

Love Field Concession Plan Development Review

Briefing to
The Mayor's Ad Hoc Committee

Department of Aviation
May 20, 2010



Briefing Objectives



- Summarize the development of the Love Field Concession Plan
- Review highlights of public briefings and discussion
- Next Steps

Term Definitions

- Bid Used interchangeably with RFP in this context
- DLFJV Dallas Love Field Joint Venture (F&B incumbent)
- EP Enplaned Passenger (a passenger boarding a flight)
- F&B Food & Beverage
- Hudson Hudson Retail Dallas JV (Retail incumbent)
- JV Joint Venture
- LFAMC Love Field Airport Modernization Corporation
- LFMP Love Field Modernization Program
- MAG Minimum annual guarantee – the amount of rent guaranteed to City (pays the greater of rent or MAG)
- Rent Percentage of gross sales (revenue paid to City)
- RFP Request for Proposal (a competitive selection process)
- SF Square Feet
- SWA Southwest Airlines
- TARPS Terminal Area Redevelopment Program Study

LFMP Activities and Milestones



- Oct 2006 – Wright Amendment Reform Act of 2006; full repeal effective Oct 2014
 - Transforms Love Field from being a regional airport serving 14 short-haul markets, to a vital medium hub airport with a national scope
 - Limited only by its maximum gate capacity of 20
 - Requires modernization of Love Field terminal
 - Under Wright Amendment, capital improvements consisted of maintenance
 - Lack of growth potential precluded need for any kind of expansion
 - With repeal, requires improvements to 50 year old facility totaling \$519M
 - Total Capital Development Program is nearly \$1B
 - Changes management mission of Love Field, from operational care taker, to one of planning, programming, financing and development for growth

LFMP Activities and Milestones



- From 2007 to present, department has been:
 - Revamping airline rates & charges to support capital improvements
 - Developing plans for a people mover connector with new DART Green Line
 - Identifying and implementing federal requirements to ensure federal financial participation
 - Establishing capital sources and capabilities through City Council and FAA approval of Passenger Facility Charge (PFC)
 - Working with FAA and TSA on substantial federal grant participation
 - Negotiating financing agreements to support LFAMC special facility bond issue guaranteed by Southwest Airlines
 - Identifying non-airline stakeholder impacts and plan for their participation

LFMP Activities and Milestones



- **Jan 2007** – Staff initiated consultant selection process to perform Rates & Charges Study as first step in preparing airport financial foundations
- **Jan 2007** – Southwest Airlines presented terminal conceptual layout to Aviation Dept staff
- **Feb-Mar 2007** – Hudson and DLFJV presented proposals to Aviation Dept staff to extend concession contract terms and make new investments in new terminal
- **May 2007** – Existing TARPS contract revised to perform master planning services for LFMP, to be coordinated with terminal conceptual work developed by Southwest

LFMP Activities and Milestones

- **June 2007** – City Council approves award of contracts for
 - Rates & Charges Study
 - People Mover Feasibility Study
- **October 2007** – City Council approves application to FAA to charge Passenger Facility Charge (PFC) at \$3.00 level – approved by FAA in December 2007
- **June 2008** – City Council:
 - Accepts Option C as the preferred concept for the LFMP
 - Accepts TARPS as the master plan for the LFMP
 - Creates the LFAMC as the local government corporation to finance and develop the LFMP
 - Approves LFMP Term Sheet
 - Appointing the management of the LFMP to SWA
 - Outlining the provisions of a Program Development Agreement (PDA) among the City, LFAMC and SWA
 - Establishing a cost recovery model for calculating airline rates and charges
 - Agreeing to negotiate agreements related to financing the LFMP

LFMP Activities and Milestones

- Approves Inducement Resolution making SWA eligible for reimbursement from future bond proceeds for expenditures up to \$75M on design and enabling projects
- **Nov 2008** – City Council approves PDA with SWA
- **Nov 2008** – LFMP Schematic Design Phase completed
- **Dec 2008** – City Council approves Amended & Restated Lease of Airport Terminal Premises (Airport Use & Lease Agreement), subsequently executed by SWA, American and Continental airlines
- **Feb 2009** – City Council approves supplemental agreement to begin Schematic Design Phase of Automated People Mover

LFMP Activities and Milestones

- **April 2009** – Application to FAA for Letter of Intent (LOI) grant funding for LFMP
- **June 2009** – City Council approves application to FAA for PFC to fund LFMP at \$4.50 level – approved by FAA Dec 2009
- **Oct 2009** – LFMP Design Development Phase completed
- **Jan 2010** – City Council approves bond resolution, Special Facility Agreement, Revenue Credit Agreement, Trust Indenture, Guaranty for the LFAMC issuance of Special Facility Revenue Bonds to fund the LFMP

Briefings on Major Love Field Issues



- **6/4/07** – “Gulfstream Aerospace Proposed Ground Lease”
 - Briefing to Economic Development & Housing Committee
 - Approve new land lease and Economic Development grant for new hangar
- **6/11/07** – Same Briefing to Transportation & Environment Committee
- **6/11/07** – “Development Issues for the Love Field Modernization Program”
 - Briefing to Transportation & Environment Committee
 - Identified issues to be addressed in developing LFMP
 - **Included proposal to extend existing concession contracts through period of construction & solicit proposals for new concession contracts in new space**
 - Recommended award of Rates & Charges Study and People Mover Feasibility Study
- **4/28/08** – “Love Field Modernization Program Update: Master Planning Recommendations”
 - Briefing to Transportation & Environment Committee
 - **Recommended approval of TARPS as the master plan for LFMP which included allocation of spaces for concessions**
 - Recommended approval of Terminal Conceptual Option C as the preferred option

Briefings on

Major Love Field Issues (cont'd)



- **6/18/08** – “Implementation Approach, Documents and Actions for the Love Field Modernization Program”
 - Briefing to City Council and **TEC June 23rd**
 - Recommended approval of Term Sheet for a Program Development Agreement (PDA) with Southwest Airlines
 - Recommended creation of a Local Government Corp to finance and develop LFMP
 - Recommended Inducement Resolution authorizing Southwest Airlines to spend up to \$75M toward development of LFMP and reimbursed with proceeds of future bond issue
 - **TARPS support of increased concession space**
- **6/16/08** – “Gulfstream Proposed Consolidated Lease”
 - Briefing to Economic Development Committee
 - Approve a lease consolidating 2 existing leases
- **8/4/08** – “Airport Rates & Charges Study Recommendations”
 - Briefing to Economic Development Committee
 - **Presented recommendations on all AVI revenue sources, including concessions**
- **9/22/08** – “People Mover Connector Feasibility Study Recommendations (Part 1 of 2)”
 - Briefing to Transportation & Environment Committee

Briefings on Major Love Field Issues (cont'd)



- **10/13/08** – “People Mover Connector Financial Analysis & Recommendations (Part 2 of 2)”
 - Briefing to Transportation & Environment Committee
 - Approved recommendation to investigate alternatives and to investigate the development of a Consolidated Car Rental facility
- **10/27/08** – “LFMP Development Agreement”
 - Briefing to Transportation & Environment Committee
 - Recommended approval of Program Development Agreement
- **10/27/08** – “Amended & Restated Lease of Terminal Premises (Airport Use & Lease Agreement)”
 - Briefing to Transportation & Environment Committee
 - Recommended approval of Use & Lease Agreement
- **1/26/09** – “People Mover Connector Additional Study of Alternatives”
 - Briefing to Transportation & Environment Committee
 - Recommended the project enter the Schematic Design phase

Briefings on Major Love Field Issues (cont'd)

- **4/13/09** – “Love Field Concession Plan”
 - Briefing to Transportation & Environment Committee
 - Presented Concession Plan with Incumbent packages & RFP packages
- **5/26/09** – “Love Field Concession Plan Follow Up Briefing”
 - Briefing to Transportation & Environment Committee
 - Responded to Committee Member questions from 4/13/09 briefing
- **12/14/09** – “LFMP Bond Financing Update”
 - Briefing to Budget, Finance and Audit Committee
 - Update for 1/11/10 briefing
- **1/11/10** – “LFMP Special Facility Revenue Bond Issue”
 - Briefing to Budget, Finance and Audit Committee
 - Approve issuance of LFAMC Special Facility Revenue Bond
- **2/22/10** – “Love Field Concession Plan”
 - Briefing to Transportation & Environment Committee
 - Presented concession plan agreed to by the parties
- **3/3/10** – “Love Field Concession Plan”
 - Same briefing to City Council

Challenge

- Initial Recommendation (June 07)
 - Short term extension through Reconstruction of Terminal
 - Bid new terminal space
- Concessionaires' proposal
 - Extend lease through reconstruction with higher percent rent, plus new contract for all new terminal space
- No consensus reached with TEC for 32 months
 - **Division over whether to competitively bid new space or reduce risk in new terminal with experienced providers**

Challenge



- Both existing concession contracts expire June 2011, just as a four year period of construction is in full swing
 - Lobby impacts – Sept 2010 – Oct 2014
 - West Concourse impacts – Apr 2013 - Oct 2014
 - Nearly all of (21 of 23) existing concession locations will be impacted:
 - Greatly reduced passenger traffic in West Concourse – lower sales
 - Temporary relocation conditions – higher operating cost due to split operation
 - Note: East Concourse concessions will be minimally impacted, but these spaces are not profitable under normal conditions due to lower traffic volumes
 - These impacts will result in:
 - A challenging operating environment for incumbent concessionaires to continue operating
 - An unattractive situation to solicit new concessionaires
 - Additional sunk costs for another concessionaire to operate during this period

