Facing Facts III:

Survival, Revival and Braving the Future

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Airport Restaurant & Retail Association

ARRA Airport Restaurant & Retail Association

Executive Summary

As summer begins, passenger confidence is returning. Two months ago, the aviation industry enjoyed a strong spring break. Since then, after a short dip, passenger traffic resumed its steady growth. Summer is starting strong and appears to be robust. However, the longevity of this leisure passenger-driven recovery is unknown. Further, what will the recovery of business and international travel look like? This uncertainty means the concessions industry recovery is far from certain. Moreover, recovery—when it occurs—will not resolve systemic issues in the airport concessions business that were evolving before the pandemic.

The COVID-19 pandemic has had a devastating impact on the airport concessions industry. Retail and restaurant operators lost over 90% of their business early last year—this following a decade of increasing headwinds from escalating capital and labor costs, and revenue and margin challenges. Today, traffic is beginning to improve, yet losses continue to accumulate. Just to survive, concessionaires, large and small, have incurred tremendous levels of debt and dramatically altered operating procedures. While devastating in its immediate impact, the pandemic crisis has also exposed fundamental flaws in the decades-old airport concessions business model, which prompts a reexamination of the business structure under which the industry has operated. It is clear that a more equitable and sustainable business model—in addition to continued relief efforts—is a requirement for a true, sustainable recovery of the airport concessions industry.

Retail and restaurant operators lost over 90% of their business early last year following a decade of increasing headwinds from escalating capital and labor costs, and revenue and margin challenges.

In this third installment of the Airport Restaurant and Retail Association's (ARRA) *Facing Facts* papers, ARRA examines the impact of the COVID-19 crisis on the airport concessions business as the industry begins to recover and looks to a brighter future. More importantly, we offer collaborative solutions to better align airports and concessions operators' collective economic interests. Together we can modify the business model to support today's cost and operational realities, which will enable operators to realize a truly sustainable recovery and provide exceptional restaurant and retail services to the traveling public for years to come.

Background

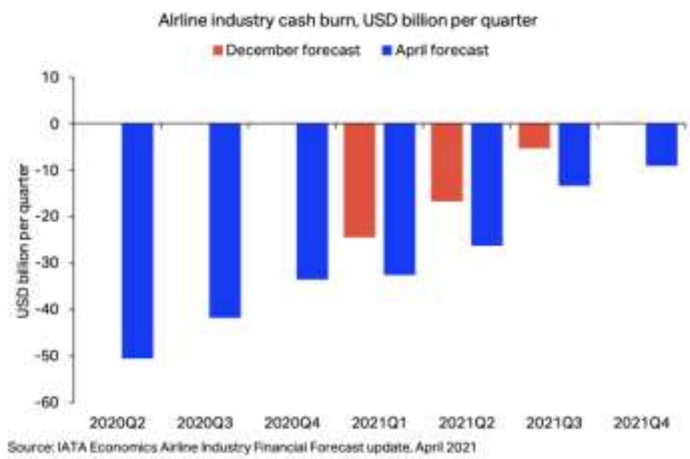
Facing Facts III: Survival, Revival and Braving the Future is presented as a continuation of ARRA's series of white papers discussing the COVID-19 pandemic and its impact on the airport restaurant and retail industry. This installment is informed by contributions from our weekly *COVID-19: Survival and Revival* industry calls, discussions with airport leaders and industry experts, and close collaboration among ARRA's Board of Directors and members—large and small, primes and Airport Concession Disadvantaged Business Enterprises (ACDBEs). The paper is intended to generate rigorous discussion throughout our channel regarding the airport concessions business model in order to restore a robust business environment and provide travelers with world-class service.

