Memorandum

DATE May 22, 2009

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

SUBJECT Love Field Concession Plan
Follow Up Briefing

Attached is the briefing entitled, “Love Field Concession Plan Follow Up” that will be presented to you on May 26, 2009.

Please contact me if you need additional information.

Ramón F. Miguez, P.E.
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
A.C. Gonzalez, Assistant City Manager
Forest E. Turner, Interim Assistant City Manager
David K. Cook, Chief Financial Officer
Jeanne Chipperfield, Director, Budget and Management Services
Edward Scott, Director, Controller’s Office
Helena Stevens-Thompson, Assistant to the City Manager - Council Office
Dan Weber, Director, Department of Aviation
Love Field Concession Plan
Follow Up Briefing

Briefing to the
Transportation & Environment Committee

Department of Aviation
May 26, 2009
Briefing Objectives

• Review Summary of 4/13 Briefing
• Respond to Committee Member 4/13 Questions
• Review Recommendations and Next Steps
Summary of 4/13 Briefing

• The Love Field Modernization Program (LFMP)
  – Doubles the concession space
  – Creates opportunity for enhanced revenue and customer service
    • Competitive RFP process.

• Incumbent Concessionaires
  – Have served Love Field well & earned a place in new LFMP facility
  – City commitment to Incumbents
    • Similar square footage in new facility as currently occupied
    • Extend existing agreement term to coincide with opening of new space
    • New agreement term 10 years beginning with completion of LFMP (2014)
  – Remaining new concession space to be competitively awarded in RFP
    • Incumbents may compete in the RFP process
Committee Member Questions

• Seven main issues
  – Consultant Information
  – Comparable Airports
  – 2-Operator Concession Model
  – Rent Strategy
  – Space Allocation
  – Size of Program
  – Status of Advertising Concession
Issue: Who is the Consultant?

• Unison Consulting, Inc. – Airport Consulting Firm Founded in 1989
• Airport’s Consultant since 2007
• 40+ Airport Clients in US and Canada
  - Chicago Midway
  - Memphis
  - Chicago O’Hare
  - San Antonio
  - Milwaukee
  - Houston Hobby
  - Austin
  - New Orleans
  - El Paso
  - Detroit
  - Winnipeg
  - Toronto
• Broad Experience in ALL Aspects of Airport Concessions Consulting
  - Space Planning
  - Demand Analysis
  - Merchandising
  - Leasing Strategy
  - Financial Analysis
  - Logistics
  - Market Research
  - RFP Implementation
  - Management
• Only Firm with Experience in Planning, Implementation and Management
• Strong Staff Expertise and Experience:
  – Lead Consultant: 6 yrs retail operations + 13 years airport concessions
  – Officer-in-Charge: 15 yrs commercial real estate + 11 years airport concessions
Issue: Comparable Airports

- **Question** – Which airports were used and why?

- 31 airports used in this analysis are medium hub airports. Median size is 4.1 million passenger enplanements.

- No two airports are identical – each has unique characteristics: passenger market, terminal configuration, and age of terminal and concession program.

- **Benchmarking** to a variety of similar sized airports (old and new programs) helps **identify opportunities** and **successful concession practices**.

