State of Maryland could lose $37 million or more by foregoing a competitive bidding process for BWI Airport concessions contract

The Maryland Aviation Administration (MAA) has the opportunity to put the Thurgood Marshall BWI Airport concessions contract out to bid in 2017 by ending its agreement with Airmall.

Based on a study of recent airport food and retail concessions agreements, the MAA could attract capital investment and increase airport revenue by issuing a competitive Request for Proposal (RFP) for the concessions program at BWI Airport in 2017.

Highlights

Maryland has an opportunity to attract $37 million or more in capital investment in 2017. Other U.S. airports attracted $26 to $82 million dollars in terminal investment from concessions developers and operators in comparable concessions redevelopments.

Maryland has an opportunity to improve its concessions revenue. In 2014, BWI received only 10.8% of concessions sales whereas the national average airport concessions rent was 15.1% of sales for food and beverage and 17.9% for retail. If the BWI concessions program had generated rents to MAA at the national large hub average, it would have generated $7.65 million more in 2014 or $38 million more over five years.

Maryland has an opportunity to refinance its high interest debt to Airmall. The MAA's deal with Airmall pays Airmall an effective interest rate of 11.6% for its past capital investment. That's more than double what the MAA and regional competitor airports systems pay for capital for other airport projects. For example, the MAA paid 3 to 5% for its most recent debt for airport capital projects.

In 2004, when the MAA contracted with Airmall, the airline industry was struggling with bankruptcy, placing financial challenges on airports. Now, airlines are making record profits and airports, including BWI, are expanding. In 2014, six of Airmall's industry competitors responded to a Request for Information that was issued by the State of Maryland, submitting ideas and proposals on how to improve BWI's concessions program and increase revenue to the State.

A competitive bidding process at BWI Airport could yield an estimated $37 million in new capital investment

Based on an analysis and evaluation of five recent comparable airport concessions contracts from across the country, BWI Airport could see upwards of an estimated $37 million in new capital investment in the airport's food and retail concessions program as a result of a competitive RFP process in 2017.

BWI was the 23rd busiest airport in the U.S. in 2014 with over 11 million enplaned passengers. BWI's concessions program generated $114 million in gross sales in 2014. BWI's food and retail sales and enplanement levels are similar to airports or terminals within airports where recent concessions agreements attracted significant new capital investment.

The chart below shows the amount of capital other concessions developers and operators would have committed at BWI sales levels in the most recent concessions deals.[1] For example, Westfield and operators committed $26 million to Chicago O'Hare's Terminal 5 in 2012, which had $43 million in gross concessions sales in 2014. In BWI dollars (which had $114 million in sales in 2014), that would be $52 million in capital investment (over a common 15 year lease term). **The average net potential capital investment for BWI in 2017 is an estimated $37 million.**[2]

Recent Airport Concession Agreements

	Detroit Metropolitan Airport, *McNamara Terminal* (2014, four operators)	**Chicago O'Hare Airport** *Terminal 5* (2012, Westfield + operators)	**Los Angeles International (LAX)** *Terminals 1, 3 & 6* (2012, Westfield + operators)	**Los Angeles International (LAX)** New *Int'l Terminal, Terminal 2 + Theme Building* (2012, Westfield + operators)	**Newark International (EWR)** *Terminal A & B lease extension* (2013, Westfield)	**Airmall at BWI**
Capital Committed in BWI Dollars: (at BWI sales level 2014 [$114M], if 15 year lease*)	$31.9 million	$52 million	$73.5 million	$27.6 million	$36.8 million	(Airmall is owed $7.65 million buyout if terminated in 2017)
Lease term	13.5 years	20 years	17 years	17 years	2 years	15 years
Enplaned passengers (2014)	12,693,934	2,063,218	11,155,269	7,744,337	7,240,178	11,172,094
Gross concessions sales (2014) (of the airport or terminals)	$124 million	$43 million	$108 million	$388 million	$81 million	$114 million
Capital committed (actual amount)	$31.2 million	$26 million	$78.6 million	$81.9 million	$3.5 million	$19.7 million in 2007

*Controls for sales level and length of capital commitment. Includes only initial capital investment, not midterm refurbishment.

