

Memorandum



CITY OF DALLAS

DATE January 5, 2024

TO Honorable Mayor and Members of the City Council

SUBJECT **January 10, 2024, City Council Agenda Item #'s 3-7 – Concessions Contracts**

The purpose of this memorandum is to provide additional information for the following Agenda Item Numbers 3-7 scheduled for approval on the January 10, 2024 City Council Agenda:

Item 3. 24-11 *Authorize a Second Amendment to the concession contract with Air Star-Bush LTS Marquis DAL, LLC (Maggiano's), for food and beverage concession services at Dallas Love Field Airport, to (1) extend the term of the contract by an additional seven years; and (2) increase the current street plus 10 percent pricing to 15 percent for the sit-down restaurant covered by the contract (Maggiano's) - Estimated Revenue: Aviation Fund \$488,815.00*

Item 4. 24-10 *Authorize a Third Amendment to the concession contract with Host International, Inc. (Cool River Café, La Madeleine, Paciugo Gelato/Auntie Anne's, Starbucks East Wing, Starbucks West Wing, and Chick-fil-A) for food and beverage concession services at Dallas Love Field Airport to (1) extend the term of the contract by an additional seven-years; and (2) increase the current street plus 10 percent pricing to 15 percent for the sit down restaurant covered by the contract and 17 percent for the fast-casual and quick serve restaurants covered by the contract - Estimated Revenue: Aviation Fund \$4,617,845.00*

Item 5. 24-13 *Authorize a Fourth Amendment to the concession contract with Air Star Concessions, Ltd. (Cantina Laredo, Campisi's Pizza, Whataburger), for food and beverage concessions services at Dallas Love Field Airport, to (1) extend the term of the contract by an additional seven years; and (2) increase the current street plus 10 percent pricing to 15 percent for the sit-down restaurant covered by the contract (Cantina Laredo) and 17 percent for the quick-serve or fast-casual restaurants covered by the contract (Campisi's Pizza, Whataburger) - Estimated Revenue: Aviation Fund \$3,668,268.00*

Item 6. 24-12 *Authorize a Fourth Amendment to the concession contract with Air Star-LTS/Marquis DAL, LLC (Chili's) for food and beverage concessions services at Dallas Love Field Airport to (1) extend the term of the contract by an additional seven-years; and (2) increase the current street plus 10 percent pricing to 15 percent for the sit-down restaurant covered by the contract (Chili's) - Estimated Revenue: Aviation Fund \$801,968.00*

Item 7. 24-9 *Authorize amendments to four (4) concession contracts with Hudson Dallas Love Field Concessionaires, LLC, approved as to form by the City Attorney, to mitigate*

the increased costs of providing products and services to the traveling public and airport employees: (1) the Fourth Amendment to the Dallas Love Field Retail Concession Contract, formerly with Hudson Retail Dallas JV, to (i) extend the term of the contract for an additional 8 years, and (ii) increase the current street plus 10 percent pricing to 15 percent for the retail outlets covered by the contract; (2) the Fourth Amendment to the Dallas Love Field Retail Concession Contract, formerly with HG-Multiplex-Regali JV, to (i) extend the term of the contract for an additional 8 years, and (ii) increase the current street plus 10 percent pricing to 15 percent for the retail outlets covered by the contract; (3) the Third Amendment to the Dallas Love Field Food and Beverage Concession Contract, formerly with HG-Multiplex-Regali-Dallas JV, to (i) extend the term of the contract for an additional 8 years, and (ii) increase the current street plus 10 percent pricing to 17 percent for the fast-casual and quick serve restaurants covered by the contract; and (4) the Third Amendment to the Dallas Love Field Retail Concession Contract, formerly with WDFG North America LLC, to (i) extend the term of the contract for an additional 8 years, and (ii) increase the current street plus 10 percent pricing to 15 percent for the quick-serve outlets covered by the contract - Estimated Revenue: Aviation Fund \$9,117,042.00

These items support the concessions program at Dallas Love Field (DAL) and were included in the forecast of upcoming items on the December 5, 2023, Transportation and Infrastructure Committee Meeting. Staff is proposing extensions to specific, existing contracts to provide a continued benefit to DAL, its concessionaire partners, and passengers using the Terminal as it continues to grow and modernize.

DAL's current terminal concession program started in April 2013. Since that time, there has been some rebranding and remodels by the concessionaires; however, there is additional opportunities to accommodate the significant growth in traffic and customer experience impacts over the last 10 years.

The impact of the COVID-19 pandemic was substantial to the DAL concessionaires. To address all the concession issues associated with the pandemic, in 2021 and 2022, the City Council approved exercising 2-year renewal terms and 2-year extension terms for all the concessions contracts to assist in their economic recovery.

