Memorandum

CITY OF DALLAS

DATE June 19, 2015

TO Honorable Mayor and Members of the City Council

SUBJECT **Dallas Love Field Concessions Update**

On Wednesday, June 24, 2015, the City Council will be updated on the Dallas Love Field Concessions. The briefing materials are attached for your review.

If you have any questions, please let me know.

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First Assistant City Manager

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Dallas Love Field Concessions Update

Dallas City Council Briefing – June 24, 2015

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Purpose

- Provide background of Concessions award
- Highlight impacts of Wright Amendment Repeal
  – Increase in operations/passengers/ projections
  – Concessions performance
- Review concessionaires request to change pricing methodology
- Discuss future concessions development

Wright Amendment Reform Act of 2006

- Based on local 5-Party Agreement
  - City of Dallas, City of Ft. Worth, American Airlines, Southwest Airlines, DFW International Airport
- Phased out flight restrictions over eight years, however,
  - No international flights
  - No marketing of Love Field and no efforts to bring commercial service to any airport other than DFW
- Limited Love Field capacity to 20 gates (SW, AA, CO)
- **Required City & Southwest Airlines to collaborate** on modernization of Love Field

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Components of the Love Field Modernization Program

– Rates and Charges Study
– Passenger Facility Charge (PFC) Applications
– Airline Use and Operating Agreement
– Consultant Selection
– Project Delivery Method
– Architectural and Engineering Construction Manager Selection
– Procurement Process
– Good Faith Efforts
– Construction
– Way Finding/Public Information
– Concession Program Development
– Facility Opening

Goals of Modernization

- Prepared Love Field for new role
  - Dallas' "neighborhood" airport became national hub
- Improved Love Field's attributes
  - Convenient
  - Easy to use
  - Reliable
  - Good level of service
- Modernized architecture
  - Passenger Experience
  - Operational Efficiency
  - Sense of Place
  - Sustainable Design

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Connector – 2nd Level

Concession / Diamond Area

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Concessions in New Terminal

- Concession contracts for Food and Beverage (F&B) and Retail were scheduled to terminate on June 30, 2011
  - End in the middle of construction of new terminal
- Challenge was to provide a seamless transition to new terminal while continuing to serve customers
- Provide the most competitive environment possible to ensure greater offerings and revenue to the City

Transition Plan

- Concessions contracts in old terminal were Street plus 10%
- Original recommendation was to bid all new concessions contracts at street plus 10%
- Multiple briefings to City Council
- Culminated in compromise plan crafted by Mayor's ad hoc committee
- Detail of entire process in Appendix

New Terminal Promotion

- New programs to accentuate new facility
  - Concession program based on new designs and consultant Gensler's "placemaking"
    - Distinctively Dallas
    - New comprehensive food and beverage offering to leverage new terminal and maximize revenues
  - Advertising program

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Concession Goals

- Dallas would be investing significant amount in Love Field with the objective of making it the finest mid-size airport in the nation
- To achieve this, the concessions would need to be of the highest quality and offer the best value to the traveling public
- Provide for separate Food & Beverage and Retail contractors
- Expand services currently offered to passengers and generate more Airport revenues
- Provide opportunity for small and minority businesses to participate

Opportunities/Challenges

- Establish contract terms that are good for the City
  - Cancellation for convenience/compensation terms
  - Provided for proper transition terms at end of contract
  - Vending rights remained with the City
  - Future product determination rights remained with City
- Evaluation of performance included peer airport and vendor comparison to be added to other criteria
- Sought to gain revenue for Wi-Fi/ Broadband rights to City
- Established procedures to ensure good Customer Service
  - Secret Shopper program
  - Establish strong customer satisfaction measurements
  - Short cure period (time allowed to fix problem)

