

Memorandum



CITY OF DALLAS

DATE February 26, 2010

TO Honorable Mayor and Members of the City Council

SUBJECT Love Field Concession Plan

Attached is the briefing entitled, "Love Field Concession Plan" that will be presented to you on March 3, 2010.

Please contact me if you need additional information.

A handwritten signature in black ink, appearing to read 'A.C. González', written over a circular stamp or seal.

A.C. González
Assistant City Manager

c: Mary K. Suhm, City Manager
Thomas P. Perkins, Jr., City Attorney
Deborah Watkins, City Secretary
Craig Kinton, City Auditor
Judge C. Victor Lander, Administrative Judge
Ryan S. Evans, First Assistant City Manager
Jill A. Jordan, P.E., Assistant City Manager
Forest E. Turner, Assistant City Manager
Jeanne Chipperfield, Chief Financial Officer
Edward Scott, Director, Controller's Office
Helena Stevens-Thompson, Assistant to the City Manager - Council Office
Daniel T. Weber, Director, Department of Aviation

Love Field Concession Plan

Briefing to
City Council

Department of Aviation
March 3, 2010

Briefing Objectives

- Present recommendation regarding Love Field Concession Contracts
 - Food & Beverage
 - Retail
 - Based on revised Concession Plan and term sheets agreed to by the parties
- Review Next Steps

Negotiation Objectives

- Enhance customer experience
- Generate more revenue for the Airport (and contractors)
- Recognize Incumbents' past contributions
- Create competitive contracting environment for additional opportunities
- Continue MWBE efforts

Results

- For the Customer
 - Improved facilities from capital investment
 - Improved customer service/convenience
 - More space allocated, more concessions
 - Increased number of places to purchase bottled water
 - Wider range of choices
 - Product selection, brands, price points, ease, health
 - Price protection through enforcement of street pricing policy

Results



- For Airport: Increased Revenue
 - Consultants' Pro formas project that the combination of:
 - Expanded space allowing more offerings
 - Expanded concepts appealing to broader customer base
 - Optimum locations reaching more customers
 - Popular merchandise mix encouraging greater sales
 - Expanded points of sale
 - Will double gross sales for the concessionaires and rental revenue for the City, on only 58% more space in 2015 versus 2008
 - Increasing concessionaire revenue per square foot of capital investment
 - Increasing Airport revenue to support LFMP debt service
 - Gross revenue per enplaned passenger
 - 2008 \$3.48 Food & Beverage, \$1.60 Retail
 - 2015 \$7.59 Food & Beverage \$3.27 Retail

Results

- For concessionaires: Recognition of past work
 - Roughly same space provided in new terminal as before
 - Opportunity to compete for additional space
 - Start new lease with set industry standard rents; subject to change to match their RFP response, if successful
 - Space build out phased as traffic warrants
 - Longer term to amortize capital investment

Results



- For other concessionaires: More opportunities
 - Open competition for an attractive package for both concession types
 - Overall Concession Plan developed to ensure RFP packages are economically viable and attractive to other proposers
- For MWBE's: More opportunities
 - Current concessionaires participation
 - Food & Beverage – 99% through direct ownership
 - Retail – 40% through joint ventures
 - New proposals
 - FAA approved DBE goal for all concessions is 23.5%
 - RFP packages expand the market for new DBE & MWBE opportunities
 - Concession Plan business strategy enables DBE, MWBE to establish businesses which are complementary to others in terminal, rather than in direct competition

Underlying Plan Strategy

- Capitalize on terminal expansion (the LFMP)
 - Approximately doubles today's concession space
 - Can develop modern, efficient and passenger-friendly terminal
 - Can enhance customer service and airport revenue potential
- Recognize Incumbent concessionaires
 - Served Love Field since 1996
 - Provided high level of service in good times and bad times
 - Earned a place in the new facility
- Create competitive environment
 - While incumbents will have similar amount of space in new facility, remaining new space will be awarded thru competitive process

Methodology

- **Used Concession Consultant**

- Unison Consulting, Inc. – Airport Consulting Firm Founded in 1989
 - Airport's consultant since 2007
 - 40+ Airport clients in US and Canada
 - Broad Experience in all aspects of airport concessions consulting
- Role was to:
 - Provide national perspective on business model, rent structure, etc
 - Verify cost and expense projections
 - Insure space and brand distribution was viable and attractive with concepts that are complementary rather than directly competitive
- They:
 - Provided national benchmarking data
 - Analyzed revenue per enplanement data for opportunities
 - Provided best practices information
 - Reviewed pro's and con's of competitive process in our situation

