

Metropolitan Airports Commission



Management and Operations Committee

Regular Monthly Meeting Agenda

Wednesday, February 03, 2010

1:00 pm

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SEE ATTACHED INFORMATION REGARDING SECURITY CHECKPOINT INFORMATION

MANAGEMENT AND OPERATIONS COMMITTEE

Mike Landy, Chair
Andy Westerberg, Vice Chair
Pat Harris
Jack Lanners, Commission Chair
Bert McKasy, FD&E Chair
John McDonald
Don Monaco
Paul Rehkamp
Sherry Stenerson
Daniel Boivin, HR&AA Chair

METROPOLITAN AIRPORTS COMMISSION NOTICE OF REGULAR MEETING MANAGEMENT & OPERATIONS COMMITTEE

Wednesday, February 3, 2010 1:00 p.m.
Room 3048A, Lindbergh Terminal
Wold-Chamberlain Field
Minneapolis-St. Paul International Airport

AGENDA

OPEN FORUM

The open forum is a portion of the Commission meeting where persons will be allowed to address the Commission on subjects which are not a part of the meeting agenda. Speakers are asked to limit their remarks to two minutes each. Persons wishing to speak must complete a sign-up card prior to the start of the meeting. The sign-up card should be given to any staff person. The Commission may take action or reply at the time of the statement of may give direction to staff at the end of the meeting regarding investigation of the concerns expressed

DISCUSSION – ACTION

1. KEY MONEY / LEASEHOLD IMPROVEMENT (KMLI) CLOSEOUT UPDATE
Joe Anderson, Manager - Concessions Development
2. AIR SERVICE BUSINESS DEVELOPMENT UPDATE
Brian Peters, Manager, CMAA
3. RECOMMENDATION REGARDING NOW BOARDING RENT ADJUSTMENT
Karen Kelly – Assistant Manager, Airside Leasing & Tenant Relations

DISCUSSION – INFORMATION

4. GUARANTEED PUBLIC PARKING
Arlie Johnson, Asst. Director MSP Operations, Landside

Materials for this meeting are available at the following website:
<http://www.metroairports.org/mac/meetings/default.aspx>

SECURITY CHECKPOINT INFORMATION

Stop by the information booth near the tram station on the Tram Level. At the information booth, you will be asked to complete a security checkpoint access form and show valid, government-issued photo identification, such as a driver's license. Take your completed access form with you up two floors, to the Ticketing Level security checkpoints. Show your approved access form to security checkpoint personnel. You will then be screened just as if you were traveling. Access forms are only valid for the purpose of attending a public MAC meeting at a particular date and time.

Commission Chambers are located on the Mezzanine Level overlooking the airport's central shopping area (above Chili's Restaurant), past the main security checkpoints.

Allow yourself at least 30 minutes to park, complete the access form and get through the security checkpoint prior to the meeting.

Parking in the following areas will be validated; please bring your parking ticket to the meeting.

Directions to the Tram Level Information Booth

From short-term parking: At the Lindbergh Terminal entrance, take the escalator or elevator down to Tram Level. The information booth is straight ahead, in the center of the room.

From general parking: If you park in the **Blue or Red** ramps, take the elevator down to the tram, which will transport you directly to the Lindbergh Terminal's Tram Level. When you exit the tram, the information booth is straight ahead, in the center of the room. If you park in the **Green or Gold** ramps, take the skyway to the Lindbergh Terminal's Mezzanine Level. From there, take an elevator or escalator to Tram Level. The information booth is straight ahead, in the center of the room.

MEMORANDUM

ITEM 1

TO: Management & Operations Committee

FROM: Joe Anderson, Manager - Concessions Development (612-794-4199)

SUBJECT: **KEY MONEY / LEASEHOLD IMPROVEMENT (KMLI) CLOSEOUT UPDATE**

DATE: January 26, 2010

Definition and Purpose of KMLI

The concept of KMLI (Key Money – Leasehold Improvements) was created in 2003 and used in the 2004 concession RFP. The concept established a minimum leasehold improvement investment of \$200 per sq ft for all retail and news stores and \$300 per sq ft for each food and beverage spaces. Proposing companies were to invest in their leasehold improvements (LI) or contribute any shortfall to MAC in the form of a Key Money (KM) contribution. The concept was created for two reasons:

- To retrieve some of MAC funds - In 1999, MAC used its funds to build the tenants' stores and restaurants as part of the overall concession remodeling. Among others, MAC funds were used to build the Chili's, newsstands, and several retail stores operated by Host International, Inc. ("Host"). The total of MAC funds used to build or improve Host facilities was approximately \$8.9 Million.
- To level the RFP competitive "playing field" - Incumbent brands (TGI Fridays, Chili's, etc.) had a financial advantage in that they could merely upgrade their facility to like-new condition. Any new brand would likely need to remove the existing brand entirely, before building a totally new facility. Each proposal was to show their planned leasehold improvements and their planned key money contribution by unit. This KMLI provision, therefore, provided every proposer with a level investment playing field.

KMLI History

As part of the lease signing, the winning tenants provided MAC with a total of \$2.3 Million, which represented "partial pre-payments" of their estimated Key Money contribution as reflected in their proposals. The balances would be due once final construction invoices could be processed and verified. The construction period was completed in six phases, over 26 months, ending in April 2007. Actual construction invoices were reviewed for accuracy and compared to the contractors' initial bids. As each unit or batch met or exceeded its KMLI requirement, batches were documented and closed out.

On May 4, 2009, MAC sent Host a letter indicating the various batches operated by Host and Minnesota Retail Partners ("MRP") that still contained KMLI shortfalls. As a result of this letter, Host provided additional invoices which were received, reviewed and processed as appropriate. On November 6, MAC sent Host a follow-up letter showing the remaining shortages in KMLI. In December, Host provided a final set of invoices which resulted in a final KMLI shortfall of \$1,084,268.00. On January 20, 2010, MAC received a check from Host equal to the KMLI shortfall and is now satisfied that all batches have met or exceeded the KMLI requirement. Thus far, the KMLI provision has generated a total of approximately \$3.3 Million and successfully created a fair and level RFP competition for all proposers.

SSP America, Inc., formerly known as Creative Host Services, Inc., (“SSP”) operates Batch 2. The cost of SSP’s initial leasehold improvements were in excess of their KMLI obligation. Thus, no additional Key Money is due as a part of the closeout process.

Overall, the KMLI closeout process is complete for fifteen of the seventeen batches. The KMLI issues with the operators of the two remaining small batches (Theisen Vending, Inc. and Project Horizon, Inc. d/b/a In-Motion Pictures) are nearing completion.

Lease Required Mid-Term Investment and Maintenance

In addition to the initial KMLI investment, the Concession Agreements specify that the tenant must also invest an additional 15% (of the initial investment) in mid-term improvements to keep the units in a first-class condition. Host, in working with MAC staff, has already spent more than \$850,000 in modifying concepts and rebranding where needed and, therefore, have already used up a portion of this 15% requirement.

In addition to this 15% mid-term investment, tenants are also required to annually review the condition of the spaces with MAC and to maintain all spaces in a first-class condition throughout the remainder of the term. The inspection of the concession units shows that Host and MRP have maintained all of their units in a first class condition and have consistently repaired or addressed any deficiencies noticed by MAC. This provision allows MAC, at its sole discretion, to continue to require any repairs or maintenance that its feels is needed throughout the duration of the agreements.

Staff Recommendation

The 15% refurbishment investment was intended to be used if a tenant failed to maintain the unit in a first class manner. MAC foresees no pending re-brandings or upgrades for any SSP, Host or MRP unit that might require MAC to utilize this provision. Lastly, staff is comfortable that other provisions of the agreements provide a sufficient basis to mandate any needed improvements to keep all of the units in top shape. Therefore, staff recommends that Section XI.B of the General Terms and Conditions Lease Agreements with SSP, Host and MRP be amended to remove the 15% refurbishment requirement but retain the annual maintenance review of each space.

COMMITTEE ACTION REQUESTED:

THAT THE MANAGEMENT & OPERATIONS COMMITTEE RECOMMEND TO THE FULL COMMISSION:

1. THAT SSP, HOST AND MRP HAVE SATISFACTORILY COMPLETED THEIR KMLI OBLIGATIONS UNDER THEIR RESPECTIVE AGREEMENTS;
2. THAT THE GENERAL TERMS AND CONDITIONS LEASE AGREEMENT BE AMENDED TO REMOVE THE 15% REFURBISHMENT OBLIGATION FOR SSP, HOST AND MRP; AND
3. THAT THE EXECUTIVE DIRECTOR OR HIS DESIGNEE BE AUTHORIZED TO EXECUTE THE NECESSARY DOCUMENTS.

