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Gilbert Aranza And the Love Field No-Bid Contract

Posted on August 16th, 2010 12:24pm by [Wick Allison](#)
Filed under [Civics](#), [Local News](#), [Politics](#), [Transportation](#)

Gilbert Aranza knows all about crony capitalism. In a June interview with Sam Merten over at the *Dallas Observer*, he [blamed his losing bids for concessions at airports in Tulsa, Austin, and Florida on "favoritism."](#)

Live by the sword, die by the sword.

Aranza controls all food-and-drink concessions at Love Field through a company designated as a "disadvantaged business enterprise." The airport is about to go through a massive upgrade in preparation for the lifting of the Wright Amendment in 2014. The revamped Love Field with its new flow of travellers will produce a multi-million dollar bonanza in food-and-drink sales over a twelve-year period.

Aranza wants his contract extended on a no-bid basis. The mayor says it's crazy not to bid out the concession contract. Aranza says it's not crazy at all.

Aranza gives three reasons: (1) the redo will cost him lost business and require significant capital investments; (2) a contract extension will allow him to recoup those losses; and (3) he has been a good operator and an excellent tenant. We know this because he hired a SMU business professor to make these points for him.

Let's grant him all three points. Aranza also says — and has consultants back him up — that no-bid extensions are fairly common in the industry. Let's grant him that too.

The mayor makes a different case. Love Field is about to turn into a goldmine. The city should solicit "best practices" proposals to produce state-of-the-art concessions to serve the public

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and reap the best financial results. Gilbert Aranza may be the greatest guy in the world. But is he the best concessionaire in the world? The city has no way of knowing unless it conducts an open bid process. The mayor raises a second point: A closed bid process keeps out other legitimate minority businesses.

Aranza's reply: I am being reduced from 100% to 52% of the concession space in the revamped airport. Others will bid on the remaining space. So you will have competitive bidding and other people will have an opportunity. And, if those bids come in higher or with more perks, I'm required by contract to provide the same.

The mayor's reply: Why put a lock on 52% of the space? What is this? Some sort of best-friends-forever pact? No, it's business. And in business — especially the public's business — we need open bidding to produce the best results. If Gilbert Aranza is the best, he'll win the bid.

Aranza's reply: You are about to tear up the airport. Open bidding may be fine in principle, but in practice there are only four or five good operators worldwide. And, in practice, nobody will manage you through a construction period without knowing they can recoup their costs with a long-term contract.

Enough of the volleyball. Let's go to the numbers.

Under a prime contractor bid, the city estimates it would [take in \\$7,559,000 in rent](#) [p. 61] a year. Under the old contract, Aranza has been paying average rent of 16% of revenues. Say that stays about the same. (We have to estimate because nowhere in the voluminous documents can I find a simple statement of pro forma income and expense.) That puts total expected revenues of concessionaires at \$47 million. He will control 52% of the space. That's \$24.4 million. Times 12 years = \$292.8 million. Estimate a profit margin of, say, 20%, and Gilbert Aranza will haul in \$59 million on his no-bid contract, less capital improvements and losses during construction. Let's peg those at \$9 million (he says he'll lost between \$3.6 million and \$5.7 million during construction.) Leaves him with \$50 million net. (That's one great disadvantaged business he's got there.) Aranza says that my estimates are based on current pricing of street — i.e., normal — prices plus 10%. The mayor wants street pricing. Cut out that 10%, and the numbers fall apart because the rent is so high compared to normal retail.

Everybody wants to question everybody else's motives. People suspect the mayor is positioning himself for a Republican primary. People suspect Aranza has bought off the seven Council members that support him with campaign contributions. (He also contributed to the mayor's campaign.) Let's drop the motive thing. It doesn't get us anywhere. Instead, let's look at the situation as it stands.

Mayor Leppert is right. Competition produces the best ideas, products, and services. Cronyism and playing favorites in picking minority "partners" leads to shakedowns and inefficiency. The responsibility of the city government is to provide a level playing field to achieve the best service to the public.

The situation with the torn-up airport, though, means that principle must be applied within practical constraints. The city needs food-and-drink service during construction. Aranza is already there, ready to pay the costs necessary to continue to provide it. The city needs him. He needs a contract. It may be a shotgun marriage, but it is a shotgun marriage of the city's making. The city is the one tearing up the airport.

