

Metropolitan Airports Commission



Management and Operations Committee

Regular Monthly Meeting Minutes

Wednesday, February 03, 2010

1:00 pm

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REPORTS B

METROPOLITAN AIRPORTS COMMISSION MANAGEMENT & OPERATIONS COMMITTEE REGULAR MEETING

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

"CONSENT ITEMS"

Call to Order

A regular meeting of the Management and Operations Committee, having been duly called, was held Wednesday, February 3, 2010, in Room 3048A, Charles Lindbergh Terminal Building, Minneapolis-St. Paul International Airport, Wold-Chamberlain Field. Chair Landy called the meeting to order at 1:00 p.m. The following were in attendance:

Commissioners: Landy, Westerberg, Lanners, Monaco

Staff: S. Busch, T.W. Anderson, J. Hamiel, D. Probst, J. Nielsen, D. Ruch, S. Wareham, E. Johnson, J. Anderson, A. Johnson, J. Greer, C. Boyd, P. Hogan, E. Podnieks, M. Willis, B. Zwart, G. Warren, K. Kelly, P. Rasmussen, A. Irish

Others: John Krack, Reliever Airports Advisory Council (RAAC); Gordon Hoff, Minnesota Business Aviation Association (MBAA); Dick Saunders, Bob Friskney, South Metro Airport Action Council (SMAAC); Joe Waller, Butch Howard, Host; Janelle Dixon, Eileen Lay, Lisa Hinickle, Laurie Brickley, Minnesota Humane Society (MHS); Mary Loeffelholz, Delta

OPEN FORUM

The Open Forum is a portion of the Committee meeting where persons are allowed to address the Committee on subjects which are not a part of the meeting agenda. No public comments were received.

B1. KEY MONEY / LEASEHOLD IMPROVEMENT (KMLI) CLOSEOUT UPDATE – CF 2125

Mr. Joe Anderson, Manager - Concessions Development, presented background on this item. 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 space. 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 to retrieve some of MAC funds and to level the RFP competitive “playing field”.

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.

Mr. Anderson offered a change in the memo action and stated that, since the mailing, all seventeen of the batches have now been completed to include the In-Motion and Theisen batches.

In response to questions from commissioners, Mr. Anderson stated that 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 Select Service Partners (SSP), Host or Minnesota Retail Partners (MRP) unit that might require MAC to utilize this provision. Also 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 In-Motion, Theisen, SSP, Host and MRP be amended to remove the 15% refurbishment requirement, but retain the annual maintenance review of each space.

In response to questions from commissioners referencing future concession batches, Mr. Anderson confirmed that the current batch leases start to expire in 2012, 2013, 2014 and, therefore, MAC will not face the issue of all leases expiring at the same time, as was the case in 2004. Mr. Anderson also confirmed that staff has initiated its review of the 2004 and 2005 processes to make changes based on what worked well and what could be improved upon.

COMMISSIONER WESTERBERG MOVED AND COMMISSIONER MONACO SECONDED THAT THE MANAGEMENT AND OPERATIONS COMMITTEE RECOMMEND TO THE FULL COMMISSION

- 1. THAT THEISEN, IN-MOTION, 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 THEISEN, IN-MOTION, SSP, HOST AND MRP; AND**
- 3. THAT THE EXECUTIVE DIRECTOR OR HIS DESIGNEE BE AUTHORIZED TO EXECUTE THE NECESSARY DOCUMENTS.**

THE MOTION CARRIED BY UNANIMOUS VOTE.

B2. AIR SERVICE BUSINESS DEVELOPMENT UPDATE – CF 2126

This item was deferred to the Full Commission meeting on February 16, 2010.

B3. RECOMMENDATION REGARDING NOW BOARDING RENT ADJUSTMENT – CF 2127

Ms. Karen Kelly, Assistant Manager – Airside Leasing & Tenant Relations, presented background on this item. 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. This opportunity was considered a new and innovative means of generating non-aeronautical revenue for MAC, and Now Boarding was the successful proposer.

Now Boarding opened its doors in November 2008 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 than has been in existence since they opened their doors, and gross sales have been lower than projected given these factors:

- Significantly reduced travel due to the economy has resulted in fewer people requiring pet boarding services.
- To date, customer base 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.

Now Boarding has taken several steps to market the pet boarding facility (highway billboards and other media advertising). While marketing has been highly successful for leisure traveler business, 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.

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.

In response to questions from commissioners Ms. Kelly confirmed that the lease term is three years. A representative from Now Boarding noted key features that distinguish this

facility from similar operations: the park and ride option, the wide array of services, the quality of care, and the 24/7 access for customers.

**COMMISSIONER WESTERBERG MOVED AND COMMISSIONER MONACO SECONDED 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 THE EXECUTIVE DIRECTOR OR HIS DESIGNEE BE AUTHORIZED TO EXECUTE THE NECESSARY DOCUMENTS.
THE MOTION CARRIED BY UNANIMOUS VOTE.**

B4. GUARANTEED PUBLIC PARKING – CF 2128

Mr. Arlie Johnson, Asst. Director of MSP Operations/Landside, presented information on this item. 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 frequently surpassed capacity, so customers were diverted to Humphrey Terminal parking, resulting in customer inconvenience and the possibility of missed flights. In some cases, travelers indicated they no longer park at the airport because they couldn't rely on 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, staff 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, staff has 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.

In response to commissioners' questions, Mr. Johnson confirmed that there will be dedicated spaces at the Lindbergh Terminal, while at the Humphrey Terminal, any open spaces in the short term area will be used. Spaces are located in optimal proximity to each terminal in order to be convenient for travelers, and the same security process will

apply. In theory, one could purchase an ePark®Elite pass and charge others for use of the space at a higher rate, running it as a separate business, and in response to this query, Mr. Johnson indicated that staff is structuring the program to prevent this situation. Mr. Johnson provided additional background regarding research and analysis in determining ePark®Elite rates. Mr. Johnson noted that staff will monitor supply and demand trends in order to make adjustments to meet customer needs, and will grow the area as demand increases.

THIS ISSUE IS INFORMATION ONLY, NO COMMITTEE ACTION IS REQUESTED.

The meeting was adjourned at 1:31 pm.