

# Love Field Concessions Question Responses

Briefing for the  
Love Field Concession Committee

Department of Aviation  
May 27, 2010

# Briefing Objectives



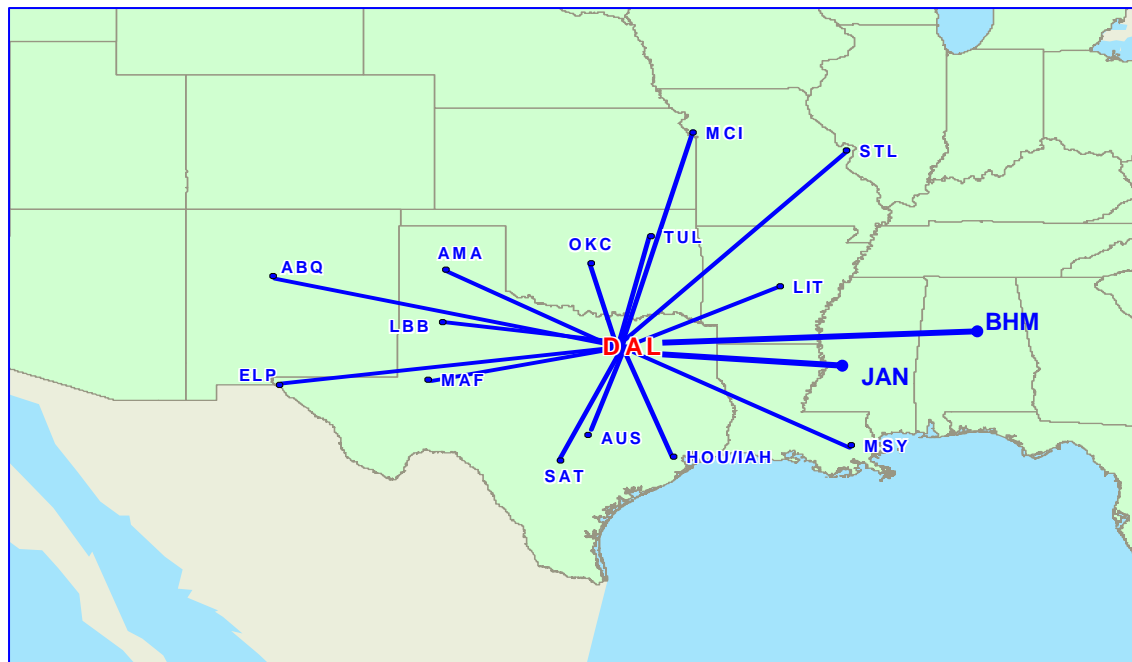
- Respond to Committee Member questions & requests for information from the May 20, 2010 committee meeting
- Provide other relevant clarifications and information
- Receive further direction from the committee

# Question 1

- Provide information about the Wright Amendment
- Following the opening of DFW Airport, scheduled passenger service from Love Field was initially restricted to Texas destinations only
- The Wright Amendment in 1979, allowed scheduled passenger service from Love Field to destinations within Texas, plus New Mexico, Oklahoma, Arkansas, and Louisiana
- Later amendments added Mississippi, Alabama, Missouri, and Kansas
- The prohibition of service beyond those listed states also included the prohibition of through ticketing

# Question 1: Service Under the Wright Amendment

- Wright Amendment – 1979 - 2007
  - Commercial flights restricted to 5 states (plus 4 added later)



# Question 1:

## Repeal of Wright Amendment

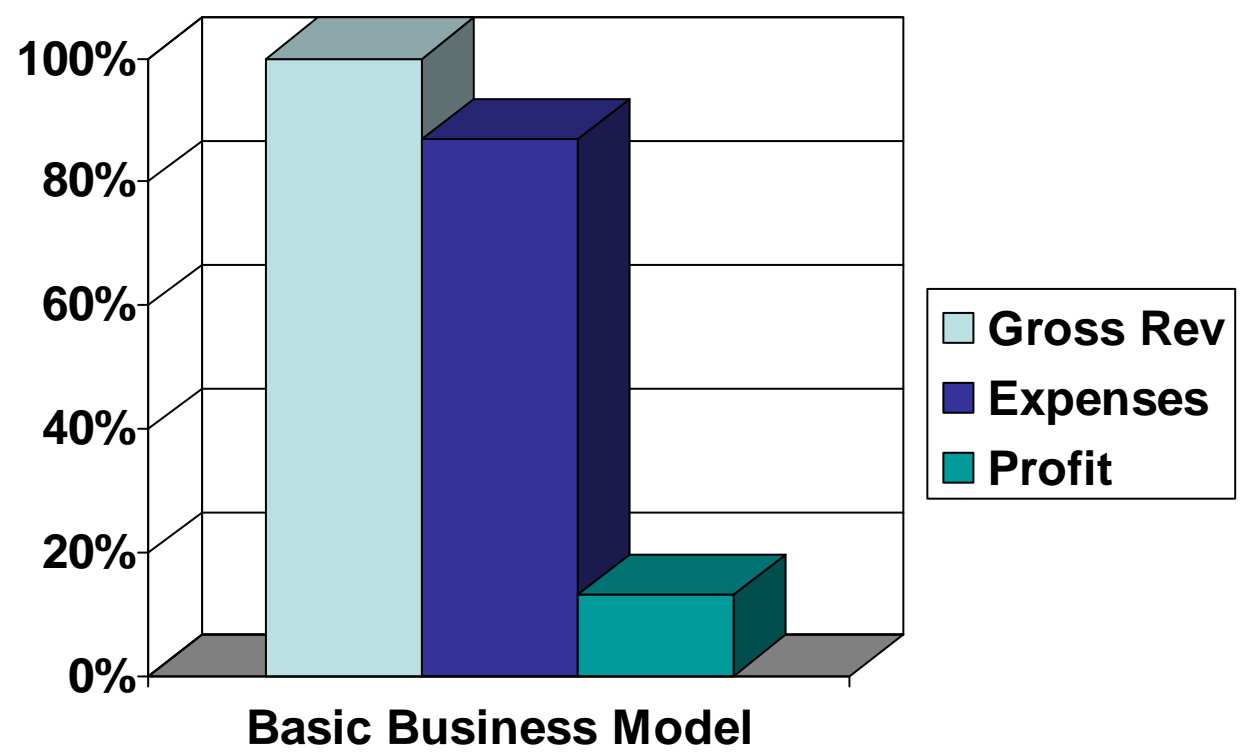
- The Wright Amendment Reform Act of 2006 was signed into law by President Bush on 10/13/06
  - Repeal of Wright Amendment flight restrictions at Love Field to be phased over 8 years
    - Immediately, through ticketing was allowed
      - enabled flights to/from Love Field to serve any domestic destination provided that it must first stop at an airport within the Wright Amendment perimeter
    - After 8 years (10/13/14) all flight restrictions will be lifted enabling flights non-stop to any domestic destination
    - Required the modernization of the Love Field terminal
      - The Love Field Modernization Program



