Memorandum

CITY OF DALLAS

DATE August 13, 2010

TO Honorable Mayor and Members of the City Council

SUBJECT Love Field Concession Options

On Wednesday, August 18, 2010, you will be briefed on the Love Field Concession Options. A copy of the briefing is attached.

Please let me know if you have any questions.

A.C. González
Assistant City Manager

c: 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
Jeanne Chipperfield, Chief Financial Officer
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 Concessions Options

Briefing for the
City Council

Department of Aviation
August 18, 2010

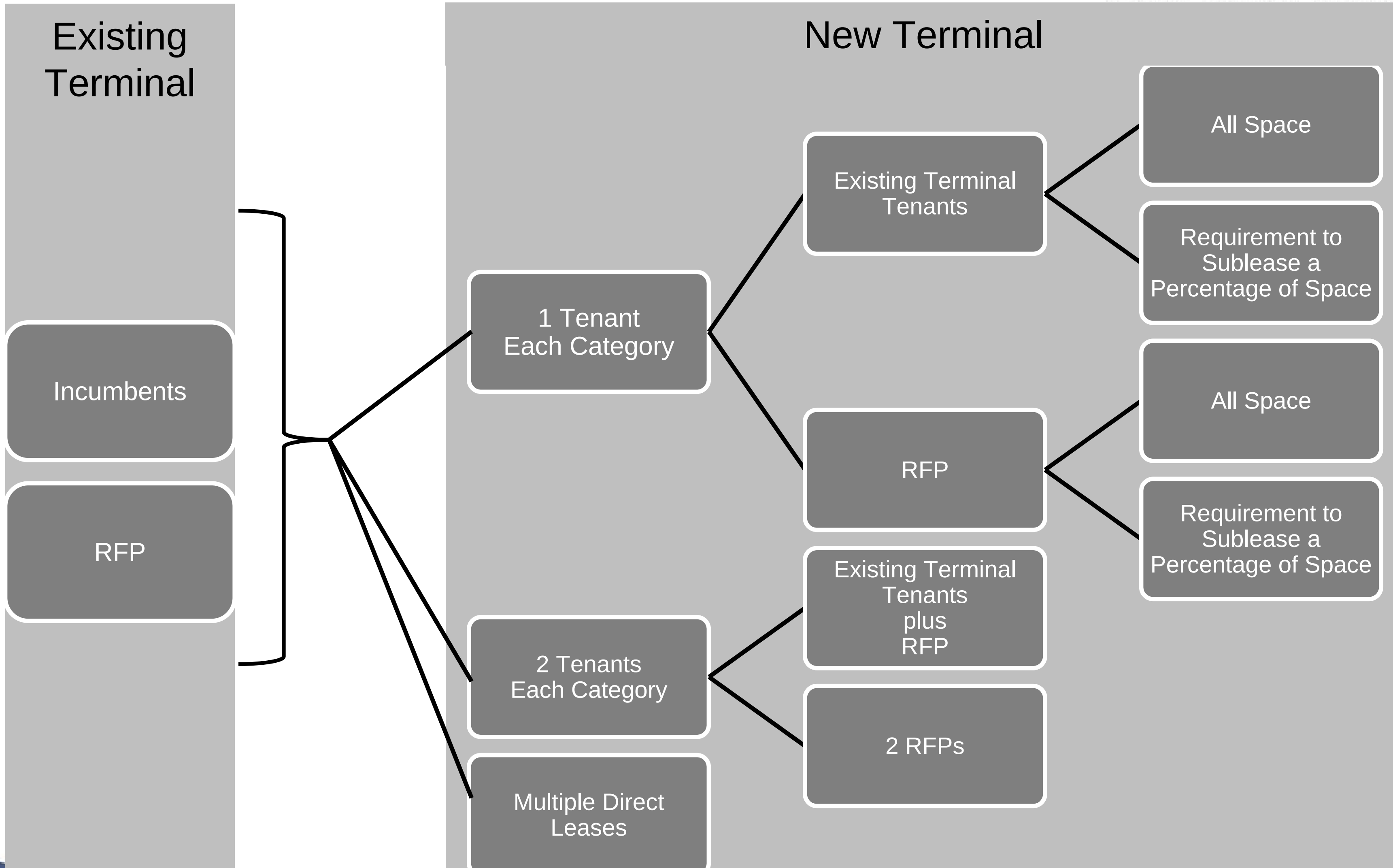
Background

- **6/11/07** – Briefed proposal to TEC to extend existing concession contracts through period of construction & solicit proposals for new concession contracts in new space
- **4/13/09** – Presented Concession Plan proposal to TEC with 2 Incumbent packages & 2 RFP packages
- **5/26/09** – Responded to Committee Member questions from 4/13/09 briefing
- **2/22/10** – Presented alternative Concession Plan proposal combining bid and negotiated framework for 2 Incumbent & 2 RFP packages.

Background

- Action on Concession Plan was deferred June 23
  - Staff instructed to develop additional options for the City Council to consider in August
- This presentation will compare 4 options to provide concessions for:
  - terminal construction period, and
  - in the new terminal

Leasing Options



Lease Terms Options

Term	MAG	Percentage Rent	Pricing	Existing Terminal Asset Protection	Bottled Beverage Restrictions
<10 yrs	Fixed by City	Fixed by City	Street + 0%	Yes	Yes
10 yrs	Proposed – No Limits	Proposed – No Limits	Street + 10%	No	No
12 yrs	Proposed – Within Ranges	Proposed – Within Ranges	Street + >10%		
>12 yrs			No Policy		

Options

Four Options *

1. Single Prime (1 food/beverage and 1 retail concession contractor)
   - Bid old and new terminal
   - Essentially plan presented June 2007
2. Two (but maybe one) for each category Primes
   - Combination Bid and Negotiated
   - Plan presented February 2010
3. Two (but maybe one) for each category Primes, but
   - Space split 50/50 and all bid
   - Incumbent match comparable bid
4. Modified Direct management model with or without Incumbent right of refusal
   - Bidding all new terminal
   - Airport staff procures individual concession contract packages for the various concepts and brands sought for the concession program

*** Floor Plan examples and more detail of each Option in the Appendix**

CONCESSION MODELS

- All 4 models
  - Provide for separate F&B and Retail contractors
  - Expand services currently offered passengers and generate more Airport revenues
  - Differ in management approach, selection methodology, selected contract provisions
- Following pages will provide brief outline of the options, more detail in the appendix, with some observations of challenges and opportunities

