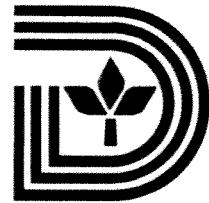


# Memorandum



CITY OF DALLAS

DATE May 2, 2014

TO Honorable Mayor and Members of the City Council

SUBJECT Love Field Gate Leases

On Wednesday, May 7, 2014, you will be briefed on Love Field gate leases.  
The briefing material is attached for your review.

A handwritten signature in black ink that reads "Theresa O'Donnell".

Theresa O'Donnell  
Interim Assistant City Manager

c: A.C. Gonzalez, City Manager  
Warren M.S. Ernst, City Attorney  
Daniel Solis, Administrative Judge  
Rosa Rios, City Secretary  
Craig Kinton, City Auditor  
Ryan S. Evans, Interim First Assistant City Manager  
Jill Jordan, P.E., Assistant City Manager  
Forest E. Turner, Assistant City Manager  
Joey Zapata, Assistant City Manager  
Charles M. Cato, Interim Assistant City Manager  
Jeanne Chipperfield, Chief Financial Officer  
Shawn Williams, Interim Public Information Office  
Elsa Cantu, Assistant to the City Manager – Mayor and Council



# **City of Dallas Aviation**

Love Field Gate Leases

City Council Briefing

May 7, 2014



# Background

- Dallas Love Field
  - 20 gates (per the five-party agreement and Wright Amendment Reform Act)
  - 4.2 million enplanements in 2013
  - Classified as a “Medium Hub” by Federal Aviation Administration (“FAA”)
- Airports can lease gates on following basis
  - Exclusive use – Airlines have full control, including branding and scheduling, over space
  - Preferential use – Airlines have control but gives right for airport to allow **new** entrants to operate at gates that are not being fully utilized
  - Common use – gate space and time of use is managed by the airport

# Background

- Dallas Love Field [“DAL”] has leased all available gates on a preferential use basis
  - Southwest Airlines - 16 gates
  - United Airlines - 2 gates
  - American Airlines - 2 gates
- Typically, ten flights or “turns” per gate is full utilization

# Background

- American filed for bankruptcy in November 2011
- In February 2013, American and US Airways proposed a merger as a way out of bankruptcy for American
- In August 2013, the United States Department of Justice [“DOJ”] and attorneys general from six (6) states and the District of Columbia filed an antitrust lawsuit in an attempt to stop the proposed merger

# Terms of Proposed Settlement

- In November 2013, DOJ announced a proposed settlement of the antitrust litigation
  - DOJ is requiring gates and slots to be divested to low-cost carriers
- In December 2013, the bankruptcy court approved the merger; however, the antitrust suit is still awaiting final resolution

# Terms of Proposed Settlement

- Under the terms of the proposed settlement, American will divest
  - 52 slot pairs at Washington Reagan National Airport
  - 17 slot pairs at New York LaGuardia Airport
  - 2 gates at Boston Logan International Airport
  - 2 gates at Chicago O'Hare International Airport
  - 2 gates at Miami International
  - 2 gates at Los Angeles
  - 2 gates at Dallas Love Field

# Terms of Proposed Settlement

- Asset Preservation Order and Stipulation:
  - “Defendants shall not, except as part of a divestiture approved by the United States...remove, sell, lease, assign, transfer, pledge, or otherwise dispose of their respective divestiture assets”
- Proposed Final Judgment:
  - “‘acquirer’ or ‘acquirers’ means the entity or entities, approved by the United States in its sole discretion”

# Current Status

- To date, there has been interest expressed in the two (2) gates, should they become available
- The City has not actively solicited interest for the gates from any airline

# Issues

- Because of Love Field's unique history, there are three key controlling documents that affect the leasing activities
  - Wright Amendment Reform Act
  - The Five-Party agreement
  - City's use and lease agreement with American Airlines

# Wright Amendment Reform Act of 2006

## Based on local Five-Party Agreement

- City of Dallas, City of Ft Worth, American Airlines, Southwest Airlines, DFW International Airport
- Flight restrictions end on October 13, 2014, however the following restrictions will remain
  - No international flights
  - Love Field capacity limited to twenty (20) gates
- **Required City & Southwest Airlines to collaborate on modernization of Love Field**