# Context for Financial Questions

- City's focus
  - Gross Revenue
  - Apply Percentages against Gross (minus taxes)
- Concessionaire's focus
  - Profitability
    - Gross Revenue minus
    - Expenses (including capital investment) yields
    - Net Profit
- Overall picture
  - Challenges include 9/11, antiquated and undersized facility, growing demand
  - Concessionaire's response

# Typical Business Model

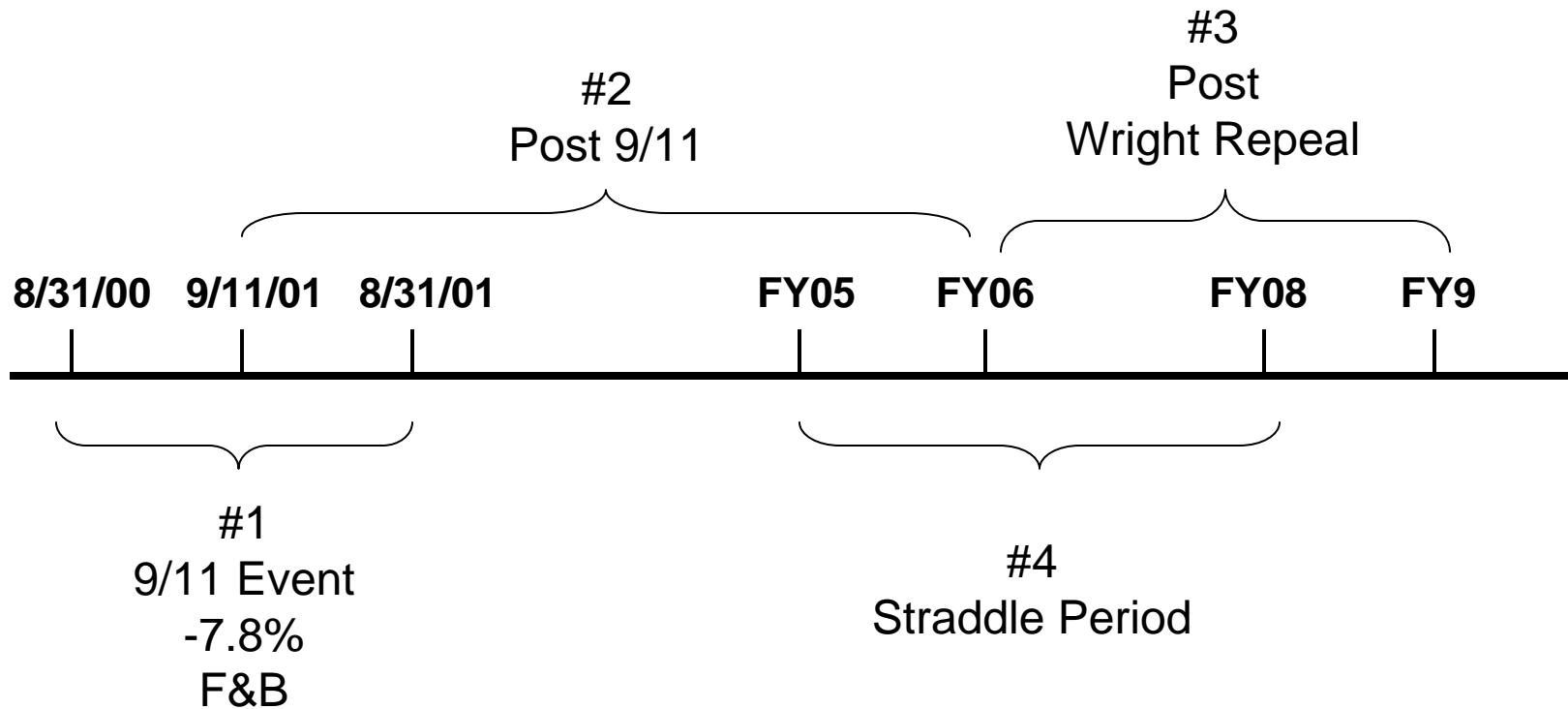




# Context for Financial Questions

- Several time periods have been referred to when making comparison of revenues and expenses
  - 9/11 Event
    - 12 months before and after
  - Post 9/11
    - Oct 2001 through September 2006
    - 5 year period
  - Post Wright Repeal
    - Oct 2006 through September 2009
    - 3 year period
  - Straddle period
    - Oct 2005 through September 2008