Concession Program Development

- Packages were developed with consultant based on economic viability
- Determined demand, opportunities, goals
  - Brand and product/merchandise mix
  - Number of offerings
  - Maximize Revenue potential
- Determined appropriate business model
- Terms included:
  - Products to be sold at street pricing with emphasis on ‘brand names’
  - Term would be 7 to 9 years, plus 2 one year extensions at the City’s option for the Food and Beverage
  - Term would be 5 to 7 years, plus 2 one year extensions at the City’s option for the Retail

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Concession Program Development

- Additional Terms included:
  - Non-alcoholic beverages could be sold at both Retail and Food and Beverage locations
  - City reserved the right to solicit proposals for and designate certain products to be offered throughout the terminal, values for this would accrue to the city
    - Water brand to be sold (except National franchise accounts)
    - Pouring brand rights (except National franchise accounts)
    - Coffee brand (except National franchise accounts)
  - Alcoholic beverage sales within the terminal common areas (not at the F & B locations) would be handled as separate spaces and rights
    - There would be an opportunity for any concessionaire to competitively propose that service for each identified location

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Compromise Plan

- Incumbents, as all other possible operators, were encouraged to bid for new terminal spaces. If they chose to extend current contracts through the construction period and they are not determined to be the best proposal for at least 27% of the overall terminal concession value (in their category), they would be given a right of first refusal to acquire up to 27% of the bid space value:
  - Selection of the packages would be random. For each package selected, incumbents would be given a "right of refusal"
    - If incumbents choose to match the award in total, they would assume the space under the conditions of the selected proposal
    - Conditions to be met would include Rent, Capital Investment, Operational Commitments, Comparable Brands and MAG
    - If incumbent decides not to exercise their opportunity selected at random, the value of that package would be reduced from their 27%

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Inclusiveness Goals for Concessions

- Council gave direction that diversity in concessionaires was important
- Airport Concessions Disadvantaged Business Enterprise(ACDBE) goal set at 23.6%
  - Overall participation goal for all components of terminal was set at 26%
  - Currently exceeding goals set for terminal construction with planned participation thus far 35%
- Used Lessons learned from Convention Center Hotel
  - Focused on meaningful participation by sub firms to significant work
  - K Strategies retained to assist in identifying and recruiting M/WBE firms

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Evaluation Process

- All proposals would be evaluated on published criteria in RFP:
  - Scoring Factors:
    - Brands
    - DBE/MWBE
    - Economics
    - Operations
    - Financial Capability
    - Experience
    - Retention/employment of existing employees
- Evaluation Committee was Ethnically and Gender Diverse
  - Consisted of high level management staff from Parks, Convention Center, Aviation, Economic Development, Budget and Management Services, and Library
  - Southwest Airlines also participated and provided feedback, but not vote

Evaluation process and criteria

- Approved by the Economic Development Committee
- Approved criteria was included in the RFP and used for evaluation:
  - Scoring Factors:
    - Brands – 26%
    - Economics/Financial return – 23%
    - Operational Plan – 12%
    - Financial Capability – 12%
    - ACDBE – 15%
    - Experience – 12%

Factors focused on quality more than financial criteria

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Request for Proposal Dates

- Held 4 Pre-solicitation Outreach Events: Approximately 350 vendors notified
- Solicitation advertised
  - February 17, 2011
  - February 24, 2011
- Pre-Proposal Meeting on March 8, 2011
- RFP open for 17 weeks
  - City answered 268 vendor questions
    - Many questions referenced Street Pricing and ROFR
  - Issued 8 addenda
- Proposal Due Date: July 22, 2011 (by Addendum No. 8)

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Results of RFP

- Proposals closed July 22, 2011
  - 110 proposals were received
    - 85 F&B
    - 25 Retail
    - October 31 – November 16 – All vendors were given the opportunity to give a presentation to evaluation committee members
- February 21, 2012 – Briefing to Economic Development and Budget & Finance Committees
- February 27, 2012 – Briefing to Transportation & Environment Committee
- All successful proposals included bids in excess of MAG required in RFP

Results

- After right of refusal decisions made, evaluation process was completed and highest scoring proposals finalized
- Process yielded strong proposals and met financial goals
  – City Sales Projection - $57.5million
  – Vendor Sales Projection - $57.7million
- Proposals represented both national firms as well as local vendors