<table>
<thead>
<tr>
<th>Airport</th>
<th>ID</th>
<th>Enplanements</th>
</tr>
</thead>
<tbody>
<tr>
<td>Louisville International</td>
<td>SDF</td>
<td>1,917,661</td>
</tr>
<tr>
<td>Omaha</td>
<td>OMA</td>
<td>2,210,166</td>
</tr>
<tr>
<td>Tucson International</td>
<td>TUS</td>
<td>2,223,008</td>
</tr>
<tr>
<td>Providence TF Green</td>
<td>PVD</td>
<td>2,509,862</td>
</tr>
<tr>
<td>Reno-Tahoe</td>
<td>RNO</td>
<td>2,516,232</td>
</tr>
<tr>
<td>Buffalo Niagara</td>
<td>BUF</td>
<td>2,667,697</td>
</tr>
<tr>
<td>Anchorage International</td>
<td>ANC</td>
<td>2,684,781</td>
</tr>
<tr>
<td>Jacksonville</td>
<td>JAX</td>
<td>3,170,975</td>
</tr>
<tr>
<td>Albuquerque International</td>
<td>ABQ</td>
<td>3,346,025</td>
</tr>
<tr>
<td>Palm Beach</td>
<td>PBI</td>
<td>3,488,937</td>
</tr>
<tr>
<td>Ontario International</td>
<td>ONT</td>
<td>3,525,315</td>
</tr>
<tr>
<td>New Orleans</td>
<td>MSY</td>
<td>3,762,955</td>
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<tr>
<td>Port Columbus</td>
<td>CMH</td>
<td>3,865,481</td>
</tr>
<tr>
<td>General Mitchell</td>
<td>MKE</td>
<td>3,868,098</td>
</tr>
<tr>
<td><strong>Dallas Love Field</strong></td>
<td>DAL</td>
<td>3,980,867</td>
</tr>
<tr>
<td>San Antonio</td>
<td>SAT</td>
<td>4,009,776</td>
</tr>
<tr>
<td>Southwest Florida</td>
<td>RSQ</td>
<td>4,061,936</td>
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<tr>
<td>Indianapolis</td>
<td>IND</td>
<td>4,136,352</td>
</tr>
<tr>
<td>Houston Hobby</td>
<td>HOU</td>
<td>4,427,334</td>
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<td>Austin-Bergstrom</td>
<td>AUS</td>
<td>4,473,001</td>
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<tr>
<td>Pittsburgh</td>
<td>PIT</td>
<td>4,890,697</td>
</tr>
<tr>
<td>Nashville</td>
<td>BNA</td>
<td>4,903,484</td>
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<tr>
<td>Santa Ana JWA</td>
<td>SNA</td>
<td>4,989,018</td>
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<tr>
<td>Raleigh-Durham</td>
<td>RDU</td>
<td>5,020,497</td>
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<tr>
<td>Sacramento</td>
<td>SMF</td>
<td>5,130,701</td>
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<td>San Jose Norman Y Mineta</td>
<td>SJC</td>
<td>5,314,661</td>
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<tr>
<td>Memphis</td>
<td>MEM</td>
<td>5,353,100</td>
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<tr>
<td>Cleveland</td>
<td>CLE</td>
<td>5,722,338</td>
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<tr>
<td>Kansas City International</td>
<td>MCI</td>
<td>5,826,573</td>
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<tr>
<td>Oakland International</td>
<td>OAK</td>
<td>7,299,603</td>
</tr>
<tr>
<td>Portland</td>
<td>PDX</td>
<td>7,332,477</td>
</tr>
<tr>
<td>St. Louis Lambert</td>
<td>STL</td>
<td>7,715,340</td>
</tr>
<tr>
<td><strong>Median w/o DAL</strong></td>
<td></td>
<td><strong>4,061,936</strong></td>
</tr>
</tbody>
</table>

*Source: faa.gov
ARN Fact Book 2008
DAL has growth opportunity

F&B and Retail sales per enplanement are below median

Food & Beverage Concessions

Retail Concessions

*Source: ARN Fact Book 2008
Interviews with airport staff.
Components of Successful Programs

- Right Amount of Space
- Well Located Space
- Variety
- Recognized Brands
- Value Pricing
- Excellent Customer Service
- High Quality Design/Construction
- Sense of Place
- Fair Rents
- Benefits All Stakeholders:
  - Passengers
  - Concessionaires
  - Airport
Issue: 2 Operator Model

• Question – What are the benefits of competition?
  – Competition among concessionaires increases sales potential.
    • Enhanced customer service and operating standards.
    • Maintains product quality and supports value pricing.
  – RFP process establishes the competitive framework.
    • Creative programs and responses
    • Variety of concepts
    • Quality designs
  – Airports moving from prime operator model to competitive model have benefited
    • Notable examples: Memphis, Nashville, Milwaukee, and San Jose.
    • Memphis won Award of Excellence Airport Concessions in 2006, with new program.
    • Nashville received honorable mention for Best Food & Beverage Program Award of Excellence in 2008 and 2009 ARN Award for Most Unique Services.
  – Consultant analysis of competitive opportunity to be discussed in closed session.
Trend is towards Multiple Operators

Past 24 months more airports have transitioned to multiple operators

All Medium Hub Airports
% of airports with multiple operators

<table>
<thead>
<tr>
<th></th>
<th>2007</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Food &amp; Beverages</td>
<td>29%</td>
<td>42%</td>
</tr>
<tr>
<td>Retail Concessions</td>
<td>39%</td>
<td>42%</td>
</tr>
</tbody>
</table>