# Timeline

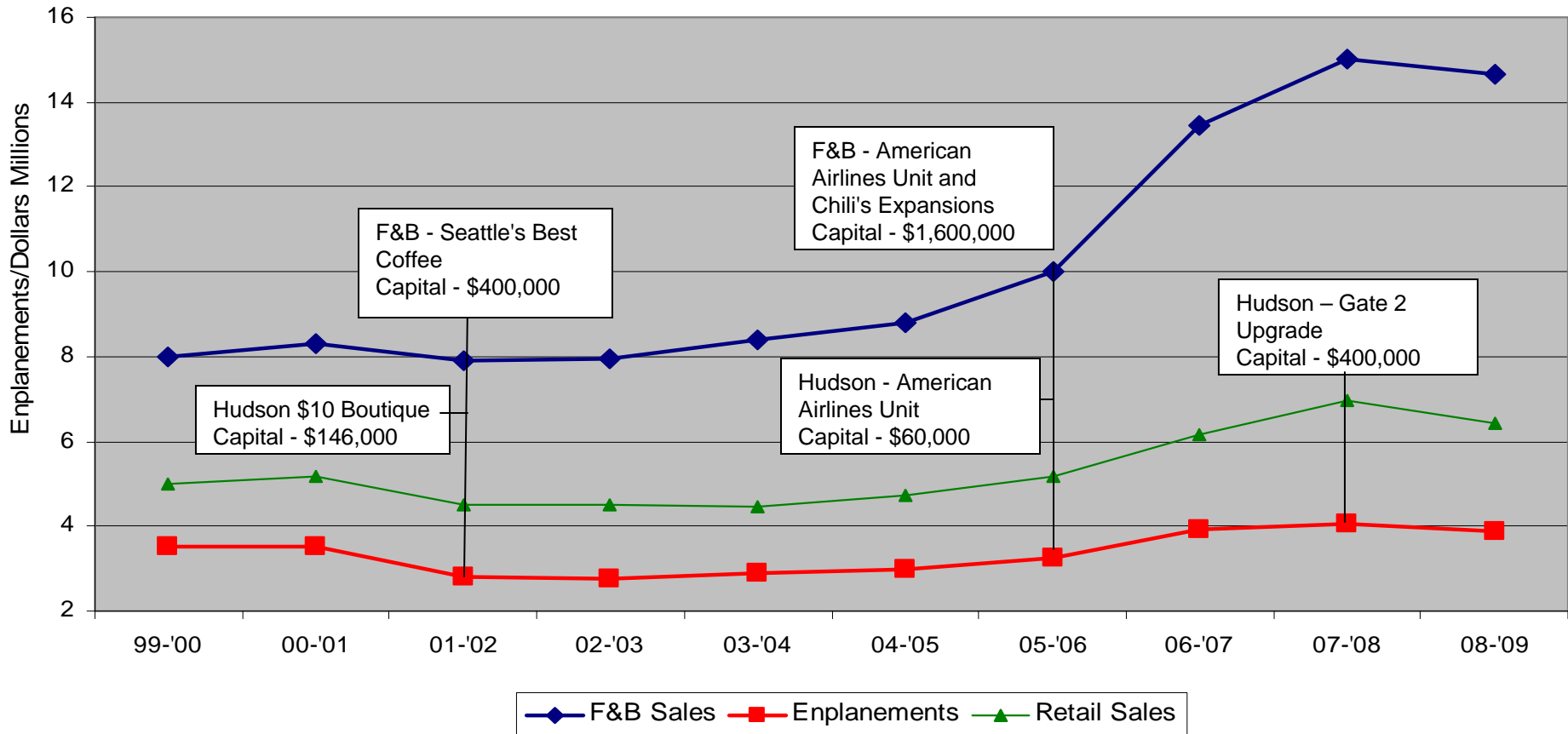


# Question 2

- After terrorist attacks of September 11, 2001 (Sept 11), were there any capital investments made by concessionaires?
- Yes. Despite reductions in traffic and uncertainty in the airline industry, both of our concessionaires invested in non-required capital improvements since 9/11
- DLFJV invested \$2.45M of non-required capital improvements
  - \$400K for two additional Seattle's Best Coffee locations in 2002
  - \$1.6M for the American Airlines unit and expansions at both Chili's locations in 2006
  - \$250K for the Gate 6 Cinnabon location in 2008
  - \$200K in additional improvements
- Hudson invested \$800K in non-required capital improvements
  - \$60K for newsstand at American Airlines gates in 2006
  - \$400K for Gate 2 newsstand upgrade in 2008
  - \$340K in additional improvements
- These capital improvements were initiated by the concessionaire to increase customer service and improve operations
  - At considerable risk to their bottom line
  - With fewer years left on their contract to amortize investment
- These capital improvements resulted in additional sales
  - These additional sales added revenue to the City
  - We will see later, the concessionaires did not enjoy all of the positive impact of this increase

# Question 2

## F&B Sales and Retail Sales to Enplanements



# Question 3

- How did additional security requirements after Sept 11 affect costs for the concessionaires?
- Numerous security measures were added including:
  - Comprehensive badging of all employees
  - Fingerprint requirements based on Criminal History Records Checks (CHRC), more thorough employment history verification, and new security training
    - Added approx 14-21 days from date of hire, for security processing time
    - Many employees were lost to other job opportunities during this time
- Enhanced security checks added time required to receive deliveries
  - Reduced employee efficiency
- Incumbents report operating cost increases related to these activities from pre-Sept 11 as:
  - DLFJV – 6%
  - Hudson – 5.4%

# Question 4

- What was the reason for the 7% drop cited by the Mayor?
- The 7% drop in concession revenue was due to the effects of Sept 11 (see follow page)
- However, the adverse impact to the concessionaires went beyond the 7% revenue drop
  - Capital investments made in 2002 of \$546K or 4.5% of revenue (which achieved at least \$750K in new sales representing 6.25% of sales)
  - Additional security and operational requirements increased cost of 6% for F&B and 5.4% for Retail
  - Therefore, during this period, concessionaires realized at least a 13.4% drop of total sales revenue to their bottom line, while exposing themselves to greater risk in a time of uncertainty
    - **This percentage typically represents the entirety of expected profit for these types of businesses**
    - **This is on top of a challenging space environment**
- Their efforts help mitigate the loss of top line revenues to 7% from which the Airport took its percentage rents

# Question 4

- 9/11 traffic impacts
  - Reduced passenger traffic
    - Concession revenues generally rise and fall with enplanements
  - Enplanement traffic dropped 24%
  - During the same period, new capital investment and other operating improvements also had the effect of preventing the sales drop from being greater than 7%
  - Another impact was the prohibition of “meeters & greeters” beyond the checkpoint