More detail in Appendix

Challenge

- Short extension with incumbents during construction, bid new space
 - Pros
 - Avoids or minimizes new concession capital cost during construction
 - Creates opportunity to reach larger pool of proposers for new terminal spaces
 - Cons
 - Depends on concessionaires' acceptance to extend contracts
 - Have previously declined this arrangement
 - Creates more uncertainty of the result of a future bid process
- Extend incumbents through construction & into new terminal
 - Pros
 - Continues existing concessionaires with known performance
 - Reduces risk to both contractors and Airport
 - Avoids new capital cost during construction
 - Creates opportunity to update contracts to current best practices and standards
 - Cons
 - Forgoes opportunity to test market for revenue potential and the best concepts
 - Creates question whether full competition would result in a better solution

Challenge



- Bid for period during construction, bid new space
 - Two bids: for July 2011 – Oct 2014, Oct 14 & beyond
 - Pros
 - Gives more time to structure new space RFP
 - Presents opportunity for others for short trial
 - Creates opportunity to update contracts to current best practices and standards
 - Creates opportunity to reach larger pool of proposers for new terminal spaces
 - Cons
 - Increases new capital cost during construction for new contractors
 - Increases risk for contractors and Airport particularly in first phase
 - Necessitates close management to minimize service impact during transition
 - Creates more uncertainty of the result of a future bid process
 - One bid: for July 2011 till end of term of new spaces
 - Pros
 - Provides more time to amortize new capital costs
 - Opportunity to reach a larger pool of proposers for the new terminal
 - Cons
 - Increases new capital cost during construction for new contractors
 - Creates more uncertainty of the result of a future bid process
 - Necessitates close management to minimize service impact during transition

Development of Alternatives

- Retention of Concessions Consultant
 - Provide outside perspective with national scope of reference
 - Familiarity with most airport concession programs including DFW
- 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

Development of Alternatives



- Unison's methodology
 - Reviewed existing concessions program to identify opportunities
 - Analyzed 31 comparable medium hub airports to identify successful practices – analysis includes:
 - Sales per EP and per SF
 - Space utilization (SF allocated to concessions per 1,000 EP)
 - Multiple vs. single operator
 - Worked with design team to determine best layout for concessions
 - Prepared pro forma projections for total program
 - Analyzed viability of multiple operators considering terminal layout, concepts, and lease terms

Development of Alternatives



- **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 **concession best 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

Development of Alternatives



- Concession plan & space design efforts included regular dialogue with the following stakeholders:
 - SWA
 - Jul 2008 – met with SWA and concessions consultant on optimal size and management model of concession plan
 - Aug 2009 – reviewed concession plan
 - Mar 9, 2010 – discussed concession plan
 - Apr 6, 2010 – formally solicited comments from SWA
 - Apr 9, 2010 – received SWA comments on concession plan
 - Other airlines
 - Apr 6, 2010 – solicited comments from American & Continental airlines
 - Apr 12, 2010 – received comments from Continental on concession plan
 - Design Team
 - Unison’s regular participation in design team’s Concessions Working Group meetings and correspondence since Sept 2008

Development of Alternatives



- Major findings during research:
 - Love Field expansion is unique with combination of:
 - Expiring concession agreements during construction
 - New terminal built in phases at existing terminal site
 - Lifting of Wright Amendment restrictions opening new markets
 - A new short term concession contract in 2011, represents a risky venture
 - Could require considerable new capital investment with only 3 years to amortize
 - Estimated to be \$1.2M for F&B and \$340K for Retail.
 - First year would have to be a substantial profit generator
 - Second & third years will likely not be profitable
 - 12 of 15 gates relocate to new concourse, reducing passenger traffic approx 80% before fully closing at end of third year
 - Minimal opportunity to make up for an unexpected disruption to air traffic or other calamity impacting air travel

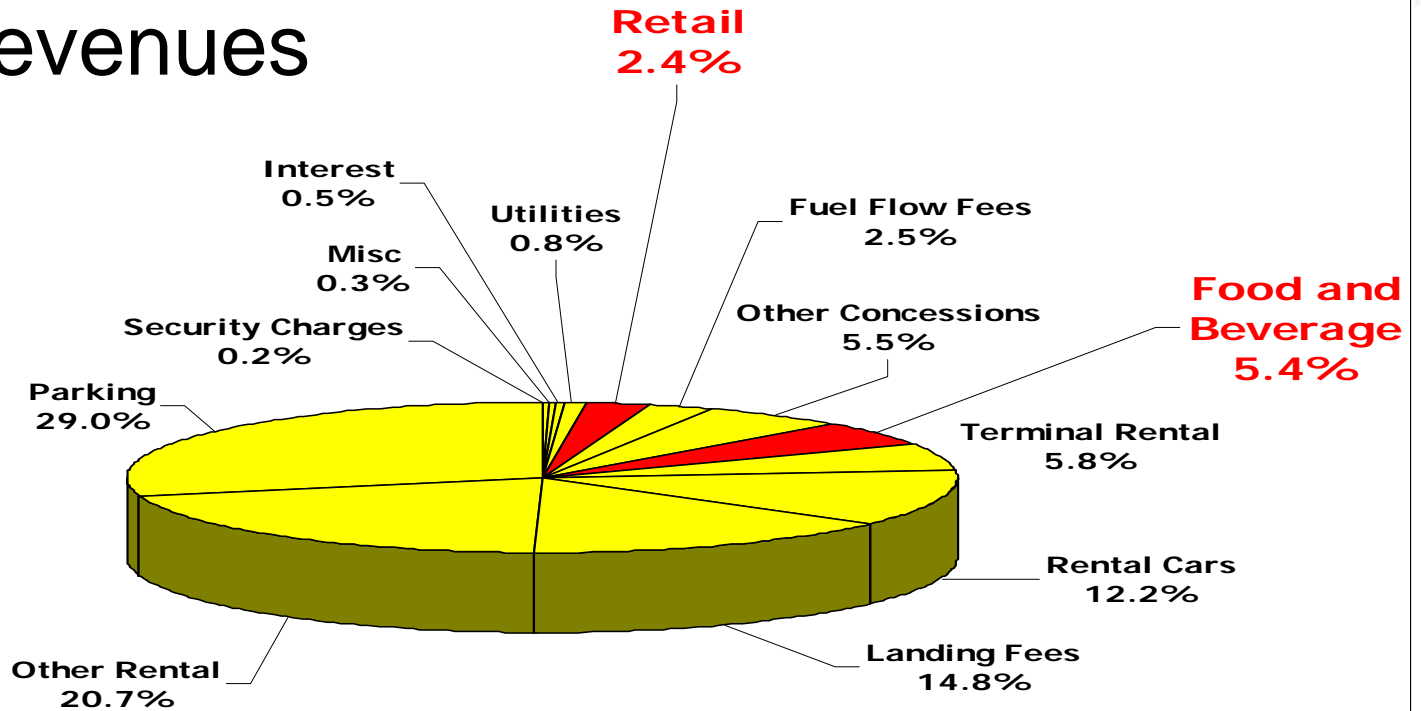
Development of Alternatives

- Concession revenue helps to reduce airline costs
 - Because the City's General Fund does not directly benefit from Airport revenues, **the bottom line return for the City is** to insure that the **traveling public has a quality experience** when they go through the Love Field terminal Concession revenues in context
- Total Aviation department revenues - \$42.5 M
 - Food/Bev and Retail revenue represents 7.8 %

Development of Alternatives



FY10 Revenues



Total Revenues \$42,488,533

F&B	\$2,294,117
Retail	\$1,000,113
Combined	\$3,294,330

Development of Alternatives

- Highest rent, highest MAG, highest capital investment is not necessarily best long term revenue strategy

- Why “Industry Standard” rather than “Premium Rent”? *
 - Promotes competitive environment (others can participate)
 - 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 will result in increased sales.
 - (Industry Standard %) X (Higher Sales) = Higher Rent \$
 - Determination of revenue potential can be discussed in closed session.

* See appendix for more information

Development of Alternatives

- Of the 4 concession typical management models*, the proposed Prime Concessionaire model is best suited for Love Field
 - Continues existing model – experienced staff and procedures, systems in place
 - Low administrative cost compared to Direct Leasing model
 - No developer or management fees – no loss of revenue
- A multiple Prime Operator model will result in the best revenue potential for Love Field
 - Analysis indicates projected passenger levels support multiple Operators
 - New concession programs at other comparable airports have transitioned to multiple prime operators, with revenue increases of 17.5% for F&B and 27.3% for Retail

* See Appendix for more information

Development of Alternatives

- Idea emerged that the best approach might be to combine the two positions
 - Extend incumbents through construction period as well in new terminal space, PLUS
 - Provide competitive process for a portion of the new terminal

Current Proposal

- Proposal represents a compromise benefiting all parties
 - City
 - Retains experienced, reliable concession services and revenues during construction period
 - Maintains viable and economically attractive RFP package
 - Brings contracts to current/best market standards and practices
 - Enhances traveling public's experience
 - Incumbent concessionaires
 - Are assured space in new terminal with RFP awardees
 - New Concessionaires
 - Have significant business opportunity to compete
- Garnered TEC consensus
 - 10 – 0 vote

