



Agenda Item:

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COUNCIL COMMUNICATION City Manager's Office

GENERAL INFORMATION

Agenda Date: 10/24/05
Agenda Item Type: Resolution

Communication No.: 05-603
Roll Call No.:

Submitted by: Craig S. Smith, Airport Director

SUBJECT —

Public hearing for Approval of Second Amendment to Concession Agreement for News and Gift Operations with The Paradies Shops.

SYNOPSIS—

The Paradies Shops has the Concession Agreement for News and Gift Operations in the Des Moines International Airport. Since September 11th, 2001 the Airlines and the Transportation Security Administration implemented new security regulations, such that passengers have more time on hand in the secure Concourse area of the Terminal. Our two concessionaires report these events have caused a demonstrable shift in passenger usage to the airside concessions. Earlier this year, staff to begin discussions with The Paradies Shops on an amendment to their Concession Agreement to expand the airside concession area to accommodate the changing needs of the airport customers. Staff proposed the changes to the FAA and recently received final written concurrence with the proposed changes to the Concession Agreements.

The existing airside gift shop occupies 1,097 square feet on the upper level of the airside concourse of the passenger terminal. The new, proposed expanded airside gift shop will occupy 2,438 square feet or a 122% increase in space.

FISCAL IMPACT—

Negotiations with Paradies have concluded and the following agreements have been reached:

- Next year (2006) Paradies will improve and expand their airside concession area and fund these improvements in an amount not less than \$500,000. Paradies will also fund further

improvements to the entire concession space in the additional amount of \$100,000 at some time during a three-year period beginning 2009 and through 2011.

- In exchange for funding these improvements the Airport (City) will extend the concession agreement seven years and ten months from the termination date, or out to June 30, 2016.
- Paradies also agrees to encourage DBE participation in their concession operations and will report to the Airport all purchases of supplies and services that may have an impact of the Airport's DBE concession plan.

RECOMMENDATION—

Approval

BACKGROUND—

On June 2, 1997, by Roll Call No. 97-1973, City Council approved the Concession Agreement for News and Gift Operations at the Des Moines International Airport with The Paradies Shops. The Agreement terminates on August 31, 2008.

On June 17, 2002, by Roll Call No. 02-1571, City Council amended the City Code to allow for term extensions of up to three years for certain concession agreements in effect on September 11, 2001. On November 18, 2002, by Roll Call No. 02-2742, City Council approved the First Amendment to the Agreement that allowed for option periods to possibly extend the Agreement beyond the termination date. The First Amendment could have extended the Agreement out to August 31, 2011.

Historically, (prior to 2000) when the Food & Beverage and News & Gift Concession Agreements were solicited, passenger concession activity was weighed heavily on the landside of our terminal facilities. For this reason, much of the capital investment in concession facility expansion was on the landside of the Terminal. It was generally thought that airside concession facilities should be one half to one third the size of landside concession facilities.

Since 9/11 the Airlines and the Transportation Security Administration implemented new security regulations, such that passengers have more time on hand in the secure Concourse area of the Terminal. Paradies reports these events have caused a demonstrable shift in passenger usage to the airside concessions. They also report a shift in sales from the landside areas to the airside even though the airside facilities are actually less than one third of the total concession space for both concessionaires. Accordingly, this shift has caused Paradies to serve an increasing number of passengers through their smallest facilities at the airport.

On May 3, 2005, representatives from The Paradies Shops presented a development concept for improvements to their airside concession space that would rectify this situation and expand the space used for their concession operations.

On May 3, 2005, by Roll Call No. 05-116, the Airport Board authorized Staff to begin negotiations with The Paradies Shops on the second amendment to the Concession Agreement to accommodate their plans for expansion of the airside concession area.

Staff has negotiated investment thresholds for both concessionaires to finish out the interior of their leasehold space and agreeable term extensions that are sufficient to amortize their capital investment as

well. We have proposed these changes to the FAA and received final written concurrence with our proposed changes to the Concession Agreements.

On October 4, 2005, by Resolution No. 05-252, the Airport Board received and filed the Second Amendment to the News and Gifts Concession Agreement with The Paradies Shops to accommodate their plans for expansion of the airside concession area, and recommended City Council approval of the same.