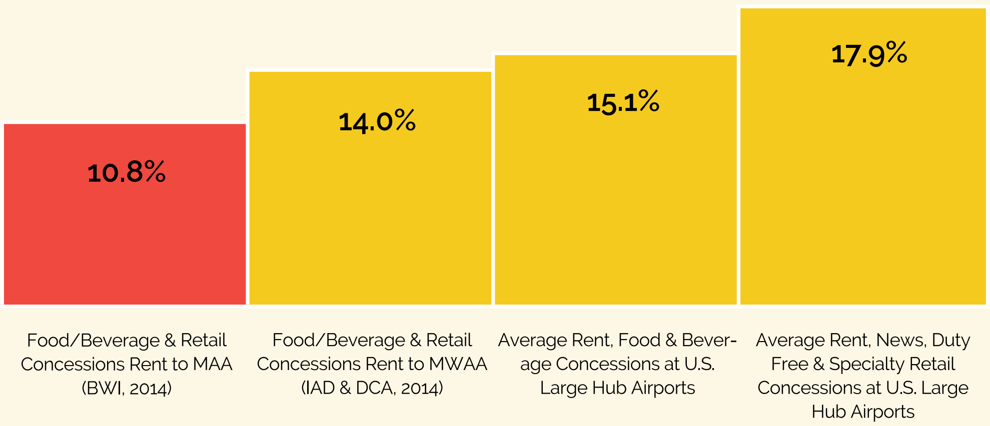
Maryland can improve BWI's concessions revenue

The rental revenue produced for an airport is the other half of an airport concessions deal. In addition to higher levels of capital investment than Airmall has committed to at BWI, all of the examples above would have generated more rent as a percentage of BWI annual sales than Airmall did in 2014.

In 2014, BWI received only 10.8% of concessions sales, lagging behind U.S. large hub airports, which generated rent at a rate of 15.1% of sales for food and beverage concessions and 17.9% of sales for News, Duty Free, Gift and Specialty Retail concessions.[3] If BWI had generated rents to MAA at the national large hub average, it would have generated $7.65 million more in 2014 or $38 million more over five years.

BWI's Airmall revenue underperformed U.S. Large Hub Airports* and D.C. Airports

(Rent as a percentage of gross concessions sales)



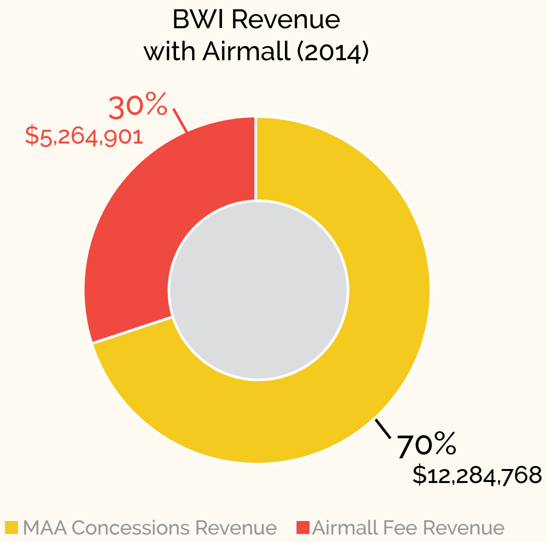
*Large Hub Airports is a category created by the FAA. The 30 U.S. large hub airports are ATL, BOS, BWI, CLT, DCA, DEN, DFW, DTW, EWR, FLL, HNL, IAD, IAH, JFK, LAS, LAX, LGA, MCO, MDW, MIA, MSP, ORD, PDX,PHL, PHX, SAN, SEA, SFO, SLC & TPA. National average rent data is from a survey conducted by Airports Council International – North America. 16% of airports surveyed utilized concessions developers in 2014.

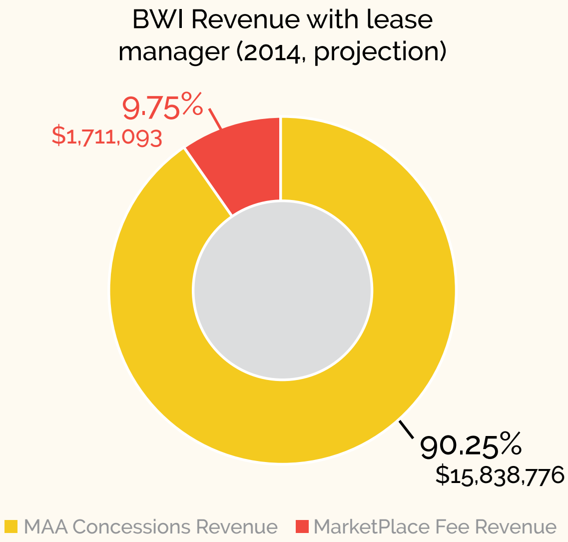
BWI deal lags behind Philadelphia and D.C. airports in revenue retention