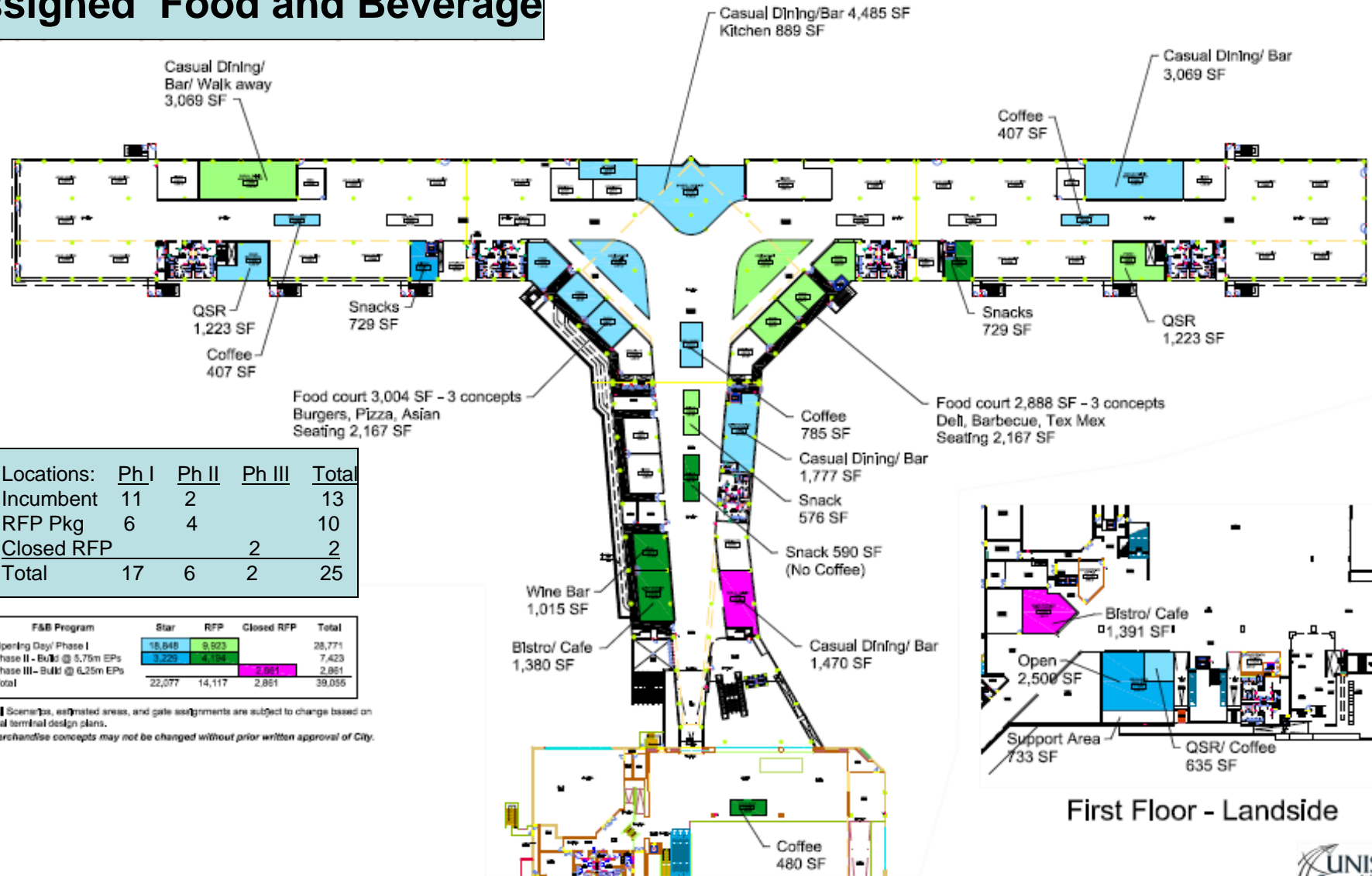
Current Proposal



- Main Components
 - Primary Term of 12 Years, with one 3 Year Option (City's)
 - Capital Requirement of \$400/SF for Food & Beverage; \$350/SF for Retail
 - MAG Requirement of \$145/sf for Food & Beverage; \$165/sf Retail (1st yr); 90% of actual rent from previous year thereafter
 - Percent Rental
 - Food & Beverage: 12% on Branded Foods, 13% on Non-Branded, 15% on Alcohol
 - Retail: 16% on News & Gifts, 14% on Specialty Retail
 - Street Pricing Restrictions
 - Storage Space Rental Fees

Current Proposal

Assigned Food and Beverage



Locations:	Ph I	Ph II	Ph III	Total
Incumbent	11	2		13
RFP Pkg	6	4		10
Closed RFP			2	2
Total	17	6	2	25

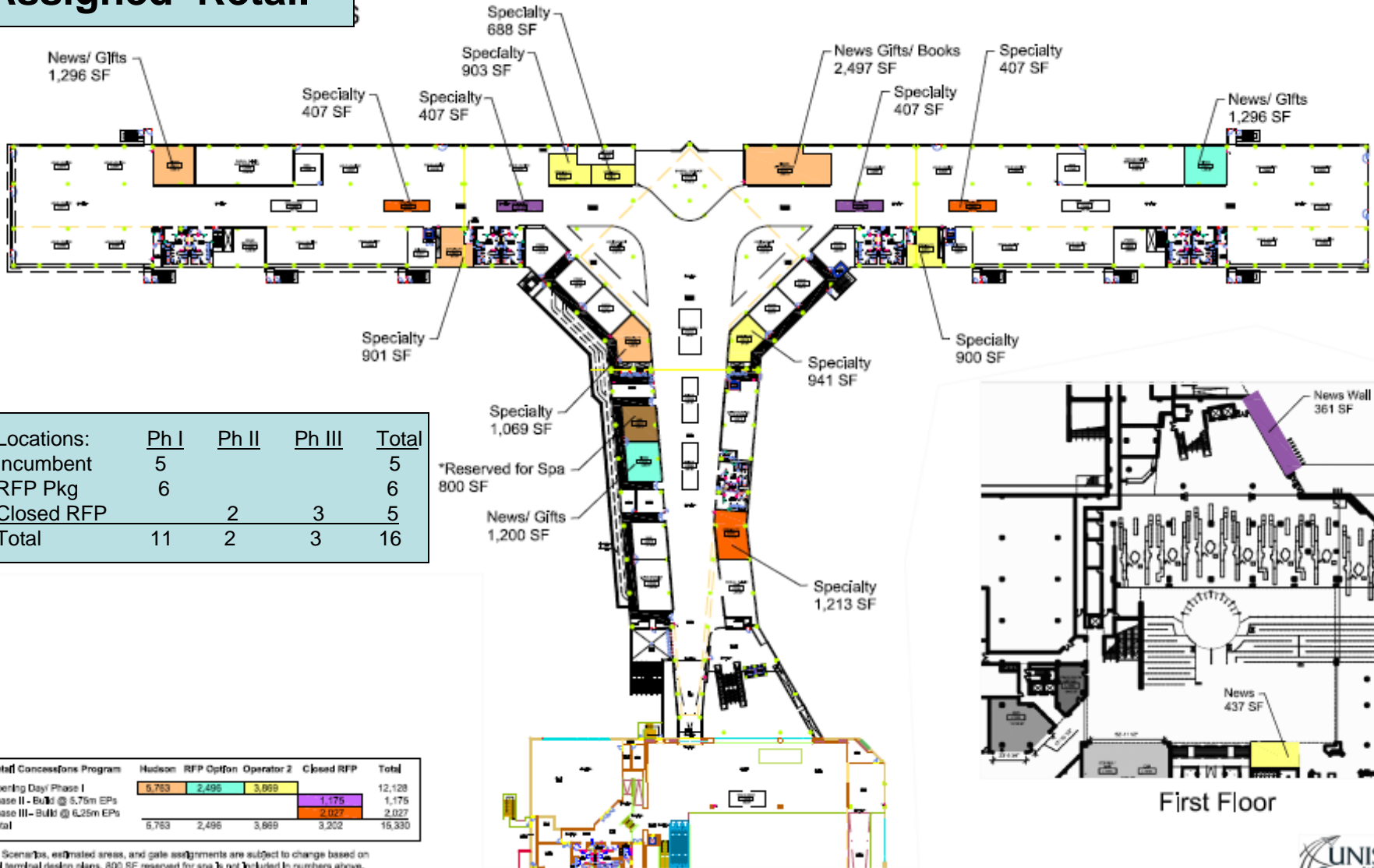
F&B Program	Star	RFP	Closed RFP	Total
Opening Day/ Phase I	18,848	9,803		28,771
Phase II - Build @ 5.75m EPs	3,229	4,374		7,423
Phase III - Build @ 6.25m EPs			2,861	2,861
Total	22,077	14,117	2,861	39,055

*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

Current Proposal

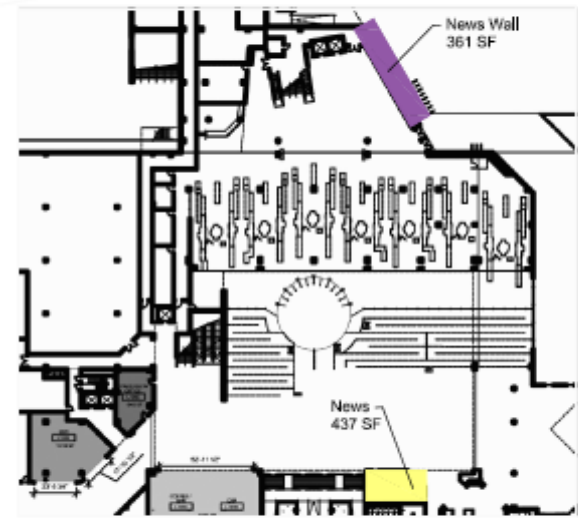
Assigned Retail



Locations:	Ph I	Ph II	Ph III	Total
Incumbent	5			5
RFP Pkg	6			6
Closed RFP		2	3	5
Total	11	2	3	16

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
Total	6,763	2,496	3,889	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.



First Floor

Current Proposal



- Within 6 months of contract effective date, Concessionaire will submit a development plan including
 - Preferred and alternative brand options
 - Projected sales for the first year.
- Concessionaire responsible for obtaining the right to (and to terminate) approved brands
- Director will appoint a panel to review plan and make recommendations. Criteria will include:
 - Passenger surveys, airline comments, consultant input, and related evaluation tools.
 - Will consist of representatives of the Department of Aviation, airlines, consultants and other City departments.