MEMORANDUM

ITEM 2

TO: Management & Operations Committee

FROM: Eric Johnson, Director, Commercial Management & Airline Affairs (612-725-8322)
Brian Peters, Manager, Commercial Management & Airline Affairs (612-726-8137)

SUBJECT: AIR SERVICE BUSINESS DEVELOPMENT UPDATE

DATE: February 3, 2010

At the December Commission meeting, Commissioner Landy inquired about the influence that MAC might have over decisions airlines make regarding air service and more generally what MAC is doing to attract air service. With the unfortunate passing of Bill Wren, Brian Peters has been assigned the responsibility for management of MAC's Air Service Business Development program. This memo will provide a brief history of MAC's program and offer a basic overview of our air service related initiatives for 2010.

BACKGROUND INFORMATION

Over the years, the depth and extent of MAC's air service development programmed flowed generally with the overall state of the airline industry and, correspondingly, MAC's budget. As one would expect, more significant dollars were dedicated to air service development in the late 90's, with a more limited budget in place after 9-11 and the challenging years immediately following. Despite those limited resources, six airlines introduced air service between 1998 and 2009: Icelandair, AirTran Airways, American Trans Air (ATA), Midwest Airlines, Alaska Airlines, and Southwest Airlines. With the exception of American Trans Air, which was purchased by Southwest, all of those carriers continue to operate at MSP. Additionally, AirTran, Midwest, and Southwest all operate a more robust schedule than was operated at service inauguration. Icelandair has shifted to a seasonal operation as a result of lighter demand for European travel over the winter months and Alaska operates essentially the same schedule as was in place at service introduction.

Incumbent carriers American and United have introduced new markets from MSP throughout the decade apart from their traditional hub cities, with United commencing non-stop San Francisco service this past summer. Other carriers, such as Continental, Frontier, and US Airways, have continued to serve the same city-pairs as have always been served from MSP without any significant service cessations. Service for all carriers has been reduced over the past few years due to the financial woes of the industry, but, with the exception of plans by American to cease Saint Louis service this May, there have not been any city-pairs that have completely lost service.

Sun Country entered bankruptcy shortly following the events of 9-11, but successfully emerged, re-energizing its niche (service to vacation destinations and large business markets) until the current economic collapse resulted in another bankruptcy filing in October 2008. Current indications are that Sun Country is reinvigorating itself once again, anticipating emerging from bankruptcy in 2010.

Northwest/Delta has also expanded and contracted service throughout the decade. While there have certainly been reductions and the elimination of service to some destinations, the now combined airline has not completely ceased service to any market of major significance throughout the decade. A notable service introduction has been seasonal non-stop service to Paris, which Delta hopes to convert to year-round service in 2010.

OVERVIEW OF 2010 AIR SERVICE DEVELOPMENT PROGRAM

The primary focus of MAC's 2010 air service development program will be on meetings with both incumbent and potential new entrant airlines. MAC is planning participation at three air service development forums, which provide air service professionals from airports and network planning professionals from airlines the opportunity to meet face-to-face at a single location. This provides airports the opportunity to communicate to airlines the reasons that new or expanded air service should be considered.

The typical presentation MAC provides includes a brief overview of the Twin Cities metropolitan area identifying the corporate catchment area of the Twin Cities, key demographic statistics, existence of the Mall of America as a major tourist attraction, number of Fortune 500 and Forbes 500 companies with headquarters in the area, and MSP's ranking as the 16th largest airport in the United States. Presentations then shift to reviewing key air service related data points, including the identification of high load-factor markets, average fare, yield, number of passengers between MSP and specific markets and, in some cases, information pertaining to average ticket prices and the percentage of first/business class passengers that travel a specific route.

One of the more important facts to identify is MAC's position as one of the lowest cost airports in the United States. This is probably the single most significant factor MAC can directly control to support our proposals. While there is nothing we can do to change the size of the Twin Cities market or the presence of Fortune 500 companies, MAC does have direct control over its costs, and keeping them as low as they historically have been does nothing but assist our efforts at attracting air service.