Three of BWI's regional competitors, Dulles, Reagan National, and Philadelphia Intl. Airport utilize the same lease management company which charges less than one-third of Airmall's fee at BWI.[4] The charts below compare Airmall's revenue to BWI if MarketPlace Development were the lease manager under its terms at PHL, IAD and DCA. The left chart shows what Airmall kept in fees in 2014 (in orange) and paid to BWI (in yellow). The chart on the right shows what MarketPlace would have taken with its much lower fee, and what BWI would have received, in the same year.

A competitive bidding process in 2017 would also give BWI the opportunity to explore other concessions business models to improve airport revenue from concessions in addition to attracting capital.

Airmall takes more than three times the revenue out of BWI than MarketPlace Development does at Philadelphia International Airport (PHL), Reagan National (DCA) & Dulles International Airports (IAD)





*Projection. Rent to MarketPlace under its terms at IAD, DCA and PHL, in BWI 2014 dollars.

The difference between the two models is that Airmall was required to provide a total of $19.7 million in capital expenditures to BWI, whereas in D.C. and Philadelphia capital comes only from concessions operators. As of 2015, concessions operators have invested $78 million at D.C.'s airports since MarketPlace took over lease management in 2013.

Maryland can refinance Airmall's high-interest debt

The MAA's Airmall deal pays Airmall an effective interest rate of 11.6% for its past capital investment.[5] That's more than double what the MAA and regional competitor airports systems pay for capital for other airport projects. For example, the MAA paid 3-5% for its most recent debt for airport capital projects. Compared to revenue the MAA could have received under MarketPlace's deal at PHL, IAD and DCA, BWI paid $54 million in lost rental revenue over Airmall's 15 year lease to pay for its $19.7 million in capital investment from Airmall. Attracting new capital in 2017 at a lower cost of capital would effectively refinance the MAA's remaining debt to Airmall.

Many airport capital projects utilize public bonds, which had the highest interest rate of 5% at BWI, DCA, IAD, and PHL. In the past, PHL used municipal bonds from the city's Philadelphia Authority for Industrial Development to pay for concessions capital projects under Marketplace Development.

	Metropolitan Washington Airports Authority (MWAA) *IAD, DCA*	Philadelphia International Airport	Maryland Aviation Authority (MAA) *BWI*	
Airport Capital Bond	MWAA Airport Revenue Bonds 2015 (B,C,D)[6]	PHL Airport Revenue Bonds Series 2011 (A,B)[7]	MdTA BWI PFC-Backed Bonds, Series 2014[8]	
Bond rating Standard & Poor's Moody's	AA- A1	A+ A2	AA A2	*What MAA paid for Airmall's Capital*
Interest Rate	1-5%	2-5%	3-5%	11.6%
Total interest payment for AIrmall's capital: (19.7 million, 15 years)	**$14.8 million** (at highest rate of 5%)	**$14.8 million** (at highest rate of 5%)	**$14.8 million** (at highest rate of 5%)	**$34.3 million**

The total value for BWI's current concessions contract with Airmall lags behind other major airports

The chart below compares keeping Airmall until 2022 with other concession agreements, in terms of both capital and revenue. It estimates the total deal value which these deals could have provided BWI, in BWI dollars.