Option 1: Single Prime
Old and New Terminal Bid Together

DALLAS AIRPORT SYSTEM

Description	Two packages are available for both old and new terminal: • #1 RFP Food and Beverage package includes all space in the old terminal and all space in the new terminal • # 2 RFP Retail package includes all space in the old terminal and all space in the new terminal
Opportunities	• Higher rents may be negotiated with only two operators • Operators may be willing to spend more capital in old and new terminal due to no competition and long term • Expand competitive environment • Less support space • Will reduce operational logistics
Challenges	• Single operator model for new terminal space generally produces less sales and revenues (according to medium hub airport analysis) • Less competition in new terminal may result in less variety, lower quality and lower customer service levels • Less flexibility to the City • Provides fewer opportunities to other operators

Option 2: Two Primes (Possibly One) Negotiated Old terminal, Bid Portion of New

Description	Four packages are available: • #1 Incumbent Food & Beverage package includes space in old terminal and new terminal space on negotiated terms • #2 Food & Beverage package includes space in new terminal only • #3 Incumbent Retail package includes space in old terminal and new terminal space on negotiated terms • #4 Retail package includes space in new terminal only
Opportunities	• Competitive selection process for part of new terminal space • Incumbents in existing terminal provides continuity of operations • Easier transition by one operator from old space to new terminal • Reductions in cash flow in old terminal are offset by long-term cash flows in new terminal
Challenges	• Incumbents are provided 53.6% of new terminal space reducing competitive opportunities

Option 3 – Two Primes (Possibly One) Negotiated Old terminal, Bid All New

Description	Extension of Incumbent Contracts in old terminal: • Incumbent Food & Beverage package includes all space in the old terminal • Incumbent Retail package includes all space in the old terminal Four RFP packages are available in new terminal • Two Food & beverage RFP packages allocating space 50/50 in the new terminal • Two Retail RFP packages allocating space 50/50 in new terminal • Opportunity for reconcepting the entire new terminal • Incumbent to be awarded one package, provided must match best bid; can win provided they are best bid
Advantages	• RFP for new space should generate significant interest from potential concessionaires • Incumbents in existing terminal provides continuity of operations • Easier transition by one operator from old space to new terminal • Includes more competitive opportunities
Disadvantages	• Incumbents are provided 50% of new terminal space reducing competitive opportunities

Option 4: DIRECT LEASING WITH, OR WITHOUT, INCUMBENT 1ST RIGHT OF REFUSAL
Multiple Operators: Old Terminal and New Terminal

DALLAS AIRPORT SYSTEM

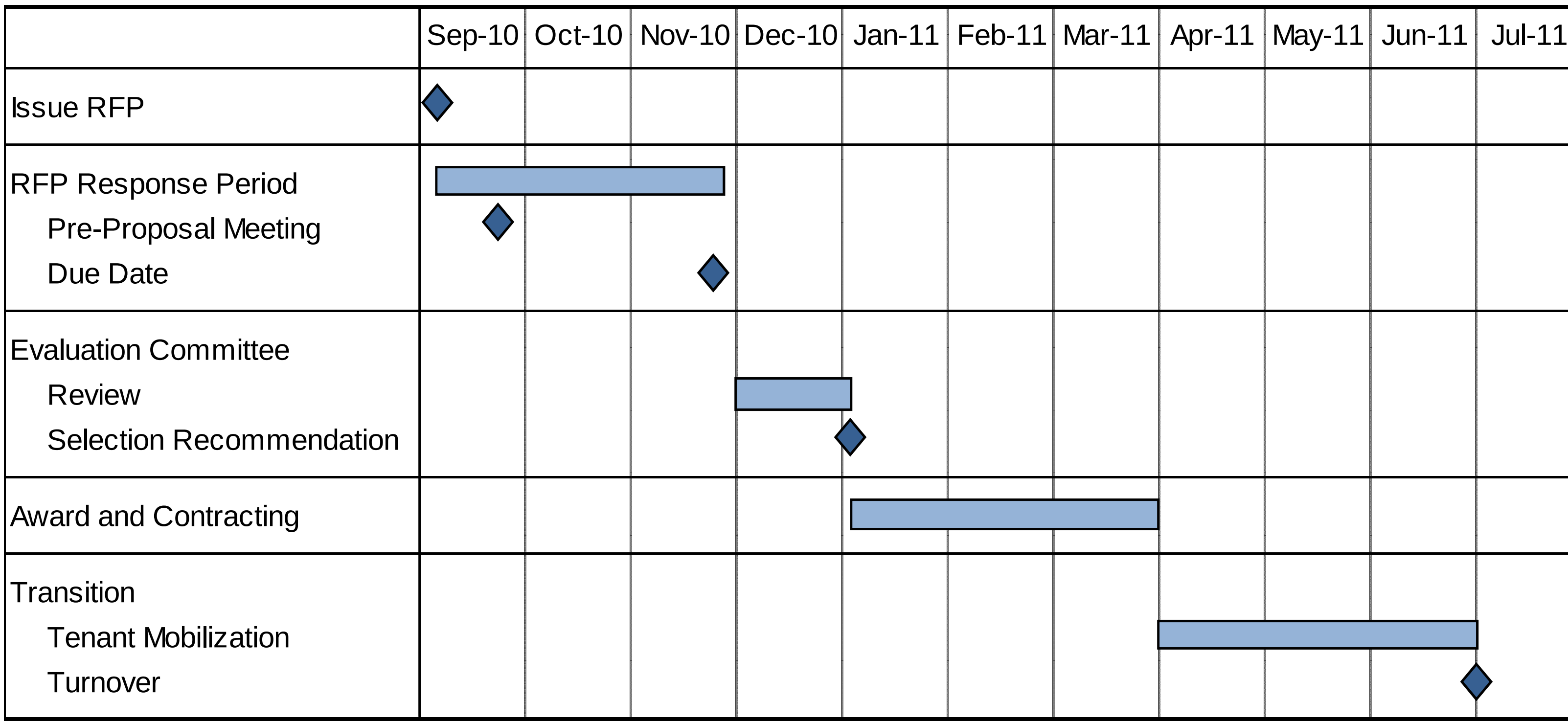
Description	Extension of Incumbent Contracts in old terminal: • #1 Incumbent Food & Beverage package includes all space in the old terminal • #2 Incumbent Retail package includes all space in the old terminal • Incumbents are provided 1st right of refusal on 25% of new terminal provided they provide services during construction period • Can be implemented with or without 1st right of refusal on a percentage of the new terminal Multiple direct-lease packages are available in new terminal • RFPs for all space in the new terminal. Each direct-lease package developed to provide attractive combinations of spaces • Respondents can be awarded multiple packages
Opportunities	• City controls the selection of concession categories and operators • Allows greater variety of concession operators to participate • Greater flexibility with contract terms • Promotes competition in pricing, products and service • Allows for shorter term leases as capital investment is smaller • Incumbents, if they choose to stay in existing terminal, guarantees continuity of operations • May result in greater revenue for the Airport
Challenges	• Greater administrative costs • City assumes the financial risk associated with vacant space • Requires expertise on-staff to understand trends, implement new ideas and concepts • Process of selection requires more logistics • Requires more support space and distribution logistics are more complex • Incumbent Right of Refusal may discourage proposers in RFP