Source: ARN Publications
Interviews with airport staff.
Includes new and upcoming contracts
Multiple Operator Model = Incremental Revenue Potential $1.38 per Enplanement

**Food & Beverage Concessions**
- **Medium Hub Airports**
  - Single operator: $4.10
  - Multiple operators: $4.71
  - Difference: $0.61 per enplanement
  - $0.61 x 5,261,000 EPs = $3.2 Million Potential Sales Gain

**Retail Concessions**
- **Medium Hub Airports**
  - Single operator: $2.31
  - Multiple operators: $3.08
  - Difference: $0.77 per enplanement
  - $0.77 x 5,261,000 EPs = $4.0 Million Potential Sales Gain

*Source: ARN Fact Book 2008 Interviews with airport staff.*

ALL PROJECTIONS ARE FOR ILLUSTRATIVE PURPOSES ONLY
Issue: Rent Strategy

• Question – Why “Industry Standard” rather than “Premium Rent”?

• Response
  – Supports balanced program: variety of products, branding, value pricing, customer satisfaction, and concessionaire success.
  
  – Rent is only one component to a successful program.
  
  – Helps ensure sustainable program.
  
  – Rental revenue potential will be higher because enhanced program (through competition) will result in increased sales.
    • (Industry Standard %) X (Higher Sales) = Higher Rent $
    • Determination of revenue potential to be discussed in closed session.
## Consequences of High Rents

### SAMPLE ANALYSIS

<table>
<thead>
<tr>
<th></th>
<th>15% Rent</th>
<th>20% Rent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital Investment (psf)(^1)</td>
<td>$350</td>
<td>$350</td>
</tr>
<tr>
<td>Area(^1)</td>
<td>12,338</td>
<td>12,338</td>
</tr>
<tr>
<td>Total Investment</td>
<td>$4,318,300</td>
<td>$4,318,300</td>
</tr>
<tr>
<td>Sales(^1)</td>
<td>$10,772,497</td>
<td>$10,772,497</td>
</tr>
<tr>
<td>Operating Expenses(^2)</td>
<td>-$8,079,373</td>
<td>-$8,079,373</td>
</tr>
<tr>
<td>Rent to Airport(^1)</td>
<td>-$1,615,875</td>
<td>-$2,154,499</td>
</tr>
<tr>
<td>Refurbishment Reserve(^3)</td>
<td>-$53,862</td>
<td>-$53,862</td>
</tr>
<tr>
<td>Operating Income</td>
<td>$1,023,387</td>
<td>$484,762</td>
</tr>
<tr>
<td>Less: Loan Payment(^4)</td>
<td>-$532,393</td>
<td>-$532,393</td>
</tr>
<tr>
<td>Net Cash Flow</td>
<td>$490,994</td>
<td>-$47,631</td>
</tr>
</tbody>
</table>

Notes:
1. Based on benchmark airport analysis, assuming median square footage and sales data.
2. Operating Expenses assumed to equal 75% of sales.
3. Refurbishment Reserve assumed to be 0.5% of sales.
4. Loan payment assumptions:
   a) 10-year lease term
   b) 20% equity; 80% loan
   c) Interest rate is 8.75%

PROJECTIONS FOR ILLUSTRATIVE PURPOSES ONLY
Issue: Space Allocation

• Question: Why can’t incumbents have first choice of locations?

• Response
  – Incumbents will have better space than today
    • More airside space
    • Prime high traffic locations
    • High visibility
    • Clustered space for ease in operation
  – Incumbent and RFP packages both must have opportunities to succeed with a balance of:
    • Location having exposure to passenger traffic flows
    • Assignment of concepts and merchandise/offering mix
  – Staff has worked closely with incumbents in crafting packages which
    • Address incumbents’ space planning issues
    • Retain value for RFP

<table>
<thead>
<tr>
<th></th>
<th>OLD Program</th>
<th>DLFJV new</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total SF</td>
<td>20,398 SF</td>
<td>20,588 SF</td>
</tr>
<tr>
<td>% Airside</td>
<td>58%</td>
<td>97%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>OLD Program</th>
<th>Hudson new</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total SF</td>
<td>6,779 SF</td>
<td>7,183 SF</td>
</tr>
<tr>
<td>% Airside</td>
<td>70%</td>
<td>94%</td>
</tr>
</tbody>
</table>
Issue: Size of Program

• Question: Is the program too big?