# Local Five Party Agreement

## Other provisions

- City negotiated a voluntary noise curfew precluding scheduled service between 11pm and 6am
- Both Cities are to oppose efforts to initiate commercial passenger service at any airport other than DFW until October 2014
  - If another airport within 80 mile radius attempts to initiate commercial service, both cities will work to bring that service to DFW, or if that fails, to airports owned by Dallas or Fort Worth

# Use & Lease Agreements

- Twenty (20) year term, ending 2028
  - Airlines with little activity can exit leases early in 2018 and 2023
- All gates leased on a “Preferential Use” basis, rather than exclusive
- All baggage areas (outbound & inbound) leased as “common use”
- Office, operations and ticket counter space leased as exclusive use
- All space subject to “accommodation provisions” for **new** entrant airline access to terminal

# Use & Lease Agreements

- Leases are structured to be consistent with the Five-Party Agreement commitments
  - **Expanded scope** of the lease of terminal space, included **terms for the use of the Airport**, including the airfield, aircraft parking ramp;
    - Incorporated Landing Fee & new Apron Fee in lease rate model
  - Incorporated new **cost recovery rate model** approved in the Term Sheet Allocates Airport costs to Terminal, Apron, Airfield cost centers
    - Airlines pay cost of Love Field Modernization Program (“LFMP”) thru allocations of cost to square foot rental rate
    - Protects non-airline tenants from paying for LFMP
- Developed **guidelines** for future capital improvements [“CIP”];
  - CIP funded in rate base, **airlines have approval rights** for certain capital improvements affecting their rates

# Use & Lease Agreements

- Allows for the sub-lease of the gates
  - American Sub-leased to Delta in July 2009
  - American Sub-leased to Seaport Airlines in June 2011
- If the right to use the preferential gates ceases, they become common use
  - Common use gates are managed by the airport and available to all airlines requesting space to conduct flights until full

# Gate Assignments\*



\*As per current leases

# Analysis

- The City has not received formal proposals nor has it solicited any
- City retained a consultant, L.E.K. Consulting L.L.C., to evaluate the public statements of plans by the interested carriers
- Goal was to be prepared for further discussions with American and the Department of Justice regarding the disposition of the gates
- On April 16, 2014, the City received notice from the Department of Justice that American and Virgin American had reached an agreement and that agreement satisfies the Department of Justice

# Consultant Credentials

- L.E.K. is a leading strategic advisor to the global airline industry, whose clients include more than half of the top fifty (50) airlines around the world
- Chief architect of the merchandizing (ancillary revenue) movement in the U.S. industry and around the globe
- Extensive work with the most successful and innovative airports and airport groups around the globe
  - Numerous successful engagements developing innovative retail masterplans
  - Traffic forecasting
  - Buy- and sell-side advisory work for airport privatizations

# Consultant Scope of Work

- Identify key benefits to Dallas Citizens and Dallas Love Field
- Determine what aligns strategically with continued support of DFW
- Establish weighted criteria to evaluate the public plans from each airline
- Create framework for how the City will evaluate common use proposals, if necessary

# Best for Dallas Citizens & Travelers

- Carrier with quality customer service
- Responsible carrier, sensitive to impacts to the community including noise
- Carrier willing to be part of the community
- Broad network with multiple destinations
- Enhancing competition
- Carrier offering various products and services

# Best for Love Field

- Fiscally sound carrier
- Modern Fleet
- Sub-lease, carrier manages schedule
- Team player on airport operations and emergency management
- Supports mission of airport
- Environmentally sensitive, cognizant of noise issues
- Diversity of tenants

# Best Strategically with DFW

- Minimizes direct competition to ongoing success to DFW
- Focus on domestic routes
- No diminution of service at DFW
- Service that complements what is presently available at DFW
- Balancing needs of both DFW and Love Field

# L.E.K.



## **Love Field Gate Recommendations**

Assessment of optimal use of American's divested  
Love Field gates for the City of Dallas

April 22, 2014

The materials contained in this document are intended to supplement a discussion between the City of Dallas and L.E.K. Consulting on April 22, 2014. These perspectives are confidential and will only be meaningful to those in attendance.

