

# Memorandum



CITY OF DALLAS

DATE February 19, 2010

TO Members of the Transportation and Environment Committee: Linda Koop, Chair; Sheffie Kadane, Vice-Chair; Jerry R. Allen; Tennell Atkins; Carolyn R. Davis; Vonciel Jones Hill; Angela Hunt; Delia D. Jasso; Pauline Medrano; Ron Natinsky

SUBJECT Love Field Concession Plan

Attached is the briefing entitled, "Love Field Concession Plan" that will be presented to you on February 22, 2010.

Please contact me if you need additional information.

A handwritten signature in black ink, appearing to read 'A.C. Gonzalez', with a large, sweeping flourish extending upwards and to the left.

A.C. González  
Assistant City Manager

c: Honorable Mayor and Members of the City Council  
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  
David K. Cook, Chief Financial Officer  
Jeanne Chipperfield, Director, Office of Financial Services  
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  
Transportation & Environment Committee

Department of Aviation  
February 22, 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



<b>Passenger Enplanements</b>	<b>Food &amp; Bev SF</b>	<b>Retail SF</b>	<b>Total SF</b>
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
<b>Total SF</b>	<b>39,005</b>	<b>14,653</b>	<b>53,708</b>

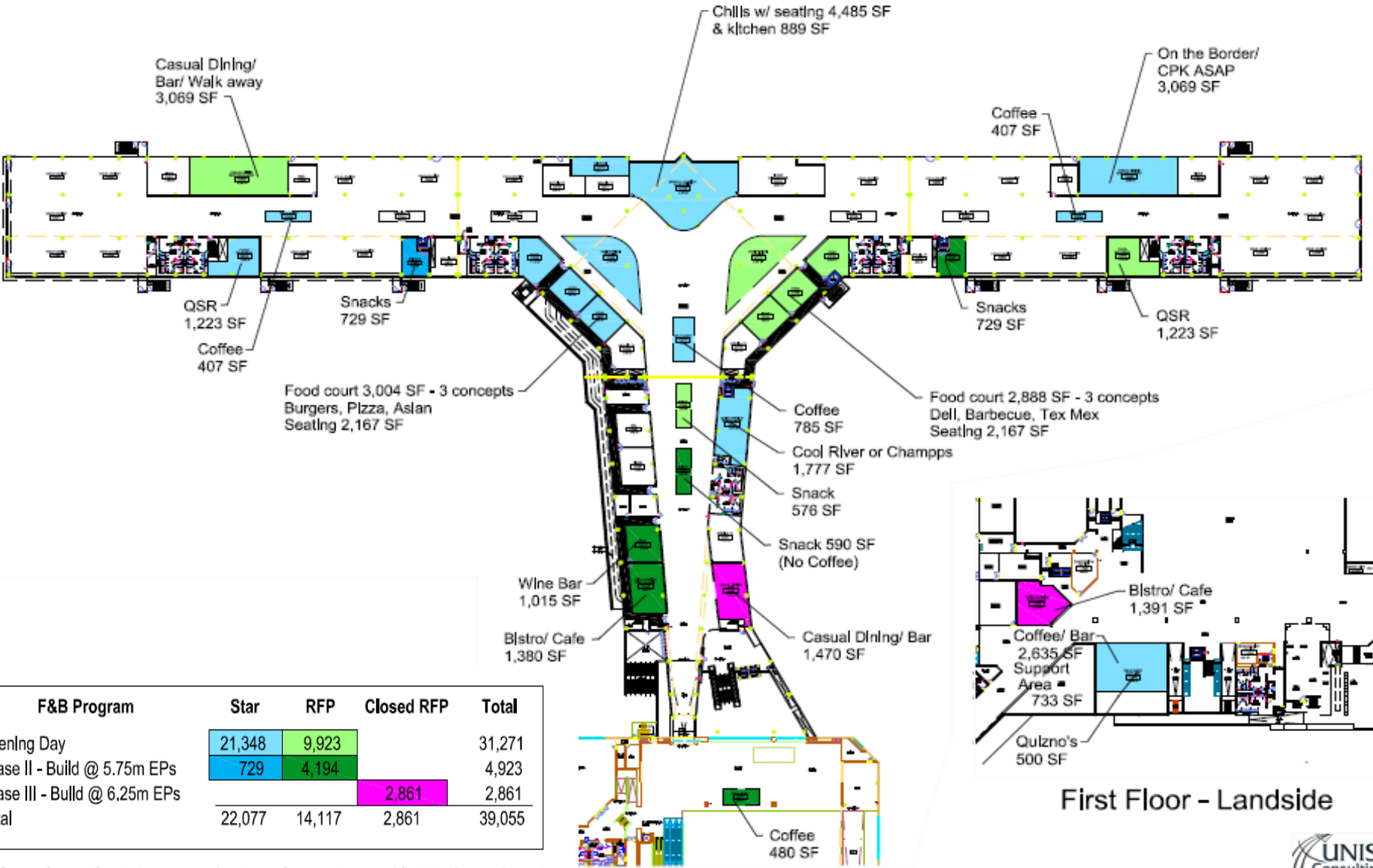
# Food and Beverage Plan

- **Space development**

– Opening – 5.26 M enplanements	<b>31,271 SF</b>
• Dallas Love Field Joint Venture (DLFJV)	21,348 SF
• RFP package awardee* (incl Phase II)	9,923 SF
– Phase II – 5.75 M enplanements	<b>4,923 SF</b>
• DLFJV	729 SF
• Second concessionaire*, if successful	4,194 SF
– Phase III – 6.25 M enplanements	<b>2,861 SF</b>
• 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
<b>Total</b>	<b>22,077</b>	<b>14,117</b>	<b>2,861</b>	<b>39,055</b>