• Response
  – Analysis of space requirements indicates it is appropriately sized for new terminal.
  – Unison conducted comprehensive analysis of space requirements, which considers passenger, terminal, and concession characteristics; enplanement projections; and benchmark studies.
  – All optimally located concessions will be built out for opening day.
  – Program has flexibility to add more space if needed in future years.

<table>
<thead>
<tr>
<th>Consumer Demand Factors</th>
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</thead>
<tbody>
<tr>
<td><strong>Passenger Characteristics:</strong></td>
</tr>
<tr>
<td>Demographics</td>
</tr>
<tr>
<td>Trip purpose</td>
</tr>
<tr>
<td>Type of passenger</td>
</tr>
<tr>
<td>Residence</td>
</tr>
<tr>
<td><strong>Facility Characteristics:</strong></td>
</tr>
<tr>
<td>Clustering of concessions</td>
</tr>
<tr>
<td>Accessibility</td>
</tr>
<tr>
<td>Visibility</td>
</tr>
<tr>
<td>Airside vs. landside</td>
</tr>
<tr>
<td>Walking distances</td>
</tr>
<tr>
<td>Passenger Peaking</td>
</tr>
<tr>
<td><strong>Concession Characteristics:</strong></td>
</tr>
<tr>
<td>Number of facilities</td>
</tr>
<tr>
<td>Category mix</td>
</tr>
<tr>
<td>Branding</td>
</tr>
<tr>
<td>Pricing policies</td>
</tr>
</tbody>
</table>
Program Size is Appropriate

Food & Beverage Concessions
5.6 square feet per 1,000/EP

Retail Concessions
3.1 square feet per 1,000/EP
# Benefits of New Program

**Win-Win-Win**

<table>
<thead>
<tr>
<th>Program Benefits:</th>
<th>Who benefits?</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Passengers</td>
</tr>
<tr>
<td>New concession space is nearly double old program</td>
<td>✔</td>
</tr>
<tr>
<td>Greater majority of concession space (80%) is located airside</td>
<td>✔</td>
</tr>
<tr>
<td>78% of total program exposed to ALL O&amp;D passengers</td>
<td>✔</td>
</tr>
<tr>
<td>Merchandise plan provides variety, convenience, and enhanced customer satisfaction</td>
<td>✔</td>
</tr>
<tr>
<td>Fair rent and lease strategy facilitate concessionaire success</td>
<td>✔</td>
</tr>
<tr>
<td>Multiple operator strategy allows increased variety, options, and competition</td>
<td>✔</td>
</tr>
<tr>
<td>Existing operators are guaranteed fair and equitable space</td>
<td>✔</td>
</tr>
<tr>
<td>Existing operators may propose on additional RFP packages</td>
<td>✔</td>
</tr>
<tr>
<td>RFP process provides opportunities for DBE and local operators</td>
<td>✔</td>
</tr>
<tr>
<td>Concession sales and revenue potential are increased</td>
<td>✔</td>
</tr>
</tbody>
</table>
Issue: Advertising Concession

• Question: Why isn’t a 2-Operator Model being proposed for the Advertising Concession?

• Response
  – LFMP timing & disruption – impacts Retail and Food & Beverage
    • Both 15-year agreements expire 2011 during LFMP construction phasing and require new agreements
    • Retail and Food & Beverage concessions require high capital investment and disruptive relocation. Need 10-year terms to amortize capital

  – Advertising Concession is not impacted significantly
    • Agreement expires 2013, after completion of terminal construction
    • Only minimally impacted by construction phasing – easily relocated
    • Capital requirement minimal by comparison – 5 year term to amortize

  – Advertising RFP prior to current lease expiration
Recommendations & Next Steps

• Recommendations
  – Approve the LFMP Concession Plan
  – Authorize the City Manager to **negotiate amendments** to current **Concession Contracts**
    • Dallas Love Field Joint Venture Ltd. for Food & Beverage
    • Hudson Retail – Dallas JV for Retail
  – Authorize the City Manager to **negotiate an amendment** to current **Parking Concession Contract** with Parking Corp of America, extending its term 5 years to August, 2014

• Next Steps
  – Parking contract amendment to City Council June 2009
  – Food/Beverage, Retail contract amendments to City Council Aug 2009