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Wroclaw

This report has been prepared by L.E.K. Consulting LLC ("L.E.K.") for the City of Dallas, Inc. (the "User") in connection with a specified scope of work described in the letter of engagement with the Client (the "Project"). The defined term "L.E.K." shall mean L.E.K. and its affiliates, and each of their former, current or future owners, partners, members, directors, managers, officers, directors, employees, attorneys and agents and the successors and assigns of the foregoing persons. L.E.K. reserves the right to amend, supplement or replace this report at any time. User shall not rely on any oral communications by L.E.K. employees or representatives with respect to the Project, and the opinions, projections, estimates and conclusions of L.E.K. are solely those set forth in and qualified by this report.

The sole purpose of this report is to assist User in evaluating the Project and this report shall not be used for any other purpose. User acknowledges that it has, either alone or in conjunction with its advisors, made an independent investigation into the advisability of the Project and that this report is not the sole basis for User's ultimate course of action with respect to the Project. L.E.K. is not and shall not be responsible for decisions made by User. No third party shall be a beneficiary of the report or have any right to rely upon the report, and L.E.K. is not, and shall not be, responsible for any third party's review or use of the report.

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This report is based on information available at the time this report was prepared and on certain assumptions, including, but not limited to, assumptions regarding future events, developments and uncertainties and contains "forward-looking statements" (statements that may include, without limitation, statements about projected revenues, earnings, market opportunities, strategies, competition, expected activities and expenditures, and at times may be identified by the use of words such as "may", "could", "should", "would", "project", "believe", "anticipate", "expect", "plan", "estimate", "forecast", "potential", "intend", "continue" and variations of these words or comparable words).

L.E.K. is not able to predict future events, developments and uncertainties. Consequently, any of the forward-looking statements contained in this report may prove to be incorrect or incomplete, and actual results could differ materially from those projected or estimated in this report. L.E.K. undertakes no obligation to update any forward-looking statements for revisions or changes after the date of this report and L.E.K. makes no representation or warranty that any of the projections or estimates in this report will be realized. Nothing contained herein is, or should be relied upon as, a promise or representation as to the future.

## Agenda

- Background and objectives
- Review of airline proposals and recommendations
- Appendix

## Dallas Love Field (DAL) is located in the City of Dallas and is currently restricted to 20 gates

Description	Aerial view	Neighboring airports
Dallas Love Field (DAL) is a city-owned public airport 6 miles northwest of downtown Dallas, Texas. It was Dallas' main airport until 1974 when Dallas/Fort Worth International Airport opened		 DFW DAL
Key Operational Statistics	Route network	
<ul style="list-style-type: none"> <li>Number of aircraft gates: 20*</li> <li>Annual passengers*: 8.1M (2013)</li> <li>Non-stop destinations: 44**</li> <li>Active passenger airlines: 4</li> </ul>	The ten busiest domestic routes out of DAL from Oct 2012- Oct 2013^^: <ol style="list-style-type: none"> <li>Houston, TX</li> <li>San Antonio, TX</li> <li>Austin, TX</li> <li>Kansas City, MO</li> <li>St. Louis, MO</li> <li>New Orleans, LA</li> <li>Albuquerque, NM</li> <li>Lubbock, TX</li> <li>El Paso, TX</li> <li>Midland, TX</li> </ol>	<ul style="list-style-type: none"> <li>Dallas Fort Worth (DFW), the primary international airport in the D/FW Metroplex and the largest hub for American Airlines</li> </ul>
Airline market share^^	Strategic context	
1.  Southwest: 96% 2.  United: 2% 3.  Delta^: 2%	<ul style="list-style-type: none"> <li>Due to the Wright Amendment Reform Act of 2006, in October of 2014, direct flights are no longer limited to the 9 nearby states</li> <li>Southwest Airlines' corporate headquarters is at Love Field, and Dallas is a focus city for them</li> <li>As a result of the American-US Airways merger, AA must divest its 2 gates at DAL</li> <li>The close proximity to downtown Dallas and limited gate availability have generated significant interest in the 2 American gates</li> </ul>	