Policy Direction Needed

- Existing F&B and Retail Concession contracts expire 6/30/11
- Staff has made previous recommendations which Council has not approved
- New contracts must be solicited, negotiated, and awarded with sufficient time remaining for new concessionaires to mobilize and make preparations for overnight transition

RFP / Tenant Transition Schedule

Concessions RFP / Tenant Transition Schedule



Recommendation and Next Steps

- Recommendation
  - Select one of the four options and authorize the City Manager to endeavor to gain an extension of existing vendors through the construction period, or if unsuccessful within 30 days, develop, prepare distribute and process Requests for Proposals for existing and future new space, based on the selected option.
- Next Steps
  - City Council consideration August 18/25 agenda

Appendix

- Option 1
- Option 2
- Option 3
- Option 4

Option 1

Option 1 – Single Prime Overall Structure

- 1 Retail RFP & 1 Food & Beverage RFP for all space in the old & new terminal. This option assumes no extension for either incumbent. One single operator, awarded each contract based on specific concept, brand and financial criteria

Other provisions

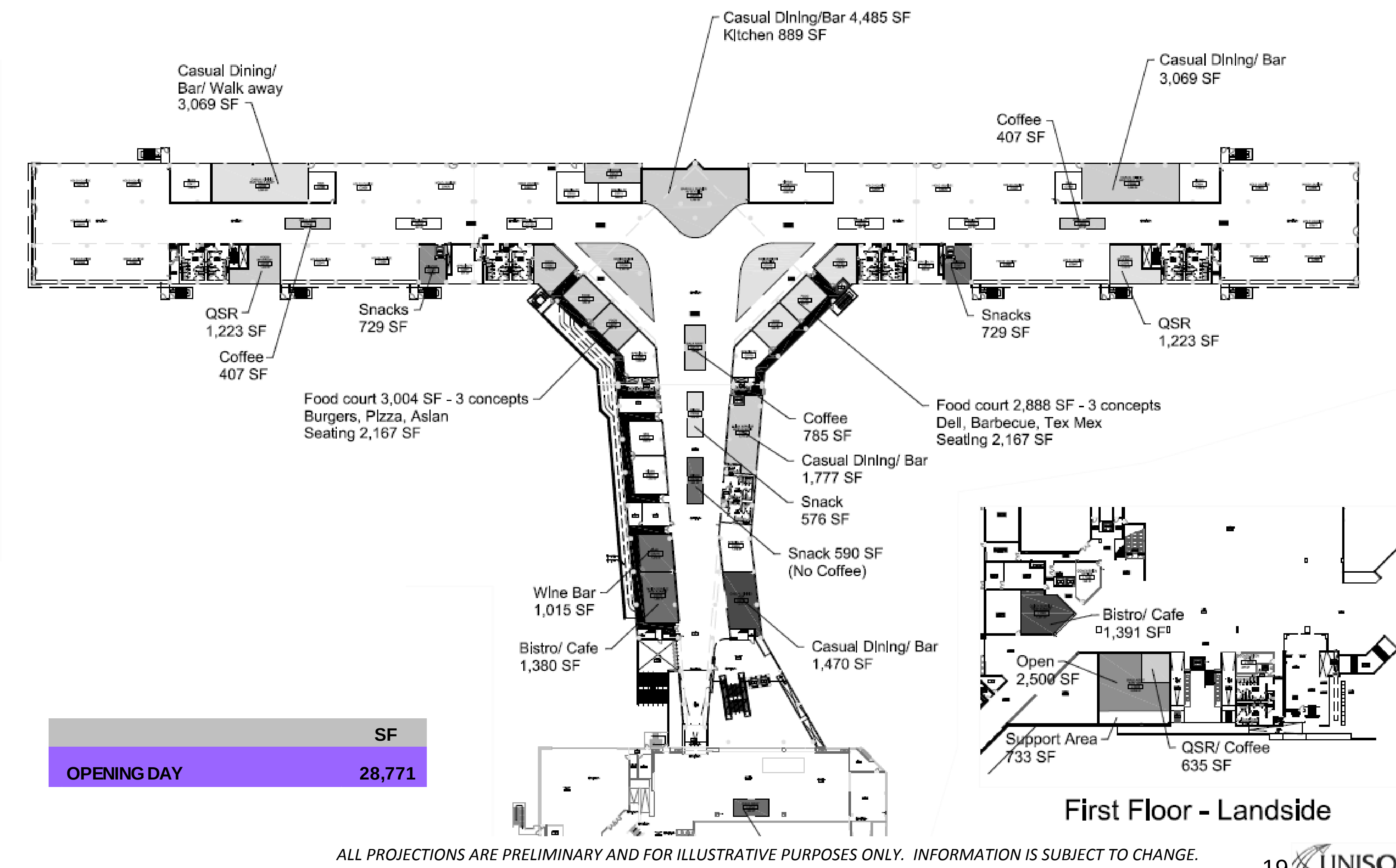
- Contractual provision for Interim Term Operations in Existing Terminal beginning 7/1/2011 for approximately 40 months
- New Terminal Term of 10 years for Food & Beverage and 7+ years for Retail