In issuing this latest paper, ARRA thanks—on behalf of its members and all concessionaires—our airport partners for the considerable support provided with rent waivers and other relief during this challenging period. We are grateful to the Airports Council International—North America (ACI-NA), American Association of Airport Executives (AAAE), and the Airport Minority Advisory Council (AMAC) for their partnership with us in advocating for the inclusion of concessionaires in the Coronavirus Response and Relief Supplemental Appropriations Act (CRRSAA) and American Rescue Plan Act of 2021 (ARPA). We also recognize the airlines for their assistance in sharing real time information regarding flights, capacity, load factors and passenger counts—all essential to our ability to plan and manage our businesses.

We cannot overemphasize the importance of partnership. As stated in our *Facing Facts II* paper, airports, airlines, and restaurant and retail operators are deeply intertwined and interdependent—each contributing to an airport's overall operations and the travel experience. ARRA believes it is in our collective best interest to come together with open communication to restore the passenger experience we had all come to benefit from and enjoy.

Pervasive and Long-term Impact

ARRA recognizes the economic impact of the pandemic on each of the key aviation stakeholders has been severe, with full rebound yet to be realized. U.S. passenger airlines' collective pre-tax losses in 2020 topped $40 billion with 2021 first quarter losses approaching another $5.5 billion.[1] As an industry, airline cash burn will likely continue through 2021 and it will take years for the airlines to retire the billions of dollars of new debt they took on to survive the pandemic. Similarly, U.S. airports face cash flow pressure and significant setbacks from the resilient and previously stable growth prospects enjoyed since 2010. As of the date of this paper, passenger volume remains on average around 70% of pre-pandemic levels, but, despite current momentum and signs of recovery, we are unlikely to see a return to 2019 traffic until at least 2023,[2] with key sectors such as business and international travel not recovering until 2024 or later (if at all). As a consequence of the severe decline in passenger volume and flight activity, ACI-NA estimates U.S. airports will lose $40 billion between March 2020 and March 2022.[3]



Airport restaurant and retail operators—primes, mid-sized companies, and ACDBEs alike—face a long road to recovery having experienced staggering business losses and incurring massive debt. Global losses for the largest publicly traded companies exceeded $4.5 billion in 2020 with reported newly accumulated debt in the billions, and privately owned companies lost billions more. Meanwhile, restaurant and retail operators must continue to adjust to constantly changing flight schedules and capacity, slowly increasing, but uneven passenger levels, and a set of shifting airport dynamics that make planning and predicting operational needs nearly impossible—all the while challenged by a workforce reluctant to re-engage.

Passenger recovery does not equal business recovery. With new debt, recovery will take years.

Even if traffic were immediately restored to pre-pandemic levels, concessionaires would not be recovered. With debt as the standard bearer of the day, it will take several years to return to a positive cash position. Our new debt reality must, therefore, be acknowledged in order for the industry to move forward constructively. Moreover, the process of returning to positive cash flow is likely to be prolonged by several factors. Pre-pandemic debt remains outstanding; deferred rent remains outstanding; and new debt required to stay afloat during the pandemic has accumulated. All the while, airports are anxious to get their concessions programs up and running amidst positive vaccination news and an uptick in traffic. Yet, concessionaires face new operational challenges as they work to reopen, ranging from extreme difficulty re-staffing restaurants and stores due to the overall national labor shortage, supply chain disruptions creating shortages and higher costs, and a changing mix of passengers with different spending patterns.

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[1] Airlines for America, *Tracking the Impacts of COVID-19*, various dates
[2] https://www.statista.com/statistics/1106985/coronavirus-impact-airports-region/
[3] Airports Council International – North America, *Economic Impact of Coronavirus on U.S. Commercial Service Airports*, January 2021

Business Model Flaws Exposed

As airports look to define the 'new normal' for commercial operations, and concessions operators continue to navigate the worst year in their business history, fundamental flaws in the business structure have become obvious, suggesting that changes in the leasing landscape are long overdue. The aforementioned challenges critically call for a more equitable balancing of financial risk in concessions contracts.

Even Pre-COVID-19 the decades old business model no longer served the industry well.

