

REVISED

Agenda Item:

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COUNCIL COMMUNICATION

City Manager's Office

GENERAL INFORMATION

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

Communication No.: 05-580
Roll Call No.:

Submitted by: Craig S. Smith, Airport Director

SUBJECT—

Setting the date for Public Hearing for Approval of Third Amendment to Concession Agreement for Food and Beverage Operations with The Compass Group USA, Inc. d.b.a. Select Service Partner.

SYNOPSIS—

The Compass Group has a Concession Agreement Food and Beverage Operations in the Des Moines International Airport. Since September 11, 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 both parties on amendments to their Concession Agreements 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 Agreement.

The existing airside restaurant occupies 3,150 square feet on the upper level of the airside concourse of the passenger terminal. The new, proposed expanded airside restaurant will occupy 6,203 square feet or a 97% increase in space.

FISCAL IMPACT—

Negotiations with The Compass Group have concluded and the following agreements have been reached:

- Next year (2006) Compass will improve and expand their airside concession area and fund these improvements in an amount not less than \$1,750,000. Compass will also fund further

improvements to the entire concession space in the additional amount of \$500,000 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 eight years **and three months** from the termination date, or out to **June 30, 2017**.
- Compass 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. The Food and Beverage Concession Agreement will continue to have a 9.9% goal for DBE participation.

RECOMMENDATION—

Approval

BACKGROUND—

On June 2, 1997, by Roll Call No. 97-1974 City Council approved the Concession Agreement for Food and Beverage Operations at the Des Moines International Airport with St. Clair Development Corporation d/b/a Creative Croissants, whose name was later changed to Creative Host Services, Inc. The Agreement terminates on March 31, 2009.

On March 26, 2001, by Roll Call No. 01-885, City Council approved the Assignment and Assumption Agreement of the Concession Agreement for the Concession Agreement for Food and Beverage Operations at the Des Moines International Airport from Creative Host Services, Inc. to GladCo Enterprises, Inc.

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. 02-2741, 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 March 31, 2011.

On January 10, 2005, by Roll Call No. 05-101, the City Council approved the Assignment of Food and Beverage Concession Agreement from GladCo Enterprises, Inc., to Compass Group USA, Inc. d/b/a Select Service Partner; and the Second Amendment to the Food and Beverage Concession Agreement with Compass Group USA, Inc.

Historically, (prior to 2000) when the Food & Beverage Concession Agreement was 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 September 11, 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. Compass 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 Compass to serve an increasing number of passengers through their smallest facilities at the Airport.

On April 5, 2005, representatives from The Compass Group 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.

Also on April 5, 2005, by Resolution No. 05-97, the Airport Board authorized staff to begin negotiations with The Compass Group on the Third Amendment to the Food and Beverage 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. 05-251, the Airport Board received and filed the Third Amendment to the Food and Beverage Concession Agreement with The Compass Group to accommodate their plans for expansion of the airside concession area and recommended City Council approval of the same.