

**MINUTES OF THE CITY OF WICHITA**  
**WICHITA AIRPORT ADVISORY BOARD**

**Monday, May 1, 2006 – 3:00 p.m.**

Present: Tim Austin, Ron Estes, Charles Fletcher, U.L. Gooch, Dwight Greenlee, David Murfin, Jeff St. Clair and Bill Ward

Absent: Dion Avello, Bill Calloway, Willis Heck, Jay Russell, Jay Swanson

Airport Staff: Victor White, Sandy Coykendall, Mike Carter, Shannon Feltes, John Oswald, Valerie Wise, Jean Zoglman

City Staff: Scott Moore, Assistant City Manager  
Doug Moshier, Senior Assistant City Attorney  
Janice Briggs, Compliance Officer

Others: Mark Chamberlin-Armstrong/Shank  
Linda Moore, Vice President Government Affairs, HMS Host  
Stephen Douglas, Senior Director, Business Development, HMS Host  
Dan Poole, General Manager, HMS Host  
Charles Davis, Assistant Manager, HMS Host  
Steve Habtemariam, Manager, Multi Business Services Corp.  
Maryon Habtemariam, Multi Business Services Corp.  
Michael Habtemariam, Vice President, Multi Business Services Corp.  
Kathy Spiess, Chief Administrative Officer, Charbonnet & Associates  
Von Jennings, DBE Compliance Officer, Charbonnet & Associates  
Winston Stith, Kansas Black Chamber of Commerce  
Molly McMillin, Wichita Eagle

Chairman Fletcher called the meeting to order.

**Approval of Minutes**

*Motion by Greenlee to approve the minutes of the April 3, 2006 Wichita Airport Advisory Board meeting. Motion carried unanimously.*

**Director's Report**

**KTTI.** Lease terms are being negotiated with Sedgwick County. A draft lease agreement has been presented and attorneys are reviewing it. The City approved an offer of no more than \$1.6 million to the County that represents the first 20 years' worth of lease income that the County would pay to the Airport Authority. It is still unclear how the remaining 30 years of rent will be paid.

**Airport Advertising Update**

Mark Chamberlin with Armstrong Shank provided a status report of the advertising campaign. Two television commercials were shot on April 18 and 19. It is hoped to have a draft of the commercials on May 10. Negotiations are underway with the television stations to broadcast great deals out of Mid-Continent Airport. The TV commercials should start airing the week of May 27. Syndeo will be hiring the Courtesy Crew representatives and will hold job fairs May 8 and 9. A trainer has been retained to provide customer service training. Uniform design has been finalized. The launch of the Courtesy Crew could happen late-June or mid-July, depending on the training and uniforms. A news conference is planned to announce the Courtesy Crew. Outdoor, radio, and print media are also being planned as well as internal signage and marketing tools inside the terminal. Mr. White stated that the budget for the advertising campaign will be presented to the Wichita Airport Authority on May 2, 2006.

**Terminal Area Redevelopment Program (TARP) Construction – Disadvantaged Business Enterprise (DBE) Presentation**

Mike Carter explained that DMJM has Charbonnet and Associates on their team to provide assistance in DBE participation on the Terminal Area Redevelopment Program. Charbonnet will assist in enhancing DBE opportunities. Kathy Spiess, Chief Administrative Officer, Charbonnet & Associates, addressed the Board. Charbonnet is an 11-year old firm located in New Orleans, is a certified DBE firm and conducts business in several states. It has projects all over the central part of the U.S. Ms. Spiess cited several airports where Charbonnet has worked or is currently working, including: Lambert-St. Louis International Airport, Gulfport-Biloxi International Airport, Jackson International Airport in Mississippi, the Hawkins Field Airport in Jackson, a general aviation airport, and St. John the Baptist Parish Airport in Louisiana.

Von Jennings, DBE Compliance Officer with Charbonnet, reported on work done to date. The current DBE program was first reviewed to see if it was in compliance or in need of updating. Ms. Jennings stated that one of the first steps is to look at the market and the firms that are certified as well as those that could become certified. It was found that several firms have not become DBE certified with KDOT. Charbonnet has identified several agencies that can assist with certifying these firms. The Kansas Department of Transportation is the agency under the U.S. D.O.T. that handles the unified certification plan for Kansas. Discussions have taken place with the Urban League and a presentation has been given to Advantage Planners. The Urban League has compiled a list of companies interested in learning about airport projects. Other agencies contacted include: Kansas Black Chamber of Commerce, the Mid America Minority Business Development Council, Wichita Area Chamber of Commerce, the City of Wichita, Wichita State University and the Small Business Administration. All of the agencies have an audience of small businesses that are targeted and present an opportunity to expand their knowledge of the DBE program.