Current Proposal



- Annual review of financial, qualitative, and operational performance for each of the assigned locations of all concessionaires, based upon the following:
 - Sales per enplaned passenger for previous time periods
 - Scores on secret shopper surveys
 - Results of passenger satisfaction surveys
- The contract allows the City to approve or disapprove proposed concession concepts and brands, monitor their financial performance and require the concessionaires to submit remediation plans for underperforming brands for City approval, and to replace brands which are chronically underperforming

Current Proposal



- The City has rights to determine and assess penalties for concessionaire's non-compliance with operational standards including quality of food, beverages or products sold, the character of services rendered to the public, and/or the appearance and condition of the assigned premises.

Current Proposal



- Termination for Convenience
 - City retains the right to terminate in whole or in part for the convenience of the City with 90 days notice in the interest of the public, and with the express approval of the City Council
 - City shall reimburse unamortized costs of initial capital investment on a straight line basis over the Primary Term:
 - A&E fees limited to 15%

Current Proposal: Advantages

- Retains experienced, accomplished contractors, knowledgeable of the terminal facilities, during a difficult transition period
- Brings contracts to current market standards and best practices
 - Designed to bring highest revenue return over long term
- Reduces transition costs and risk
- Includes competitive component
 - Balanced space allocation provides attractive opportunities for 1/3 of new terminal through RFP packages
 - Provides City ultimate control of entire space through convenience clause
- Increases per enplanement revenue
- Protects air travelers' service

Current Proposal: Disadvantages

- Creates question whether full competition would result in a better solution
- Reduces size of bid package
- Reduces level of market interest in pursuing the opportunity

Need for Decision



If current contracts are not extended beyond June 30, 2011, all concession space in existing and new terminal should be bid competitively, effective July 1, 2011 to achieve the best result:

June 2010	RFP Planning & Development	~1 month
July 2010	RFP Advertisement and Response	~3 months
Oct 2010	Evaluation Committee	~2 months
Dec 2010	Award & Contracting	~3.5 months
Apr 2011-	Transition	<u>~2.5 months</u>
July 2011		~12 months

Q & A

Next Steps

- Committee Requests

Appendix

- Additional Information for Current Briefing
- Responses to Council Questions
- Previous Briefings
- Minutes of meetings
- Contracts
- Staff Bios

Additional Information for Current Briefing

- Construction Phasing

Phasing

- The new terminal will be constructed on the existing terminal site, in phases
 - Demolition of the vacant North Concourse is currently underway to create a site to construct the first phase of the new concourse
 - The West Concourse 15 gates will not be impacted at this time
 - The East Concourse will be separated from the main terminal and will operate as a stand-alone terminal beginning September 2010. Two of the 4 gates will be relocated within the same general area and will experience a minor and short term impact, with no impact to concessions
 - Note: in accordance with the Wright Amendment Reform Act, Southwest's gates increases from 15 to 16 and American's gates reduce from 3 to 2 in October 2010. Continental remains at 2 gates. However, because of construction limitations, Southwest will be unable to utilize its 16th gate until the new concourse is completed

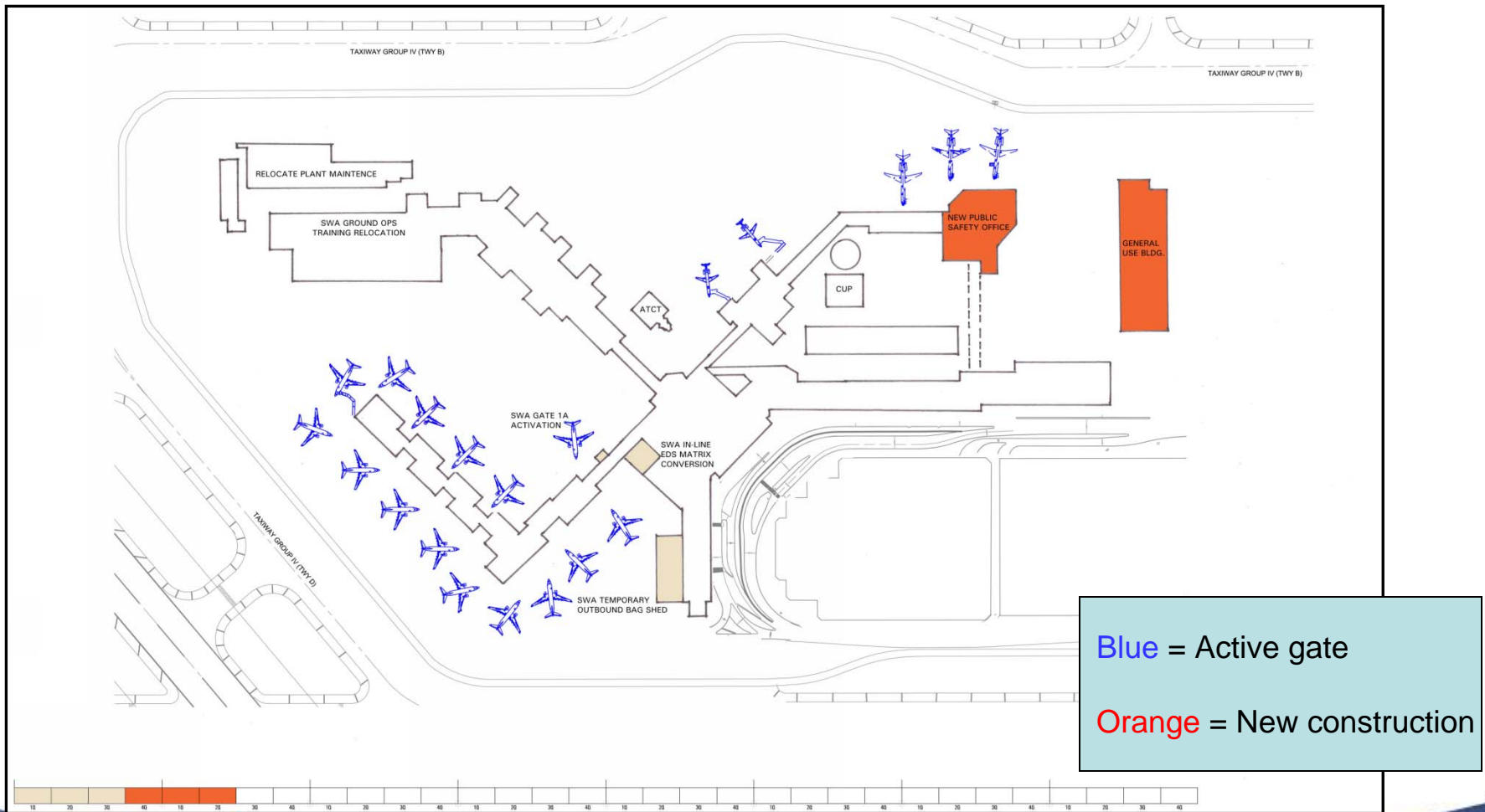
Phasing

- As the first 12 gates of the new concourse opens in 2013, 12 of the 15 existing gates (80%) from the West Concourse will close to enable demolition of that portion of the West Concourse
 - Concessions located in the closed portion will close also
- At this point, the remaining existing concessions in the West concourse will experience an approximate 80% reduction in traffic, but must remain open to serve the remaining passengers
- This condition will remain about 18 months until the remainder of the new concourse is completed and all 20 gates can relocate
 - Both the West and East concourses will close for demolition at this time

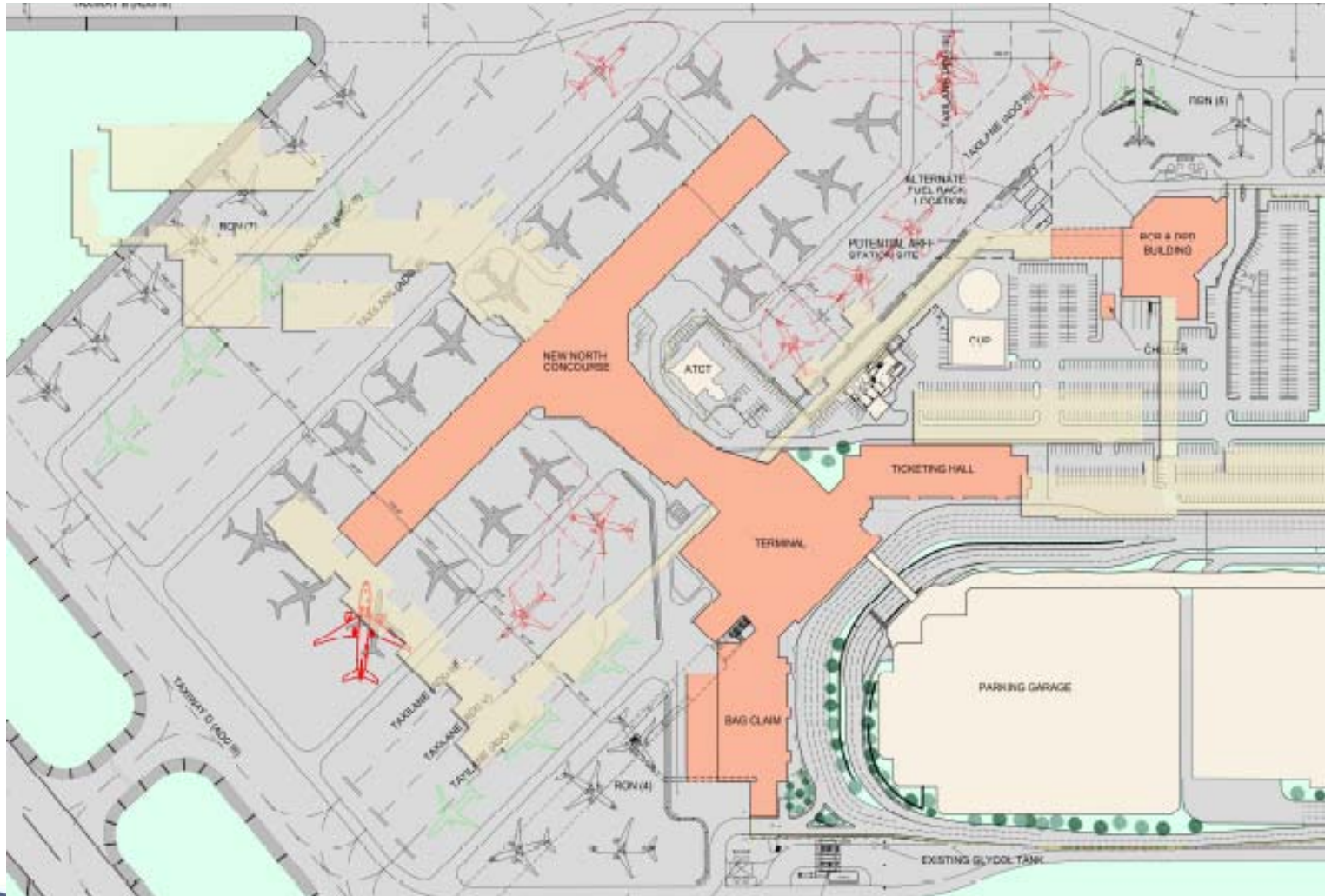
Existing Terminal Configuration

Enabling Projects

(No change in airline or concession operations)