Methodology

- Worked with current concessionaires to address concerns, such as:
 - Allocated space relative to demand
 - Passenger traffic meeting projections (major event or recession)
 - Capital cost risk of over-building concessions
 - Merchandise and operating cost of lower than estimated demand

Available Concession Spaces

- Total concession space under earlier Schematic Design drawings plans: 51,238 SF
 - Food & Bev: 35,595 SF (20,588 incumbent + 15,007 RFP)
 - Retail: 15,643 SF (7,183 incumbent + 8,460 RFP)
- Space build-out strategy
 - Start up space allocation was reevaluated and determined in need of adjustment
 - Phase in approach was developed
 - Enplanement levels are to be used as triggers, rather than fixed projections
 - Exact space dimensions are subject to being revised as terminal plans are further developed

Concession Spaces: Adjusted and Phased



Passenger Enplanements	Food & Bev SF	Retail SF	Total SF
5.26 M (Opening)	31,271	11,812	43,083
5.75 M (Phase II)	4,923	814	5,737
6.26 M (Phase III)	2,861	2,027	4,888
Total SF	39,005	14,653	53,708

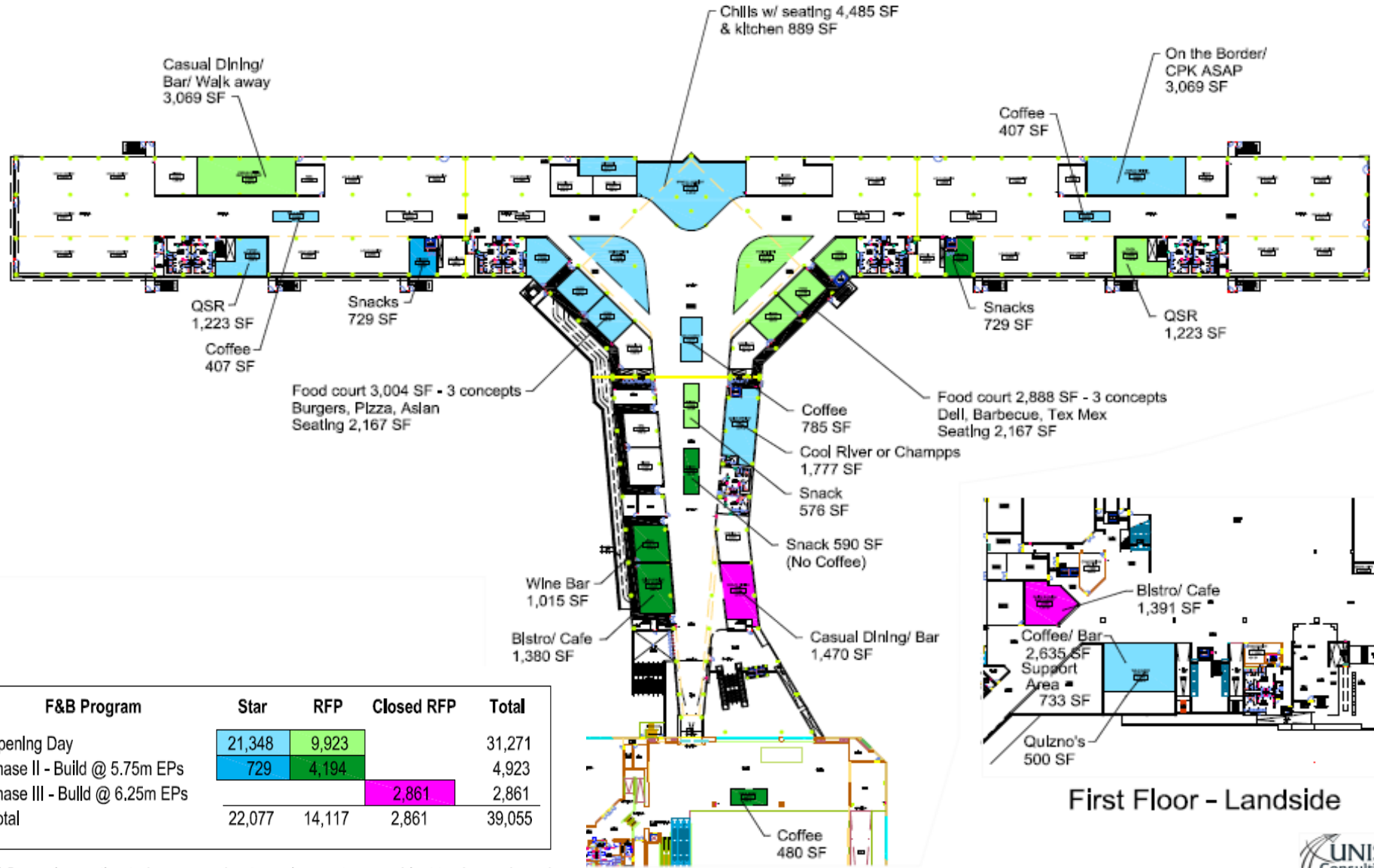
Food and Beverage Plan

- **Space development**

– Opening – 5.26 M enplanements	31,271 SF
• Dallas Love Field Joint Venture (DLFJV)	21,348 SF
• RFP package awardee* (incl Phase II)	9,923 SF
– Phase II – 5.75 M enplanements	4,923 SF
• DLFJV	729 SF
• Second concessionaire*, if successful	4,194 SF
– Phase III – 6.25 M enplanements	2,861 SF
• Closed RFP between 2 existing Food/Bev concessionaires	

* Same entity

Food & Beverage Plan



F&B Program	Star	RFP	Closed RFP	Total
Opening Day	21,348	9,923		31,271