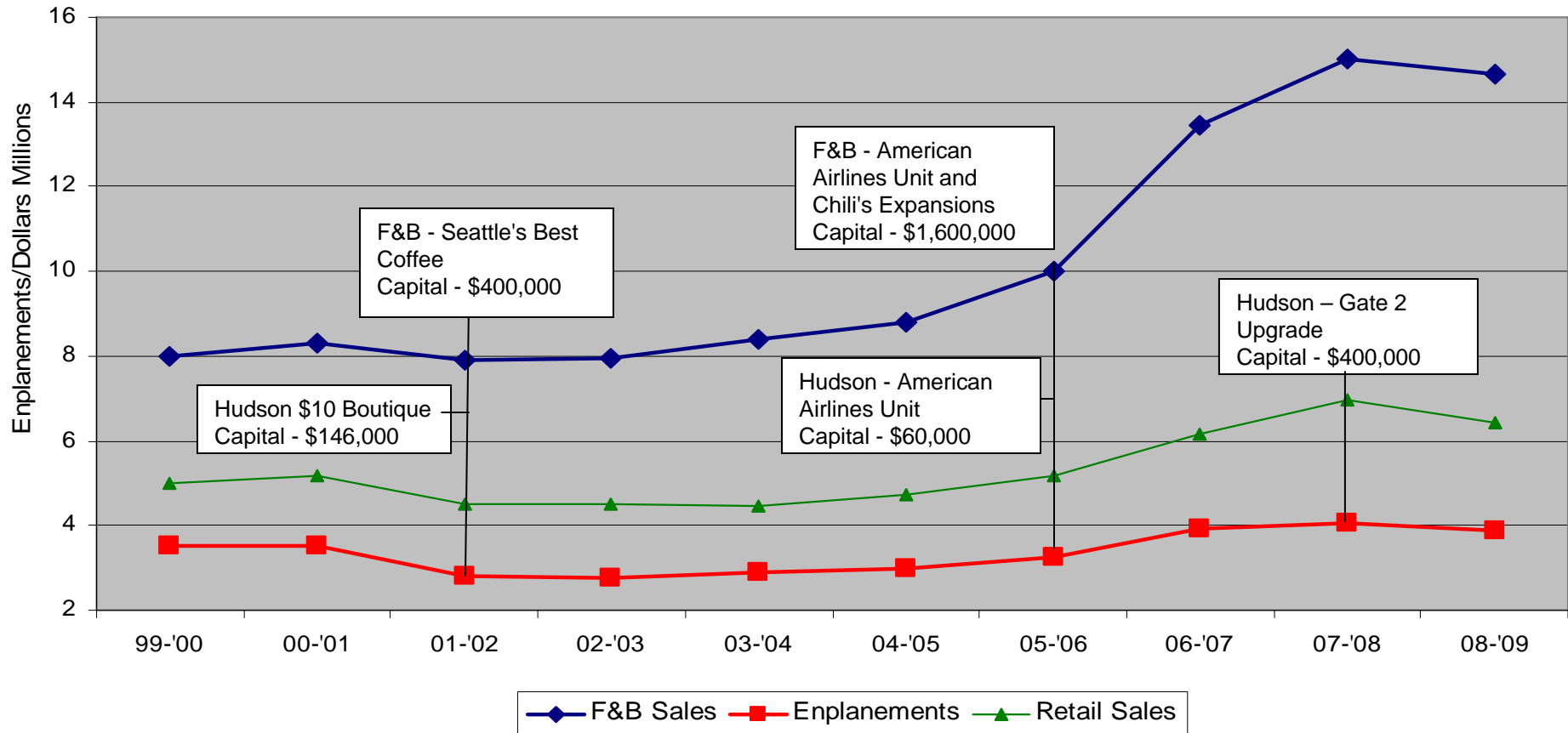
# Question 5

- Was there a 50% increase in revenues after the Wright Amendment was taken away?
- The Wright Amendment Reform Act of 2006 was signed into law on 10/13/06 and immediately lifted the restriction of through ticketing
- From 2006 to 2009
  - Enplaned passengers increased 19%
  - Combined F&B and Retail gross sales increased 39%
    - Double the rate of enplanements
    - F&B only, from 2005 to 2008 was a 50% increase
  - Greater sales increase over traffic is principally due to:
    - Concessionaire capital investments to expand space
    - Longer wait times for passengers at gates



# Question 5

## F&B Sales and Retail Sales to Enplanements



# Question 6

- How many spaces are allocated for the RFP package, representing 40% of the space?

- F&B – total spaces 26
  - Incumbent – 13 (52%)
  - RFP package – 11 (40%)
  - Phase III closed RFP – 2 (8%)

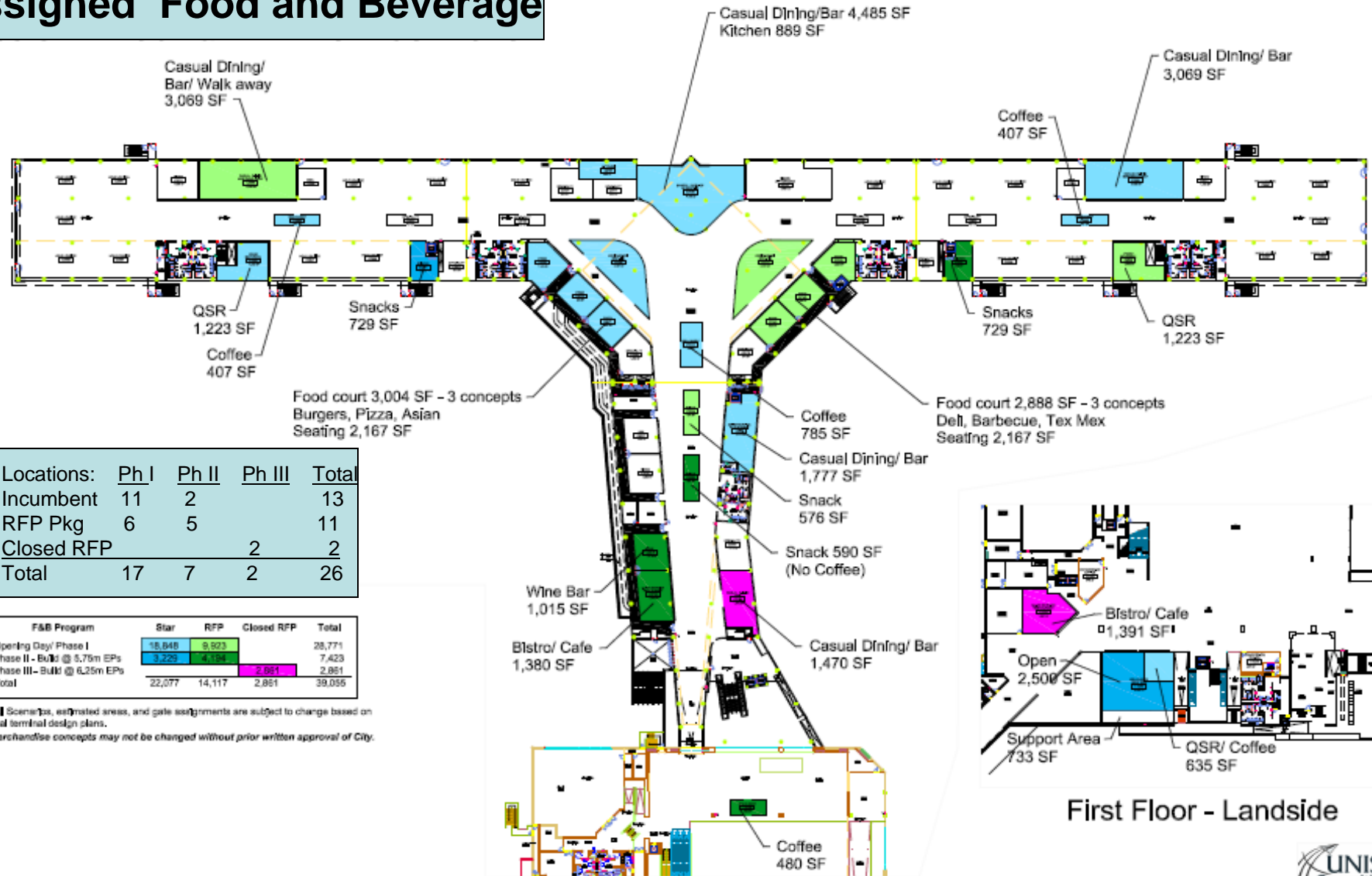
- F&B – Total Footage 39,055
  - Incumbent - 22,077 (57%)
  - RFP package - 14,117 (36%)
  - Closed RFP - 2,861 (7%)

- Retail – total spaces 17
  - Incumbent – 5 (30%)
  - RFP package – 6 (35%)
  - Closed RFP – 6 (35%)

- Retail – Total Footage 15,330
  - Incumbent - 7,059 (46%)
  - RFP package - 5,069 (33%)
  - Closed RFP - 3,202 (21%)

# Question 6: Current Proposal

## Assigned Food and Beverage



Locations:	Ph I	Ph II	Ph III	Total
Incumbent	11	2		13
RFP Pkg	6	5		11
Closed RFP			2	2
<b>Total</b>	<b>17</b>	<b>7</b>	<b>2</b>	<b>26</b>