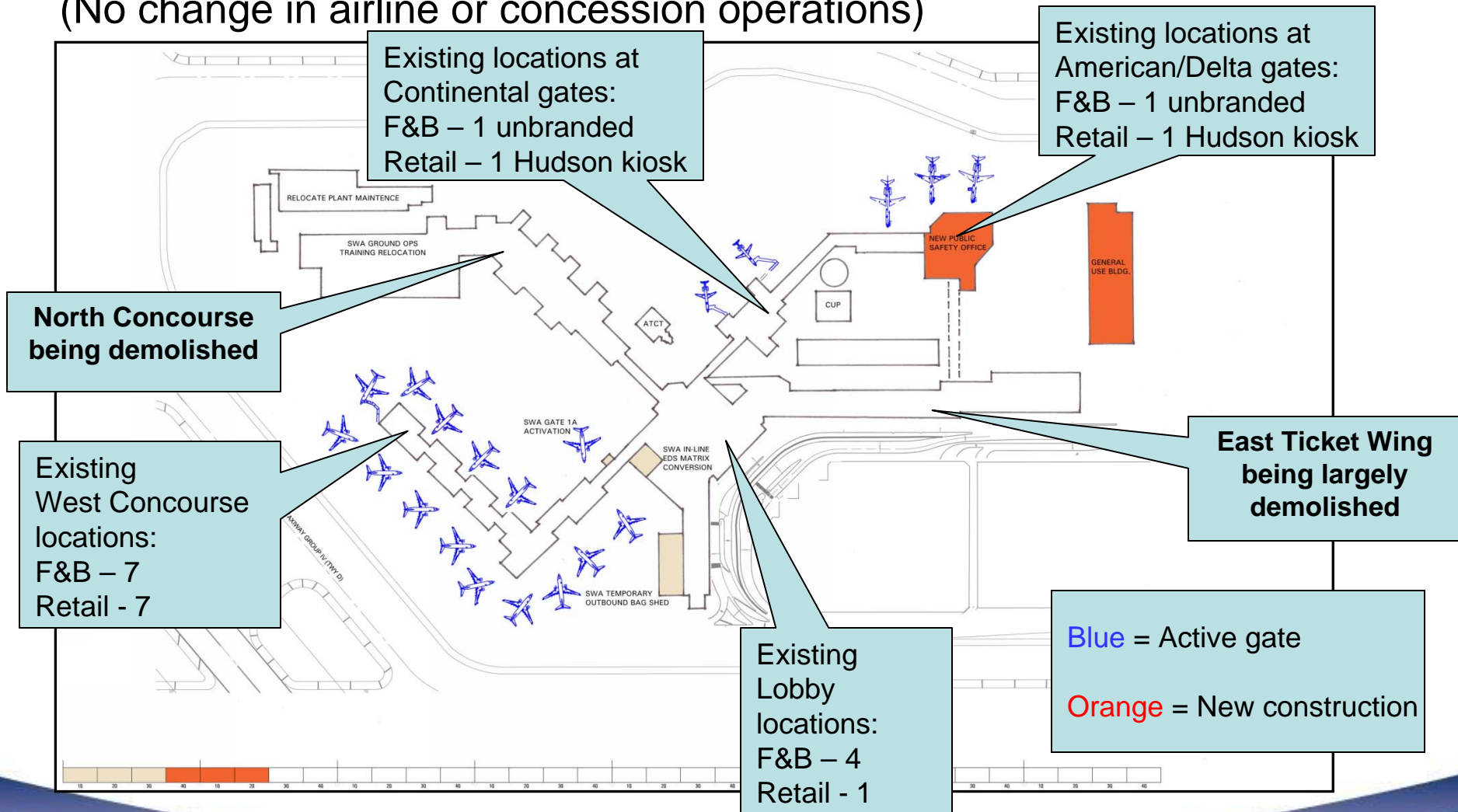
LFMP Location



Phase 1 (Aug 2008 – Sept 2010)

Enabling Projects

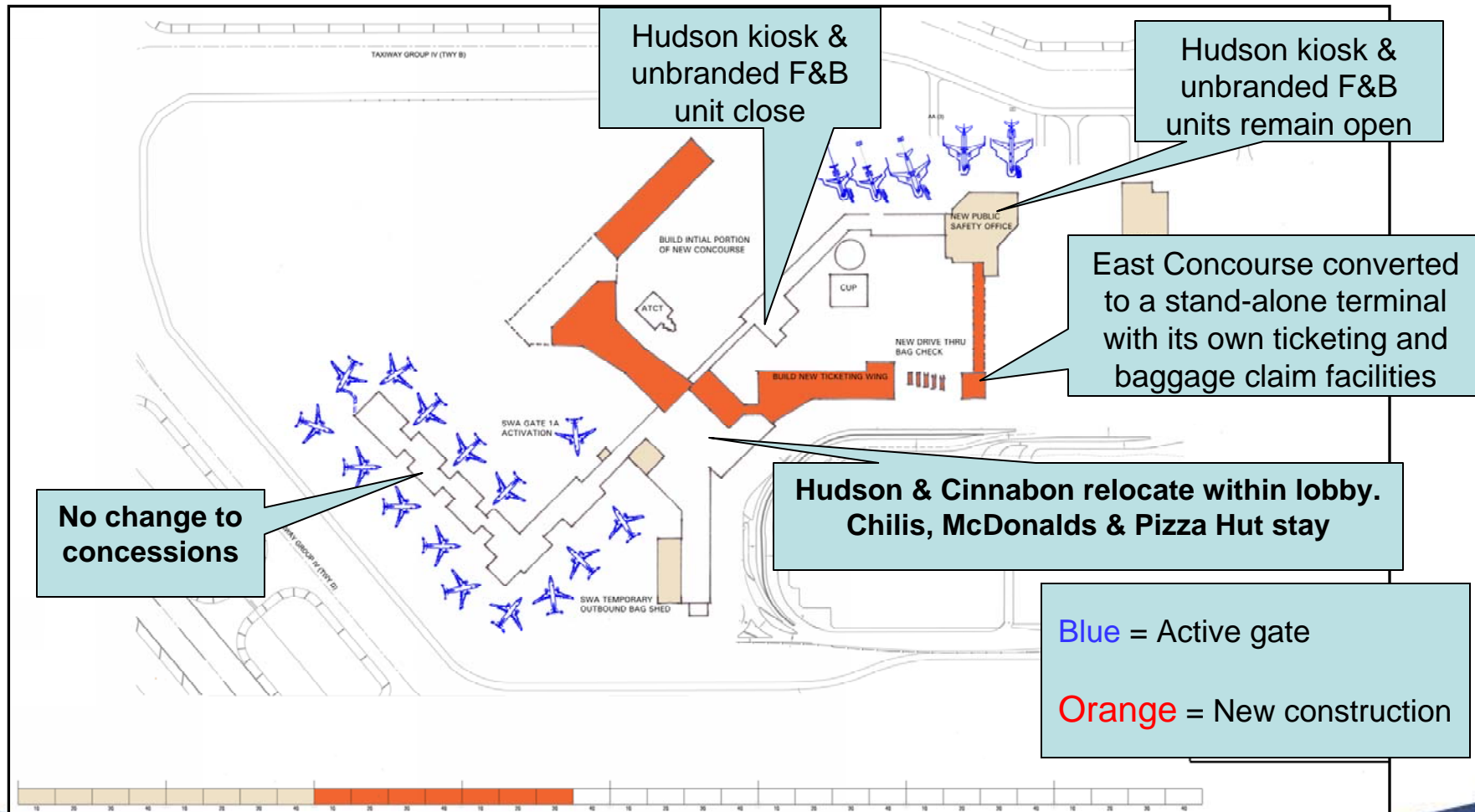
(No change in airline or concession operations)



Phase 2 (Sept 2010 – Apr 2013)