Option 1 – Single Prime

- Development and Transition Plan for both existing & new terminal relating to Concepts, brands and pricing must be approved prior to implementation
- MAGs, Percentage Rentals and Capital Investments will be proposed within bands
- Street Pricing +10%
- Annual Performance Evaluations with Remediation requirements
- All Coffee and Alcohol Licenses under single operator
- Water to be sold by both Food & Beverage and Retail without restriction.
- All vending rights with the City

Single Prime
FOOD & BEVERAGE (OPENING DAY) OPERATOR

DALLAS AIRPORT SYSTEM



	SF
OPENING DAY	28,771

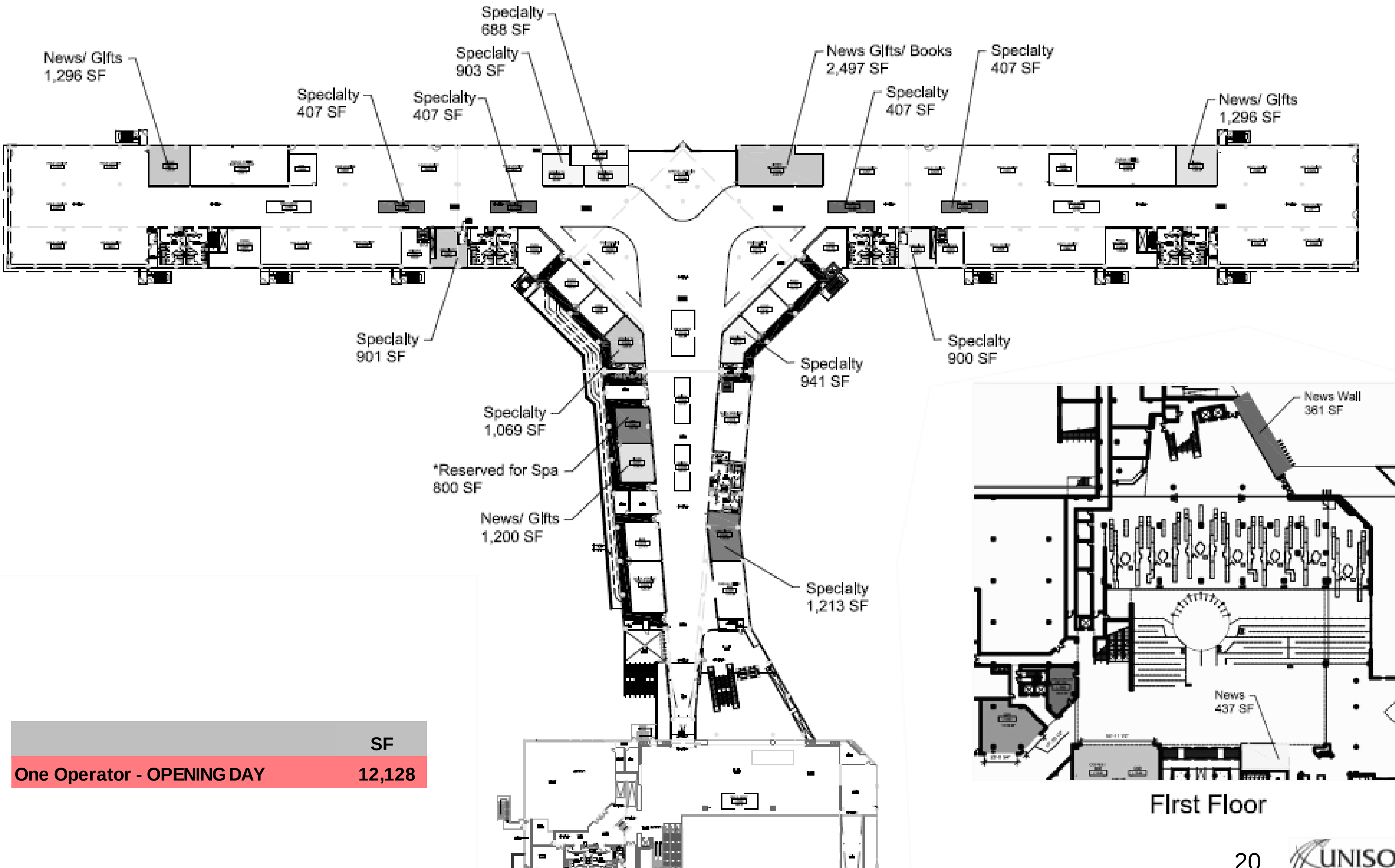
ALL PROJECTIONS ARE PRELIMINARY AND FOR ILLUSTRATIVE PURPOSES ONLY. INFORMATION IS SUBJECT TO CHANGE.

UNISON Consulting, Inc.

Unison Concessions Allocation - Level 1&2.dwg (4/19/2010)

Single Prime

RETAIL CONCESSIONS (OPENING DAY) OPERATOR



	SF
One Operator - OPENING DAY	12,128

Unison Concessions Allocation - Level 1&2.dwg (4/28/2010)

Option 2

Option 2 – Two Primes (may be one)
Overall Structure

- Incumbents extend current contracts to closing of existing terminal and are allocated space in the new terminal based on negotiated terms
- Open bid for remaining portion of new terminal. Incumbents may propose on RFP package, but if awarded, the allocated package must match financial elements of the awarded package.