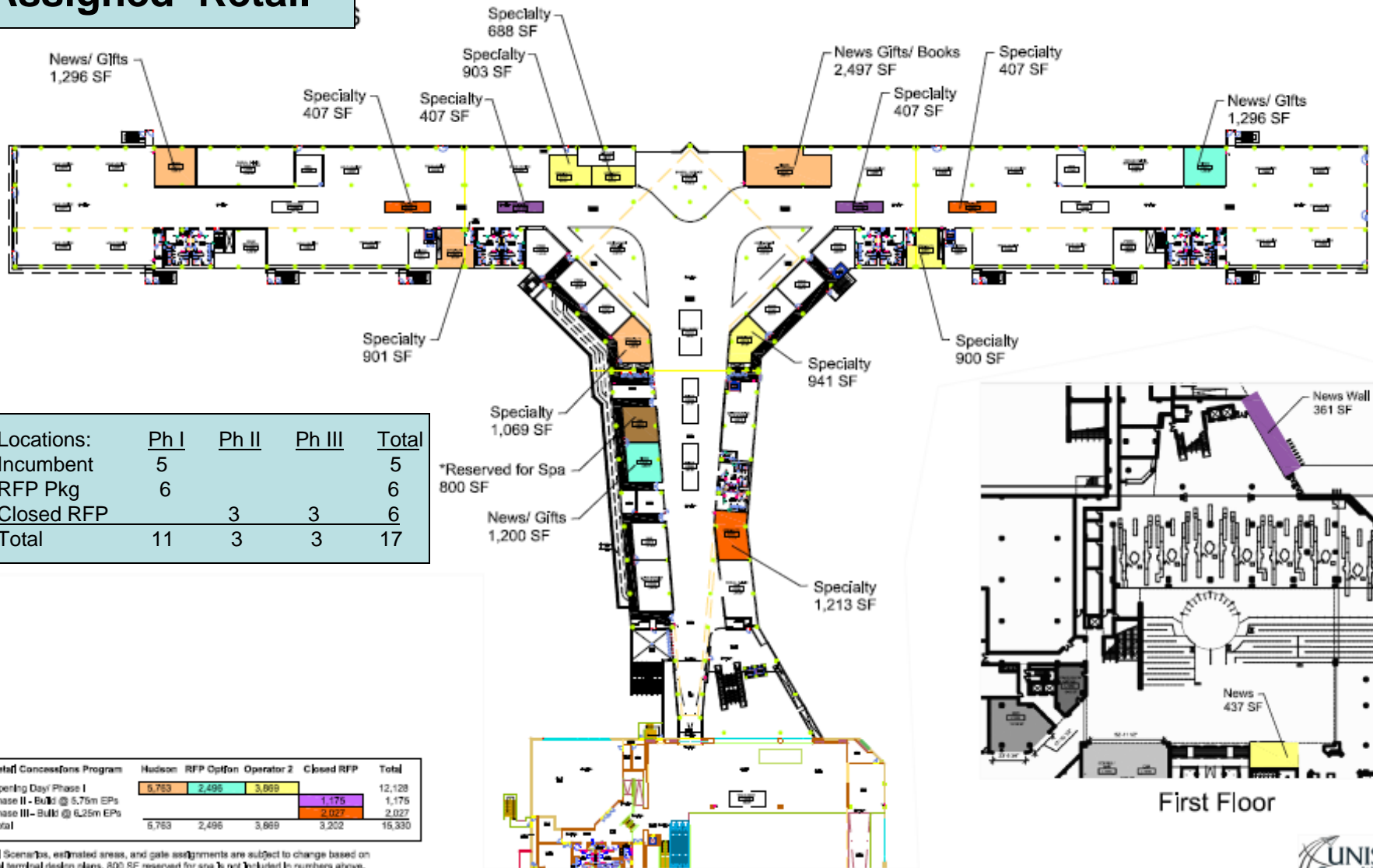
F&B Program	Star	RFP	Closed RFP	Total
Opening Day/ Phase I	18,848	9,803		28,771
Phase II - Build @ 5.75m EPs	3,229	4,314		7,423
Phase III - Build @ 6.25m EPs			2,861	2,861
<b>Total</b>	<b>22,077</b>	<b>14,117</b>	<b>2,861</b>	<b>39,055</b>

\*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.

First Floor - Landside

# Question 6: Current Proposal

## Assigned Retail



Locations:	Ph I	Ph II	Ph III	Total
Incumbent	5			5
RFP Pkg	6			6
Closed RFP		3	3	6
<b>Total</b>	<b>11</b>	<b>3</b>	<b>3</b>	<b>17</b>

Retail Concessions Program	Hudson	RFP Option	Operator 2	Closed RFP	Total
Opening Day/ Phase I	6,763	2,496	3,889		12,128
Phase II - Bulk @ 5.75m EPs				1,175	1,175
Phase III - Bulk @ 6.25m EPs				2,027	2,027
<b>Total</b>	<b>6,763</b>	<b>2,496</b>	<b>3,889</b>	<b>3,202</b>	<b>15,330</b>

\*All scenarios, estimated areas, and gate assignments are subject to change based on final terminal design plans. 800 SF reserved for spa is not included in numbers above. Merchandise concepts may not be changed without prior written approval of City.



First Floor

# Question 7

- Why did we have a different consultant in 2000-2001? Why did we replace them?
- We did not have a Concessions Consultant before 2008 when we engaged Unison to help develop the Concession Plan

# Question 8

- Why did anyone not help the concessionaires in marketing to help them get by?
- Every promotional effort by an airline to increase traffic has the indirect effect of creating more customers for the concessionaires
- Southwest has spent \$6.5M for local promotion since 2005

# Question 9

- The financials have been made public. How can incumbents bid fairly?
- Only the revenue pro forma information pertaining to the overall program has been revealed publicly
- Only broad assumptions pertaining to the calculations of revenue have been revealed
- The negotiated terms of the proposed contract will serve as the minimum values for the RFP packages
- No proprietary or bid-sensitive information has been revealed publically

# Question 10

- Why was there a Sept 11 adjustment made at DFW and not at Love Field?
- We did allow operational relief with such things as adjusting the hours of operation when traffic permitted
- However, rather than ask for rent relief our concessionaires:
  - Invested (risked) \$3.25M in non-required capital improvements
  - Absorbed security cost increases
  - Helped mitigate the negative impact of a traumatic national event on City revenue levels



# Question 11

- Are there any long term contracts at DFW? Can the same people make long term extensions?
  - Pending information from DFW staff

# Question 12



- The Pappadeaux contract at DFW, was it put up for bid? What is the RFP number and the date?
- No. According to DFW staff, it was negotiated in accordance with DFW Concession Policy as a consumer-preferred brand, enabling it to be a “sole source” direct negotiation
- There is no RFP number or date

# Question 13

- How will the current proposal affect the concepts? How is this planning to be handled?
- Preliminary concept and merchandise plans have been defined by location as part of the overall planning process.
- Specific concepts and brands in the incumbent packages have not yet been determined
  - Will be proposed by incumbents for review by an evaluation committee and forwarded to the Director.
- Respondents to RFP will propose concepts and brands, which will be reviewed by an evaluation committee as part of the proposal review and award process.