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Results

- Minority and Women Owned businesses goals were exceeded
- Goal for Minority and DBE participation set at 23.5%
  - Recommended F&B participation – 53%
  - Recommended Retail participation – 36%

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Results of RFP

- Financial return to the City was weighted at 26 of a possible 100 points
  - Of the 15 recommended F&B packages
    - 10 submitted highest MAG
    - 7 submitted highest percentage rent
  - Of the 10 recommended Retail packages
    - 8 submitted Highest MAG
    - 8 submitted highest percentage rent

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Contracts

- March 7, 2012 – Council approved concessions contracts
  Contract Provisions Included:
  - Proposed or Matched Minimum Annual Guarantees, Percentage rental rates, minimum capital investments
  - Street Pricing
    - As street pricing increases, requested adjustments for airport concessions have been approved
  - Shared costs charged, to a maximum of 3% of gross sales
    - Third party scheduling, receiving, inspection and distribution of all concessions products
    - Compactor and trash removal costs
    - Food Court cleaning costs
  - Marketing fee
- All Concessionaires understood and accepted contract terms prior to award

Current Environment

- Concession sales have grown significantly even over last year sales which were post Wright Amendment repeal
  - This is a positive for airport revenues
  - More options have increased customer satisfaction
- With the increase in passenger traffic, additional concessions are now needed to maintain levels of customer service
- The airport is preparing to issue a Request for Proposal to add Food and Beverage concessions to right-size the concessions program based on the new traffic projections
  - Will use same criteria and contract terms
  - Anticipate the same competitive results as the most recent RFP

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Post Wright Amendment Airport Activity

- Commercial service increased on October 13, 2014 from 118 to 140 flights per day
- Commercial service increased to 148 flights per day in November
- 152 flights per day in January, 2015
- 166 flights per day in April, 2015
- 200 daily commercial flights by August 2015

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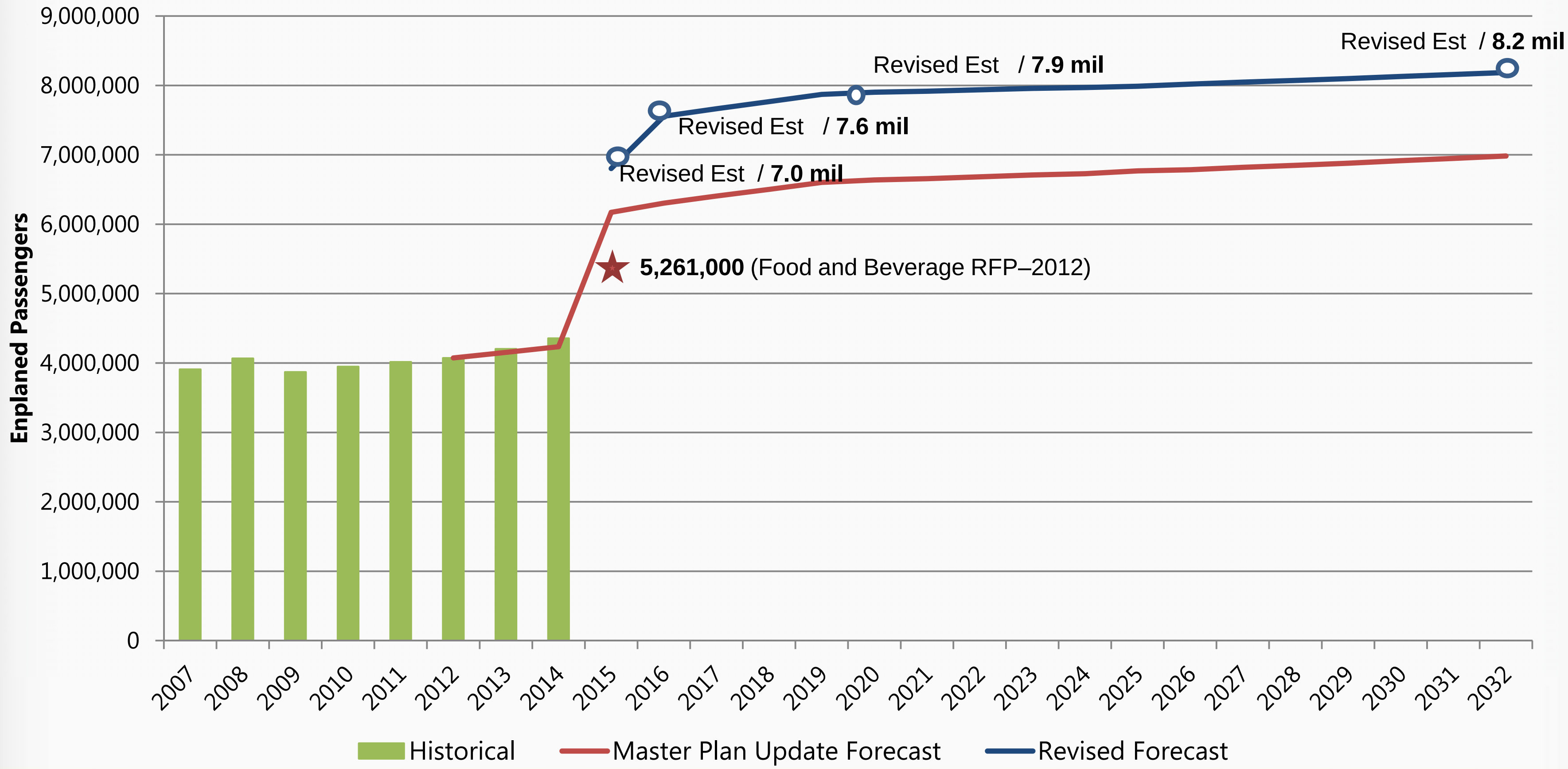
Revised Enplanement Forecast