Other provisions

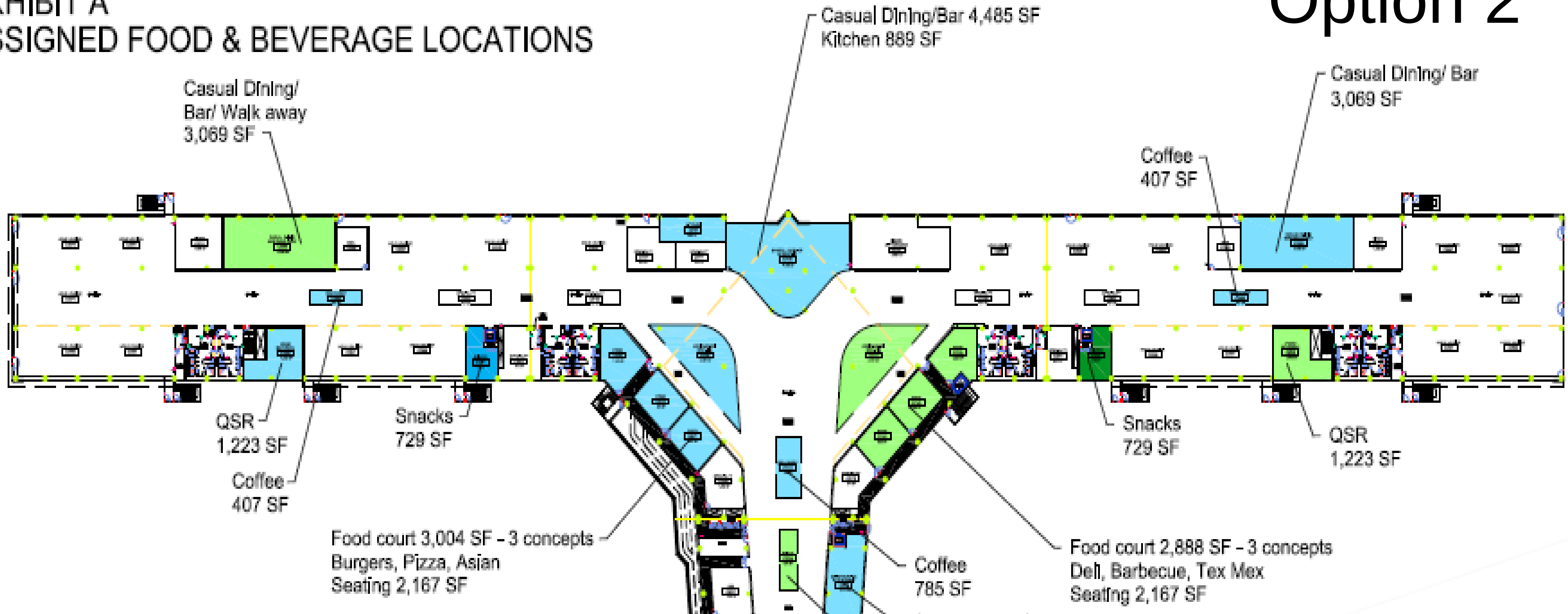
- During extension, MAG is waived upon closing of 1st unit;
- Primary Terms of 12 years plus a 3 Year Option

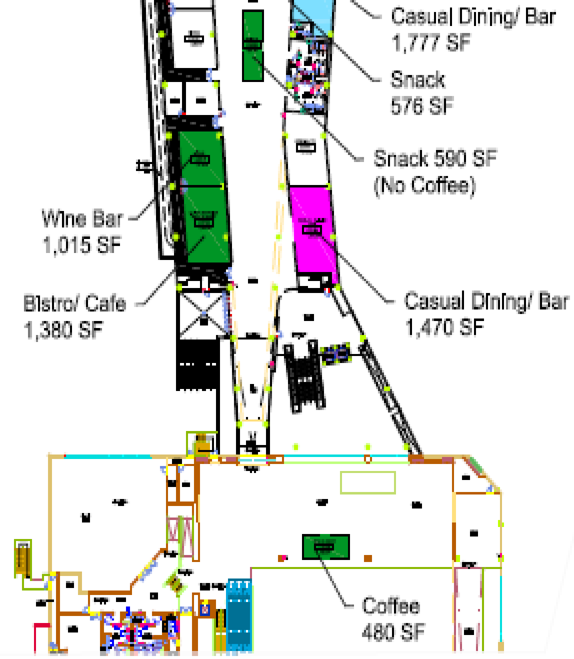
Option 2 – Two Primes (May be one)

- Development Plan for new terminal relating to Concepts, brands and pricing must be approved prior to implementation
- Street Pricing +10, 15, 20%
- Required mid-term refurbishment
- Annual Performance Evaluations with Remediation provision
- Water sold by both F&B and Retail under certain provisions
- All vending rights with the City

Option 2

EXHIBIT A
ASSIGNED FOOD & BEVERAGE LOCATIONS

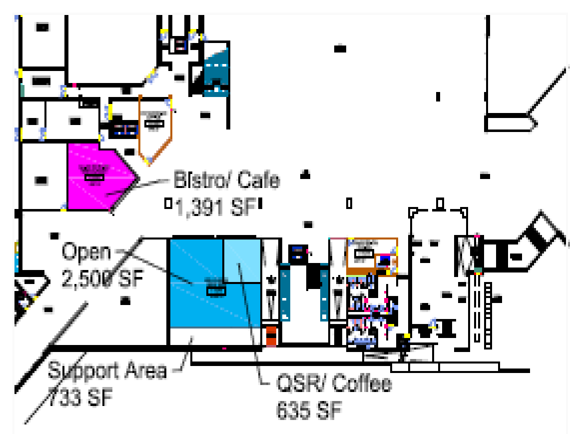




F&B Program	Star	RFP	Closed RFP	Total
Opening Day/ Phase I	18,848	9,923		28,771
Phase II - Build @ 5.75m EPs	3,229	4,194		7,423
Phase III - Build @ 6.25m EPs			2,861	2,861
Total	22,077	14,117	2,861	39,055

*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.