# Question 14

- Compare Love Field to five comparable airports as regards revenue per square foot, revenue per enplanement, capital investment.
- The following pages show comparison charts for sales and revenue per enplaned passenger and per square foot.
- The third next page shows lease terms at medium hub airports with recent or upcoming contracts, including capital expenditure rate per square foot. Love Field's proposed terms are comparable.

# Question 14

- Unison's observations
  - High revenue per square foot & low revenue per enplaned passenger
  - Low SUF (space utilization factor), which is amount of SF allowed per 1,000 enplanement
    - Reflects inadequate space available in existing terminal to serve increasing passenger demand
  - Rental fees paid to City are similar to the median of other airports (DAL 15.2% vs. Median 15.8%)
  - Program is at the end of its term
    - Due for Upgrade
    - LFMP Approved by Council June, 2008 which will approximately triple space available for concessions
  - Flight restrictions and proximity to major airport further distinguish Love

# Question 14



## Medium Hub Airports – 2008 Food & Beverage Programs

Airport	Code	Total EPs	SF	Gross Sales	Sales/EP	Sales/SF	Gross Rent	Rent/EP	Rent/SF	SUF (SF/1,000 EP)
<b>Dallas Love Field</b>	<b>DAL</b>	<b>4,028,686</b>	<b>16,514</b>	<b>\$ 15,105,957</b>	<b>\$3.75</b>	<b>\$ 915</b>	<b>\$ 2,300,996</b>	<b>\$0.57</b>	<b>\$ 139</b>	<b>4.1</b>
Lambert-St. Louis	STL	7,207,890	45,743	\$ 34,110,614	\$4.73	\$ 746	\$ 3,950,892	\$0.55	\$ 86	6.3
Memphis	MEM	4,999,849	44,059	\$ 29,194,529	\$5.84	\$ 663				8.8
Nashville	BNA	4,692,566	25,169	\$ 20,777,612	\$4.43	\$ 826				5.4
Houston Hobby	HOU	4,560,485	15,406	\$ 16,701,133	\$3.66	\$ 1,084	\$ 2,338,159	\$0.51	\$ 152	3.4
Austin-Bergstrom	AUS	4,473,001	24,015	\$ 20,552,830	\$4.59	\$ 856	\$ 2,376,747	\$0.53	\$ 99	5.4
Portland	PDX	7,150,857	50,953	\$ 40,365,740	\$5.64	\$ 792	\$ 4,319,779	\$0.60	\$ 85	7.1
Cincinnati	CVG	6,801,611	67,917	\$ 29,940,863	\$4.40	\$ 441				10.0
Oakland	OAK	5,668,196	10,333	\$ 23,200,333	\$4.09	\$ 2,245	\$ 3,633,597	\$0.64	\$ 352	1.8
Cleveland	CLE	5,545,205	26,172	\$ 22,834,682	\$4.12	\$ 872				4.7
Kansas City	MCI	5,527,549	44,691	\$ 20,487,721	\$3.71	\$ 458	\$ 1,881,654	\$0.34	\$ 42	8.1
Raleigh-Durham	RDU	4,850,533	38,997	\$ 19,108,386	\$3.94	\$ 490	\$ 2,162,773	\$0.45	\$ 55	8.0
Sacramento	SMF	4,846,025	24,508	\$ 23,563,914	\$4.86	\$ 961	\$ 5,868,084	\$1.21	\$ 239	5.1
San Jose	SJC	4,840,942	8,984	\$ 18,671,315	\$3.86	\$ 2,078	\$ 2,094,232	\$0.43	\$ 233	1.9
Orange County (CA)	SNA	4,492,626	14,460	\$ 24,704,816	\$5.50	\$ 1,708	\$ 4,025,782	\$0.90	\$ 278	3.2
Pittsburgh	PIT	4,354,992	31,012	\$ 22,552,000	\$5.18	\$ 727				7.1
San Antonio	SAT	4,160,437	19,230	\$ 16,248,682	\$3.91	\$ 845	\$ 2,345,326	\$0.56	\$ 122	4.6
Indianapolis	IND	4,080,231	30,967	\$ 19,851,419	\$4.87	\$ 641	\$ 2,325,291	\$0.57	\$ 75	7.6
Milwaukee General Mitchell	MKE	4,000,765	25,957	\$ 15,852,868	\$3.96	\$ 611	\$ 1,995,011	\$0.50	\$ 77	6.5
New Orleans	MSY	3,973,167	30,164	\$ 16,745,829	\$4.21	\$ 555				7.6
Southwest Florida	RSW	3,868,588	21,307	\$ 18,542,910	\$4.79	\$ 870	\$ 2,325,699	\$0.60	\$ 109	5.5
Port Columbus	CMH	3,459,434	25,059	\$ 15,916,735	\$4.60	\$ 635				7.2
Palm Beach	PBI	3,330,820	25,649	\$ 14,777,822	\$4.44	\$ 576	\$ 1,775,863	\$0.53	\$ 69	7.7
Albuquerque	ABQ	3,256,793	12,121	\$ 15,489,067	\$4.76	\$ 1,278				
Ontario	ONT	3,107,044	26,589	\$ 8,542,098	\$2.75	\$ 321	\$ 1,228,305	\$0.40	\$ 46	8.6
Jacksonville	JAX	2,998,472	19,361	\$ 14,255,440	\$4.75	\$ 736	\$ 1,879,856	\$0.63	\$ 97	6.5
Anchorage	ANC	2,834,976	16,236	\$ 13,093,574	\$4.62	\$ 806	\$ 1,554,825	\$0.55	\$ 96	5.7
Buffalo	BUF	2,762,401	21,764	\$ 11,147,647	\$4.04	\$ 512	\$ 1,522,401	\$0.55	\$ 70	7.9
Providence	PVD	2,353,715	11,604	\$ 11,200,555	\$4.76	\$ 965	\$ 1,656,385	\$0.70	\$ 143	4.9
Reno-Tahoe	RNO	2,323,681	8,447	\$ 9,219,953	\$3.97	\$ 1,092	\$ 995,219	\$0.43	\$ 118	3.6
Omaha	OMA	2,193,292	39,192	\$ 7,788,166	\$3.55	\$ 199	\$ 1,012,447	\$0.46	\$ 26	17.9
Tucson	TUS	2,116,694	16,322	\$ 8,656,723	\$4.09	\$ 530	\$ 1,211,941	\$0.57	\$ 74	7.7
Louisville	SDF	1,843,133	18,100	\$ 8,863,865	\$4.81	\$ 490	\$ 996,013	\$0.54	\$ 55	9.8
<b>MEDIAN W/O DAL</b>		<b>4,120,334</b>	<b>24,784</b>	<b>\$ 17,644,370</b>	<b>\$4.43</b>	<b>\$ 741</b>	<b>\$ 2,044,622</b>	<b>\$0.55</b>	<b>\$ 91</b>	<b>6.5</b>