Phase II - Build @ 5.75m EPs	729	4,194		4,923
Phase III - Build @ 6.25m EPs			2,861	2,861
Total	22,077	14,117	2,861	39,055

First Floor - Landside

*All Scenarios, estimated areas, and gate assignments are subject to change based on final terminal design plans.

Merchandise concepts may not be changed without prior written approval of City.

Food and Beverage Plan

- Lease term
 - Current Lease amendment
 - Extend 2011 termination date to new date coinciding with commencement date of new lease
 - New Lease - Transition Term
 - Begins after first location opens in new terminal and ends at completion of terminal construction
 - New Lease – Primary Term & Option
 - 12 years, effective upon completion of all 20 gates in new concourse and lobby concession areas
 - One 3-year option at City's discretion
- Capital requirements
 - Minimum \$400 per square foot
 - Mid-term refurbishment at year 6 of \$75 per square foot

Food and Beverage Plan

- **Rental Fees**

- Current lease amendment

- Upon closure of first location in existing terminal (for construction), Minimum Annual Guarantee (MAG) is waived

Food and Beverage Plan

- New DLFJV lease commencing at opening of first facility in new terminal
 - Minimum Annual Guarantee (MAG)
 - First year – \$0.59 per enplaned passenger
 - Successive years, 90% of prior year actual rent, but not less than yr 1
 - Rent
 - 12% of branded food & non-alcoholic beverage gross sales
 - 13% of non-branded food gross sales
 - 15% of alcoholic beverage gross sales
 - **If DLFJV is awarded RFP package, All locations subject to RFP proposed rates**