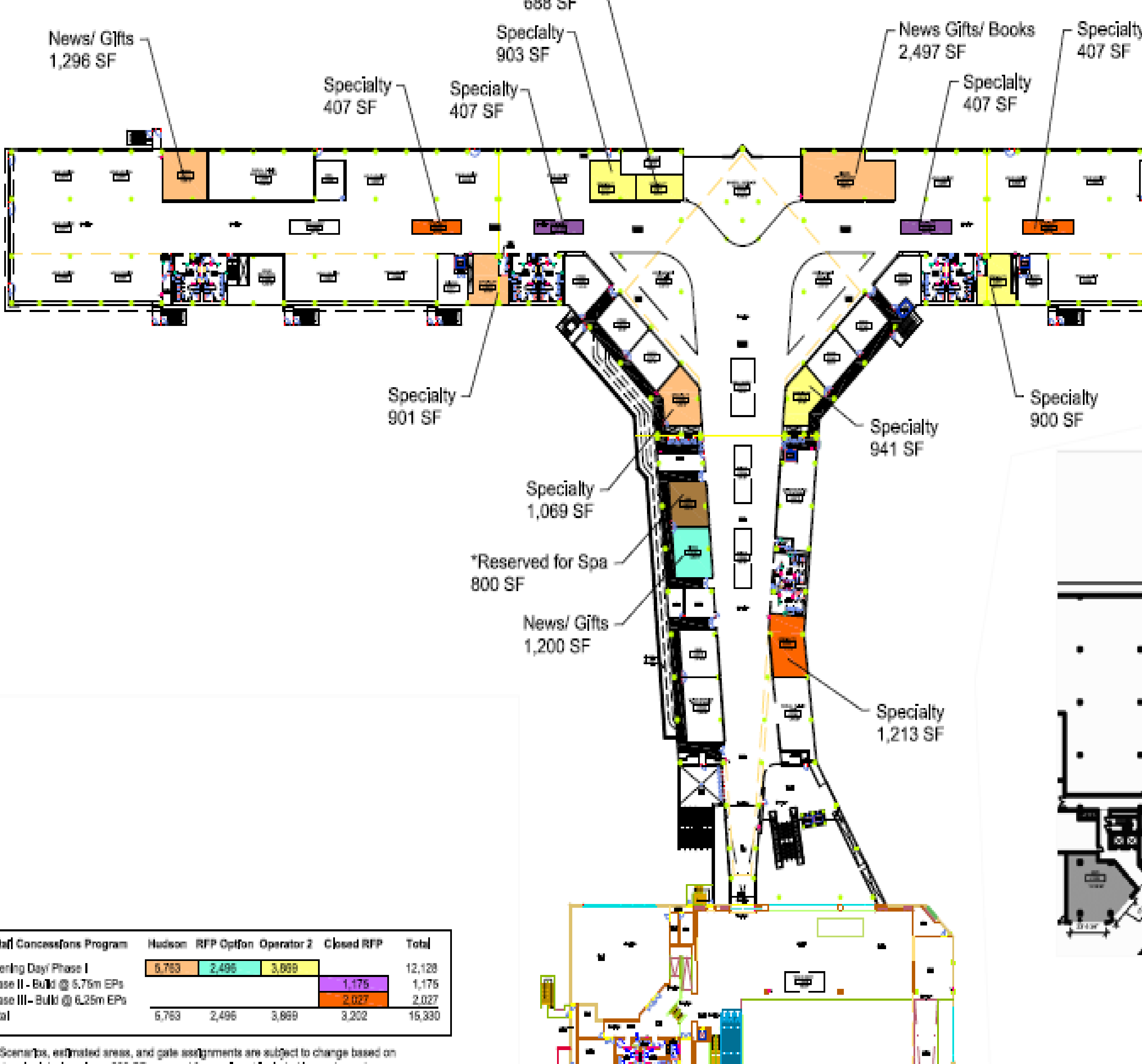


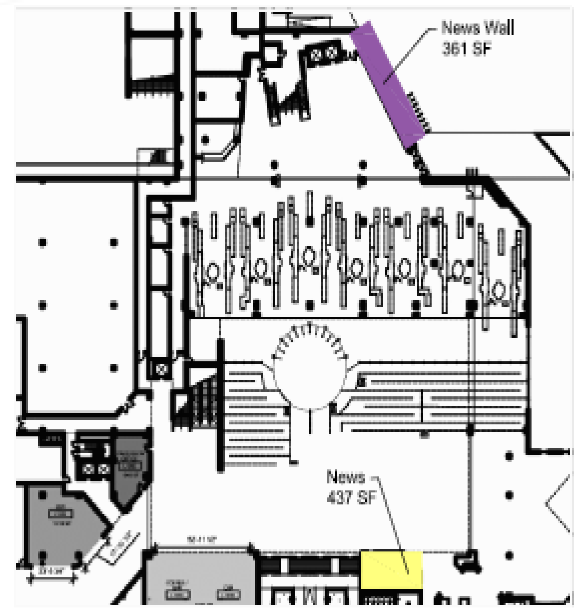
First Floor - Landside

Unison Concessions Allocation - Level 1&2.dwg (4/19/2010)

EXHIBIT A
ASSIGNED RETAIL LOCATIONS

Option 2





First Floor

Retail Concessions Program	Hudson	RFP Option	Operator 2	Closed RFP	Total
Opening Day/ Phase I	5,763	2,496	3,869		12,128
Phase II - Build @ 5.75m EPs				1,175	1,175
Phase III - Build @ 6.25m EPs				2,027	2,027
Total	5,763	2,496	3,869	3,202	15,330

*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.

UNISON Consulting, Inc.

Unison Concessions Allocation - Level 1&2.dwg (4/26/2010)

Option 3

Option 3 – Two Primes (Possibly One) Negotiated Old terminal, Bid All New

Overall Structure

- Incumbents extend current contracts to closing of existing terminal
- New Terminal square footage allocated on a 50/50 basis for each category; City selects portion to be bid
- Proposers must bid on the City Plan, but may also present an alternate plan.
  - If an alternate plan is considered superior, all proposers may bid on that alternate.
    - The original alternate proposer is awarded additional points on the scoring system
- Incumbent to be awarded one package, provided:
  - Must match best bid for the plan determined by City (whether City plan or alternate plan)
- Incumbents awarded incumbency points on New Terminal proposal scoring system.