Note: \* Given the Wright Amendment Reform Act of 2006, Love field's capacity is limited to 20 gates; ^ Following the merger of American and US Airways, the U.S. DOJ is requiring American's 2 gates (currently sub-leased to Delta) to be divested at DAL \*\*Nonstop flights with more than 50 passengers per day ^^Based on pax

Source: L.E.K. analysis of ARN Fact book, City of Dallas, Diio Mi; Bing Maps

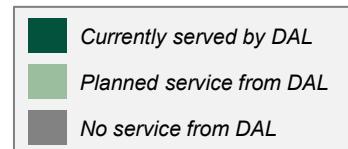
CONFIDENTIAL

## With the expiration of the Wright Amendment, 14 of the top 20 destinations from the Dallas/Fort Worth Metroplex will be served by DAL

Top 20 destinations from the D/FW Metroplex – both DAL and DFW (Q3 2012 – Q3 2013)

Rank	Destination*	Daily pax (incl. connect)	DAL service
1	LAX	2,124	Planned
2	NYC	1,965	Planned
3	CHI	1,652	Planned
4	WAS	1,499	Planned
5	SFO	1,300	No Service
6	DEN	1,261	Planned
7	ATL	1,234	Planned
8	LAS	1,208	Planned
9	HOU	1,066	Currently Served
10	MCO	910	Planned

Rank	Destination*	Daily pax (incl. connect)	DAL service
11	BOS	843	No Service
12	SAT	765	Currently Served
13	PHX	692	Planned
14	PHL	687	No Service
15	SEA	682	No Service
16	MSY	638	Currently Served
17	SAN	616	Planned
18	MSP	590	No Service
19	DTW	565	No Service
20	MCI	557	Currently Served



Note: \* NYC (LGA, JFK, EWR, HPN), LAX (LAX, BUR, SNA, ONT, LGB), CHI (ORD, MDW), WAS (DCA, IAD, BWI) SFO (SFO, SJC, OAK) \*\*Nonstop flight offered to destination from DAL or DFW ^Average of 75% to 85% load factor ^^Some flights may be operated by an E75 with the same number of seats \*\*\*Based on the assumption that Delta only gets two gates

Source: L.E.K. analysis of Diio Mi

## In its settlement with American, the DOJ is requiring AA to divest its two preferential use gates at Dallas Love Field (DAL)

- American Airlines will have to relinquish the gates at all airports under “commercial terms and conditions identical to those pursuant to which the gates and facilities are leased to New American”
  - There is no restriction on whether American can receive compensation for sub-leasing the gates
- The DOJ’s intent with the divestiture is to create competition for American out of Dallas by leveraging the more convenient location of DAL to give an advantage to a new entrant
  - The DOJ claims rights to approve the selected carrier; their focus is on increased competition and facilitating new opportunities for low cost carriers
  - “... The goal of the divestiture remedy is to enhance the ability of the LCCs to frustrate coordination among the legacy carriers ...”  
The U.S. Department of Justice
- The DOJ prefers the gates be assigned to an LCC versus remain open for common use, to ensure that a new entrant has the right number and time for slots to compete effectively
- The final agreement prohibits the merged company from reacquiring an ownership interest in the divested slots or gates
  - “... Section XII of the proposed Final Judgment prohibits the merged company from reacquiring an ownership interest in the divested slots or gates during the term of the Final Judgment ...”  
The U.S. Department of Justice

## The City of Dallas is looking for a recommendation on the optimal use of American's two gates at DAL

- The close proximity of DAL to downtown Dallas and limited gate availability has generated significant interest in these gates from other airlines, including:



– Southwest (based in Dallas and currently the largest operation at DAL)



– Delta (currently sub-leases the two AA gates)



– Virgin America (potential new entrant at DAL)