Retail Plan



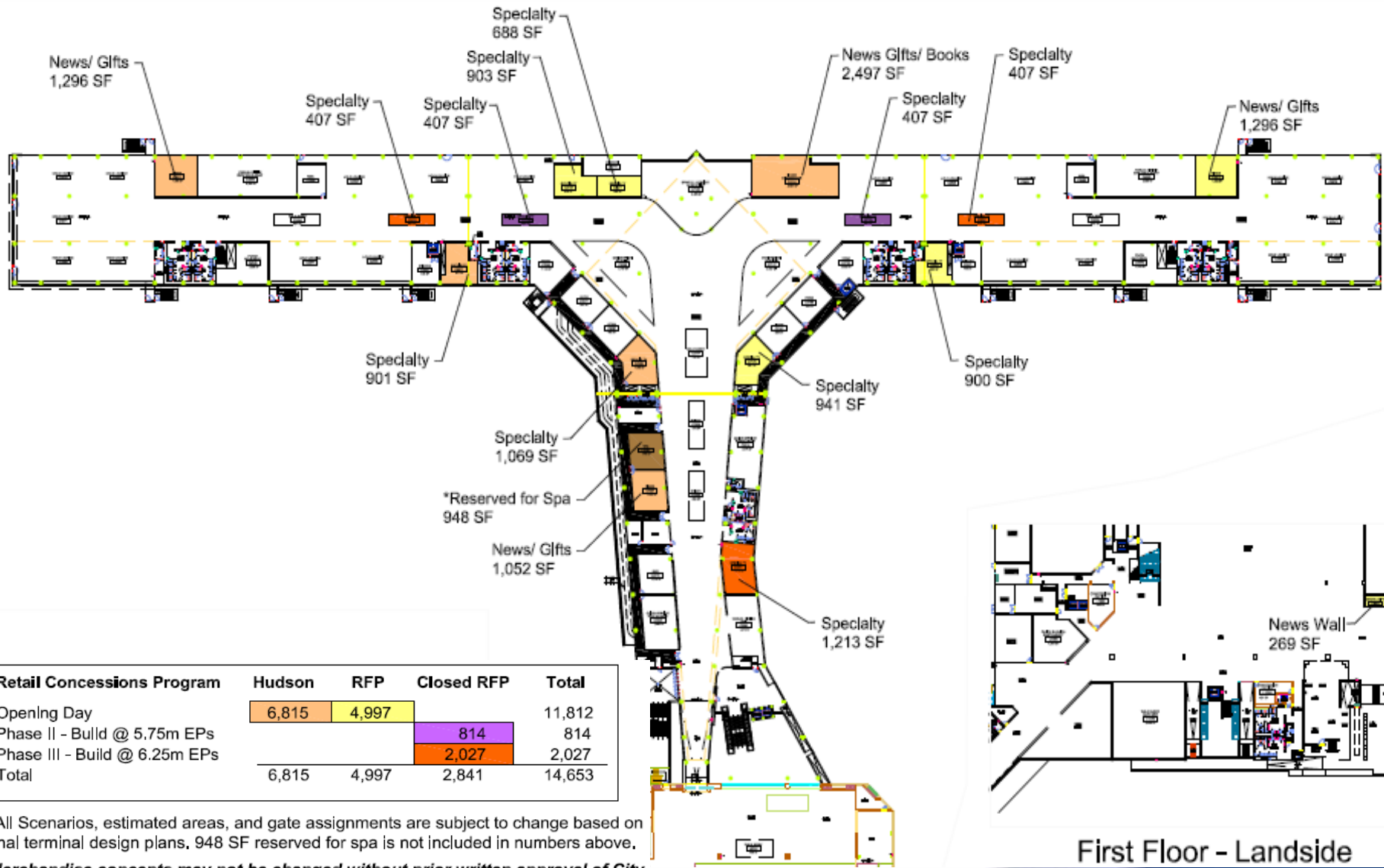
- **Space development**

- Opening – 5.26 M enplanements **11,812 SF**
 - Hudson Retail – Dallas JV (Hudson) 6,815 SF
 - RFP package awardee 4,997 SF

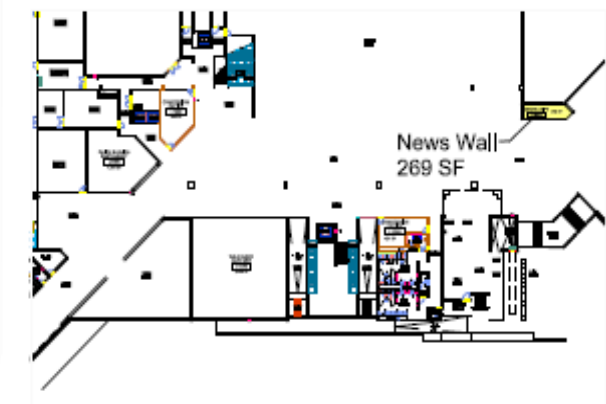
- Phase II – 5.75 M enplanements **814 SF**
 - Closed RFP between 2 existing Retail concessionaires

- Phase III – 6.25 M enplanements **2,027 SF**
 - Closed RFP between 2 existing Retail concessionaires

Retail Concessions Plan



Retail Concessions Program	Hudson	RFP	Closed RFP	Total
Opening Day	6,815	4,997		11,812
Phase II - Build @ 5.75m EPs			814	814
Phase III - Build @ 6.25m EPs			2,027	2,027
Total	6,815	4,997	2,841	14,653



First Floor - Landside

*All Scenarios, estimated areas, and gate assignments are subject to change based on final terminal design plans, 948 SF reserved for spa is not included in numbers above.
Merchandise concepts may not be changed without prior written approval of City.