Option 3– Two Primes (Possibly One) Negotiated Old terminal, Bid All New

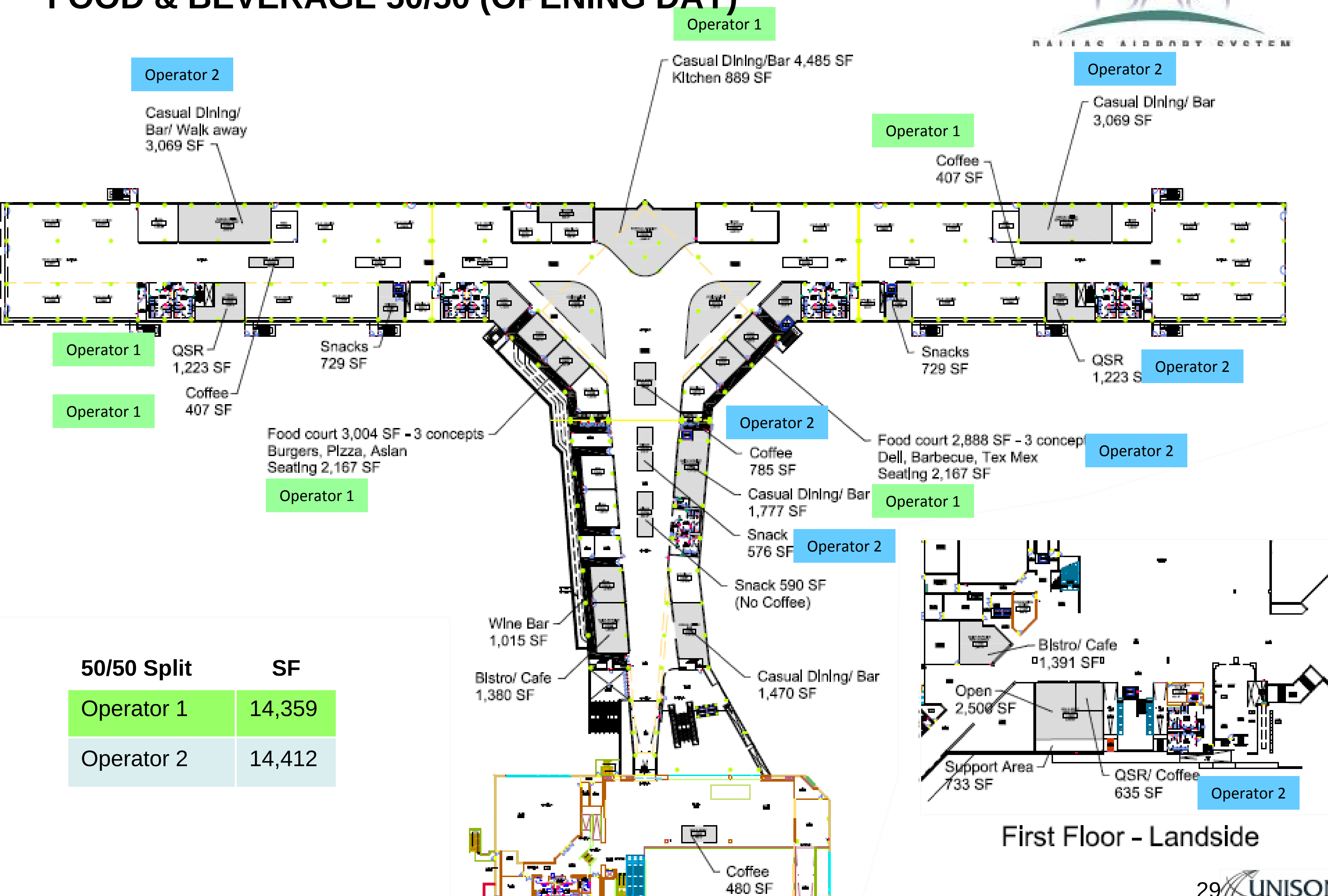
DALLAS AIRPORT SYSTEM

Other provisions

- During extension, MAG is waived upon closing of 1st unit
- New Terminal contracts to include a Primary Term of 10 years plus a 5 Year Option for Food & Beverage and 7 years plus a 3 year Option for Retail
- MAG, Percentage rental and Capital Investment are bid within bands.
- Development Plan for new terminal relating to Concepts, brands and pricing must be approved prior to implementation
- Street Pricing +10% and required mid-term refurbishment
- Annual Performance Evaluations with Remediation provision
- Branded Coffee and Alcoholic beverage rights allocated to both Food & Beverage packages consistent with concept/brand plan.
- Water to be sold by both Food & Beverage and Retail
- All vending rights with the City

OPTION 3

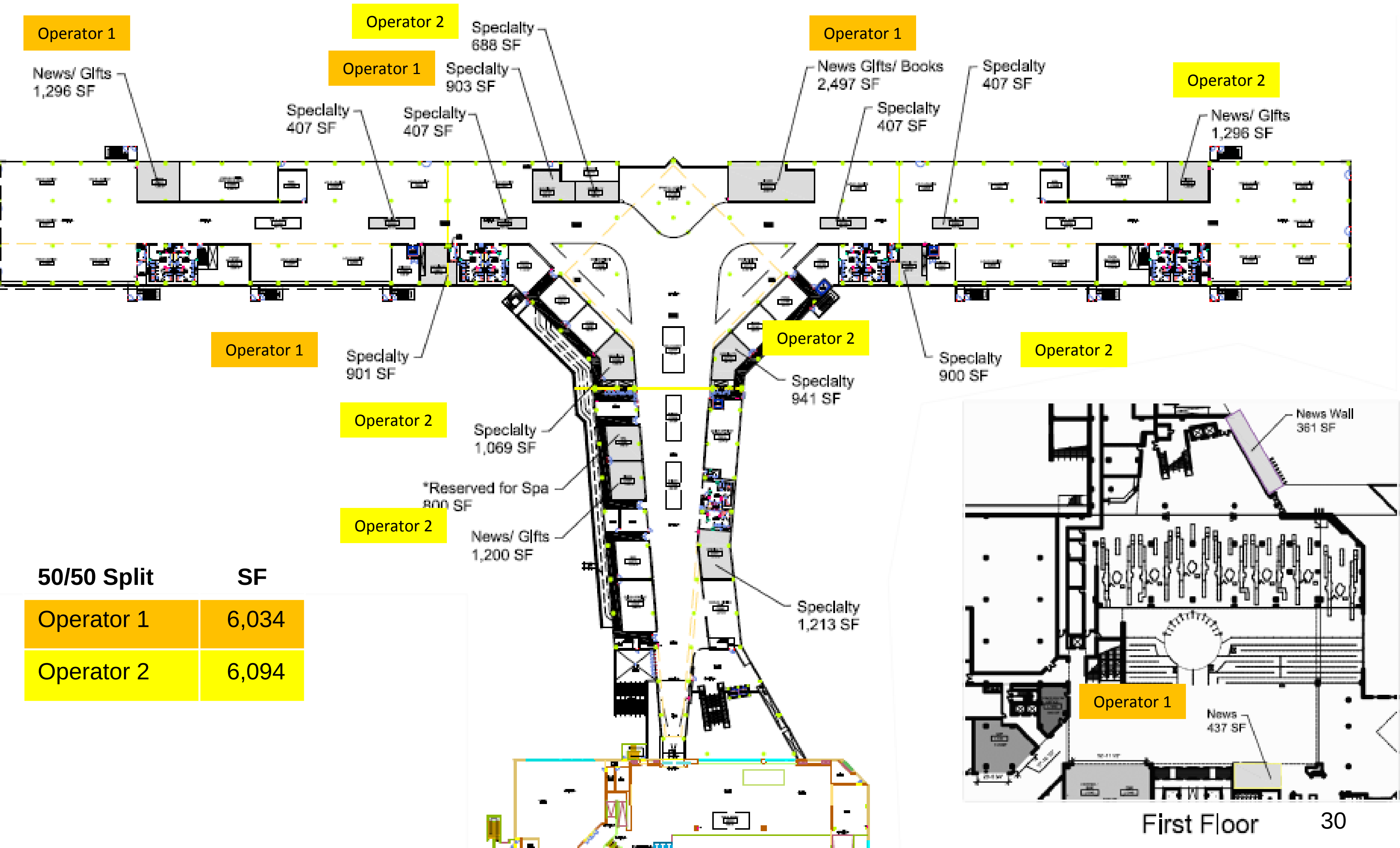
FOOD & BEVERAGE 50/50 (OPENING DAY)



