Memorandum

CITY OF DALLAS

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.

Jill Jordan

Ramón F. Míguez, 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?

DAS
DALLAS AIRPORT SYSTEM

- 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

DAS
DALLAS AIRPORT SYSTEM

- **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.**

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

*Source: faa.gov
ARN Fact Book 2008

DAL has growth opportunity

DALLAS AIRPORT SYSTEM

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

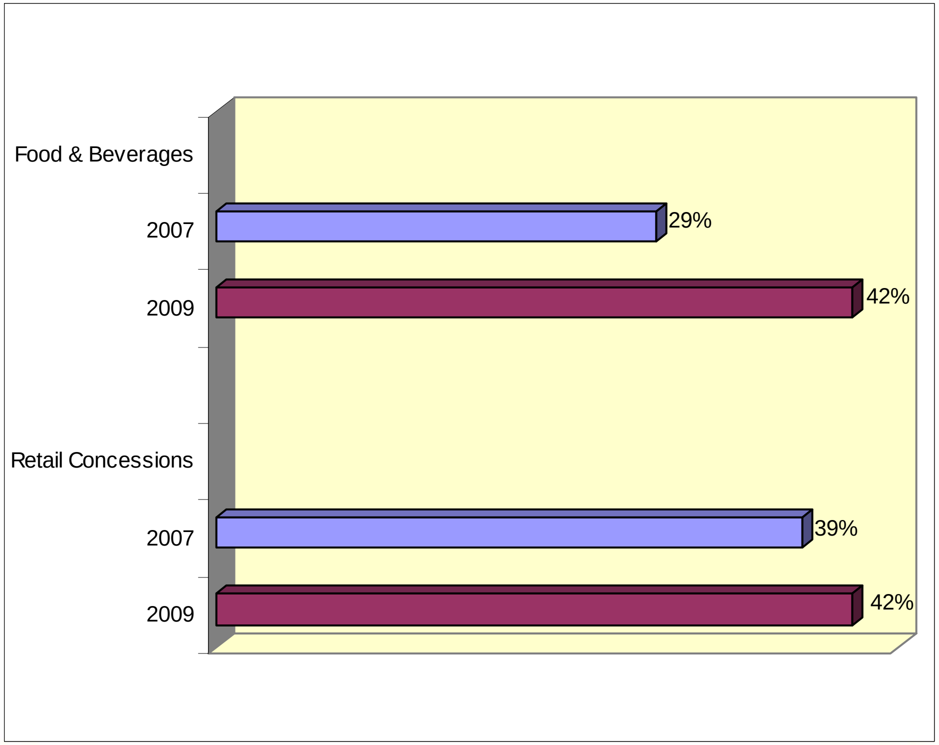
Issue: 2 Operator Model

- **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 <u>closed session</u>.

Trend is towards Multiple Operators

Past 24 months more airports have transitioned to multiple operators

All Medium Hub Airports
% of airports with multiple operators

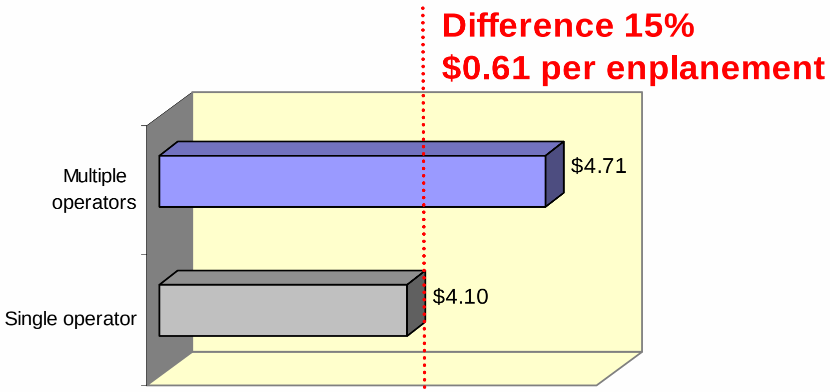


Source: ARN Publications
Interviews with airport staff.
includes new and upcoming contracts

