



SAN DIEGO COUNTY
REGIONAL AIRPORT AUTHORITY
STAFF REPORT

Item No.
17

Meeting Date: **FEBRUARY 9, 2012**

Subject:

Authorization To: (1) Amend Contract With U.S. Bank, N.A. For Banking Services and Merchant Credit Card Services And (2) Enter Contract With American Express Travel Related Services Company, Inc. For Merchant Credit Card Services

Recommendation:

Adopt Resolution No. 2012-0017, authorizing the President/CEO to take necessary actions to: (1) amend the Authority's contract with U.S. Bank, N.A. ("USB") to permit the Authority to perform as the merchant for purposes of accepting credit card payments by patrons of Authority-owned Airport Parking Lots ("Airport Parking Lots"); and (2) execute a credit card processing contract with American Express Travel Related Services Company, Inc. ("AMEX") to permit Airport Parking Lot patrons to use American Express credit cards for payment.

Background/Justification:

When merchants accept payment by credit card, certain fees are charged for processing the charge, debiting the payor's account, and forwarding payment to the merchant. The preponderance of these charges is known as "Interchange and Assessment Charges" that are comprised of charges by the bank that issued the credit card, the credit card association involved (i.e., VISA, MasterCard, DiscoverCard) and other third parties that are in the credit-card-payment processing stream. These per transaction charges are passed through to the concerned merchant as a deduction from the gross amount of the transaction prior to crediting the merchant's account. In addition to the Interchange and Assessment Charges, merchants also pay other fees and charges to the credit card processing company and the bank that handles the merchant's credit card account ("Merchant Charges"). Credit card processing companies and banks customarily provide discounted Merchant Charges to government agencies that accept payments by credit card.

AMEX issues its own credit card and handles the charging, debiting, and crediting of payments made on its credit card in house. Merchants accepting AMEX credit cards are basically charged in the same manner as merchants accepting payment by VISA, MasterCard, or DiscoverCard.

Patrons using the Authority's Airport Parking Lots frequently pay by credit card. In Fiscal Year 2011, approximately one and one-half million credit card transactions occurred representing nearly thirty-one million dollars (\$31,000,000) in gross revenue .

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Historically, the contractor managing the Authority's Parking Lots has been the merchant for all credit card transactions, and the Interchange and Assessment Charges and Merchant Chares levied on each credit card transaction were deducted from the gross proceeds of the tranaction and the resulting net proceeds were deposited in the contractor's account. The contractor then forwarded the net revenue to the Authority. As a private entity, the contractor was not eligible for the discounted government agency Merchant Charge rate.

In 2010, the Authority contracted with USB to provide Depository Banking Services and Merchant Credit Card Services. Merchant Credit Card Services include services that are charged as Merchant Charges for processing payments made by VISA, MasterCard, and Discover Card. This contract provides a vehicle whereby the Authority may replace the Airport Parking Lot contractor as the merchant for credit card payments by patrons of the Authority's Parking Lots and thereby permit the Authority to benefit by receiving the discounted government rate for Merchant Charges. The term of the USB contract ends February 28, 2015. Staff estimates the discounted Merchant Charge rates negotiated with USB will increase net revenue to the Authority an average of Four Thousand Dollars (\$4,000) per month for a aggregate increase of approximately One Hundred, Fourty-four Thousand Dollars (\$144,000) over the remaining thirty-six (36) months of the USB contract. In addition, replacing the contractor as the merchant for Airport Parking Lot credit card transactions will facilitate the reporting of credit-card-derived revenue and increase accountability of such revenue.

Justification:

Staff is prepared to take over as the merchant for Airport Parking Lot credit card transactions in March 2012. To do so will require: (1) amending the contract with USB to accommodate the processing of VISA, MasterCard, and Discover card transactions; and (2) entering a contract with AMEX to accommodate charges to the AMEX credit card by Airport Parking Lot patrons.

The amendment to the USB contract will:

1. Increase the maximum amount payable under the contract from its original level of Two Hundred, Fifty Thousand dollars (\$250,000) to Two Million, Five Hundred Thousand Dollars (\$2,500,000). This increase in the maximum amount payable is somewhat illusory because it represents the credit card fees currently being paid by the Airport Parking Lot contractor prior to the contractor transferring the net revenue (gross revenue minus credit card fees) to the Authority. The increase simply accounts for the Interchange and Assessment Charges and Merchant Charges that will be deducted from the gross revenue associated with credit card transactions after the Authority replaces the Airport Parking Lot contractor as the merchant accepting credit card payments. The net revenue actually received by the Authority will *increase* because of the discounted government rate for Merchant Charges for which the Authority will be charged.

2. Permit USB's use of Elavon, Inc., a Georgia corporation and a leader in the electronic credit card processing industry ("Elavon"), to facilitate the processing of credit card payments by Airport Parking Lot patrons.

The contract with AMEX is required because a significant number of patrons, especially business travelers, use AMEX to pay Airport Parking Lot charges. The contract with AMEX will essentially replicate the amended contract for Merchant Card Services with USB.

Fiscal Impact:

The estimated savings in credit card processing fees charged are approximately \$4,000 per month. This will be recognized in the form of increased net revenue to the Authority. In other words, although the total contract value is increasing by \$2,250,000 to a total \$2,500,000, there is no impact to the operating budget due to the fees being charged before revenue is credited to the Authority's account. Revenue, net of fees, is then credited to the Authority's account.