Also, Aranza's operation is not a sham. It is an operating business, and he is the operator. This is not a [wink-nod deal like the one Hudson News has with my good friends Helen Giddings and Eddie Bernice Johnson](#) (How are those magazine sales doing today, ladies?

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D Magazine is switching gears. It's time to vote for the 10 Most Beautiful Women in Dallas, people! Here are your first five semifinalists. Take a look, watch the videos, and vote for your favorite once a day until August 22. Enjoy!



Ten Most Beautiful - Main Page

[surveys.dmagazine.com](#)
 Behold the lovely ladies nominated for the 10 Most Beautiful Women in Dallas vote. You will determine which will be featured in the December 2010 issue of D Magazine. For four straight weeks, beginning Aug. 16, we'll introduce you to five of our 20 semifinalists. You'll vote once a day, every day fo...

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Need any special displays?) or that Pappadeaux's was forced into at DFW Airport.

I say the deal on the table is good for both parties. Aranza would like more. The mayor would like to bid out everything. That makes for a good compromise: nobody likes it. But it will serve the traveling public during a difficult time *and* stake out the principle that competitive bidding is the only way to go.

That takes care of that. Now the mayor and the Council should turn its attention to the real corruption in the concessionaire system. Oh, hello there, Helen. Hi, Eddie Bernice! Oh, and hello to you, [DFW Airport Board!](#)

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13 Comments to "Gilbert Aranza And the Love Field No-Bid Contract"

Jean Val Jean @ August 16th, 2010 at 12:44 pm

Holy cow. Was your day getting too boring?
Way to pull a Schutze

Wylie H. @ August 16th, 2010 at 1:16 pm

Wick, a well thought-out piece, and you had me until you got to the point where you apparently think granting Gilbert Aranza a deal wherein he will have a virtual lock on at least \$50 million in profits in necessary to induce him to provide food & beverage operations during the construction period— that's utter nonsense, you could find plenty of quality operators willing to take that task on for a much more reasonable deal, without any guarantees of business after the construction is finished.

Also, although you allude to the problems at DFW Airport and call out the Pappadeaux deal specifically, you neglected to provide the details on what made that deal so smelly. In that case, Pappas Brothers appears to have been forced into granting Johnnie and Delva King (two local politically connected operatives from DeSoto) an interest in the enterprise, notwithstanding the fact the Pappas Brothers probably already had all the expertise necessary to do the deal on the own (after all, they are some of the largest restaurant operators in Texas and have a very successful restaurant currently operating at Houston Intercontinental).

This is standard practice at DFW Airport— legitimate operators are forced into arranged marriages with lucky folks "proposed" by key members of the Airport Board who happen to be friendly with lots of local politicians.

For further details, see "Is This Any Way to Run an Airport?" Dallas Observer, May 28, 1998. <http://www.dallasobserver.com/1998-05-28/news/is-this-any-way-to-run-an-airport/>

The authoritative piece by Ann Zimmerman (now at the Wall Street Journal) will give you a feeling for how nasty this airport concession business really is... sadly, it doesn't appear much has changed in the 12 years since she penned that piece.

Some guy @ August 16th, 2010 at 1:28 pm

Can I sell orange-cheese nachos and gray hot dogs at Love until 2014? I think I can swing it with a tidy profit to boot!

Wick Allison @ August 16th, 2010 at 1:30 pm

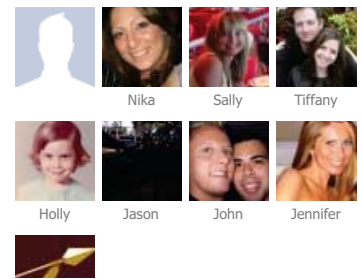
Wylie: The details and a link to Zimmerman's article can be found below at my post on "Minority Partners." Enjoy. (However, it is egregious enough to repeat, so thanks.)

The problem I address is the construction period. Yes, another tenant could come in. But that operator would have to spend much more money — and move very, very quickly — to take over the concessions before construction. They would require an even lengthier contract to recoup their greater expense. It is a timing problem of the city's own making. I just don't think it can be done. Maybe it can. But that's my call. In principle, I agree with you. In reality, not so easy.

Dubious Brother @ August 16th, 2010 at 2:02 pm

It is funny in a way that this whole issue revolves around the lifting of the Wright Amendment — a glaring example of egregious crony capitalism if there ever was one. As always, the consumer lost due to lack of competition.