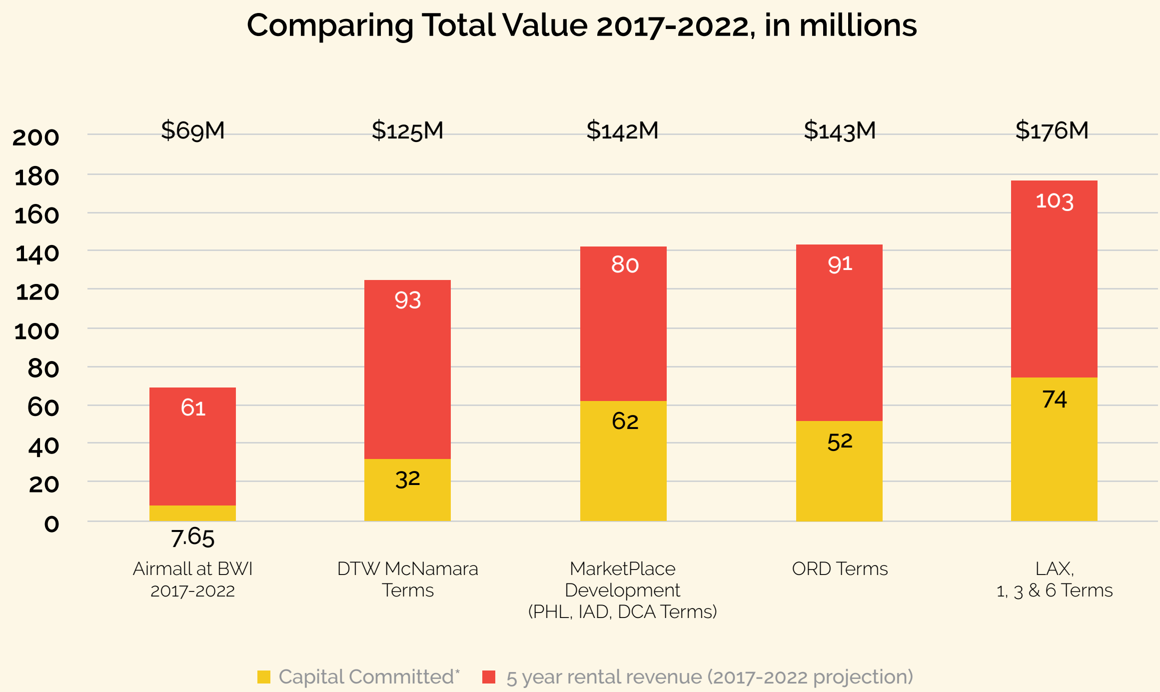
	Airmall at BWI Thurgood Marshall Airport (2017-2022)	Detroit Metropolitan Airport (four operators)	Chicago O'Hare Airport *Terminal 5* (Westfield)	Los Angeles International *Terminals 1, 3 & 6* (Westfield + operators)	Washington Dulles, Reagan National & Philadelphia International Airports (MarketPlace Development + Operators)	Airmall Difference
Total Deal Value (Capital & revenue to BWI, in BWI dollars)	$69 million	$125 million	$143 million	$176 million	$142 million*	$56M – 108M less with Airmall
Airport Concessions Revenue (2017-2022 projection at BWI sales level)** [9]	$12.3M per year x 5 = $61 million	$18.5M per year x 5 = $93 million	$18.2M per year x 5 = $91 million	$20.7M per year x 5 = $103 million	$16M per year x 5 = $80 million	$18M – $42M less with Airmall
Capital committed (at BWI sales level 2014 [$114M], if 15 year lease)	$7.65 mil.***	$31.9 mil.	$52 mil.	$73.5 mil.	$62 mil.	$24M – $66M less with Airmall

*Operators invested $78 million at IAD and DCA as of summer 2015 or $62 million at BWI sales level, 15 years lease.

**2017-2022 revenue projection is based on each airport's 2014 rate of concessions revenue per gross sales, at BWI's sales level, times five years. Detroit's rent projection is based on operator's percentage rent commitments and assumes that operators exceed their minimum annual guarantee.

***Buyout owed Airmall. Does not pay for any new development to keep Airmall.

The graph below depicts the same information from the chart on the preceeding page: the estimated total deal value in BWI dollars of these recent concessions redevelopments.



*Capital committed at BWI sales level, 15 year lease term.

Background on the Ehrlich Administration's Airmall deal

The Maryland DOT and Maryland Aviation Administration first entered into a contract with Airmall in March 2004. In 2006, the DOT extended Airmall's contract to 15 years, to expire in 2022, with the option for the State of Maryland to terminate the contract for no cause beginning in 2017. Airmall agreed to invest $19.7 million over the course of 15 years. The State or subsequent operator is required to reimburse Airmall $1.85 million if the lease is terminated after 15 years in 2022, or $7.65 million if the lease is terminated in 2017.