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New Paradigm

- In 2010, assumed less than current projections for CY 2015 (first full year of the new terminal)
  - – RFP projections for 2015 - 5,261,000
    - Concessionaires submitted proposals based on this projection
  - – Updated 2015 projection increased to 7 million enplanements(25% increase over estimate in RFP)
- Increases in traffic have resulted in a need for additional concession space based on desired square footage per 1,000 enplaned passengers

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Airport Concession Program

Concession Category	Ideal Space Utilization Factor*	Current Space Usage (sq. ft.) for concessions as of October 2014	Ideal Space Allocation based on 5.261m enplanements	Variance	Ideal Space Allocation based on 6m enplanements	Variance in sq. ft. to 2014
Food & Beverage	5.8	27,967	30,514	(2,547)	34,800	(6,833)
Retail/Specialty	3.2	15,626	17,070	(1,444)	19,200	(3,574)
Total	9.0	43,593	47,584	(3,991)	54,000	(10,407)

*Space Utilization Factor equals the amount of concession area in square feet that is ideal per 1,000 enplaned passengers

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Airport Concession Program

Concession Program Space Recommendations

- Per the Space Utilization Factor (SUF), 2,547 sq. ft. of additional Food & Beverage space needed
- F & B RFP will be advertised in August, 2015 totaling 3,719 sq. ft.
  - Will help meet space recommendation for 2015 based on revised enplanement projections
  - Will have a total of 31,686 sq. ft. of F & B concession space
- Post-Wright, trending 500,000 enplanements monthly or 6 million enplanements annually
  - For 6 million enplanements, 34,800 sq. ft. of F & B space is recommended per SUF
  - Difference of 3,114 sq. ft. still needed to meet 6 million enplanement space needs