The notion that minorities cannot compete on a level playing field because they are not smart enough, clever enough, tenacious enough or whatever enough is flawed from the start and has led to a situation where a couple of people are rewarded with an unearned position in a company because of their skin color. The consumer will once again pay higher prices for less quality without competition in the equation. If D had the correct ownership and greased the Wright palms you may have the only magazine allowed to be sold at the airport.



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Follow up @ August 16th, 2010 at 3:32 pm

Wick I know you are committed to being fair and factual so I want to add some information your readers should know. Helen Giddings was providing services at Love Field since 1989 – before any involvement by Hudson. She invested and risked her own money. She was a pioneer in brining gourmet coffee to Texas before Starbucks appeared on the scene. If she is part of a winning bid she will have to make a huge investment at Love Field. Her political career began after her involvement at Love Field and played no part in her becoming a partner with Hudson. Since Texas legislators receive little in the way of compensation for a part-time job they need to make a living. I believe Ms. Giddings situation is similar. It is unfortunate that what should be a process decided on the merits has been made a political issue by our Mayor.

Big Tex @ August 16th, 2010 at 4:04 pm

Wick, your analysis is impeccable. I disagree with some of your conclusions regarding where we go from here. However, whatever course is chosen by Dallas City leaders, I wish they would publicly read out loud your blog posting prior to a vote for all in the hall to hear. Would make it hard to quibble later that they were unaware of all the facets. Well done, sir, well done!

Wick Allison @ August 16th, 2010 at 5:31 pm

Gilbert Aranza was kind enough to send me an email correcting my assumptions on cash flow: "The blended rent in the contract is 12.75%, not 16%. Also, the margin is 13-17%, not 20%." He also sent me a city-produced pro forma from the February 22 presentation to the Transportation and Environment Committee. As I said, I made those estimates myself. Aranza had earlier told me that he did not disagree with my basic conclusions on the finances.

Wick Allison @ August 16th, 2010 at 5:41 pm

@ Follow Up: Hudson News operates 71 newsstand concessions at transportation centers in the U.S. It is perfectly capable of operating newsstands at Love Field without any help. So please explain how Ms. Giddings's and Ms. Johnson's help became necessary.

Wylie H. @ August 17th, 2010 at 12:39 am

Further info on Hudson News... it is an indirect, wholly owned subsidiary of Dufry AG, a large, publicly-traded Swiss company. I'm unclear why the City of Dallas appears hellbent on giving such a company an insider deal in partnership with Sen. Giddings, who lives in DeSoto.

If one is keeping score at this point, none of the entities targeted for this favoritism are even based in Dallas, with the exception of Congresswoman Eddie Bernice Johnson— whose participation in this whole venture appears to be of highly questionable legality.

tap on the shoulder @ August 17th, 2010 at 8:39 am

Of course, missing from this discussion is why our Mayor is choosing to break with his political allies in Southern Dallas at this time. Sole sourced contracts are not unique to the airports, and he has certainly been a benefactor of their strong political support.

The Whole Story @ August 17th, 2010 at 9:03 am

Wick, very well done. If you read the briefing materials for tomorrow's council briefing meeting on the City Hall web site, there are four options given. Option 4 provides for economic enhancements to the current concessionaires during the 42 month construction period and puts each of the food and beverage and retail spaces out for proposal with the result that Love Field could end up with as many as forty operators with the incumbents receiving a right of refusal on 25% in value of the spaces. Why doesn't Option 4 work? It lessens the risk for the current concessionaires during the 42 months of construction. Is there a logistical problem with this plan? And does the right of refusal result in a winning proposer losing his space? That seems wrong.

Wick Allison @ August 17th, 2010 at 9:11 am

There are two problems with Option 4. One, the need for commissary space and warehousing could make 25% unprofitable for an operator — any operator. The idea of having a bunch of independents is nice, but probably impractical for the same reasons. My understanding is the minimum required is 35%. But I could be wrong. This is not my industry.

Two — and this is more important — the compromise makes no distinction between Aranza and Hudson News. They are both regarded as "incumbents." Aranza is an operator. Hudson News is stuck with two owners foisted on it by the city — Giddings and Johnson — who are not operators. To my mind, Hudson News needs to be treated separately because it is a far larger problem. Aranza is a true minority business enterprise. Hudson News at Love Field is a sham minority business enterprise. That needs to be corrected before its contract is extended or renewed.

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