City of FRESNO

REPORT TO THE CITY COUNCIL

AGENDA ITEM NO.	
COUNCIL MEETING	06/12/2007
APPROVED BY	
DEPARTMENT DIRECTOR	
CITY MANAGER	

June 12, 2007

FROM: RUSSELL C. WIDMAR, AAE
Director of Aviation

SUBJECT: APPROVE NEW LEASES AND RESTATED CONCESSION AGREEMENTS WITH THE RENTAL CAR COMPANIES OPERATING AT THE FRESNO YOSEMITE INTERNATIONAL AIRPORT TO COVER THEIR USE AND FINANCIAL SUPPORT OF THE CONSOLIDATED RENTAL CAR FACILITY TO BE CONSTRUCTED AT THE AIRPORT

KEY RESULT AREA
One Fresno

RECOMMENDATION:
Authorize the Director of Aviation to sign new leases and restated concession agreements on behalf of the City with each of Avis Rent A Car System Inc., Budget Rent A Car System, Inc., DTG Operations dba Dollar Car Rental, Enterprise Rent A Car Company of Sacramento, The Hertz Corporation and Vanguard Car Rental USA Inc. dba Alamo/National, the rental car companies currently operating at the Fresno Yosemite International Airport (Airport) to:

1. Extend their rental car concession privileges to August 31, 2014, and

2. Cover their leasing, through January 1, 2029, of individual service facilities in the Consolidated Rental Car Facility (Facility) to be constructed at the Airport (this lease term will be co-extensive with the renewal in 2014 and beyond of the respective Concession Agreements, and

3. Cover any additional matters that might be required or desirable to ensure the timely construction and continuous maintenance of the Facility and/or the protection of the bondholders' interest.

With the form of all agreements having been reviewed and approved by the City Attorney.

EXECUTIVE SUMMARY:
The six rental car companies currently operating at FYI are the companies that offered the highest minimum annual guaranteed rentals and concession fees in response to the Airport's Request for Proposals (RFP) issued April 2004. That RFP covered a five year prospective term expiring August 31, 2009, and it mentioned that the City might impose a Customer Facility Charge (CFC) on rental car contracts written at the Airport during that five year term – for the purpose of funding a Consolidated Rental Car Facility at the Airport.

The CFC was imposed effective July 1, 2005 and the six companies have been, and are, collecting and remitting it. While the CFCs were/are being collected, Airports Department staff have been negotiating with the six rental car companies on the design and budget for the Facility; the means of financing its design and construction and continuing maintenance; AND means to assure prospective financiers that they would still be repaid even if future CFC revenues should ever prove inadequate. Simultaneously, Airports staff undertook what proved to be a lengthy and difficult, associated task - negotiating surrenders of the remaining leasehold interests in seven undeveloped lots at the Airport that were required for construction of the Facility. Further, based on bids then being received for other construction at the Airport, staff was concerned that the actual construction cost of the Facility might far exceed the budget and the Airports Department's borrowing capacity. Accordingly, a comprehensive review of the Department's construction contract specifications and contract management methods was undertaken and significant changes were implemented (with very favorable results).

CFC collections have totaled $2,113,199 through 3/31/07. These funds have been used to fund engineering, legal, early construction, and other costs associated with the Facility. All future CFC collections are pledged to pay the debt service on the $22 million of Series 2007 General Airport Revenue Bonds sold on May 31, 2007 to finance the bulk of the construction and fund required reserve accounts.

If future CFCs should be inadequate to cover debt service on the bonds at any time during the life of the bonds, the six rental car companies and the Airports Department have agreed to make up the shortfall through a contingent rent methodology provided in the Concession Agreements. This additional, contingent source of bond repayments provides additional security for the bond purchasers, thereby reducing the risk of default and thereby reducing the interest cost of the bonds to the City's Airports Department. This promise of the six established and successful rental car companies is the principal reason for leasing them individual service facilities in the Facility for twenty years (contingent on their periodic removal of their respective Concession Agreements).

Notwithstanding the twenty years facilities lease, the six rental car companies' privileges to rent cars at the Airport will be extended only until August 31, 2014, by which time another rental car RFP will have been advertised and implemented. This extension will get the Airport, the current rental car operators, and our rental car customers through the necessarily multiple phases of the demolitions and construction (and the inevitable dislocations, which will be minimized) and allow the six companies time to recover from the dislocations and enjoy for about five years the benefits of the Facility they will be so instrumental in creating. On August 31, 2014, if any of the incumbent six companies should not obtain replacement concession privileges, then the City can, effectively, take back the unsuccessful company's service facility lease and re-let the premises to a replacement rental car company. .

KEY OBJECTIVE BALANCE

The Facility will vastly improve the experience of FYI's rental car customers (Customer Satisfaction); and will be more user-friendly for the rental car companies' employees (Employee Satisfaction); and will be constructed at the best price and paid for by the users through CFCs (Financial Management).

FISCAL IMPACT

There will be no impact to the General Fund from this action.