# Question 14



## Medium Hub Airports – 2008 Retail Programs

Airport	Code	Total EPs	SF	Gross Sales	Sales/EP	Sales/SF	Gross Rent	Rent/EP	Rent/SF	SUF (SF/1,000 EP)
<b>Dallas Love 2008</b>	<b>DAL 08</b>	<b>4,028,686</b>	<b>6,779</b>	<b>\$ 6,886,573</b>	<b>\$1.71</b>	<b>\$ 1,016</b>	<b>\$ 1,045,363</b>	<b>\$0.26</b>	<b>\$ 154</b>	<b>1.7</b>
Lambert-St. Louis	STL	7,207,890	26,236	\$ 21,359,716	\$2.96	\$ 814	\$ 2,727,522	\$0.38	\$ 104	3.6
Memphis	MEM	4,999,849	23,987	\$ 11,676,036	\$2.34	\$ 487				4.8
Nashville	BNA	4,692,566	18,167	\$ 14,465,750	\$3.08	\$ 796				3.9
Houston Hobby	HOU	4,560,485	10,565	\$ 11,019,711	\$2.42	\$ 1,043	\$ 2,314,139	\$0.51	\$ 219	2.3
Austin-Bergstrom	AUS	4,473,001	13,961	\$ 18,457,045	\$4.13	\$ 1,322	\$ 2,399,415	\$0.54	\$ 172	3.1
Portland	PDX	7,150,857	25,956	\$ 34,303,710	\$4.80	\$ 1,322	\$ 4,323,467	\$0.60	\$ 167	3.6
Cincinnati	CVG	6,801,611	41,283	\$ 19,576,294	\$2.88	\$ 474				6.1
Oakland	OAK	5,668,196	7,737	\$ 12,793,123	\$2.26	\$ 1,653	\$ 2,294,920	\$0.40	\$ 297	1.4
Cleveland	CLE	5,545,205	13,852							2.5
Kansas City	MCI	5,527,549	16,495	\$ 6,971,787	\$1.26	\$ 423	\$ 1,031,707	\$0.19	\$ 63	3.0
Raleigh-Durham	RDU	4,850,533	17,468	\$ 13,557,134	\$2.79	\$ 776	\$ 1,660,745	\$0.34	\$ 95	3.6
Sacramento	SMF	4,846,025	18,377	\$ 12,726,830	\$2.63	\$ 693	\$ 1,800,499	\$0.37	\$ 98	3.8
San Jose	SJC	4,840,942	3,800	\$ 7,706,344	\$1.59	\$ 2,028	\$ 1,227,541	\$0.25	\$ 323	0.8
Orange County (CA)	SNA	4,492,626	6,196	\$ 12,357,299	\$2.75	\$ 1,994	\$ 2,291,337	\$0.51	\$ 370	1.4
Pittsburgh	PIT	4,354,992	49,591	\$ 37,003,000	\$8.50	\$ 746				11.4
San Antonio	SAT	4,160,437	12,759	\$ 11,288,807	\$2.71	\$ 885	\$ 1,974,393	\$0.47	\$ 155	3.1
Indianapolis	IND	4,080,231	28,771	\$ 12,760,102	\$3.13	\$ 444	\$ 2,095,459	\$0.51	\$ 73	7.1
Milwaukee General Mitchell	MKE	4,000,765	9,939	\$ 10,899,030	\$2.72	\$ 1,097	\$ 1,506,740	\$0.38	\$ 152	2.5
New Orleans	MSY	3,973,167	13,641	\$ 13,391,679	\$3.37	\$ 982				3.4
Southwest Florida	RSW	3,868,588	16,633	\$ 15,579,354	\$4.03	\$ 937	\$ 2,727,728	\$0.71	\$ 164	4.3
Port Columbus	CMH	3,459,434	15,565	\$ 8,639,456	\$2.50	\$ 555				4.5
Palm Beach	PBI	3,330,820	13,790	\$ 10,883,970	\$3.27	\$ 789	\$ 2,179,639	\$0.65	\$ 158	4.1
Albuquerque	ABQ	3,256,793	4,310	\$ 12,420,780	\$3.81	\$ 2,882	\$ 1,849,422	\$0.57	\$ 429	1.3
Ontario	ONT	3,107,044	12,597	\$ 8,737,656	\$2.81	\$ 694	\$ 769,367	\$0.25	\$ 61	4.1
Jacksonville	JAX	2,998,472	22,314	\$ 9,142,488	\$3.05	\$ 410	\$ 1,412,439	\$0.47	\$ 63	7.4
Anchorage	ANC	2,834,976	11,611	\$ 11,233,183	\$3.96	\$ 967	\$ 1,284,142	\$0.45	\$ 111	4.1
Buffalo	BUF	2,762,401	3,885	\$ 4,525,866	\$1.64	\$ 1,165	\$ 644,570	\$0.23	\$ 166	1.4
Providence	PVD	2,353,715	8,296	\$ 5,184,340	\$2.20	\$ 625	\$ 943,082	\$0.40	\$ 114	3.5
Reno-Tahoe	RNO	2,323,681	10,879	\$ 14,513,291	\$6.25	\$ 1,334	\$ 4,846,396	\$2.09	\$ 445	4.7
Omaha	OMA	2,193,292	6,902	\$ 3,605,699	\$1.64	\$ 522	\$ 660,348	\$0.30	\$ 96	3.1
Tucson	TUS	2,116,694	7,294	\$ 7,000,732	\$3.31	\$ 960	\$ 875,092	\$0.41	\$ 120	3.4
Louisville	SDF	1,843,133	8,256	\$ 6,003,613	\$3.26	\$ 727	\$ 705,470	\$0.38	\$ 85	4.5
<b>MEDIAN W/O DAL</b>		<b>4,120,334</b>	<b>13,716</b>	<b>\$ 11,676,036</b>	<b>\$2.88</b>	<b>\$ 814</b>	<b>\$ 1,800,499</b>	<b>\$0.41</b>	<b>\$ 152</b>	<b>3.6</b>