Notwithstanding the prior renewal and extension terms, the concessions program is still facing challenges. Although some issues have improved, such as staffing levels, product availability, and product delivery; staffing costs, wage rates, and product pricing have increased significantly. In addition, improvements are needed to modernize back of house operations and add new modern equipment. This includes self-ordering kiosks and common area elements to provide a more efficient, streamlined customer experience. Further, the proposed improvements will help reduce wait times and allow passengers to pick up faster to-go orders.

Additionally, it is critical that current concessionaires increase customer throughput. The Terminal was designed to handle up 8.2 million passenger boardings, which was

exceeded in 2023. DAL is expected to handle more than 10 million passenger boardings in 2024, or over 20 million total passengers.

Host International, Inc., Air Star Concessions Ltd and their affiliates, and Hudson Dallas Love Field Concessionaires, LLC and their affiliates, project to expend a total of \$14,948,339 in capital improvements to re-brand, remodel, and reconstruct multiple units in the terminal building. These projects will be phased beginning in mid-2024 and expected to be completed by October 2027.

Staff is proposing an increase to the street pricing plus provision of the contracts which will help mitigate the increase costs of operations and allows the concession program to be competitive with other airports of similar size. This is in alignment with DFW International Airport Street pricing plus provisions. Other airports use different percentages but add an overall surcharge to cover cost increases.

In good faith, the concessionaires have made ongoing living wage adjustments to remain competitive with the current market. Amendments to the living wage were made in 2015. Since that time, concessionaires have been competitive with the living wage. Currently, the average wage rates for terminal concessions employees vary from \$17.56 to \$18.13 for non-tipped and non-managerial personnel.

FOOD AND BEVERAGE

Contracts	Units	Latest 12 Month Sales	Last 12 Month Revenues	Proposed Capital Investment	ACDBE Participation
<i>Air Star Concessions Ltd and Affiliates</i>	8 – 10,395sf	\$28,847,882	\$4,533,412	\$5,145,000	Varies from 50% - 100%
<i>Host International Inc.</i>	6 – 9,820sf	\$28,910,133	\$4,149,095	\$2,618,000	49%
<i>*Hudson Dallas Love Field Concessionaires, LLC and Affiliate</i>	5 – 4,234sf New -2- 2,630 sf	\$10,390,408	\$1,433,340	\$526,686	Current - 25% New - \$31.5%

RETAIL

<i>Contracts</i>	<i>Number of Units/Square Footage</i>	<i>Latest 12 Month Sales</i>	<i>Last 12 Month Revenues</i>	<i>Proposed Capital Investment</i>	<i>ACDBE Participation</i>
<i>*Hudson Dallas Love Field Concessionaires, LLC and Affiliates</i>	16 – 14,190sf New – 9 -8,265	\$28,997,256	\$4,959,484	\$6,405,339	Current – 25% New – 31.5%

Four contracts under the Hudson Group’s Umbrella (three retail and one food and beverage) were assigned to a new entity, Hudson Dallas Love Field Concessionaires LLC, which resulted in an increase to each ACDBE partner’s share. That share applies to all units previously separated by each contract. Please refer to the above table for the current and proposed new ACDBE participation.

DAL can continue with consistency and commitment from these concessionaires as it goes through a significant Terminal Area Master Plan (TAMP) that re-envision the terminal area. The concessionaires are proposing significant capital improvements and rebrands to ensure DAL can maintain a high level of customer experience while continuing to grow revenue. In addition, Hudson Dallas will return 10 units to DAL which will allow for operational flexibility through the TAMP and allow for multiple rebranding’s and extensive construction projects in a constrained terminal facility. Employees for closed units will be retained, with some reassigned to different units or locations within the organization.

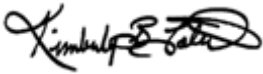
Next steps:

- If the recommended extensions are approved by the City Council, the extensions and street pricing adjustments will be executed through Supplemental Agreements and the capital investments will start in 2024.
- Additional street pricing plus and extensions for the remaining 4 concessionaires comprising 8 units, totaling 8,766 square feet, may be considered at a later date and will be brought to the City Council for approval, as needed.

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Should you have any questions or concerns, feel free to contact me or Patrick Carreno, Director of Aviation, at 214-670-6149 or via email at Patrick.carreno@dallas.gov.

Putting Service First,



Kimberly Bizzor Tolbert
Deputy City Manager

c: T.C. Broadnax, City Manager
Tammy Palomino, City Attorney
Mark Swann, City Auditor
Billerae Johnson, City Secretary
Preston Robinson, Administrative Judge
Jon Fortune, Deputy City Manager

Majed A. Al-Ghafry, Assistant City Manager
M. Elizabeth (Liz) Cedillo-Pereira, Assistant City Manager
Dr. Robert Perez, Assistant City Manager
Carl Simpson, Assistant City Manager
Jack Ireland, Chief Financial Officer
Genesis D. Gavino, Chief of Staff to the City Manager
Directors and Assistant Directors