Retail Plan

- Lease term
 - Current Lease amendment
 - Extend 2011 termination date to new date coinciding with commencement date of new lease
 - New Lease - Transition Term
 - Begins after first location opens in new terminal and ends at completion of terminal construction
 - New Lease – Primary Term & Option
 - 12 years, effective upon completion of all 20 gates in new concourse and lobby concession areas
 - One 3-year option at City's discretion
- Capital requirements
 - Minimum \$350 per square foot
 - Mid-term refurbishment at year 6 of \$65 per sq foot

Retail Plan

- Rental Fees
 - Current lease amendment
 - Upon closure of first location in existing terminal (for construction) Minimum Annual Guarantee (MAG) is waived

Retail Plan

- New Hudson lease
 - Commences at opening of first facility in new terminal
 - Minimum Annual Guarantee (MAG)
 - First year – \$0.21 per enplaned passenger
 - Successive years, 90% of prior year actual rent, but not less than yr 1
 - Rent
 - 16% of news/gift gross sales
 - 14% of specialty retail gross sales
 - **If Hudson awarded RFP package, All locations subject to RFP proposed rates**

Opening Day Pro Forma



2015 Projection*	Square Feet	Projected Sales	Revenue to City
Food & Beverages	31,271 SF	\$39,955,972	\$4,980,924
Retail Concessions	11,812 SF	\$17,189,060	\$2,578,364
2015 Projected Total	43,083 SF	\$57,145,031	\$7,559,288

2008 Actual F & B and Retail Total	27,177 SF	\$22,140,055	\$3,375,884
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*Projections are shown in 2015 dollars.

All scenarios and estimates areas are subject to change based on final terminal design plan.

Other Provisions

- The following provisions apply to:
 - Both incumbents
 - Any other successful bidder(s) on RFP's referenced above

Bottled Water Provision

- Bottled water historically a Food & Beverage-only product
- Recent trends are to allow water sales at Retail concessions also
 - Restrictions of liquids at security check points increased demand in concourses
 - Provides better customer service
 - Expanded points of sale increases overall revenues

Bottled Water Provision

- Opening water sales to Retail entails:
 - Protection to incumbent F&B from cannibalization
 - Sales baseline establishes amount at which bottles sold either cannibalizes DLFJV sales or constitutes incremental sales (sales per enplanement factor established using last 3 year data)
 - Retail concessionaires compensate DLFJV at \$1.47 per bottle, if sales fall below baseline
 - Retail concessionaires compensate DLFJV at \$.62 per bottle for incremental sales in excess of baseline amount
 - All sales of both Retail and both Food & Bev concessionaires contribute to the attainment of baseline quantities of sales
 - Ability for Retailers to gain revenue from incremental sales
 - Retailers can establish their water price point

Other Provisions

- Street Pricing
 - Concessionaires must provide survey data annually, showing their prices are within the following percent of similar local prices
 - Food Beverage
 - 10% on branded full serve/casual dining
 - 15% on quick serve/walk-away operations
 - 20% on non-branded items
 - Retail
 - The posted price on pre-priced merchandise
 - 10% on all other merchandise
- Storage rental – not to exceed \$40 per square foot
- Marketing fees – not to exceed 1% of gross sales
- Receiving dock – to be determined & agreed to

Who Benefits?



Program Benefits:	Who benefits?		
	Passengers	City of Dallas	Existing Operators
New concession space is nearly double old program	✓	✓	✓
91% of concession space is located airside	✓	✓	✓
Majority of program exposed to ALL passengers	✓	✓	✓
Merchandise plan provides variety, convenience, and enhanced customer satisfaction	✓	✓	✓
Fair rent and lease strategy facilitate concessionaire success	✓	✓	✓
Multiple operator strategy allows increased variety, options, and competition	✓	✓	
Existing operators are guaranteed fair and equitable space			✓
Existing operators may propose on additional RFP packages			✓
RFP process provides opportunities for DBE and local operators	✓	✓	
Concession sales and revenue potential are increased		✓	✓

Recommendation & Next Steps



- Recommendation
 - Authorize City Manager to execute amendments to current concession agreements and new agreements for space in LFMP terminal
- Next Steps
 - April 28 City Council Agenda