In many respects, the business model which has defined the airport concessions industry for decades no longer serves it well. Pre-COVID-19, the model was misaligned with the financial and operational realities of doing business in airports: labor, construction, and airport costs were outpacing sales gains to squeeze profit margins. Since COVID-19, its function and feasibility is even more challenged: the cash impacts of fixed rents and operating restrictions endanger concessions businesses. Indeed, survival is questionable. However, in the absence of other viable solutions, the current business model has become the 'default' option for most airports. The positive news is the pandemic, though catastrophic, is also serving as the catalyst for evaluating alternative structures to ensure the future viability of airport restaurant and retail operations.

Alternative structures have been the subject of panel discussions at the recent ACI-NA CEO Forum, Airport Experience News' (AXN) Virtual Summit, South American Association of Free Stores (ASUTIL) and International Association of Airport and Duty Free Stores (IAADFS) Summit of the Americas, and on ARRA's *COVID-19 Survival and Revival* industry calls. The overriding conclusion has been the aviation industry needs to first focus on surviving the pandemic, then address both pre-pandemic flaws in the business model and new challenges which have surfaced as a result of COVID-19.

Building a Better Model—Surviving Today and Thriving Tomorrow

Facing Facts III looks at the most critical financial and operational components of the business model as they affect the immediate survival of airport concessions through 2022, and their long-term viability—2023 and beyond. We address four key areas of the current business model:

1) Minimum Annual Guarantee (MAG)
2) Capital Investment
3) Labor Attraction and Cost
4) Operational Flexibility

This paper takes an in-depth look at each of the above elements of the business and operations model, and discusses the current and future needs of operators for survival, revival, and long-term success. ARRA recognizes every airport is different and passenger volume, configuration, governance, financial structure, airline and bond agreements, and concessions program characteristics may impact decisions regarding the future business model as it is applied in any one airport. Therefore, we include several options for adjusting key business terms. This is not intended to be a 'one-size-fits-all' nor do we believe it can solve for everything. However, the options and alternative approaches presented here will go a long way toward bringing airports and concessionaires into closer alignment commercially.

We hope these recommendations will provide a basis for the industry to collectively engage in a rigorous discussion of airport concessions to enhance the survival of an industry so critical to providing essential services and a positive guest experience to the traveling public.

Fact #1

The Current MAG Model is Unsustainable.

The model creates extraordinary, unnecessary risk for operators and does not achieve intended goals

MAGs have been a fixture in the aviation retail and restaurant industry for decades and were introduced to achieve several purposes. However, their lack of flexibility under the current MAG model subjects concession businesses to extraordinary, disproportionate risk, despite no control over a key factor of their revenue stream—the number of potential customers. In particular, MAGs have historically contemplated only a small fluctuation in passenger volume over the course of a year. Dramatic, immediate, and/or prolonged loss of passengers was never contemplated nor foreseen; thus, no plan exists to address such a crisis.

ARRA recognizes airports also have little control over the number of passengers and, consequently, are subject to similar risk. However, in many instances, airports also enjoy a 'backstop' concessionaires do not: airline funding guarantees. Moreover, in the political arena, both airports and airlines enjoy a 'too big to fail' status that affords each an effective government guarantee.

The predominant current MAG structure is thought by airports to mainly accomplish the following goals:

MAG Goal 1: Maximize sales/captures rates

INTENT: The MAG holds concessionaires accountable for maximizing sales and capture rate.

FACT: In truth, all concessionaires—multi-national companies, medium-sized national and regional companies, and small local companies alike—are driven internally by and strictly accountable for financial performance in a highly competitive marketplace. Their creditors and investors are the source of accountability, not their MAG obligation. This creates a natural incentive to generate as much business as possible to recover and earn a fair, market-based return on their invested capital.

