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August 1, 2010

Dear Friends:

Attached is a paper entitled "Analysis of City Staff Recommendation re: Dallas Love Field Food and Beverage Concessions Contract" by Richard A. Briesch, Ph.D. Dr. Briesch's curriculum vitae can be found at the end of the paper.

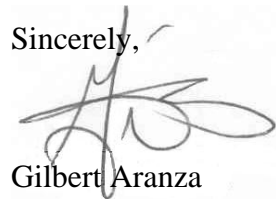
Dr. Briesch, an associate professor at the Cox School of Business at Southern Methodist University, was engaged to analyze city staff's recommendations with respect to the food and beverage concession contract at Love Field. Dallas Love Field Joint Venture, the current food and beverage concessionaire, financially supported Dr. Briesch's research efforts, however Dr. Briesch was given free rein to form his opinions independently.

Dr. Briesch's independent conclusion supports the city staff recommendations. His analysis is thorough and credible, and I think you will find his paper enlightening. As my friend, I ask that you thoughtfully read Dr. Briesch's paper and support his conclusion that extending and renewing the existing contract is good for Dallas and Love Field passengers.

Please share this with anyone you think would take an interest in this and call or email your Dallas City Council representative to ask them to vote for the extension of our contract to provide services through the construction of the new airport facility and the renewal contract for services in the new facility as recommended by city staff and unanimously approved by the City Council's Transportation and Environment Committee earlier this year.

Thank you very much for your support.

Sincerely,



Gilbert Aranza

Analysis of City Staff Recommendations

RE: Dallas Love Field Food and Beverage Concessions Contract

Richard A. Briesch, PhD
Cox School of Business
Southern Methodist University
July 27, 2010

Executive Summary

Because of the news stories, speculation, and charges surrounding the Dallas Love Field Joint Venture, Ltd. (and its successor Love Partners I, Ltd, called “DLFJV”) concessionaire contract extension and renewal recommended by the City staff and unanimously approved by the City Council Transportation and Environment Committee on February 22, 2010, I was hired as an independent third party (with no ties to the industry) to examine and analyze the proposed contracts and related facts. This white paper provides my analysis of the proposed contracts. Before providing my key findings it is important to note that much of the debate has focused on the financial details of the contracts. While these details are tremendously important, they are not the only factors considered in the industry when evaluating proposed concession contracts. For instance, in the 2007 Request for Concessions Proposal at DFW Airport, the key considerations, and their relative weights were:¹

- 1) Minority/Woman Disadvantaged Business Enterprise – 20%
- 2) Local Business – 10%
- 3) Concept, Management, Staffing – 25%
- 4) Revenue to Airport – 15%
- 5) Proposer Experience/Financial Information - 30%

It should be noted that the objectives implied by these criteria can be conflicting, making clear-cut determination of the ‘best’ proposal difficult, and suggesting that attempts to only maximize revenue to the city is in conflict with other goals and responsibilities of the city council. Key findings in this report related to the above criteria include:

- 1) MWDBE and Local:
 - a. DLFJV is 100% minority owned, and is designated as a disadvantaged business enterprise.
 - b. DLFJV is based in Dallas and is locally owned.
- 2) Management/Staffing/Concept:
 - a. High quality and committed to customer service. DLFJV has received numerous awards, and an excellent rating from Smart Shopper. The low 2010 JD Powers’ survey rating is contradicted by ARN award as #1 airport for customer service and Smart Shopper ratings of ‘excellent.’ The City itself has acknowledged the high quality of performance of DLFJV in committee meetings and in recitals contained in the contract itself.
 - b. Committed to diversity in the hiring of employees: 66.7% of management and 90% of all employees are minority and/or women. Further, the wages for hourly, tipped and first-line managers are above local (Dallas/Fort Worth/Arlington) and national averages.

¹ Source: Martin Moodie (2007), “Dallas/Fort Worth International Airport calls retail and food & beverage RFP – 12/04/07,” Moodie Report, http://www.moodiereport.com/document.php?c_id=1178&doc_id=13767. I also note that the relative weights for these criteria may be different for Love Field, and that the FAA has mandated that some of these criteria must change (e.g., MWBE enterprise must now be a disadvantaged business enterprise, and Local business can no longer be considered), this list provides a good starting point for illustrating key criteria and their relative importance.