Comparison to Other Airports

Airport	CAP on Shared Cost	Total Shared Cost charged %	Percentage Rent	Percentage Alcohol	Pricing Methodology	Comments
Austin	No		16% Average	19.5%	Street + 10	
DAL	3%	Pro-rated based on Tenants % of sales	10 -20%	15-19%	Street	
DFW	No	O&M is charged at $23.39SF per Year	12 - 15%	18 - 21%	Street + 10	
Hobby	No		Minimum 14%	Minimum 16%	Street + 10	
Houston Bush	No		Minimum 14%	Minimum 16%	Street + 10	Master concessionaire's responsibility
San Antonio	No	Pro-rated based on Tenants % of sales	11%	16%	Street + 5	Concessions are charged common area maintenance: -.69 sf - outside food court -$1.51 sf - inside food court
St Louis	No	No CAM	10% - 17%	15%	Street + 10	Charge flat rate of $5000 per month trash removal to F&B concessions.

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Airport Concession Program

Concession Sales			
	1st Quarter 2012 (Old Program)	1st Quarter 2014 (New-Pre-Repeal)	1st Quarter 2015 (New-Post-Repeal)
F & B Percent +/-	$4,295,208	$5,963,059 +38.83%	$10,104,191 +69.45% +135% over 2012
Retail Percent +/-	$1,861,255	$2,420,501 +30.04%	$3,948,235 +112% over 2012

- Before increase in passenger traffic, new program resulted in significant increase in sales
- With increase in passengers post Wright Amendment restrictions, Love Field has seen 135% increase in sales from Food & Beverage and 112% increase in sales from retail

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DAL Concessions
Pro Forma Sales -vs- Actual Sales

Concession	2015 Pro Forma Sales[1]	2014/2015 Sales[2] (Hybrid)	2015 Sales[3]
Baskin Robbins - C2521	$1,252,068	$947,389	$1,073,952
Bruegger's Bagels – C2521	$1,300,000	$7,286	$664,848[4]
Campisi's - C2077	$1,750,000	$1,261,905	$1,382,199
On The Border (Cantina Laredo - C2596)	$3,650,000	$2,646,456	$3,089,570
Chic-fil-A – C2063	$1,850,000	$1,744,450	$3,545,875
Cowboys Stadium Legend's Club (Chili's – C2396)	$2,500,000	$951,907	$2,672,471
Cool River - C2125	$5,250,000	$4,803,688	$6,132,528
Cru Wine	$1,900,000	$1,360,344	$1,763,123
Dickey's – C2190	$1,968,750	$2,098,030	$2,475,273
Dunkin Donuts - C2174 – post-security	$2,086,780	$1,516,472	$1,740,372
Dunkin Donuts - L2103 – pre-security	$782,542	$507,895	$700,926

1. Based on conservative estimate of 5.6m enplanements
2. Sales from May 2014 – March 2015 (Hybrid)
3. Sales from January – March 2015 x 4 (Post Wright Amendment), does not include additional flights for April or August 2015
4. Opened Mar 28, 2015: Sales $7,286/4 x 365 = $664,848

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DAL Concessions
Pro Forma Sales -vs- Actual Sales

Concession	2015 Pro Forma Sales [1]	2014/2015 Sales[2] (Hybrid)	2015 Sales[3]
Jason's Deli – C2346	**$1,500,000**	**$746,638**	**$1,612,961**
La Madeleine – C2546	**$2,150,000**	**$1,561,138**	**$1,819,600**
Manchu Wok - C2186	**$1,664,000**	**$756,952**	**$877,944**
Moe's SW Grill – C2181	**$1,976,000**	**$1,297,545**	**$1,512,800**
Paciugo Gelato – C2321	**$500,000**	**$228,790**	**$445,760**
Sky Canyon – C2216	**$2,647,500**	**$1,564,739**	**$1,973,806**
Starbucks – C2452	**$1,050,000**	**$784,799**	**$1,446,585**
Starbucks – C2653	**$1,550,000**	**$1,534,357**	**$1,730,772**
TexPress Gourmet - C2215	**$1,304,237**	**$1,066,307**	**$1,391,741**
Wendy's (Whataburger - C2081)	**$3,120,000**	**$2,585,695**	**$2,999,362**
Total	**$41,751,877**		**$41,052,468**