Future plans for the DBE program is to inform and educate all interested stakeholders of what the DBE program is. This will help the airport expand its list of companies with which to work.

The existing program is in compliance and the DBE goals have been met. The majority of the work is with one particular firm due to other firms not being certified. As more companies learn about the program, it is hoped that more will become certified. The U.S. Department of

Transportation's program is designed to ensure that minority contractors have an opportunity to participate in a contract with the federal funding. The certification is needed because of differing types of businesses. To become a certified DBE, most states have a unified certification plan. Certification is done through the Kansas Department of Transportation and certain criteria must be met. Subcontracts for airports will be larger than other entities and it is necessary that subcontractors are capable of doing the quality and level of work. A list is compiled and published on the Internet and is given to prime contractors at bidders' conferences. The prime contractors have the option of selecting which work and to which firms that they would like to subcontract out. One of the functions of Charbonnet is to help prime contractors and subcontractors meet and become familiar with each other.

Discussion ensued. Mr. Carter stated that regarding the TARP, the DBE component would be about 10% and the work would be available in 2008, 2009 and 2010.

Mr. Carter stated that an agreement has been reached on the financial issues concerning the design contract. The current process is to combine the scope of work with the financial issues, and seek approval from the FAA. It is anticipated that a recommendation will be presented at the June WAAB meeting and then to the Wichita Airport Authority. It is hoped that work can begin in early June.

#### **HMS Host Terminal Concession Improvements Proposal**

Mr. White explained that in previous WAAB action, the Board recommended to City Council acting as the Wichita Airport Authority to extend the contract with HMS Host for another four years in exchange for improvements to the quality of services and offerings provided in the terminal building. The Wichita Airport Authority has a master concession agreement with HMS Host to provide all food, beverage, retail, gift and sundries sales within the terminal. Host was to return to the WAAB with its proposal for improvements.

Stephen Douglas, Senior Director, Business Development, HMS Host, introduced Dan Poole, Charlie Davis, and Linda Moore with HMS Host. Mr. Douglas pointed out the goals and objectives used in developing the concession program. Host compared the revenue per enplaned passenger at Wichita with similar airports around the country and found there was room for improvement. The next step was to examine the attributes of the program – product categories and location. There are location constraints in the terminal because of time and real estate. After conducting its analysis, HMS Host recommended the following: Starbucks, Great American Bagel, a concourse bar, a concourse retail wall, and miscellaneous refurbishments (upgrade Pizza Hut, paint, carpet ceiling, tile replacement, televisions.)

The plan calls for converting the existing Sarah's Ice Cream to Starbucks. Starbucks is Host's number one brand, has high consumer satisfaction and high revenue potential. However, it requires a substantial investment of approximately \$340,000.

Host plans to convert the east concourse snack bar to a Great American Bagel. Similar conversions at other airports have proven successful, most recently in Little Rock, Manchester, and St. Louis. A reasonable capital outlay, estimated between \$45,000 and \$60,000, is required. The Little Rock location increased sales from \$182,000 to over \$400,000 per year. Its location is

post security. Douglas said the plan is flexible, and Host has been working with the current DBE, Multi Business Services, whose preference is the east concourse.

Discussion ensued regarding why this would not be offered on both concourses. Douglas said after examining the current revenue per enplanement post security, the food and retail combined revenue has been under \$1.00. There is more competition pre-security, and post-security provides a more captive audience. When looking at the overall program, Host had to determine how to maximize their investment and not lose money over a four-year term. It was recommended that signage was necessary to advertise the concessions. Passengers are evenly divided between the two concourses.

Douglas stated that Great American Bagel is a good opportunity for a DBE operation. It offers high quality products with low capital outlay, and it is a flexible brand by allowing adjustments to its core program. Multi Business Services Corp. has expressed a desire to keep their coffee products, and Host has received approval from the brand that Multi Business could incorporate that offering into the program.

On the west concourse, a modular bar is proposed. Currently, the snack bar is ill-defined and confusing to the consumer. The modular bar would be placed in a used gable area. The adult beverage service would be pulled out of the snack bar and into the bar along with some minor food offerings, keeping production to a minimum to avoid heavy expenses due to utilities. The investment is approximately \$75,000 and additional sales associates would be hired. If sales are better than anticipated, there could be an opportunity for one on the other concourse.