- c. Has access to many brands desired by the passengers. Additionally, through their relationship with HMSHost, they have access to brands available in more than 100 airports around the world.
- 3) Revenue to City:
- a. Rents paid to Dallas by DLFJV have increased by approximately 80% over the period from 2005-2009, much faster than either sales growth (approximately 65%) or enplanement growth (approximately 32%). The increase in sales, double the rate of the increase in enplanements, suggests DLFJV is providing excellent customer service, and providing brands and facilities desired by the passengers.
 - b. Rents per enplanement and per square foot better than comparable airports.
- 4) Proposer Experience:
- a. According to City staff, DLFJV has been an excellent operator and has been successful at Love Field, see, e.g., rents findings above and Transportation Committee meeting minutes from April 28, 2008. DLFJV has operated all food and beverage concessions at Love Field since 1996 (except McDonalds) and through its affiliates has operated numerous concepts at DFW for the past 15 years. Prior to that, the principal owner of the company operated a successful street side restaurant business since the 1980's.
- 5) City Staff Recommendation Concerns:
- a. Rather than being rare in the industry, contract extensions appear to be very common. HMSHost reports that they have received extensions at 50% of the airports in which they operate. DFW, Houston George Bush, LAX, Austin Bergstrom, Houston Hobby airports are among the airports granting contract extensions. Las Vegas McCarran International and Palm Beach Airports are very good examples of airports that utilize a blended approach of RFPs and negotiations with existing tenants. In fact, APA Parking received a five-year contract extension at Dallas Love Field in 2009 (City Council meeting minutes, June 10, 2009).
 - b. DLFJV stands to lose anywhere from \$3.6 to \$5.7 million over the 40 months of construction, ignoring any risk factors other than reduced passenger flow over the last 19 months of the contract. These potential losses and risks appear to be the driving force for increasing the length of the contract from 10 to 12 years.
 - c. It is difficult to argue against the premise that providing a contract extension would reduce competition in the new terminal, at least in the short-term. That said, the competitive concerns should be outweighed by ensuring high-quality services are provided to passengers during the construction period, i.e., over the short-term. After the construction period is completed, competition is ensured by bidding part of the space (and the city can decide how many packages of real estate to bid). Given the attractiveness of the space, the city has ensured that the extensions given to incumbents have similar rental and performance terms as the winning bids through contract provisions already provided and discussed in city council briefings
 - d. The staff recommendation providing a contract extension with DLFJV has a minimum annual guarantee (MAG) of \$0.90 per enplaned passenger, compared to the \$0.59 rent per passenger in 2009, a 53% increase. Therefore, the contract extension appears to be a very good deal for the city from a financial standpoint.
 - e. The quality of the brands provided to the passengers appears to be in city's control as they will approve the brands placed in the new space.

- f. Fair and open process, consistent with city council recommendations and DFW policies was followed through the contract negotiations and transportation committee vote: a three year process of City Council briefings, negotiations with the concessionaires, strong input from the City's consultant, and final contract preparations by the City attorney, and, of course, the transportation committee vote which unanimously approved the contracts this year.
- 6) Going forward:
- a. The first decision which must be made is whether or not a high-quality operator which provides well-known brands is desired during the construction phase or not. If so, then whether or not the council goes with DLFJV, the prime contractor will require financial and/or contract incentives (e.g., space in the new terminal) to stay through the construction phase to mitigate their losses and risk (the city council briefing on May 27, 2010 notes that the potential losses makes this "venture highly risky for new concessionaire.") It is reasonable to assume that any new concessionaire will do financial projections similar to the ones in this report and read the council briefings. If the city chooses to not make the necessary incentives available to the high-quality operators, the city can bring in other operators, but these operators will be unwilling to make investments and use national brands which have staffing and other service-level requirements which drive the losses. Therefore, they will either attempt to make minimal investments to use the stripped-down facilities left by DLFJV or Love field will be left with hot dog and other vendors in carts. This latter scenario would be a disaster from an image standpoint for the city of Dallas, and, while not attempting to speak for Southwest Airlines, I suspect that they would be unhappy with this situation.
 - b. Assuming that the council decides to go forward with a high-quality operator, they must then make the decision of whether to go forward with negotiations with DLFJV or request proposals. As noted by staff, the RFP process will be expensive and take some time to complete. In addition, I would expect that the highly politicized, public and personal nature of this controversy² would make the bidders more cautious in their dealings with the city. Specifically, they would want the mayor and several council members participating in the negotiations. This last requirement derives from the fact that the mayor, possibly unintentionally, has signaled a lack of trust in city staff and transportation committee after rejecting their unanimous vote to approve the contract extensions with Hudson, the incumbent retail concessionaire, and DLFJV after the fair and open process noted above.
 - c. In summary, I would agree with the staff recommendations: *"The cost of going through all this process, plus the challenge of trying to run restaurants and shops during major construction means keeping the same guys in place makes the most sense, even if it means less competition in the short term."*³ Further, the three year delay in this process has already resulted in loss of revenue to the City from concession expansion proposed by the concessionaires and a loss in Love Field's reputation for superior customer service. Any additional delay only exacerbates the situation.

² As an aside, the fact that most of the news has focused on DLFJV, and ignored Hudson – which has requested a similar extension – makes me wonder if something else is driving this controversy.

³ <http://aviationblog.dallasnews.com/archives/2010/06/more-on-gilbert-aranza-and-lov.html>.