing the CONRAC and to operate the common-use transportation system at the Airport.
2. Neither the \$10 per contract fee authorized under state law nor the current authorized \$7.50 per day CFC (up to a maximum of five days) will generate sufficient revenues to finance those costs.
3. The reasonable costs of designing and constructing the CONRAC and to operate the common-use transportation system at the Airport requires the additional amount of revenue that would be generated by the proposed maximum daily rate of \$9.00 (up to a maximum of five days).

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Council's adoption of the recommended resolution would complete the requirements of current state law and authorize the Airport to collect a maximum CFC fee of \$9.00 per day through the rental car contracts with Airport customers. All of the additional revenue generated by the new rate will be applied to the CONRAC debt service and the transportation costs between the Terminal A and the CONRAC.

Based on the twenty-year estimates (2022-2041) of rental car activity, an increase in the CFC rate is recommended to offset some of the expenses not covered by the estimated CFC revenues. This action will help support the rental car operations and their workforce retention in the short-term and long-term.

EVALUATION AND FOLLOW-UP

The Director of Aviation will be responsible for coordination of any changes to the On-Airport Rental Car Operations Customer Facility Charge and will render overall supervision of progress and performance.

CLIMATE SMART SAN JOSE

The recommendation in this memo has no effect on Climate Smart San José energy, water, or mobility goals.

POLICY ALTERNATIVES

Alternative #1: Council can elect to not implement the proposed \$9.00 CFC rate at the Airport and staff would continue collecting the existing rate of \$7.50.

Pros: The Rental Cars would continue to collect in accordance with the existing CFC rate and the rental car customers would see no increase to their overall rental fee.

Cons: Without the increase to the CFC rate, the Airport would likely raise insufficient revenue to cover the costs associated with the CONRAC debt service and transportation costs, resulting in additional expenses for the rental car industry.

Reason for not recommending: Given the estimated decrease in revenue for the rental car companies, the Airport can implement the recommended per day CFC rate structure to support the industry in the short and long-term and establish a sustainable balance of cost sharing between the rental car companies and their customers to cover the costs of the CONRAC.

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PUBLIC OUTREACH

This memorandum will be posted on the City's Council Agenda website for the January 5, 2021 Council Meeting.

COORDINATION

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

COMMISSION RECOMMENDATION/INPUT

Staff presented a verbal report on the CFC increase recommendation to the Airport Commission at their November 9, 2020 meeting. No commission recommendation or input is associated with this action.

CEQA

Statutory Exemption, Public Project number PP17-005.

/s/

JOHN AITKEN, A.A.E.
Director of Aviation

For questions, please contact John Aitken, A.A.E., Director of Aviation at (408) 392-3610.

Attachment

Attachment A

San Jose International Airport August 2020 Audit Update Report- Schedule of Forecasted Revenues and Costs of the Consolidated Rental Car Facility for the Period July 1, 2010 through June 30, 2041

Timeframe	CFC Rate	Per Transaction or Day	Revenue	Total Projected Costs	□
2010 - 2041	\$10.00	Per Transaction	\$288,487,757	\$741,757,359	(\$453,269,601)
2010 - 2041	\$7.50	Per Day (5 max)	\$578,646,113	\$741,757,359	(\$163,111,246)
2010 - 2041	\$9.00	Per Day (5 max)	\$694,375,335	\$741,757,359	(\$47,382,023)