East Half Concourse Construction

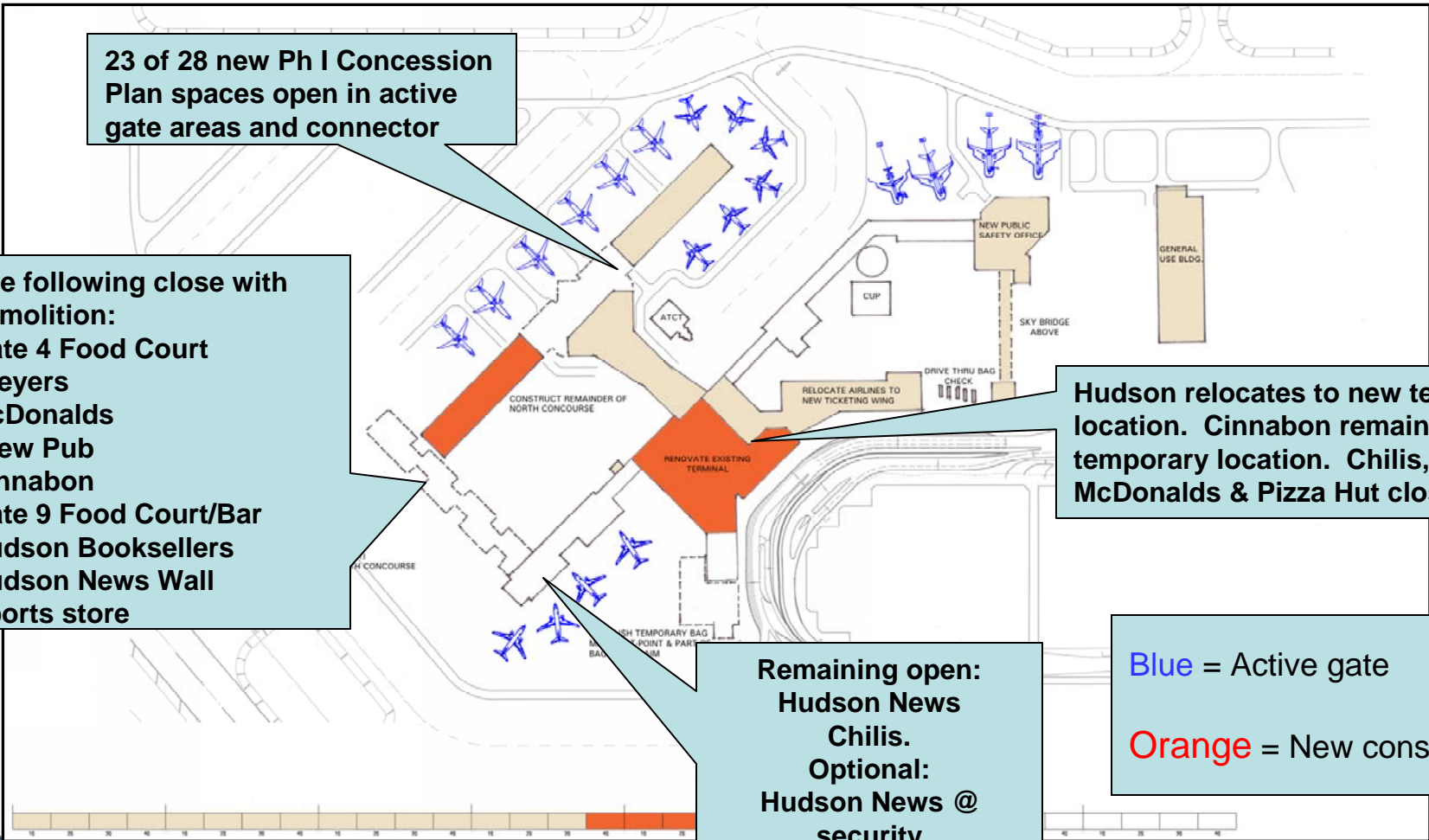
(2 Continental gates relocate in East Concourse)



Phase 3 (Apr 2013 – Oct 2014)

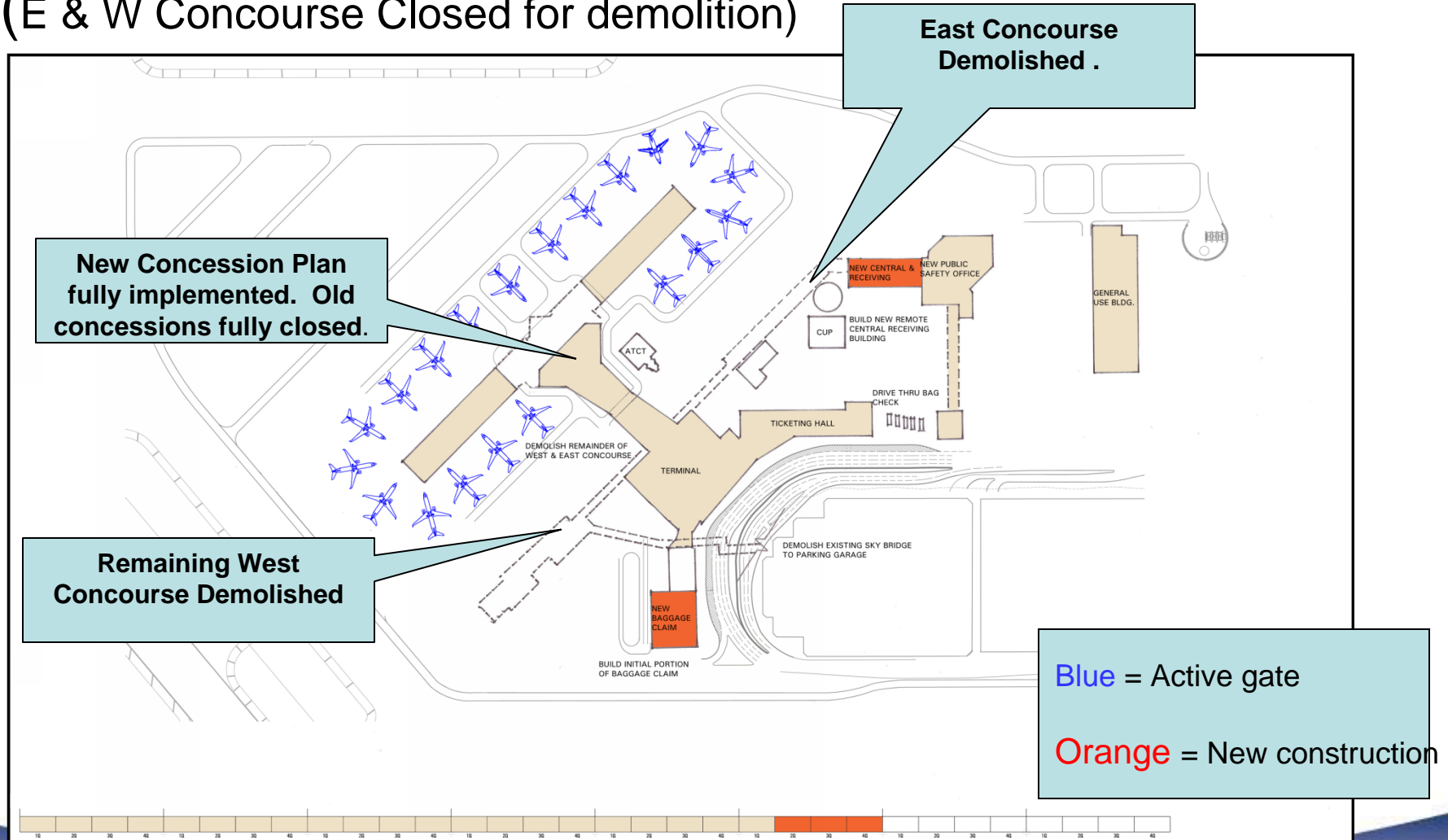
East Half Open, West Half Construction

(12 gates relocate from West Concourse to New Concourse)



Phase 4 (Oct 2014)

New Concourse Fully Open, (E & W Concourse Closed for demolition)



Lobby Phasing

- The lobby will be renovated in 2 phases
 - Phase 1 concession relocations (Sept 2010 – Apr 2013)
 - Existing Hudson newsstand
 - Existing Cinnabon kiosk
 - Existing Chilis, McDonalds and Pizza Hut are not impacted
 - Phase 2 concession relocations (April 2013- Oct 2014)
 - Hudson newsstand relocates again to new temporary location
 - Chilis, McDonalds and Pizza Hut close
 - New lobby concession plan replaces all existing lobby concessions in 2014