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**

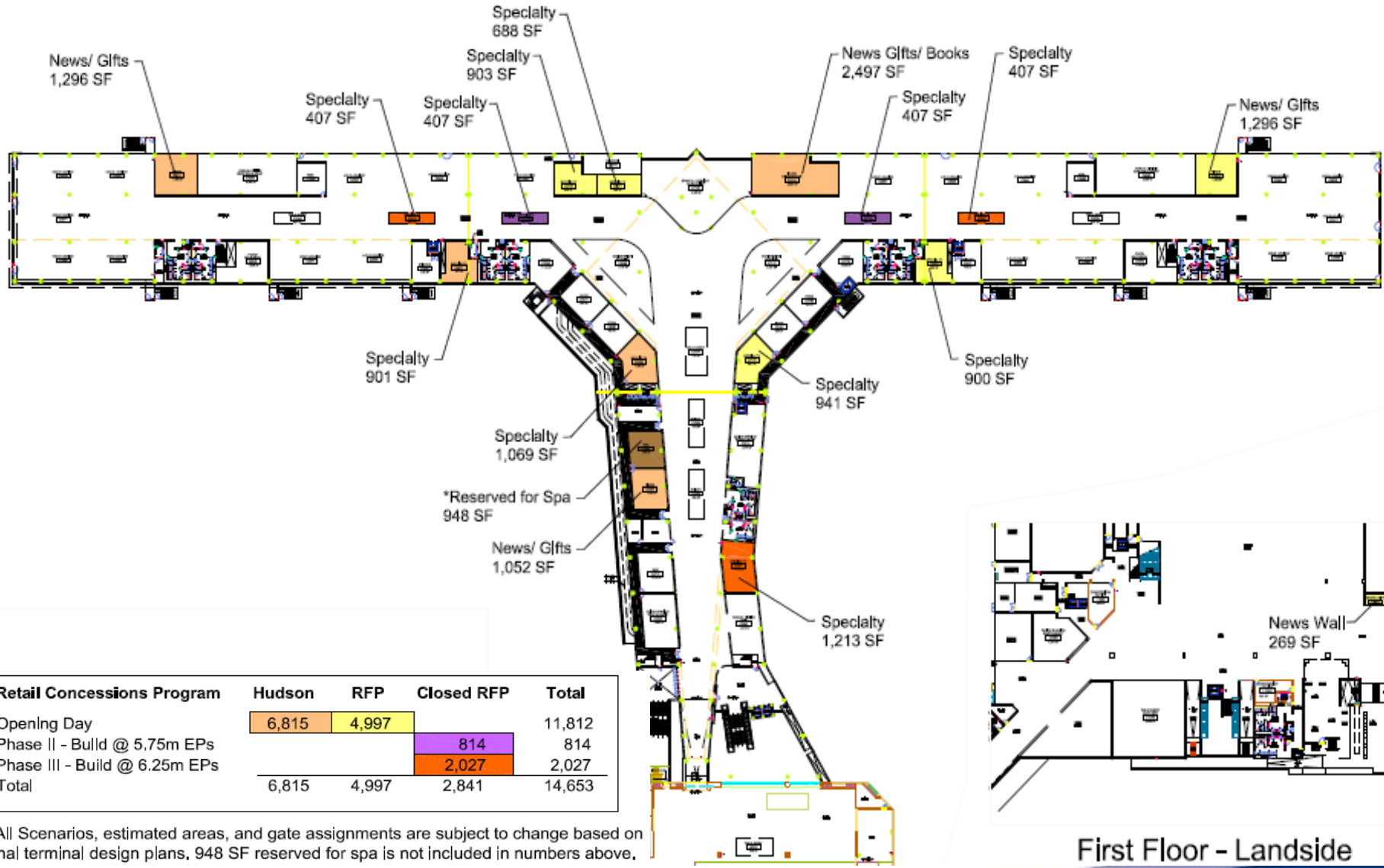
# Retail Plan



- **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

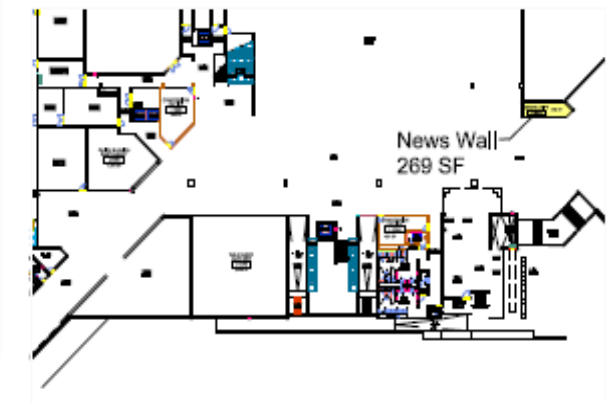
# Retail Concessions Plan



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
<b>Total</b>	<b>6,815</b>	<b>4,997</b>	<b>2,841</b>	<b>14,653</b>

\*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.**



First Floor - Landside

# 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