The goal of the meetings with the airlines at the conferences is to pique an airline's interest in MSP to generate more in-depth discussions or headquarters visits. In 2010, at least six headquarters visits are planned for three incumbent and three new entrant airlines to further discuss new or expanded air service at MSP. As evidenced by a nearly 20 year pursuit of Southwest Airlines, the recruitment of new or expanded air service requires a long-term, deliberate, organized, and effective planning effort. MAC is constantly evaluating the effectiveness of presentations and discussions with airlines and seeking ways to improve and strengthen our case for attracting new and expanded air service.

COMMUNITY INVOLVEMENT

Other communities throughout the United States have formed partnerships with airports to assist an airport's air service development program and, in many cases, strengthen the financial proposal through the establishment of incentives or revenue guarantees. While MAC currently has an incentive package available, valued at about \$500K, comprised of landing fee and FIS fee waivers, that is neither the most lucrative nor the least lucrative in the industry. The current package doesn't include support from the corporate community of the Twin Cities. MAC is in the process of evaluating our best options for organizing a collection of community leaders, interested in creating a community-based package, to enhance our current proposals presented to the airlines.

CONCLUSION

MAC's air service development program continues to transition and evolve from the program established under Bill Wren's guidance. While the attraction of another six new entrant carriers in a decade may no longer be possible, given the overall contraction of the airline industry amidst a new economic reality, MAC will continue to pursue new air service opportunities with both incumbent and new entrant airlines and will more aggressively step up efforts when situations warrant.

THIS IS AN INFORMATIONAL ITEM ONLY; NO COMMITTEE ACTION REQUESTED.

MEMORANDUM

ITEM 3

TO: Management & Operations Committee

FROM: Karen Kelly, Assistant Manager – Airside Leasing & Tenant Relations
(612-467-0514)

**SUBJECT: RECOMMENDATION REGARDING NOW BOARDING RENT
ADJUSTMENT**

DATE: February 3, 2010

BACKGROUND INFORMATION

In October 2007, staff issued a Request For Proposals (RFP) for the development of a premier pet boarding facility located at 6002 – 28th Avenue South. The RFP sought a tenant to lease a vacant 12,000 s.f. building located on the site and to convert the building and adjacent land to a premier pet boarding facility. This opportunity was considered a new and innovative means of generating non-aeronautical revenue for MAC. Staff received proposals from five operators and in February 2008 an award was made to Now Boarding, a for-profit entity of the Animal Humane Society. Now Boarding was the successful proposer due to, amongst other things, plans to operate a high quality pet boarding facility, complete an estimated \$3.75M worth of improvements to the property, and to provide MAC with significantly more revenue than was received by the previous tenant or anticipated to be received by simply leasing the vacant building to a similar tenant.

It is safe to say that after the first year of operation all three of the objectives have been met. Now Boarding completed \$4.372M_worth of improvements to the property operates, arguably, one of the highest quality pet boarding facilities in the Twin Cities metro area, and MAC's non-aeronautical revenue stream has been significantly increased from the previous annual ground rent of \$12K to over \$230K for land, building, and percentage rent in 2009.

What has yet to materialize is a base level of gross sales for Now Boarding to operate profitably. For 2009, Now Boarding showed an operating loss of about \$485K before depreciation on gross sales of \$695K, which is significantly less than the \$2.75M estimated in the RFP proposal and business plan. Consequently, Now Boarding is suffering significant losses and is seeking every option possible to stop or at least reduce them as soon as practical.

Now Boarding opened its doors for partial operation on November 23, 2008, firmly in the middle of one of the worst economic downturns in history. Given the timing of the RFP, Now Boarding's business plan was based upon a different economic reality and it is not difficult to understand why projections of gross sales have not come to fruition:

- The economy is a significant factor. Reduced travel has naturally resulted in fewer people requiring pet boarding services.
- Customer base to date is comprised primarily of leisure travelers. Leisure travelers (weekend, vacation and holiday reservations) are 88% of current volume. Now Boarding's business model forecasted a much greater percentage of business traveler clientele (weekday reservations) than currently exists.

- Only 56% of clients are associated with the Airport, and 44% are travelers who are not flying but driving to their destinations. Now Boarding's business plan was based on a greater proportion of customers being Airport customers.