Opening BWI's concessions to a competitive bidding process would give Maryland the opportunity to get a better deal for BWI. A new deal could both attract new capital for terminal investment and improve airport revenue from concessions.

Airmall: Recent Attempts to Expand Business

Despite competing for new contracts, Airmall has failed to grow and expand its market share. The last contract captured by Airmall was at Cleveland Hopkins International Airport (CLE) over six years ago. Airmall has responded to seven Request for Proposals (RFP) or Request for Qualifications (RFQ) since then.

RFP/ RFQ	RFP/ RFQ Release Date	Awarded To	Airmall Status
Los Angeles International *International Terminal, Terminal 2 and Theme Building*	May 2011	Westfield Concessions Management	**REJECTED**
Los Angeles International *Terminals 1, 3 and 6*	June 2011	Westfield Concessions Management	**REJECTED**
San Juan Luís Muñoz Marín International Airport *RFQ for private airport operator. Airmall bid as part of a consortium for this RFQ.*	July 2011	Aerostar Airport Holdings	**REJECTED**
Washington Reagan National & Dulles International Airports *Round 2*	April 2012	Marketplace Development	**REJECTED**
Philadelphia International Airport	January 2014	Marketplace Development	**REJECTED**
Denver International Airport *Great Hall Project*	January 2015	TBD	**DID NOT MAKE SHORT LIST**
Hartsfield-Jackson Atlanta International Airport *"Airport City" Development*	December 2014	TBD	**MADE SHORT LIST BUT DID NOT END UP BIDDING**

Keeping Airmall until 2022 would maintain the status quo: no new capital investment, continued revenue underperformance.

If the MAA sticks with Airmall until 2022, Airmall is not required to invest any additional capital and will continue to take 30% of all concessions revenue from operators, equal to $5.3 million in 2014. **Ending Airmall's contract in 2017 would allow the MAA to seek a better deal sooner, instead of waiting 5 years.** Our study of several recent airport concession agreements suggests that BWI could both attract millions in capital investment and increase airport concessions revenue.

Endnotes

1 Concessions sales and enplanement data from Airport Revenue News Factbook 2015.
2 The average of estimated capital committed in these five agreements, in BWI dollars was $44.4 million, less the $7.65 million capital buyout owed Airmall in 2017 equals $37 million in net potential capital.
3 "2014 ACI-NA Concessions Benchmarking Survey" Airports Council International – North America. http://www.aci-na.org/sites/default/files/2014-concessionsbenchmarking-results.pdf
4 "Master Lease and Concession Management Agreement by and between the City Of Philadelphia and Marketplace PHL, LLC. Effective Date: January 1, 2015"
"Concession Management Contract between Metropolitan Washington Airports Authority and Marketplace Washington, LLC for the Marketing, Leasing, and Management of the Food Service and Retail Concessions at Washington Dulles International Airport and Ronald Reagan Washington National Airport. Contract No. MWAA-4-12-0002"
5 Calculated using a simple interest formula (interest = principal x annual rate x years). Airmall provides lease management and capital investment to the airport. Because we know that MarketPlace could do the lease management service alone for 9.75% fee instead of Airmall's 30% fee, it is possible to estimate the cost of Airmall's capital in increased fees per year. The MAA paid $54 million total in lost revenue over Airmall's 15 year term, or $34 million in interest ($34 million more than the $19.7 million principal).
6 Metropolitan Washington Airports Authority Debt Service Review, As of July 31, 2015. http://www.mwaa.com/sites/default/files/debt_service_review_rev_aug_2015.pdf
7 "Philadelphia Airport System Municipal Securities Disclosure Annual Financial Information, Fiscal Year Ended June 30, 2014. City of Philadelphia." https://www.phl.org/Business/Documents/MSD2014.pdf
8 Security details accessed via EMMA (Electronic Municipal Market Access). http://emma.msrb.org/SecurityView/SecurityDetails.aspx?cusip=A43603A411A75CEF193CDF65AA2F54D3D
9 This projection is based on the rent collected as a percent of sales under these other airport concessions agreements. Each annual rent projection is their deals percentage rent applied to BWI's 2014 sales, times 5 to estimate 2017-2022. Rent Sources: Detroit: RFP package awards, O'Hare: Chicago Dept. of Aviation Dept. press release. LAX: ARN Factbook 2015.