1. Based on conservative estimate of 5.6m enplanements
2. Sales from May 2014 – March 2015 (Hybrid)
3. Sales from January – March 2015 x 4 (Post Wright Amendment), does not include additional flights for April or August 2015

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Sales Conclusions

- Sales estimates from concessionaires match closely to estimated sales listed in RFP for 2015
  - Concessionaires 2015 pro forma - $41,751, 877
  - City estimate for 2015 - $41,052,468
  - Actual sales estimate $699,409 less than vendors estimate

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Financial Submittals

Food and Beverage Units		JAN-APR 2015	
Cool River	C2125	Net Gain	**
Chic-Fil-A	C2063	Net Gain	**
Whataburger	C2081	Net Loss	*
Cantina Laredo	C2596	Net Loss	*
Chili's	C2396	Net Loss	*
Dickey's BBQ	C2190	not submitted	
Sky Canyon	C2216	not submitted	
La Madeleine	C2546	Net Gain	
Starbucks (East)	C2653	Net Gain	
Cru Wine	C2261	not submitted	
Jason Deli	C2346	not submitted	
Campisi's Pizza	C2077	Net Loss	*
Starbucks (West)	C2452	Net Gain	
TexPress Gourmet	C2215	not submitted	
Dunkin Donuts	C2174	not submitted	
Moe's SW Grill	C2181	Totaled with Manchu Wok	
Baskin-Robbins	C2521	not submitted	
Manchu Wok	C2186	Net Loss	
Bruegger's Bagels (NEW)	L1045	not submitted	
Dunkin Donuts	L2103	not submitted	
Paciugo Gelato	C2321	Net Loss	

*Revised Submittal to Include Mid-Term refurbishment and Interest Expense

**Assumed based on Total Host Submittal for all Units

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Performance of Phoenix/Love Field Program
Top 20 US Airports CY2013

Food & Beverage		
	Sale Per SF	Sales /EP
Average Top 20 US Airports	$1,540	$6.86
Phoenix, AZ	$1,323	$6.14
DAL - 2013	$ 958	$5.08
DAL - 2014	$1,048	$6.25
DAL – April, 2015	$1,267	$6.60

News, Gifts & Specialty Retail		
	Sales Per SF	Sales /EP
Average Top 20 US Airports	$1,363	$3.85
Phoenix, AZ	$1,316	$2.69
DAL - 2013	$833	$2.49
DAL - 2014	$836	$2.57
DAL – April, 2015	$996	$2.69