Douglas stated that the potential for increased revenue growth is post-security as well as having Starbucks. Because of the substantial investment to provide a Starbucks and their requirements and standards make it difficult to locate on the concourse. The Starbucks in Savannah was formerly a TCBY doing about \$200,000 a year. It was converted into a Starbucks and the first year revenue was about \$650,000 and it has increased to \$800,000. It performed so well that another Starbucks was added post-security. This was a joint venture arrangement. Since the new DBE regulations were issued, HMS Host tries to avoid joint ventures. It is Host's preference to enter into a sublease. According to Mr. Greenlee, the FAA prefers a sublease to a joint venture. Linda Moore stated that Host is always looking for opportunities to maximize its real estate. If a unit is not generating the level of sales that it should, it is necessary to re-concept and improve the program, which is what happened in Savannah. The FAA has started to scrutinize what role the joint venture plays, and it is very specific as it relates to investment and operations. It has gotten to the point where it is simpler to have a subtenant and a sublease because it is an independent business. In Savannah, it was difficult to identify a location for a subtenant that Host was confident was going to be a good business opportunity.

The Little Rock terminal is an older building and its Starbucks is located post security. Little Rock had gourmet coffee prior to Starbucks.

Discussion ensued regarding potential profit margin from Starbucks. Douglas stated that there would not be a lot of profit due to amortizing \$350,000 over four years. Typically the cost of product is about 30%, payroll will depend on volume, but may be about 30%. Douglas stated

that the airport takes its share from sales, whereas Host makes its money off cash flow and profit to the bottom line.

The smallest Starbucks unit is 187 sq.ft. Additional room is needed for milk storage and a water filtration system.

HMS Host has an exclusive agreement with Starbucks. It is the only company that can bring a Starbucks to an airport.

It was Mr. Greenlee's opinion that a joint venture would be better over the next four years than a sublease in case business were to drop off. Further, that moving a DBE that has been here for over 15 years onto one concourse will make it unavailable to all of the employees of the airport that do not have access to the concourse.

Ms. Moore stated that the current concourse concessions are generating significant sales prior to any refurbishments. Those concessions are generating more sales than the pre-security unit. The projections with refurbishments and new concepts are that it will drive greater sales. Ms. Moore stated that Host has not been in a situation where there was a challenging opportunity for the subtenant that Host did not move in and bring them into the business in the best way they could.

There was discussion regarding historical food and beverage sales in the concourse locations. In the east concourse for years 2003 – 2005, sales were \$182K, \$212K and \$248K. In the west concourse for years 2003 – 2005, sales were \$226K, \$244K and \$240K.

Mr. Gooch pointed out that it was the Board's previous direction to increase the DBE participation when it approved the lease extension with HMS Host. Mr. Greenlee voiced concerns if Host's projections for the Great American Bagel do not materialize.

Mr. Austin stated that the Airport Authority has an agreement with HMS Host to manage the DBE program. The agreement does not say that the Airport Authority can dictate to HMS Host the provisions regarding the management of the DBE program. However, any changes to the DBE program do have to be approved by the Airport Authority. Mr. White read the contract language: "Any significant alterations to the scope of the DBE business shall be subject to approval of the Lessor." According to Mr. White, in a general sense, the intent of a master concessionaire agreement with an airport is that the Airport Authority has hired HMS Host to administer and manage the concessions program and to supervise any subtenants they may have. In this particular case, it is HMS Host's responsibility to come up with a plan that is acceptable and the Airport Authority would approve.

Steve Habtemariam addressed the Board and stated that 15 years ago it submitted a proposal to operate the DBE concessions. It was his understanding that HMS Host would be involved as a mentor to the DBE program and the Airport Authority has the ultimate approval. Habtemariam stated they have had done excellent business at the airport. They were the first to introduce espresso and cappuccino at the airport, and have made improvements in the premises. Habtemariam is opposed to moving his operation from its present location.

Michael Habtemariam stated that one of the key aspects of their business is to incorporate many local businesses into its product offerings. Recently a state-of-the-art espresso/cappuccino machine was purchased to ensure the quality of coffee. The coffee is purchased from Specialty Beverage Concepts in Newton.

Maryon Habtemariam stated that a concourse location will reduce the number of people they have access to by at least 75%. The majority of their customers are the meeters and greeters. Also, a concourse location will diminish their flexibility to meet the needs of the airport, such as when the WSU Shockers came through the terminal. A concourse location also limits its ability to have a multiple employee pool that can go through the security checkpoint and meet the needs of the concession. She further stated that they employ elderly workers and the concourse is difficult for some people with disabilities. When there are no flights leaving or arriving, the concourses are dead and then the airport makes nothing.

Michael Habtemariam stated they have been hindered by a limited product line from day one. The concourse location has limited storage. Their suppliers would have to deliver through HMS Host commissary, making it more difficult for the suppliers plus would increase their dependency on Host. The opportunity to become an independent entity would be lost especially with a \$50,000 investment into the Great American Bagel. Habtemariam said it would be necessary to amortize the investment over four years and there would be no profit, and no opportunity to apply as an independent entity for the new terminal.

Mr. Fletcher pointed out that the FAA does not allow the opportunity to become an independent entity. The FAA requires one management company. The FAA will only allow an independent contract through a publicly-advertised request for bids. If that were to happen, Multi Business Services may not win the bid. Michael Habtemariam stated that competition is motivation and not a deterrent.