**Construction Phase 2
(Sept 2010 – April 2013)**

To SWA
Gates

SWA
Ticketing

TSA
Screening

PUBLIC SIDE

WORK ZONE

Area Under
Construction

Business
Center

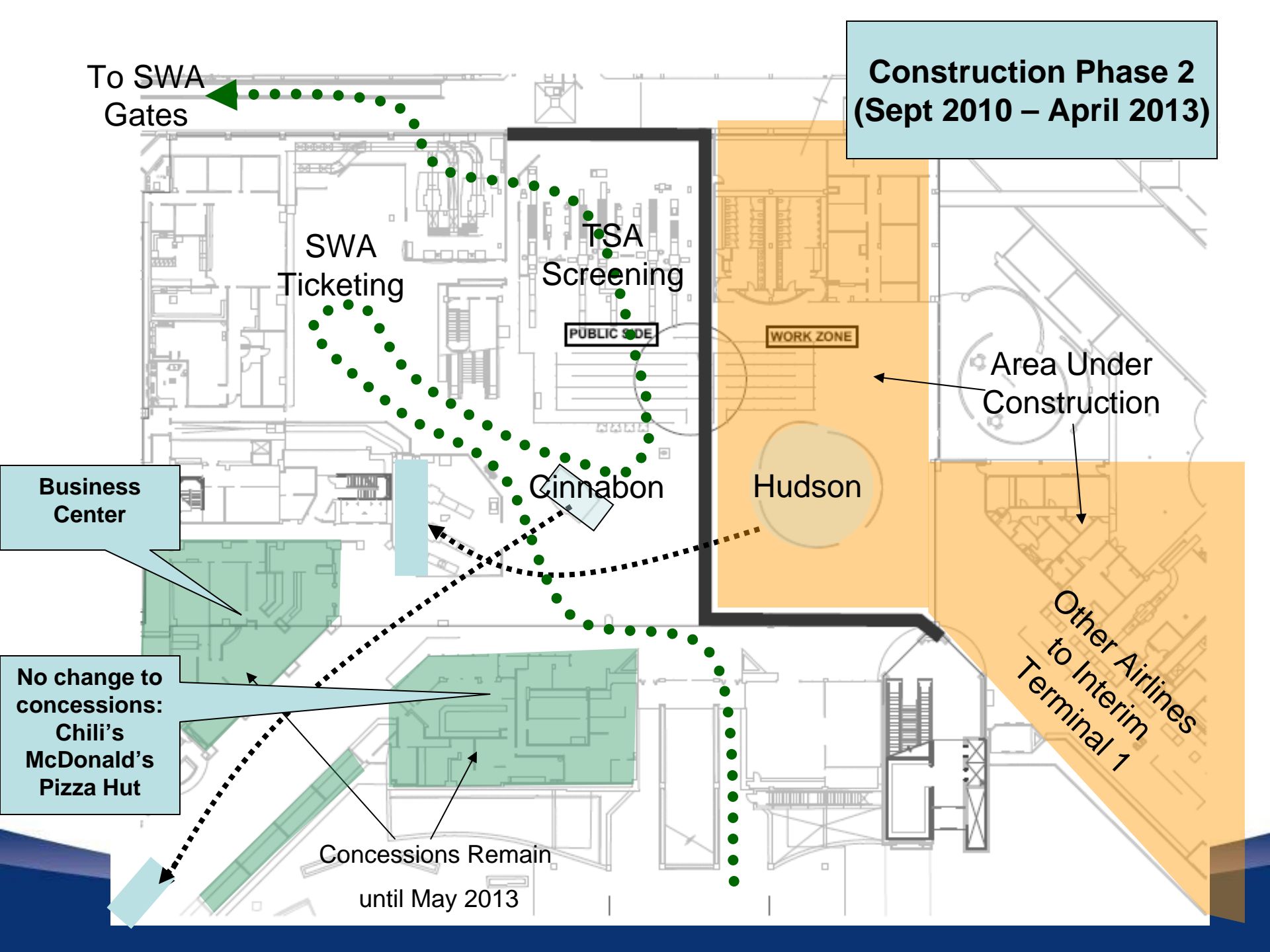
Cinnabon

Hudson

Other Airlines
to Interim
Terminal 1

No change to
concessions:
Chili's
McDonald's
Pizza Hut

Concessions Remain
until May 2013



**Construction Phase 3
(April 2013 – Oct 2014)**

To SWA
Gates

To SWA
Gates

Area Under
Construction

PUBLIC SIDE

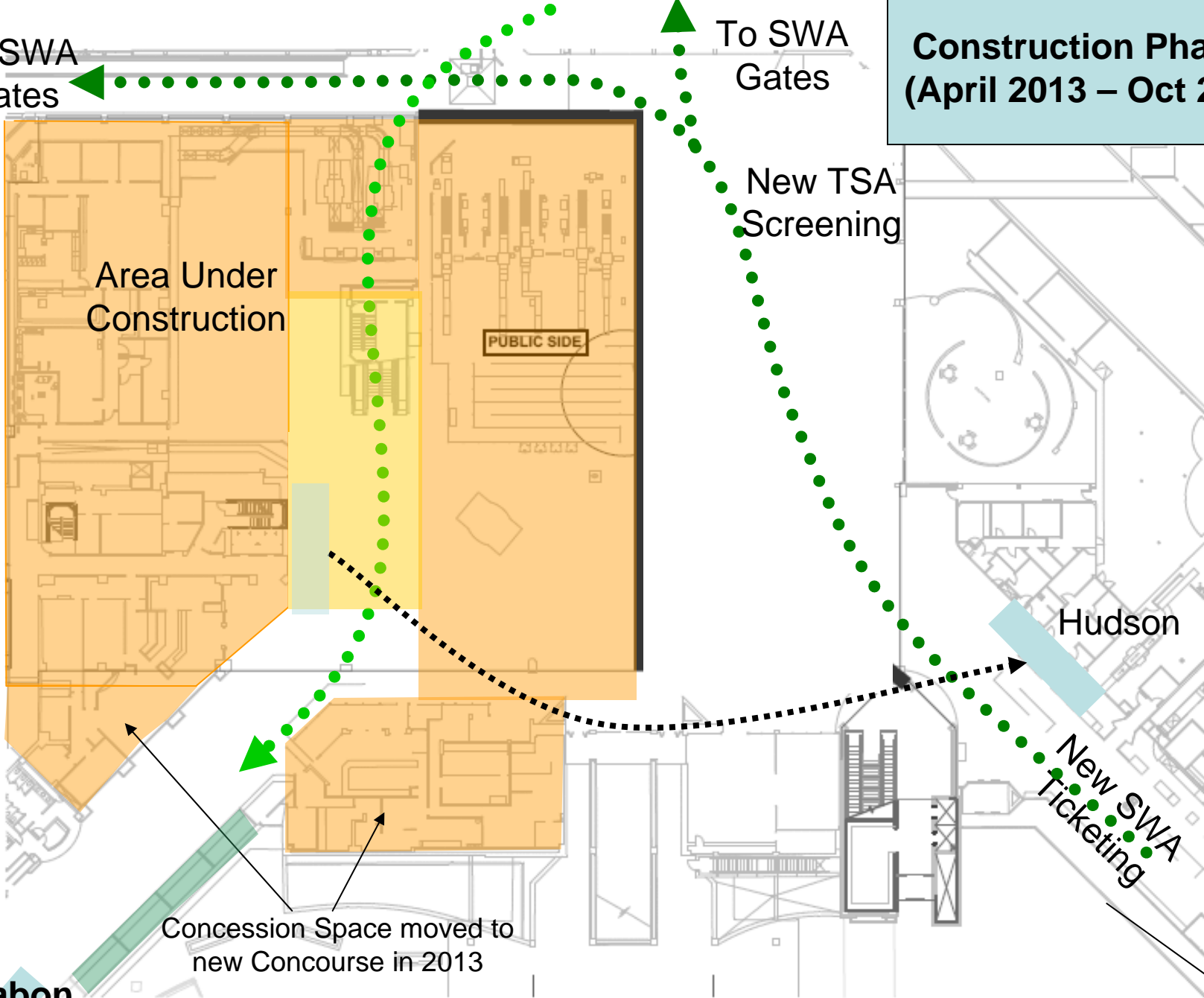
New TSA
Screening

Hudson

New SWA
Ticketing

Concession Space moved to
new Concourse in 2013

Cinnabon



- Management Options

Options for concessions management



- Prime Concessionaire(s) (Proposed DAL Concessions Plan)
- Multiple Direct Lease (Airport Managed)
- Traditional Developer
- 3rdParty Manager

Prime Concessionaire Approach



ADVANTAGES

- Can operate facilities directly and/or sublease to other concessionaires
- Tend to be larger companies who are more stable
- Guarantees rent regardless of program success
- Eliminates the financial risk of vacant space
- Tends to insure uninterrupted service to the Airport
- Ability to relocate individual operators more quickly in the event airline activity fluctuates
- Reduces City's administrative costs
- Reduces requirements of support space and distribution of products is less complex

DISADVANTAGES

- Limits opportunities for small local operators
- Precludes ACDBE operators from direct leasing financially with the airport compared to other approaches
- Lessens competition with fewer operators
- Tendency of branded facilities to be the same from airport to airport
- Tendency for leases to be long-term due to high capital investment

Direct Lease / Airport Managed Approach

ADVANTAGES

- City controls the selection of concession categories and operators
- Tends to allow a greater variety of concession operators to participate in the program
- Greater flexibility with contract terms
- Greater opportunity to meet or exceed ACDBE participation goals
- Tends to promote competition in pricing, quality of products and services
- Allows for short-term leases since capital investment is smaller (fewer number of facilities)

DISADVANTAGES

- Greater administrative costs for the City
- City assumes the financial risk associated with vacant space
- Requires expertise on-staff to understand trends, implement new ideas and concepts
- Process of selecting tenants may be cumbersome
- Requires more support space and distribution logistics are more complex
- Can open it to political interference

Developer Approach



ADVANTAGES

- Contacts in the retail industry, and knowledge of national retail trends
- Assumes the financial risk of unoccupied space
- Minimizes City's administrative costs since developer is responsible for marketing, training, quality
- Tends to de-politicize the selection process of individual tenants
- Developer finances and constructs common area concessions space
- Developer guarantees rent

DISADVANTAGES

- Developers prefer to manage both food & retail program
- Debt service has a direct impact on revenue
- May be less sensitive to ACDBE participation and other local/community issues
- The developer retains fee to manage the program, which may reduce revenues to the City
- Lack of direct control by the City – Developer selects mix of concessionaires and may prefer those with whom they have a relationship with.

3rd Party Manager Approach

ADVANTAGES

- Contacts in the retail industry, and knowledge of national retail trends
- Minimizes City's administrative costs
- City maintains significant input and retains control of the program
- Provides greater flexibility to incorporate multiple tenants
- Mediates between Airport and concessionaires

DISADVANTAGES

- Management fee reduces Airport revenues
- City still bears financial risk for vacant space

Financial Comparisons



The Prime Concessionaire Approach is projected to generate the highest financial return to the City.