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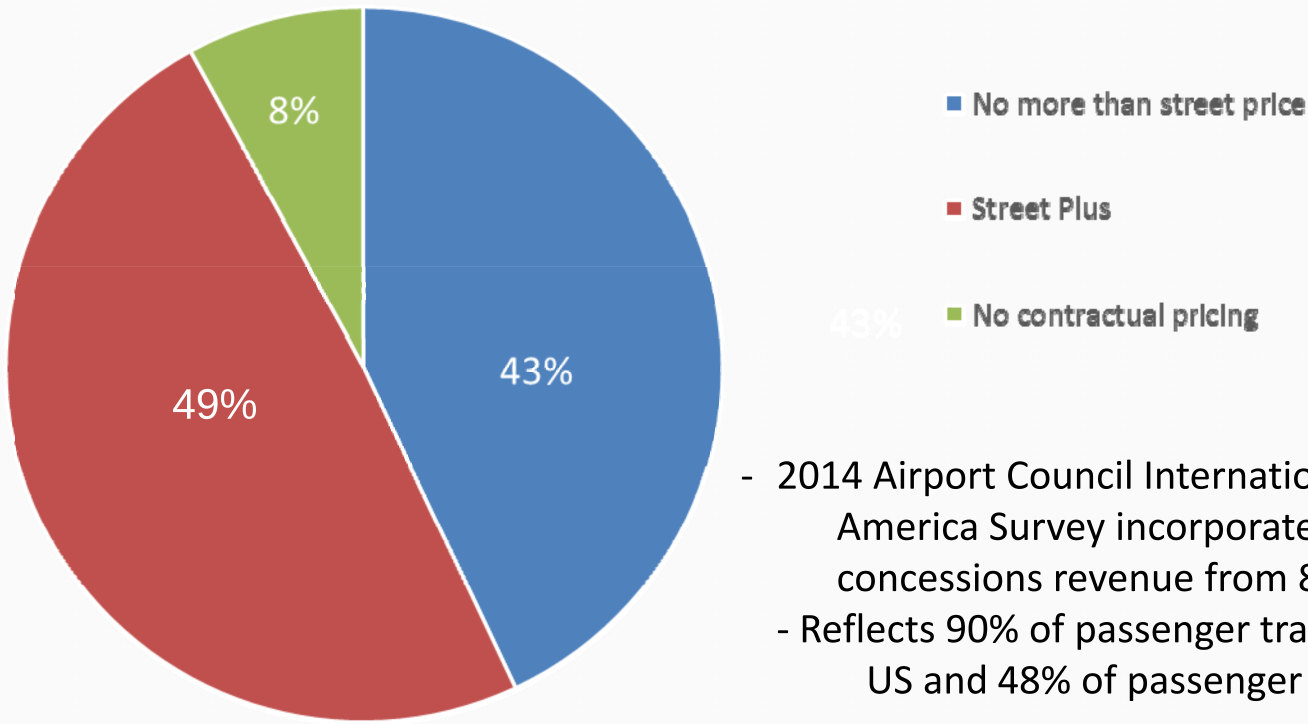
Performance of Love Field

- April sales per sq foot of food & beverage at Love Field are 82% of the average of the top 20 airports in the US
  - Love Field sales per square foot are 95% of Phoenix
- April sales per enplanement of food & beverage at Love Field are 96% of the average of the top 20 airports in the US
  - Love Field sales per square foot are 107% of Phoenix

Concessions Pricing Methodologies



- 2014 Airport Council International –North America Survey incorporates data on concessions revenue from 88 airports
  - Reflects 90% of passenger traffic in the US and 48% of passenger traffic in Canada

Concessionaire's Request for Street Plus Pricing

- May 18, 2015 – Staff briefed Economic Development Committee on:
  - Background on Love Field's concessions award
  - Impacts of the Wright Amendment Repeal
  - Future concessions development
- June 1, 2015 - Staff provided follow up information requested at the May 18, 2015 meeting
  - Summary of Airport Pricing Methodology, Shared costs
  - Profitability of DAL Food and Beverage concessions
  - 2015 Pro Forma projections vs. actuals
- Committee voted to amend contracts to transition to street plus 10%

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Summary

- Passenger traffic increased sooner than expected
- While many airports mandate street pricing, all major airports in Texas now have street pricing plus a percentage
- Of those that responded, some concession locations are seeing net gains, and some are not
- Overall the concessions sales performance is in line with most US airports

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Options

- Maintain current contracts as agreed to by concessionaires
- Monitor financial performance and report to the Economic Development Committee quarterly
- Amend all concession contracts to allow no greater than street pricing plus 10 percent

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Contract Amendment to Street Plus 10%

- Losing vendors that bid on these contracts may come forward
  - Could open the city to criticism
    - City reiterated the Street Pricing component repeatedly during the vendor question period of the RFP process
    - Revising this component within the first two years of the program may undermine integrity of the City process
    - Could dissuade vendors from competing in future RFP's
  - Concessionaires were informed of and agreed to terms when entering contracts

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Appendix

Historical Background

- June 2007, Transportation and Environment committee (TEC) rejected a plan to extend existing concession contracts through period of construction and to have open bids for new terminal spaces
- April 2009, TEC rejected a revised plan and asked that staff negotiate with incumbent vendors