Mr. Douglas pointed out that post-security locations are the most desired. HMS Host wants the DBE to succeed and the plan for Multi Business Services is designed to be most beneficial. Typically when a non-branded unit is branded, sales volume increases 20% on average. The FAA regulations prevent Host from guaranteeing a profit for the DBE; in fact, it calls for the DBE to be at risk.

Mr. Austin stated this appears to be a contract matter between HMS Host and Multi Business Services and this dispute cannot be resolved at this meeting. If it is Host's recommendation based on their expertise that these changes are made, it is up to Multi Business Services to proceed in that fashion. If the Board thinks Host's proposal is financially in the best interests for the airport, then it should be approved.

Mr. Douglas continued with the presentation, and the retail offerings would be removed from the east concourse snack bar as it will become a Great American Bagel, and a Retail Wall unit would be added. The investment for this offering is approximately \$35,000.

In summary, the proposed plan will expand the products and offerings at the airport, improves the customer experience through improved offerings and additional seating post-security, will

drive incremental revenues from about \$3.2 million to about \$3.8 million, and will add about \$40,000 in rent revenue to the airport. Host will invest between \$475,000 to \$550,000 in these renovations, which includes the DBE's cost.

The next steps include Airport Authority approval of the plan, the brands' official approval of the site, finalize the deal with the DBE, and then proceed with design and construction.

In response to Mr. White's question, Douglas stated there have been no discussions regarding the possibility of Host putting up the money for the Great American Bagel on behalf of the DBE, however, this can be discussed.

Douglas expects there will be about a \$600,000 incremental increase in sales volume with this plan.

The Great American Bagel and vending operations would be the only concessions subcontracted to the DBE.

In response to Mr. Murfin's concerns, the hours of service are flexible. The minimum closure time of concessions on the concourses is 6:30 p.m., but will stay open as long as there are people in the gates. There is no contractual obligation requiring specific hours of operation.

Regarding the DBE's hours of operation, this would be negotiated with HMS Host and the DBE. The goal is to make sure the airport is being served adequately. Prices of concessions are tied to various things such as the cost of investment in an airport and insurance. Wichita's prices are comparable to those in other airports in this geographical area.

Mr. Estes stated that the Board approved the extension of HMS Host's agreement for four years and the only obligation the Board has would be subject to major alterations within the DBE business. Until the two parties agree, there is not anything to vote on.

There was discussion regarding what action the Board should take. Austin stated the question is whether or not to approve the concept to increase revenues without knowing the DBE outcome. The DBE has been presented an opportunity to make a decision. It was recommended that the Board defer its action until the next meeting at which time the DBE situation will be resolved. Host has extended the DBE agreement until the end of May.

*Motion by Austin to defer action 30 days and at the June WAAB meeting, Host is to explain how it will achieve its DBE goals. Also, Host should make some effort to lessen some of the DBE's risk.*

According to a letter from Steve Habtemariam that was received by Mr. White on this date, it states the DBE wants to stay in its present location but would consider running a Great American Bagel instead of Sarah's Ice Cream. If that were to happen, Starbucks would have to find another location, but it is not viable to place it post-security. Douglas said it would look into another location for Starbucks pre-security.

Mr. Gooch wants to see a proposal that does not appear to be something that could set up the DBE for failure.

*Motion was amended.*

*Motion by Austin to approve the basic concept and defer the decision for 30 days until there is clarification regarding how Host will achieve its DBE goals.*

Discussion ensued. Mr. Gooch was opposed to approving a concept because it appears the Board would approve what is proposed. Mr. Greenlee stated it depends on how the concept is defined.

Doug Moshier stated that Host appears to be negotiating with the DBE in good faith. The contract does not require this DBE, but a DBE. The Airport Authority recommended the selection of the DBE. If there were another DBE, the Airport Advisory Board would recommend it to the Airport Authority that would have final approval. The Airport Authority is involved in the process, but its contract with HMS Host gives Host the responsibility to develop the concept and the DBE program.

*Austin stated his motion was generally approving the concept of Starbucks, Great American Bagel, an adult beverage cart, and a retail wall, and that HMS Host is to identify how it will achieve the DBE goal, and it did not specify this particular DBE.*

*Motion carried 6 – 2 (Nays: Gooch and Greenlee).*

### **March 2006 Statistical/Project Report**

Total passengers were down 6.4% for the month of March over a year ago.

There was discussion regarding general aviation rehabilitation, a fuel farm study, and a land acquisition at 1504 S. Ridge Road.

The next WAAB meeting will be Monday, June 5, 2006.

Meeting adjourned at 5:13 p.m.

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Valerie Wise, Clerk