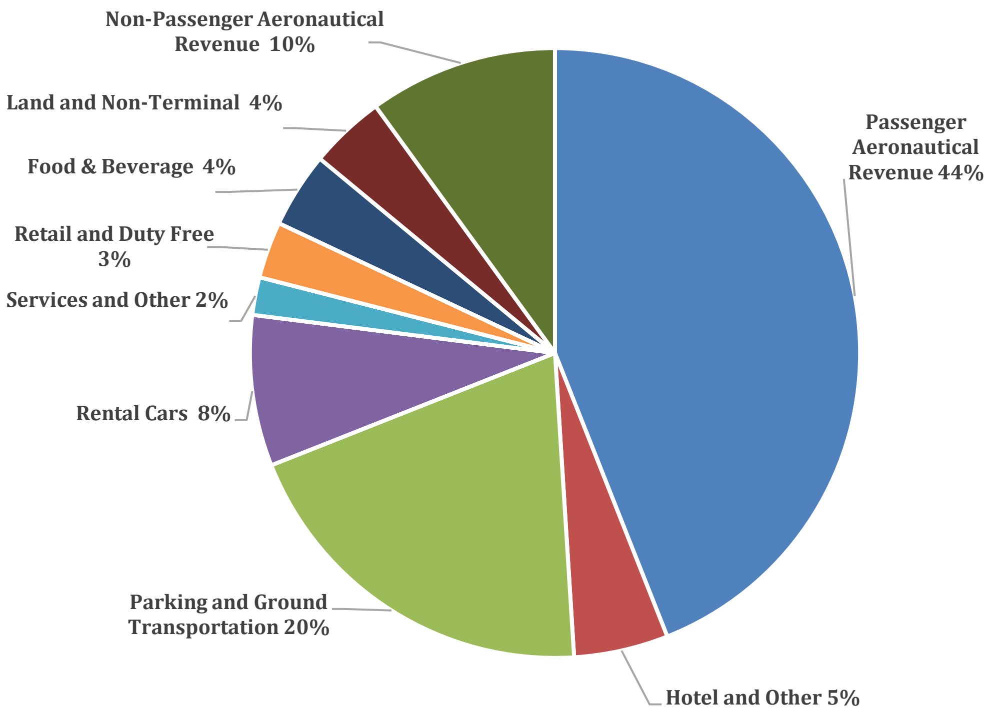
MAG GOAL 2: Compare competitive proposals

INTENT: MAG serves as a single, objective metric to compare competitive offers during a Request for Proposal process.

MAG is not a predictor of quality, service or creativity.

FACT: A MAG proposal frames out a single moment in time financially but depends on a number of proposal assumptions. Unanticipated market fluctuations, changes in nearby stores and restaurants, shifts in traffic due to airline schedule changes and gate re-assignments, or fluctuations in the number and mix of passengers can all invalidate assumptions and make a proposed MAG untenable. More important, MAG as an evaluation metric fails to predict quality of products, service, or creativity, which, to most airports, should be the primary focus of any evaluation process. Instead, use of MAG creates a disincentive for high-quality products, services, and store finishes since these costly elements tend to reduce MAG and render a proposal less likely to be successful. To improve their chances of a winning proposal, concessionaires may cut costs and increase MAG (increasing its own risk), but in the process, effectively defeat program goals for many airport sponsors.

U.S. AIRPORT OPERATING REVENUE SOURCES - FY2019



Source: FAA CATS Report 127 for all commercial service airports

MAG GOAL 3: Support airport bond financing

INTENT: Concessions MAG payments give an airport a guaranteed revenue stream to support bond financing.

FACT: Some have asserted restaurant and retail concession MAGs are a critical component in the process of securing airport revenue bonds. The reality is that revenue from in-terminal restaurant and retail concessionaires, and MAGs in particular, are not a 'make it or break it' financial component within the overall funding scheme of an airport. Revenues from restaurant and retail concessions at U.S. airports are less than 8% of total airport revenue, according to Federal Aviation Administration (FAA) data. The simple fact is airports do not rely on MAGs from in-terminal restaurant and retail operations to secure the airport's financial performance.