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Historical Background

- Staff originally recommended Street plus 10 pricing methodology
- February 2010, Transportation and Environment Committee approved (10 – 0) modified plan that included awarding contracts to incumbents for half of the program and bidding the other half
  - Plan was to be approved by Council on April 28, 2010 with the following plan provisions:
    - F&B Incumbent to receive at least 57% of new terminal footage, Retail Incumbent to receive at least 47%; remaining square footage allocated through the RFP process
    - 12 Year Primary Term w/ one 3 year option for both Incumbents
    - 1st Year MAG for F&B at $0.59 per enplaned passenger, Retail at $0.21
    - Percentage Rent for F&B Incumbent: 12% branded, 13% non-branded and 15% alcohol
    - Percentage Rent for Retail Incumbent: 16% News/gifts, 14% specialty
    - Bottled water provision to compensate F&B cannibalization
    - F&B Street Plus Pricing: +10% on branded full serve/casual dining, 15% on quick serve, 20% on non-branded items
    - Retail Street Plus Pricing: Posted price on pre-priced, +10% all other
  - Agenda item was deferred at the request of the Mayor on April 28, 2010

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Historical Background

- March 2010, plan not supported at Council meeting
- June 2010, Mayor Leppert formed ad-hoc committee
  - compromise plan was developed to provide for an extension of existing concessions contracts through the construction period and provide a right of first refusal for 27% of concessions in the new terminal
- August 2010, compromise plan was briefed and approved by Council

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Background

- Compromise plan included a number of adjustments, including:
  - A right of first refusal for incumbents for 27% of concessions in new terminal
  - Specific criteria for match
  - Direct Airport management control of all individual spaces necessitating inventory storage and delivery coordination
  - Airport control of several commodities

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Compromise Plan Core Element

- If incumbents chose to extend current contracts through construction period, they would be granted a right of first refusal for 27% of the bid space value in the new terminal
  - Selection of the 27% value is to be random
  - If incumbents exercised their right, they would have to match a competing high score proposal on the basis of Rent, Capital Investment, Operational Commitments, Comparable Brands and MAG

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Right of First Refusal

- As presented to Council on December 15th 2011, the value of the packages were based on the following weighted criteria:
  - Total square footage – 10%
  - Sales estimates – 40%
  - EBIT(Earnings Before Interest& Taxes) – 50%
    - This represents earnings minus operating expense and depreciation
- Calculated values were rounded to the nearest 3% to achieve the 27% ROFR

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Right of First Refusal

- Since the F&B had 15 packages and the retail had 10 packages:
  - Packages had to be valued in a way that would allow the total for ROFR to equal 27%
  - Not all packages had equal value, and by using multiples of 3, the various combinations could add to 27
  - If packages were selected individually, the chances of drawing short of or drawing over the 27% were possible in many scenarios

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Right of First Refusal

- To ensure both incumbents received an opportunity for the full 27%, the City engaged a mathematician to calculate all of the possible combinations of packages that totaled 27%
- This prevented either incumbent from drawing packages in a sequence that could leave them with less than 27% with no remaining packages small enough to get to 27%

Right of First Refusal

- All combinations that add up to 27% were determined mathematically
- Each combination was given a specific number
- The incumbents then selected a number corresponding to a specific combination of packages

Right of First Refusal

- All possible combinations were numbered
  - F & B had 769 possible combinations
  - Retail had 34 possible combinations
- Separate, equal sized slips for each number representing a specific combination were printed
- Accounting firm of Frazier and Gills was engaged to verify all slips were put into container for drawing

Right of First Refusal

- Lottery was held January 12, 2012 publicly and on webcast
- Lottery containers were immediately taken by security to the Police Property room for protective custody
- Incumbents were then given the terms of the highest scoring proposal for each of the packages they selected

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Right of First Refusal

- Dallas Love Field Joint Venture randomly selected Food and Beverage Packages 2a, 3, 10, and 11
- Hudson Retail Dallas Joint Venture randomly selected Retail Packages 4, 6, 7, 9, and 10
- Both were given 30 days to make their decision
- Both matched winning proposal for all packages

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