

 <p style="text-align: center;">Council Communication Office of the City Manager</p>	Date: October 11, 2010
	Agenda Item No. 40 Roll Call No. <u>10-1683</u> Communication No. <u>10-614</u> Submitted by: Don Smithey Aviation Director

AGENDA HEADING:

Approving Fourth Amendment to Airport Concession Agreement for Food and Beverage Operations with SSP America, Inc.

SYNOPSIS:

To conduct the Public Hearing and approve the fourth amendment to the food and beverage concession agreement with SSP America, Inc (“SSP”) at the Des Moines International Airport. The agreement currently requires SSP to remit a percentage fee to the Aviation Department for revenue earned through food and beverages sales at the Airport. This amendment reduces the fee due on gross annual revenue in excess of \$2.8 million. The lower percentage on incremental sales above this threshold will allow SSP to recover an investment they are making towards bringing a Pizza Hut Express food concept to the two DSM Airport restaurants.

FISCAL IMPACT:

Amount: Currently, SSP is required to pay the airport a concession fee which consists of the sum of:

- a) 19.5% of the gross revenues earned from the sale of alcoholic beverages
- b) 11.0% of the gross revenues earned from all vending machine sales
- c) 14.0% of the gross revenues earned from all other food and beverage sales

This fee applies to all annual gross revenues. Under the terms of the fourth amendment, if annual gross revenues exceed \$2.8 million, the fee will be reduced for the amounts over \$2.8 million to:

- a) 15.5% of the gross revenues earned from the sale of alcoholic beverages
- b) 11.0% of the gross revenues earned from all vending machine sales
- c) 10.0% of the gross revenues earned from all other food and beverage sales

Effectively, the percentages will be reduced by 4% on sales above \$2.8 million. Thus, for every additional \$100,000 of revenue above the \$2.8 million threshold, SSP will retain \$4,000 more than they previously retained. Another consideration for this conceptual change is that the Pizza Hut brand owner will require SSP to remit a franchise fee of 6.2% of all Pizza Hut brand sales.

SSP recorded calendar year 2009 food and beverage sales of \$2,891,972 at the Airport, and the Aviation Department received \$439,258 in concession fees.

Funding Source: N/A

ADDITIONAL INFORMATION:

The current Concession Agreement for Food and Beverage Operations (“Concession Agreement”) with SSP was approved by the City Council on June 2, 1997. Three subsequent amendments have 1) changed the option periods to allow for possible extension, 2) clarified the term and updated the disadvantaged business enterprise goals and requirements, and 3) extended the end date from June 30, 2009, to June 30, 2017, to allow for amortization of the airside restaurant.

At this time SSP would like to implement a new food concept – Pizza Hut Express – to its customers at both the pre-security and post-security restaurants. Each Pizza Hut Express menu will primarily consist of pan pizzas with various toppings, traditional, garlic, and dessert bread sticks, and buffalo-style chicken wings. Because SSP will be investing \$50,000 in equipment, signage, and training related to the Pizza Hut concept, they have requested consideration from the Aviation Department to assist them in recovering their investment. SSP and staff have negotiated and reached agreement on the terms of a fourth amendment which reflects this consideration. Because the term of the Concession Agreement is greater than three years, it requires approval by the Council.

If the amendment is approved, SSP anticipates incorporating the Pizza Hut menu into its offerings beginning in late October.

PREVIOUS COUNCIL ACTIONS:

Date: September 27, 2010

Roll Call Number: [10-1548](#)

Action: [On](#) fourth amendment to concession agreement for food and beverage operations with SSP America, Inc. at the Des Moines International Airport, (10-11-10). Moved by Moore to adopt. Motion Carried 6-1.

Date: September 11, 2006

Roll Call Number: 06-1811

Action: [On](#) Assignment of Food and Beverage Concession Agreement at Des Moines International Airport from Compass Group USA, Inc. d/b/a Select Service Partner to Creative Host Services, Inc. ([Council Communication No. 06-555](#)). Moved by Kiernan to adopt. Motion Carried 6-0.

Date: October 24, 2005

Roll Call Number: 05-2587

Action: Approving a Third Amendment to the Concession Agreement which extended the end date of the agreement to allow for amortization of changes and additions to the facility and operating area.

Date: January 10, 2005

Roll Call Number: 05-101

Action: Approving assignment of the Concession Agreement from GladCo Enterprises, Inc. to Compass Group USA, Inc. d/b/a Select Service Partner (“Compass Group”) and approving a Second Amendment to the Concession Agreement which clarified the term and updated the Disadvantaged Business Enterprises goals.

Date: November 18, 2002

Roll Call Number: 02-2741

Action: Approving a First Amendment to the Concession Agreement which changed the option periods for possible extension of the Agreement.

Date: March 26, 2001

Roll Call Number: 01-885

Action: Approving an assignment of the Concession Agreement from Creative Host Services, Inc. to GladCo Enterprises, Inc.

Date: June 2, 1997

Roll Call Number: 97-1974

Action: Approving Concession Agreement for Food and Beverage Operations (“Concession Agreement”) at the Airport with St. Clair Development Corporation d/b/a Creative Croissants, whose name was later changed to Creative Host Services, Inc.

PREVIOUS BOARD ACTION:

Date: October 5, 2010

Resolution Number: A10-176

Action: The Airport Board recommended that the Council approve the Fourth Amendment to the Concession Agreement with SSP America, Inc. Moved by Mr. Cupp. Motion carried 6-0-0-1.

ANTICIPATED ACTIONS AND FUTURE COMMITMENTS: NONE

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