At best, they are of lesser concern to rating agencies versus other revenue sources with much greater weight in the airport financial structure. In fact without adequate traffic, reliance on MAGs can cause outright business failure and weaken an airport's financial position due to prolonged revenue loss of a dark space, since procurement processes typically do not allow for an immediate re-leasing of space.

Despite the above deficiencies of the MAG model, MAGs had not presented a significant concern during periods of robust and extended economic growth. Stores and restaurants generally outperformed the minimum during these periods, and contracts were paid in percentage rent. But, given the unprecedented COVID-19 enplanement decline, severe sales losses, and uncertainty regarding returning passenger traffic, the current MAG model has emerged as unworkable now and unsustainable over time. Airports across North America have recognized this and almost all MAGs were waived in 2020 and part of 2021.

Variable Rent Needed

During periods of volatility, concessionaires cannot pay rent disproportionate to passenger volume. ARRA proposes adjustments to the MAG model which address these deficiencies, protects against dramatic fluctuations in traffic, and ensures concessions operators can nimbly respond to market changes. Our recommendations would allow for time sensitive and efficient adjustments which move away from the fixed rent approach of the past to a variable rent structure and more equitable distribution of risk. Variable rent would return the MAG model to one that connects revenue to the airport to actual enplaned passengers at any point in time. With flexibility to respond to market changes, this would reduce revenue disruption to our airport partners.

Variable MAG connects revenue to actual enplaned passengers.

The recommendations below include immediate relief to ensure the survival of concessions businesses through the pandemic, and long-term alternatives to better align the commercial relationship between concessionaires and airports.

Recommendations for Short-term Survival

- Continue MAG waivers until zone/terminal enplanements reach at least 85% of 2019 levels.
- Apply CRRSAA and ARPA federal relief funds to enhance and extend MAG waivers.
- Suspend or reduce Common Area Maintenance (CAM), marketing, utility, and other incidental expenses proportionate to the decrease enplanements.
- Include new variable MAG model in all future RFPs.

Recommendations for Long-term Prosperity

- Variable MAG that adjusts with terminal (zone where applicable) enplanement levels vs. prior year or base year. No MAG floors.
- Suspend MAG once zone enplanements decline by 20% for two consecutive months.
- Include new variable MAG model in all future RFPs.

Fact #2

Capital Investment Model Needs to be Restructured.

A fair return on investment (ROI) is unachievable given escalating construction costs which have severely impacted prime and ACDBE operators.

Airport restaurant and retail operators annually build and refurbish thousands of restaurants and retail stores across the United States and Canada to create attractive and welcoming environments for the travelling public. In recent years, the demand for facilities with high-end finishes and visually dynamic design has become the norm, making new facilities significantly more capital intensive than might be strictly necessary to serve meals and sell merchandise. However, insomuch as higher quality stores and restaurants enhance the overall travel experience, they are an important component of modern concession programs. But they are expensive. While street-side restaurant and store construction costs vary regionally and range between $100 to $400 per square foot, based upon the project scope, an overall average for airport restaurants ranges between $1,000 and $1,400 per square foot and for retail stores between $400 and $800 per square foot.

Moreover, over the past decade, construction costs have been rising at an alarming rate. The Turner Building Cost Index—which measures costs of non-residential building construction—increased 46% from 2001 to the first quarter of 2021. This has substantially outpaced consumer price inflation—a proxy for concessions pricing—which, during the same period increased only 19%. In fact, the second and third quarters of 2020, a recessionary period at the beginning of the pandemic, were the only times the Turner Building Cost Index fell since 2010. But the respite from steady cost increases was short-lived: the first quarter of 2021 saw construction costs once again inch up as raw material and labor costs started to increase. We anticipate construction costs will steadily increase over time with the risk exacerbated by escalating inflation.