Multiple Operator Model =

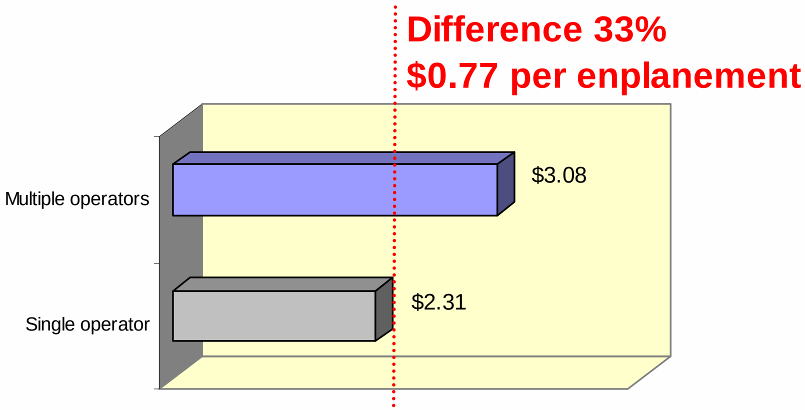
Incremental Revenue Potential $1.38 per Enplanement

Food & Beverage Concessions
Medium Hub Airports



$0.61 x 5,261,000 EPs = $3.2 Million Potential Sales Gain

Retail Concessions
Medium Hub Airports



$0.77 x 5,261,000 EPs = $4.0 Million Potential Sales Gain

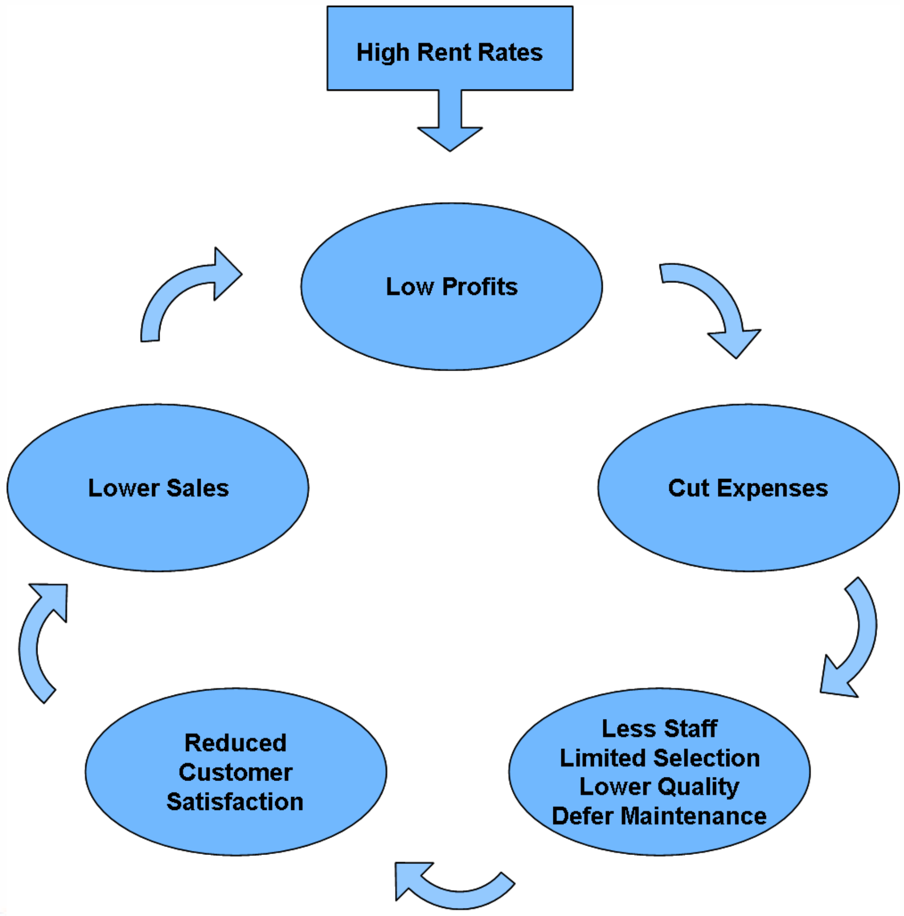
ALL PROJECTIONS ARE FOR ILLUSTRATIVE PURPOSES ONLY

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

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

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 <u>and</u> 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

	OLD Program	DLFJV new
Total SF	20,398 SF	20,588 SF
% Airside	58%	97%

	OLD Program	Hudson new
Total SF	6,779 SF	7,183 SF
% Airside	70%	94%

Issue: Size of Program

- Question: Is the program too big?