Authority Strategies:

This item supports one or more of the Authority Strategies, as follows:

Community Strategy Customer Strategy Employee Strategy Financial Strategy Operations Strategy

Environmental Review:

- A. This Board action, as an administrative action, is not a project that would have a significant effect on the environment as defined by the California Environmental Quality Act ("CEQA"), as amended. 14 Cal. Code Regs. §15378. This Board action is not a "project" subject to CEQA. Pub. Res. Code §21065.
- B. California Coastal Act Review: This Board action is not a "development" as defined by the California Coastal Act Pub. Res. Code Section 30106.

Equal Opportunity Program:

Not applicable.

Prepared by:

VERNON D. EVANS
VICE PRESIDENT, FINANCE/CHIEF FINANCIAL OFFICER/TREASURER



RESOLUTION NO. 2012-0017

A RESOLUTION OF THE BOARD OF THE SAN DIEGO COUNTY REGIONAL AIRPORT AUTHORITY AUTHORIZING THE PRESIDENT/CEO TO TAKE NECESSARY ACTIONS TO: (1) AMEND THE AUTHORITY'S CONTRACT WITH U.S. BANK, N.A. TO PERMIT THE AUTHORITY TO PERFORM AS THE MERCHANT FOR PURPOSES OF ACCEPTING CREDIT CARD PAYMENTS BY PATRONS OF AUTHORITY-OWNED AIRPORT PARKING LOTS; AND (2) EXECUTE A CREDIT CARD PROCESSING CONTRACT WITH AMERICAN EXPRESS TRAVEL RELATED SERVICES TO PERMIT AIRPORT PARKING LOT PATRONS TO USE AMERICAN EXPRESS CREDIT CARDS FOR PAYMENT

WHEREAS, in Fiscal Year 2011, the number of credit card payments accepted at Authority-controlled parking lots at the San Diego International Airport ("Airport Parking Lots") numbered approximately One and One-half Million transactions representing nearly Thirty-one Million Dollars (\$31,000,000) in gross revenue; and

WHEREAS, the Contractor ("Contractor") that manages the Authority Parking Lots currently performs the role of merchant for purposes of processing credit card transactions; and

WHEREAS, replacing Contractor with the Authority as the merchant for the processing of credit payments made by Airport Parking Lot patrons, will benefit the Authority by reducing credit card transaction fees and charges that are passed through to the Authority, facilitating the reporting of credit-card-derived revenue, and increasing the accountability of such revenue; and

WHEREAS, in order for the Authority to replace the Contractor as the merchant processing credit payments, it will be necessary to amend the Authority's Agreement with U.S. Bank, N.A. ("USB") to provide for the processing of payments made by Airport Parking Lot patrons using VISA, MasterCard, and DiscoverCard; and

WHEREAS, one provision of the amendment to the Agreement contract will increase the maximum amount payable to Two Million Five, Hundred Thousand Dollars (\$2,500,000) to account for the pass-through fees that will be charged to the Authority, as the merchant, by banks issuing the credit cards, credit card associations, and other third parties and deducted from the gross amount of the credit card transactions prior to being credited to the Authority's account; and

WHEREAS, the second purpose of the amendment to the Agreement contract is to permit USB to use Elavon, Inc., a Georgia corporation and a leader in the electronic credit card processing industry ("Elavon"), to facilitate the processing of credit card payments made by Airport Parking Lot patrons; and

WHEREAS, in order for the Authority to replace the Contractor as the merchant processing credit payments, it will be necessary for the Authority to enter a credit card processing agreement with American Express ("AMEX") to provide for the processing of payments made by Airport Parking Lot patrons using the AMEX credit card; and

WHEREAS, the Board has determined that it is in the best interest of the Authority to amend the USB contract and to enter into a credit card processing agreement with AMEX so that the Authority may act as the merchant for purposes of accepting credit card payments from patrons of the Airport Parking Lots.

NOW, THEREFORE, BE IT RESOLVED that the Board hereby RESOLVES and DIRECTS that the President/CEO is authorized to take such action as necessary to amend the Authority's contract with USB to permit the Authority to perform as the merchant for purposes of accepting credit card payments by patrons of Authority-owned Airport Parking Lots using VISA, MasterCard, and Discover credit cards; and

BE IT FURTHER RESOLVED that such amendment, *inter alia*, provides for increasing the maximum amount payable under the Agreement to Two Million, Five Hundred Thousand Dollars (\$2,500,000), and permits USB to use Elavon to facilitate the processing of credit cards payments made by patrons of Airport Parking Lots; and

BE IT FURTHER RESOLVED that the President/CEO is further Authorized to execute a credit card processing agreement with AMEX to provide for permit Airport Parking Lot patrons to pay using the AMEX card;

BE IT FURTHER RESOLVED that the Board hereby ADOPTS the above recitals as findings; and

BE IT FURTHER RESOLVED that the President/CEO is hereby Authorized to take such further actions required to comply with this Board action; and

BE IT FURTHER RESOLVED that the Board FINDS that this action is not a "project" as defined by the California Environmental Quality Act ("CEQA"), Pub. Res. Code § 21065, and that it is not a "development" as defined by the California Coastal Act, Pub. Res. Code § 30106.

PASSED, ADOPTED, AND APPROVED by the Board of the San Diego County Regional Airport Authority at a special meeting this 9th day of February, 2012, by the following vote:

AYES: Board Members:

NOES: Board Members:

ABSENT: Board Members:

ATTEST:

TONY R. RUSSELL
DIRECTOR, CORPORATE SERVICES/
AUTHORITY CLERK

APPROVED AS TO FORM:

BRETON K. LOBNER
GENERAL COUNSEL