While the anticipated return on investment should normally alleviate any concerns regarding the initial capital costs, a number of factors often make the investment far from a sure bet:

- The scope of the project frequently changes dramatically from the commitments made in the initial RFP which typically increases costs. A common element of scope creep is a base building that is not turned over as anticipated causing concessionaires to absorb an alarming amount of additional base-building costs. These costs dramatically increase the amount of investment and negatively impact the profits and ROI of the business.
- Term lengths have been stagnant while capex costs have escalated for years resulting in very high increases in depreciation expense and debt service relative to a slower pace of growth in sales.

Construction costs had reached a fever pitch prior to the COVID-19 crisis, but now present an even greater challenge as concessionaires are straddled with debt incurred to survive the loss of cash flow during the pandemic. This has impacted all concessionaires but is particularly challenging for ACDBE businesses which have historically lacked access to capital—a situation which is now further exacerbated by their inability to pay pre-pandemic debt service.

> *Soaring construction costs present an even greater challenge as concessionaires incurred new debt to address the pandemic.*

In addition, the vast majority of ACDBEs are joint venture partners with prime operators. Under the joint venture structure, they are not able to fully participate in federal government relief programs such as the Payroll Protection Program and Main Street Lending, and their eligibility for the Restaurant Revitalization Fund remains unclear. As noted in ARRA's *Facing Facts II* paper, ACDBEs face daunting financial challenges, and according to the FAA, "small and disadvantaged firms are particularly vulnerable during these uncertain times."[4]

ARRA recommends the industry adjust its approach to capital investment to ensure concessionaires can successfully fund, build, and operate businesses at the levels of quality airports and passengers have come to expect. These recommendations would stabilize the significant and untenable risk airport restaurants and retailers are expected to absorb, while also strengthening the ACDBEs ability to enter the market, survive and grow.

[4] Federal Aviation Administration letter to Airport Sponsors, June 22, 2020.

Recommendations for Short-term Survival

- Grant contract term extensions as a means of providing a longer runway to earn sufficient operating cash flow to recover initial capital investment.
- Defer and reduce or eliminate mid-term capital obligations.
- Review current expansion and reopening plans to ensure optimal program size for business potential.
- Implement airport-sponsored funding assistance programs, such as low- or no-interest loans, for ACDBEs.

Recommendations for Long-term Prosperity

- Extend contract term for new RFPs to 10-15 years.
- Provide a tenant improvement allowance to offset capital requirements.
- Redefine base building obligations and commitments from the airport.
- Reconsider expected levels of finishes in stores and restaurants.
- Ensure optimal program size focusing on industry benchmarks.
- Implement airport-sponsored funding assistance programs, such as low-or no-interest loans, for ACDBEs.

Fact #3

Labor Costs are Unsustainable, and Employee Hiring Challenges are Real

Collaboration on employment related decisions is key to attracting a talent pool. A concessions surcharge will help defray rising employee costs.

As ARRA issues this *Facing Facts III* paper, labor shortages have made front page news highlighting the restaurant, retail, and hospitality industry's inability to hire as businesses undertake the heavy lift of reopening. This is but the latest challenge following catastrophic COVID-19 related losses and an unprecedented period of escalating wages in a marketplace where costs outpace revenues.

Nationwide hiring challenges are even more severe in airports.

The employee challenges experienced by street-side businesses are even greater in airports. Concessionaires face the same challenge of attracting employees but with an elevated labor cost structure driven by long commuting distances to often remote areas, long operating hours, and less desirable work schedules. In addition to premiums required to offset less attractive work conditions, concessionaires often face higher labor costs due to unionized labor (a business condition street-side comparable businesses rarely face) or airport-mandated above-market minimum wages and/or benefits. These challenges further complicate the goal all concessionaires have of creating a positive employee culture and positioning themselves as an 'employer of choice.'

Today on average, due to suppressed sales and minimum staffing requirements to maintain levels of service (or brand standards), $0.35 to $0.45 of every dollar an airport restaurant or retail store earns goes to labor. This is well over normal labor proportions pre-COVID. This proportion also exceeds street-side comparable businesses where labor accounts for only 25% to 30% in food service and 15% in retail. When these costs are combined with higher on-airport construction costs, security, and other airport-specific costs, concessionaires face razor-thin margins, making it difficult to operate profitably.