Now Boarding has taken several steps to market the pet boarding facility (highway billboard signs near the airport; in-terminal CNN advertisements; MSP Shop, Eat, and Relax guide; Delta's Sky Magazine; and web site www.nowboardingpets.com). While marketing has been highly successful to the leisure traveler, none of these efforts have produced substantial sales increases to the business traveler, which represented more than 50% of the original business plan. Now Boarding has reduced staffing levels as well as other operating expenses, but nevertheless continues to be vulnerable to the challenges of the economy. Therefore, staff believes that additional measures are required to assist Now Boarding through these difficult economic times.

PROPOSAL

Staff believes that the best solution at this point is to recommend an elimination of the percentage rent for 2010. This is estimated to save Now Boarding about \$125K of expense in 2010. Staff is comfortable with this recommendation based upon the following:

1. MAC remains guaranteed to receive \$174,450 of ground and building rent which remains significantly greater than the amount of rent MAC would have received leasing the property in its former condition.
2. Now Boarding offers a new and innovative customer service benefit. The failure of Now Boarding to survive this economic hardship would remove a customer service that our customers benefit from and yet costs MAC nothing to provide.
3. This business is a completely new venture for both Now Boarding and MAC. Therefore, unlike most other concession offerings at MSP, without any business history for reference, forecasting business levels has proven to be difficult.
4. Now Boarding's significant on-airport investment ranks as one of the larger investments by a tenant over the last several years. At the end of the lease term (2023), MAC will take control of the building and permanent improvements.

Staff originally evaluated a proposal from Now Boarding to reduce or eliminate the percentage rent for a majority of the remaining term of the Agreement due to the seriousness of this problem. After much review and consideration, staff believes that a longer revenue history is needed in order to consider any long term adjustments to the Agreement. Therefore, staff intends to closely monitor Now Boarding's activity throughout 2010 and is likely return to the Commission with longer term recommendations.

COMMITTEE ACTION REQUESTED

THAT THE MANAGEMENT AND OPERATIONS COMMITTEE RECOMMEND TO THE FULL COMMISSION AUTHORIZATION TO AMEND NOW BOARDING'S AGREEMENT TO ELIMINATE THE PERCENTAGE RENT REQUIREMENT OF THE AGREEMENT FOR 2010; AND THAT THE EXECUTIVE DIRECTOR OR HIS DESIGNEE BE AUTHORIZED TO EXECUTE THE NECESSARY DOCUMENTS.

MEMORANDUM

ITEM 4

TO: Management & Operations Committee

FROM: Arlie Johnson, Asst. Director of MSP Operations/Landside (612-726-5568)

SUBJECT: **GUARANTEED PUBLIC PARKING**

DATE: January 25, 2010

MAC staff has developed a new guaranteed parking product as a premium option available 24/7 for customers who choose to participate. Under the program, in exchange for a monthly fee, customers are guaranteed a parking space at either terminal even when other airport parking facilities may be full.

Prior to 2009, demand for spaces in general parking at the Lindbergh Terminal surpassed capacity at times during one or two days of most weeks, resulting in customers being diverted to Humphrey Terminal parking. This resulted in customer inconvenience and the possibility of missed flights. In some cases, travelers have indicated they no longer park at the airport because they can't rely on a space being available at their terminal of choice.

Consequently, staff began evaluating the financial potential and operational viability of a guaranteed public parking product and, ultimately, planned and budgeted for such a service. With the opening of the Orange Ramp in February, 2009, we aggressively marketed MSP Value Parking at the Humphrey Terminal. The goal was provide an incentive for customers flying from the Lindbergh Terminal to voluntarily choose Value Parking, which is priced at \$14 per day, \$4 less than Lindbergh Terminal general parking. The positive response to those marketing efforts coupled with a reduction in parking demand significantly reduced the need to divert Lindbergh Terminal users to Humphrey Terminal parking in 2009. However, as demand returns, the desire for a guaranteed parking product will increase as well.

In anticipation of that demand, we have developed ePark®Elite, MSP's new guaranteed parking product. Convenient, guaranteed parking spaces will soon be available at both MSP terminals.

Development of the parking product cost approximately \$220,000 including planning, construction, signage and marketing. Annual maintenance is anticipated to be approximately \$3,000. Participants will pay the Lindbergh ePark® rate and a monthly fee of \$95 in addition to a \$20 activation fee. By the second year, ePark®Elite is projected to generate \$633,000 in additional parking revenues.

THIS IS AN INFORMATIONAL ITEM ONLY; NO COMMITTEE ACTION REQUESTED.