	Prime Operators (Current Scheme)	Multiple Direct Leases (Airport Manages)	Traditional Developer	3rd Party Manager
Projected 1st Year Rents to City	\$7,559,288	\$7,559,288	\$7,559,288	\$7,559,288
Incremental City Costs:				
Additional Staffing ¹		(\$144,452)		
Developer Fee ²			(\$1,511,858)	
3rd Party Manager Fee ³				(\$982,707)
Net Revenue	\$7,559,288	\$7,414,836	\$6,047,430	\$6,576,580
<i>Reduction to City</i>		<i>(\$144,452)</i>	<i>(\$1,511,858)</i>	<i>(\$982,707)</i>

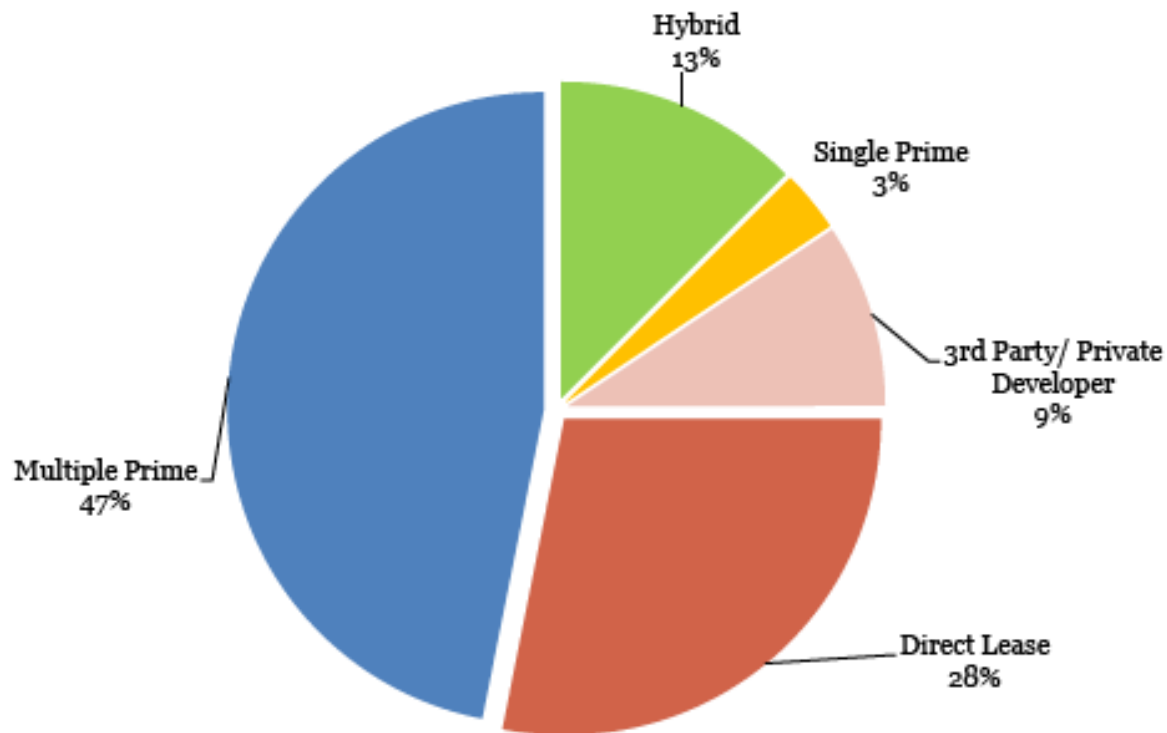
Notes:

¹Additional staffing under the direct lease approach assumes two additional staff members are hired. Salaries for Asst. Property Managers in Dallas area, including fringe benefits are estimated for 2015. Source: Salary.com HR surveys.

² Developer fee is estimated at 20% of revenues.

³ Management fees are estimated at 13% of gross rents.

Management Structures at Medium Hub U.S. Airports

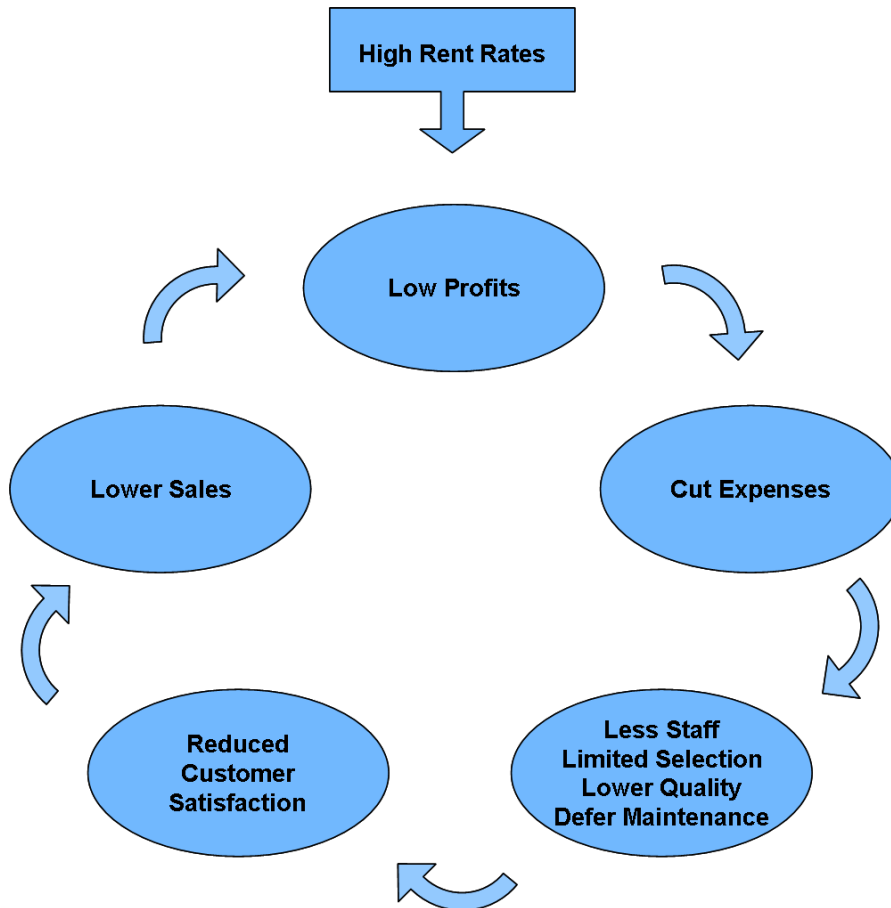


Management Structures at Medium Hub U.S. Airports

Airport	2008 Enplanement	F&B Sq. Ft.	Retail Sq. Ft.	Management Structure
Direct Lease:				
Austin-Bergstrom	4,473,001	24,015	13,961	Direct Lease
Indianapolis	4,080,231	30,967	28,771	Direct Lease
Kansas City	5,527,549	44,691	23,987	Direct Lease
Omaha	2,193,292	39,192	6,902	Direct Lease
Ontario	3,107,044	26,589	12,597	Direct Lease
Orange County (CA)	4,492,626	14,460	6,196	Direct Lease
Portland	7,150,857	50,953	41,283	Direct Lease
Raleigh-Durham	4,850,533	38,997	18,377	Direct Lease
Sacramento	4,846,025	24,508	3,800	Direct Lease
Multiple Prime Operators:				
Anchorage	2,834,976	16,236	11,611	Multiple Prime Operators
Dallas Love Field	4,028,686	16,514	6,779	Multiple Prime Operators
Houston Hobby	4,560,485	15,406	26,236	Multiple Prime Operators
Jacksonville	2,998,472	19,361	22,314	Multiple Prime Operators
Lambert-St. Louis	7,207,890	45,743	25,956	Multiple Prime Operators
Louisville	1,843,133	18,100	8,256	Multiple Prime Operators
Memphis	4,999,849	44,059	17,468	Multiple Prime Operators
Nashville	4,692,566	25,169	10,565	Multiple Prime Operators
New Orleans	3,973,167	30,164	13,641	Multiple Prime Operators
Palm Beach	3,330,820	25,649	13,790	Multiple Prime Operators
Providence	2,353,715	11,604	8,296	Multiple Prime Operators
Reno-Tahoe	2,323,681	8,447	10,879	Multiple Prime Operators
San Jose	4,840,942	8,984	18,167	Multiple Prime Operators
Southwest Florida	3,868,588	21,307	16,633	Multiple Prime Operators
Tucson	2,116,694	16,322	7,294	Multiple Prime Operators
Hybrid Structure:				
Cincinnati	6,801,611	67,917	7,737	Hybrid Structure - Multiple Prime & Direct Leases
Milwaukee General Mitchell	4,000,765	25,957	9,939	Hybrid Structure - Multiple Prime & Direct Leases
Oakland	5,668,196	10,333	13,852	Hybrid Structure - Multiple Prime & Direct Leases
Port Columbus	3,459,434	25,059	15,565	Hybrid Structure - Multiple Prime & Direct Leases
Private Developer:				
Cleveland	5,545,205	26,172	16,495	Private Developer
Pittsburgh	4,354,992	31,012	49,591	Private Developer
3rd Party Manager:				
San Antonio	4,160,437	19,230	12,759	3rd Party Management Company
Single Operator:				
Buffalo	2,762,401	21,764	3,885	Single Prime Operator

- High Rents Discussion

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

Responses to Council Questions

Responses

- Question
 - Didn't the incumbents receive their first choice of locations to the detriment of the RFP packages?
- Response
 - The assignment of available spaces started with Unison's determination of the optimum space layout in terms of revenue potential and customer service, irrespective of assignment
 - Unison then made an initial assignment of spaces between the incumbents and the RFP Packages, with the objectives of:
 - Approximating the space currently occupied by the incumbent, and
 - Ensuring the RFP Packages remain both economically viable and attractive to proposers
 - Numerous meetings with each incumbent over 18 months resulted in several versions of the Concession Plan, however, with each version these objectives were achieved
 - For every change requested by incumbent, a countering adjustment was made to the RFP Package in order to maintain an economic balance
 - The current proposal represents a successful conclusion which achieves those stated objectives

Responses

- Question
 - Isn't the 12 year term of the proposed contract too long?
- Response
 - While 10 years is normally provided in these contracts, extra time was agreed to in the context of:
 - The current difficult credit market for financing significant leasehold improvements
 - There have been other contracts granted for similar amounts of time in other markets
 - The City control of concessionaire performance and achieving standards
 - The City's termination for convenience clause
 - The non-exclusive nature of the contracts
 - Other compromises achieved in the negotiations

Previous Briefings

Minutes of meetings

Contracts

Staff Bios