In a general sense, these increased costs can be somewhat offset through increased prices. However, this is usually restrained by airport pricing policies tied to pricing in street-side establishments with significantly lower operating costs. Most often these policies operate as a constraint on concessions revenue. A mechanism is therefore needed to recover higher employment related airport operating costs for ongoing, long-term sustainability. One possibility is implementing a surcharge. Even before COVID-19, street-side establishments had instituted surcharges to address escalating labor, health, and welfare costs. This practice has now become more widespread as their businesses have now been severely affected by the pandemic. Allowing airport concessions to collect similar surcharges would help to offset escalating employment costs and their consequential impact on the profit and loss report.

Like restaurants, retail and hospitality companies on the street-side, ARRA members are facing extreme challenges in recruiting employees. As passengers return, the challenges will become more acute as we struggle to hire, train, and credential employees during an onboarding process which is becoming far more onerous from a lead-time and per employee cost perspective year after year.

By working collaboratively, airports and concessionaires can encourage employment and address the financial obstacles we face.

Recommendations for Short-term Survival

- Implement a 3-5% surcharge on all retail and restaurant checks (non-rentable) to offset higher wage and benefit costs.
- Support the marketing and attraction of employee recruiting efforts through measures such as expedited badging, parking, transportation, and job fairs.

Recommendations for Long-term Prosperity

- Assist all vendors at making the 'Airport' an Employer of Choice
  - Day care facilities for all employees
  - Education benefits
  - Fringe benefits similar to those provided by a municipality
  - Ensure quality and time efficient public transportation to service early and late hour employee commuting
- Support implementation of new technology initiatives which offset labor needs.

Fact #4

Operating Flexibility for Concessionaires is Critical to Addressing the Current Pandemic and Ongoing Survival

Reopening strategy must be tied to exposed enplanement growth, and greater latitude on critical business decisions is needed for operators.

Airports are experiencing pressure to deliver service to passengers and understandably want to see their airport restaurants and retail stores reopen fully. At the same time, operators struggle through a maze of challenges to bring business back to full operation. In its *Facing Facts II* paper ARRA set forth key principles for reopening, noting that doing so too soon could be a recipe for disaster. Here again, we request airports work in cooperation with operators in bringing programs back online at a measured pace, and that reopening be commensurate with the return of exposed enplanements by terminal or zone.

Unfortunately, some businesses will not emerge from this crisis. For those that do reopen, decisions regarding products, menus, pricing, staffing, hours of operation, and other operational functions are vitally important. However, in an already sensitive and stressed business environment, we find that these business decisions and the ability of operators to react to the marketplace are often restricted—directly impacting the financial bottom line.

Unilateral decisions made by airports in the name of sustainability, sponsorships, and pricing policies frequently impact the viability and very survival of our businesses. As described above in Fact #3, one clear example is airport street pricing policies. Many airports institute these policies without considering the fact that street-side locations have different revenue drivers and significantly lower cost structures than airports (e.g., rent, labor, and capital investment). Additionally, restrictions associated with 'pouring rights' policies operate as a disservice to the traveler as options become limited: "I may love Coke, but I have to settle for Pepsi." Or worse, "I love Coke, and I won't buy Pepsi!" Choice better serves our customers.

Similar policies relating to product restrictions fail to recognize that certain products which may be 'loss leaders' in a street-side operation may in fact be among the top profit generators in an airport. Better understanding by airports of restaurant and retail operators profit and loss drivers is essential when analyzing the feasibility of these and other policies, and charting a realistic path forward.

At this critical juncture, when concession operators and airports are trying to revive restaurant and retail programs and plan for the future, it is essential that operators be given more flexibility and greater latitude over the fundamental decisions impacting the profitability of their businesses. This is even more important in view of changing passenger dynamics and spending habits—most clearly seen with the slow return of the business traveler.