# Question 14

## Lease Terms – Recent RFPs at Medium Hub Airports

Date of RFP	Airport	Term		Rent		Capital Investment	
		F&B	Retail	F&B	Retail	F&B	Retail
April 10	Sacramento	10	7	12-14% min	14-17% min	\$350/ SF min	\$300/ SF min
Mar 10	John Wayne Orange County	10	10	12-18% min	12-23% min	\$200/ SF min	\$130/ SF min
Feb 09	Anchorage	10	5	10-14% min	10-15% min	\$250/ SF min	\$150-250/ SF min
Mar 08	Albuquerque	10		11-17% set		\$170-220/ SF min	
Oct 07	Milwaukee	10		12-16% set		\$300-400/ SF actual	
Oct 07	San Jose	12	12	14-20% actual	12-25% actual	\$473-556/ SF actual	\$381-459/ SF actual
Jan 07	Nashville	8	8	11-12% actual	12-13% actual	\$300-425/ SF actual	\$370-400/ SF actual
Feb 06	Oakland	10	10	10-18% actual	12-16% actual	\$600/ SF actual	\$483/ SF actual
Sep 03	Memphis	12	10	10-16% actual	10-13.5% actual	\$300/ SF actual	\$330/ SF actual
<b>Estimated Median Range - Medium Hubs</b>		<b>10</b>	<b>10</b>	<b>11-16%</b>	<b>12-16%</b>	<b>\$300-413/ SF</b>	<b>\$330-400/ SF</b>
<b>DAL - Proposed Terms</b>		<b>12</b>	<b>12</b>	<b>12-15% min</b>	<b>14-16% min.</b>	<b>\$400/ SF min</b>	<b>\$350/SF min</b>

Source: Airport Request for Proposals, Airport interviews, and press releases.



# Question 15

- Why a 12 year term?
- The 12 year term considered:
  - Current credit environment
  - Significant size of the investment
  - Precedent at other airports
  - Risk associated with aggressive projection of increased traffic due to the Wright Amendment Repeal

# Question 16

- Explain how the RFP process works.
- The RFP process includes the following elements:
- Request for Proposal documents prepared by City staff and consultants in accordance with City purchasing requirements.
- RFP documents issued to prospective respondents including specifications of available space; minimum rent and investment requirements; ACDBE participation; and response requirements.
- Pre-Proposal conference approximately 3 weeks after RFP is issued for presentation of opportunities at Airport and networking between prime operators and local businesses.

# Question 16

- Prospective respondents allowed to submit questions for approximately 6 weeks after RFP is issued.
- City issues addendum responding to questions and clarifying RFP approximately 8 weeks after RFP issue date.
- Proposals due 3 months after RFP issue date.
- Proposals reviewed by Evaluation Committee composed of City employees, airline representatives and other community members as determined by City Manager.
- Evaluation Committee makes award recommendations to Director.
- Award recommendations approved by City Council.

# Question 17



- Explain bottled water provision
- Currently, the sale of bottled water is not an authorized sale item for the retail concessionaire
- Retail concessionaire requested rights to sell water in the retail news & gift units
- Agreement was reached to expand points of sale of bottled water to all F&B and Retail locations
  - Retail concessionaire compensates incumbent F&B concessionaire for any loss of sales to Retail concessionaire through payment of a pre-set fee per bottle under a base number of bottles sold
  - Retail concessionaire pays a lesser amount per bottle it sells above the base number of bottles
  - City receives no less than 10% percent payment for all water sold
- The agreement potentially doubles the points of sale resulting in
  - Better service to the customer
  - Likely increased sales and more revenues to the City
- The agreement is described in more detail on page 26 of 2/22/10 TEC briefing

# Question 18

- Explain Street Pricing
- Street Pricing is an industry term for comparing airport merchandise pricing to nearby off airport locations
  - Comparable off airport locations are submitted, reviewed and approved annually
- Due to higher operational costs at airport, pricing is compared to “street” prices, then increased by a percentage factor
- F & B pricing was negotiated at
  - 10% above street for branded full service dining or casual dining (same as current)
  - 15% for quick serve or walk away locations (new category)
  - 20% for non branded food service (same as current)
- Retail was negotiated at 10% above street pricing (less than current)
- Street pricing is an industry standard
  - A recent airport survey indicates that of 18 medium hub airport respondents, all used street pricing methodology
  - Percentage above street range between 10% and 15%, with 10% being the most prevalent.

# Clarifications & Information # 1

- Low customer service survey rankings
  - May 20 comments cited numerous instances of customer service rankings near the bottom of JD Power surveys for Food & Retail concessions at Love Field
  - Information: Surveys back to 2006 are listed on next page

# Recent Survey Rankings

- **2006 JD Power**
  - Rank 1<sup>st</sup> Overall Airport Satisfaction in Small Airport Category
- **2007 JD Power**
  - Rank 2<sup>nd</sup> Overall Airport Satisfaction in Small Airport Category
  - F&B received 4 of 5 stars, Retail received 3 of 5 stars
- **2008 JD Power**
  - Rank 1<sup>st</sup> Overall Airport Satisfaction in Small Airport Category
  - F&B and Retail combined received 4 of 5 stars
- **2009 Airport Revenue News**
  - Best Customer Service in Small Airport Category
  - JD Power did not publish a report for that period
- **2009 (4<sup>th</sup> Qtr) Airport Service Quality Benchmark**
  - Overall Satisfaction Score of 3.94 out of 5.00
    - Score meanings: 1=poor; 2=fair; 3=good; 4=very good; 5=excellent
  - F&B scored 3.65; Retail scored 3.37 (same score meanings)
- **2010 JD Power**
  - Rank 22<sup>nd</sup> Overall Airport Satisfaction in Small Airport Category
  - Food & Retail Services Scored 2 out of 5 stars (same as other categories)
  - Houston Hobby also fell with Love from similar high rating

# Conditions Affecting Level of Service

- Customer service and concession ranking declines
  - Reflective of building condition and lack of adequate space for concessions to accommodate needed variety of concepts and brands to serve the growing demand at Love Field
  - Both incumbent concessionaires proposed expansion and new capital investment in 2007 to address this need
- This is one of the many reasons why the improvements to Love Field are so important
  - Complete replacement of the terminal
  - Construction of an integrated transportation system
  - Doubling the available space for concessions



# Clarifications & Information # 2



- Impact of reduced passenger traffic in West Concourse in 2013
- May 20 comments asserted that the reduction of passenger traffic would be proportional with the reduction in concession spaces and thereby result in little negative impact on remaining concessions
- There are two conditions representing similar challenges:
  - Scenario 1 – Incumbents remaining through construction: Impacts would include:
    - Some capital expenditures required to meet franchise requirements
    - Other fixed costs that would not be reduced with less traffic
    - Impact associated with running a split operation
    - Additional cost of operation by construction throughout period

# Clarifications & Information # 2

## – Scenario 2 – New concessionaires

- Same challenges as presented above for the incumbents, but worse
- Estimates for new capital investments range from \$1.2M - \$2.4M for F&B and \$340K to \$700K for Retail
- Amortization of this capital over the 3 year (38 month) period results in operating losses in 2<sup>nd</sup> and 3<sup>rd</sup> years, making venture highly risky for new concessionaire
- New improvements may require additional infrastructure improvements to meet code
- Without clear direction from the existing contracts, it is possible there could be a total disruption of concession services in the transition and additional expenses

- Further Committee Direction