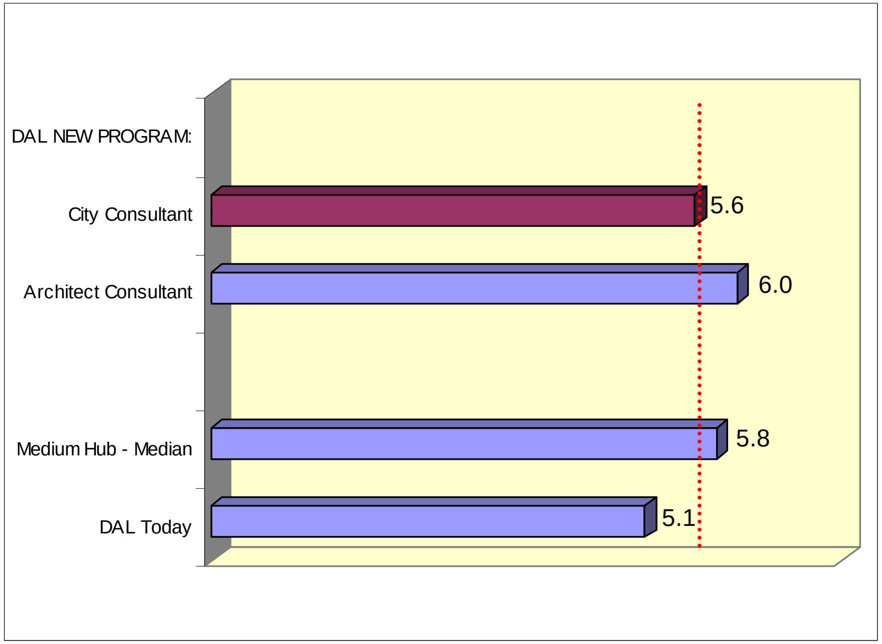
- Response
  - Analysis of space requirements indicates it is appropriately sized for new terminal.
  - Unison conducted comprehensive analysis of space requirements, which considers passenger, terminal, and concession characteristics; enplanement projections; and benchmark studies.
  - All optimally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

Consumer Demand Factors
Passenger Characteristics:
Demographics
Trip purpose
Type of passenger
Residence
Facility Characteristics:
Clustering of concessions
Accessibility
Visibility
Airside vs. landside
Walking distances
Passenger Peaking
Concession Characteristics:
Number of facilities
Category mix
Branding
Pricing policies

Program Size is Appropriate

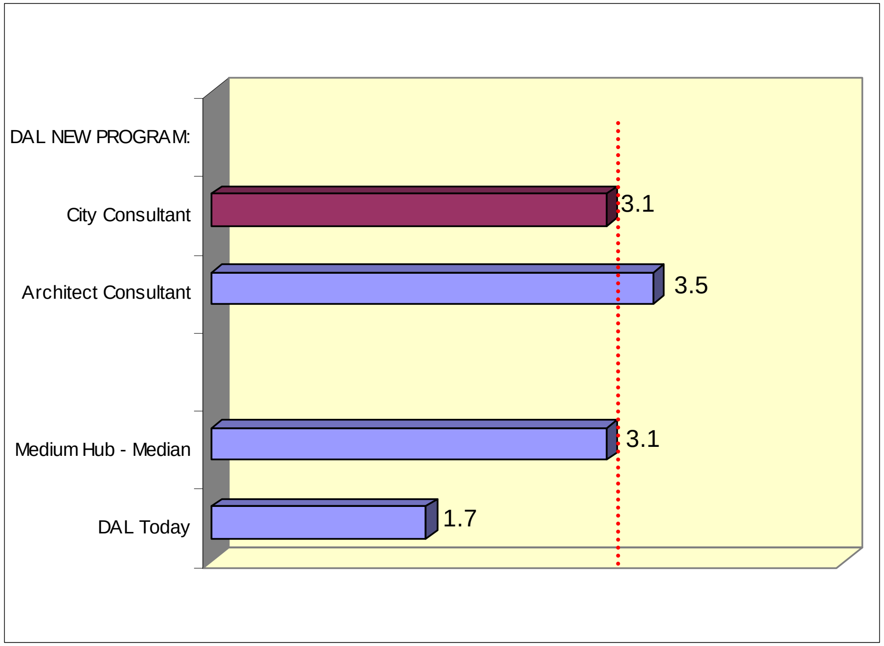
Food & Beverage Concessions

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

Program Benefits:	Who benefits? Passengers	City of Dallas	Existing Operators
New concession space is nearly double old program	✓	✓	✓
Greater majority of concession space (80%) is located airside	✓	✓	✓
78% of total program exposed to ALL O&D 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		✓	✓

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