50/50 Split	SF
Operator 1	14,359
Operator 2	14,412

OPTION 3

RETAIL CONCESSIONS 50/50 (OPENING DAY)



50/50 Split	SF
Operator 1	6,034
Operator 2	6,094

First Floor

Option 4

LOVE FIELD CONCESSION CONTRACT PROPOSAL

- Dallas will be investing over $1 billion in Love Field with the objective of making it the finest mid-size airport in the nation. With this investment and the commencement of non-stop flights to both the east and west coast, Love Field could have an enormous impact on the economy of the City and the region.
- To achieve this, the concessions will need to be of the highest quality and offer the best value to the traveling public. This will require soliciting innovative concepts, strong brands and sound operators while producing opportunities for local and minority businesses. It is also important that the awarding of these contracts be viewed as fair, transparent and producing the best business arrangements for the City and its citizens.
- The following proposal is based on these standards. It affords an open, competitive bid process while encouraging continuity of the operations during the construction period. In addition, to ensure consistent themes and overall marketing and merchandising concepts throughout the airport, which will be critical to eventual success, it shifts to direct contracting by the City with individual space operators.

OVERALL STRUCTURE

- **Modified Direct:** The City will directly manage, including developing overall concepts and space themes, soliciting proposals, evaluating and selecting proposals, and monitoring performance of concessionaires on an on-going basis, the concessions at Love Field for both Food and Beverage and Retail beginning with the opening of the new terminal. The City will identify and add experienced staff for this function.
- In the interim, the City will endeavor to gain an extension of existing vendors through the construction period.

CONTRACT POINTS

- **Stage 1: Construction period**
  The City will offer current concessionaires the opportunity to extend existing contracts through the construction period. This will include the spaces in the old terminal and run until the 2013/14 turnover dates.
    - During this period, concessions would operate under current operating provisions unless otherwise stated.
    - The MAG in existing terminal will be waived upon execution of the extension
    - To encourage the extension, a limited first right of refusal opportunity in the New Terminal will be provided as described in the next section below.
    - Unamortized capital improvements, provided they are approved by the Airport staff prior to the expense incurred, will be reimbursed.
    - If during the construction period, enplanement levels for the West Wing (for the 12 months preceding the date of the execution of the extension) drop more than 5%, incumbents will be eligible for rent reductions of the spaces in the West Wing in proportion to the loss of the traffic.
    - Upon extension, current pricing policy continues during extension period
    - If incumbents choose not to extend contracts within 30 days of Council action, space in the old terminal would be put out to bid as part of the RFP portion as described in Stage 2.

Stage 2: New Terminal

- The entire space for the new terminal will be competitively bid through a process described below. The process will include a limited first right of refusal opportunity for the incumbents, provided they extend their existing contracts through the construction period and meet the competitive standards set below.

- Competitive bids will be solicited for each space in the new terminal beginning upon completion of the new terminal, projected in 2013/14. (Each RFP may be for a single space or a combination of two or three spaces to create best value for the City. Such a package would be designed to encompass a combination of high interest spaces with spaces that may not solicit a high interest if offered individually.)
- The Physical plan and theme will be developed by the City, with assistance from specialists in developing retail and F&B space in airports operations, and include areas designated for:
  - Food and Beverage
  - Retail

- Incumbents, as all other possible operators, will be 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 25% of the overall terminal concession value (in their category), they will be given a first right of refusal to acquire up to 25% of the bid space value, inclusive of any spaces awarded through the original RFP process (selected on a random basis) under the following conditions:
  - Selection of the packages will be random. For each package selected, incumbents will be given a "right of refusal".
    - If incumbents choose to match the award in total, they will assume the space under the conditions of the selected proposal.
    - Conditions to be met will 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 is reduced from their 25%
  - After the initial contract term, all first right of refusal rights cease.

- The following provisions will be common to all RFPs and awarded proposals.
  - Products to be sold at street pricing with emphasis on ‘brand names’.
  - Non-alcoholic beverages can be sold at both Retail and Food and Beverage locations.
  - Term will be 7 to 9 years, plus 2 one year extensions at the City’s option for the Food and Beverage.
  - Term will be 5 to 7 years, plus 2 one year extensions at the City’s option for the Retail.
  - City reserves the right to solicit proposals for and designate certain products to be offered throughout the terminal. Rights for exclusive product offerings and the values for this will 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 will need to be researched further; however, the intent is that these will be handled as separate spaces and rights. There will be an opportunity for any concessionaire to competitively propose that service for each identified location.

Other Key Points for all vendors:

- Cancellation for convenience/compensation terms
- Provide for proper transition terms at end of contract
- Vending rights remain with the City of Dallas
- Wi-Fi/ Broadband rights to City of Dallas
- Future product determination rights remain with City of Dallas
- Evaluation of performance to include peer airport and vendor comparison to be added to other criteria
- Customer Service
  - Secret Shopper program
  - Establish strong customer satisfaction measurements
  - Short cure period (time allowed to fix problem)
- Scoring Factors:
  - Brands
  - DBE/MWBE
  - Economics
  - Operations
  - Financial Capability
  - Experience
  - Retention/employment of existing employees