It is essential concessionaires be given more flexibility over the fundamental operating decisions impacting the profitability of their businesses.

ARRA requests smart, strategic, and collaborative reopening plans and a greater level of confidence in the business decisions of operators. These decisions are driven by economic reality and are essential to our ability to survive and flourish in this challenging environment.

Recommendations for Short-term Survival

- Agreed to benchmarks by zone for reopening triggers and hours of operation.
- Staffing and menu changes at the discretion of the concessionaires working in partnership with airports.

Recommendations for Long-term Prosperity

- Avoid in-terminal airport exclusive vendor arrangements.
- Explore efficient Central Receiving and Distribution Center (CRDC) models and Transportation Security Administration (TSA) screening integration.
- Augment market basket pricing approach to allow for more flexibility and higher spreads.

Recommendations Summary

1. MAG

Addressing short-term MAG relief and longer-term commercial enhancements to contracts to re-balance risk, ensure sustainability of concessionaires and align interests with airports.

Short-term Survival	Long-term Prosperity
• Continue MAG waivers until zone/terminal enplanements reach 85% of 2019 levels. • Apply CRRSAA and ARPA federal relief funds to enhance and extend MAG waivers. • Suspend or reduce CAM, Marketing, utility, and other incidental expenses proportionate to the decrease enplanements. • Include new variable MAG model in all future RFPs.	• Variable MAG that adjusts with terminal (zone where applicable) enplanement levels vs. prior year or base year. No MAG floors. • Suspend MAG once zone enplanements decline by 20% for two consecutive months. • Catastrophic and pandemic clauses (force majeure) based on zone enplanement performance/decline.

2. Capital

The availability of capital is going to be challenged for all concessionaires and ACDBE partners. Working with airports to offset this challenge is critical to the on-going success of concessions programs.

Short-term Survival	Long-term Prosperity
• Grant contract term extensions as a means of providing a further window to recover initial capital investment and defer cash outlays. • Defer and reduce mid-term capital obligations. • Review current expansion and reopening plans to ensure optimal program size for the environment. • Implement airport-sponsored funding assistance programs, such as low- or no-interest loans, for ACDBE partners.	• Extend contract term for new RFPs [10-15 years]. • Provide a tenant improvement allowance to offset capital requirements. • Redefine base building obligations and commitments from the airport. • Ensure optimal program size focusing on industry benchmarks. • Leverage infrastructure tax credits. • Implement airport-sponsored funding assistance programs, such as low- or no-interest loans, for ACDBEs.

3. Labor Attraction and Cost

Airport concessionaires continue to be adversely affected by rising labor costs and the ability to attract and retain labor in a challenging operating environment. Working with airports to offset this challenge is essential.

Short-term Survival	Long-term Prosperity
• Implement a 3-5% surcharge on all retail and restaurant checks (non-rentable) to recoup COVID-19 related losses and help compensate for high wage and related costs. • Support the marketing and attraction of employee recruiting efforts through measures such as expedited badging, parking, transportation, job fairs, etc.)	• Assist all vendors at making the Airport an 'Employer of Choice' (daycare facilities, education benefits, fring benefits similar to those provided by a municipality, quality and timely public transportation for employees working early and late hours) • Support implementation of new technology initiatives which offset labor needs.

4. Operational Flexibility

Airport concessionaires need more flexibility in the short-term with reopening their stores and in the long-term with protecting their business model.

Short-term Survival	Long-term Prosperity
• Agreed to benchmarks by zone for reopening triggers and hours of operation. • Staffing and menu changes at the discretion of the concessionaires working in partnership with airports.	• Avoid in-terminal airport exclusive vendor arrangements. • Explore efficient Central Receiving and Distribution Center (CRDC) models and TSA screening integration. • Augment market basket pricing approach to allow for more flexibility and higher spreads.