- Given the critical role that DAL airport plays in the local economy and the important service they provide for the citizens of Dallas, the City is looking to develop a framework for evaluating potential new airline tenants for the gates
- The City of Dallas is seeking to establish a clear position on what the optimal outcome is for the City and its residents

**The intent of this project is to identify the best new use of the AA gates at DAL for the City of Dallas, its citizens, and DAL itself**

### Primary Objective

- The primary objective of this project is to provide a framework for the City to evaluate the best use of American Airlines' divested gates at DAL and a well-reasoned position on the optimal outcome of the current process for the City of Dallas



### Key Issues

- What overall objectives should guide the City's assessment of potential new airline tenants for the DAL gates?
- Who are the key stakeholders in the decision to award American Airlines' divested gates at DAL?
- What are the primary interests of each stakeholder group as they relate to the awarding of the DAL gates?
- What is an appropriate framework for evaluating the options and determining the optimal solution for the City?
- What specific criteria should be used to determine the "best" use of the gates for the City of Dallas? How should those criteria be weighted?
- How does each candidate airline rate across the key evaluation criteria?
- Overall, which airline (or airlines) represent the best fit for the DAL gates given the City's objectives and why?

**The City of Dallas selected L.E.K. Consulting to conduct this work based on L.E.K.'s reputation and experience as a leading aviation strategy advisor**

### L.E.K. Aviation Credentials

- More than 25 years successfully advising on strategic issues in the aviation sector globally, with a combination of airline and airport advisory experience that is unique among consultants in the industry
- Leading strategic advisor to the global airline industry, where clients include more than half of the top 50 airlines around the world by market capitalization, including both major network carriers and leading LCCs
  - 2 of the 3 largest airline mergers in industry history
  - 2 of the 3 largest frequent flier programs in the industry
  - Chief architect of the merchandizing (ancillary revenue) movement in the U.S. industry and internationally
- Extensive work with leading airports and airport groups around the globe
  - Buy- and sell-side advisory work for airport privatizations
  - Commercial air service development strategies
  - Traffic forecasting
  - Retail master plan development

To complete this assessment, L.E.K. conducted extensive secondary research, leveraged internal expertise, and conducted independent analysis

L.E.K. did do	L.E.K. did <u>not</u> do
<ul style="list-style-type: none"><li>Worked with DAL and the city of Dallas to understand their primary objectives, views of key stakeholders, and other relevant criteria</li><li>Reviewed relevant proposals and materials prepared by airlines seeking to win the DAL gates</li><li>Identified and outlined the key stakeholders</li><li>Leveraged L.E.K. experience with airport development to outline high level objectives for each stakeholder</li><li>Developed an evaluation framework and determined the relative importance of each scoring criterion</li><li>Identified several potential gate-award scenarios</li><li>Conducted secondary research and independent analysis to determine the attractiveness of each potential gate-award scenario</li><li>Recommended a best case scenario for the City based on L.E.K.'s view of the relative importance of each objective</li></ul>	<ul style="list-style-type: none"><li>Perform an in-depth, industry wide analysis on each potential airline that may or may not be interested in the DAL gates</li><li>Conduct an interview campaign for each primary and secondary stakeholder to reinforce our independent assumptions</li><li>Perform forecasting analysis to determine future passenger traffic for each gate and potential airline, including any QSI analysis</li><li>Perform a route-level fare analysis to evaluate each potential possibility created with different entrants and scenarios</li><li>Discuss this issue with any carrier, including those submitting a proposal</li><li>Receive input from City officials on their desired outcome</li></ul>

## Agenda

- Background and objectives
- Review of airline proposals and recommendations
- Appendix

## Delta (DL), Virgin America (VX), and Southwest (WN), have expressed interest in American's (AA) two gates at DAL



Proposed routes (flights/day)	<ul style="list-style-type: none"> <li>ATL (6)</li> <li>LGA (5)</li> <li>MSP (3)</li> <li>DTW (3)</li> <li>LAX (5)</li> </ul>	<ul style="list-style-type: none"> <li>LAX (4)</li> <li>SFO (4)</li> <li>LGA (4)</li> <li>DCA (4)</li> <li>ORD (2)</li> </ul>	<ul style="list-style-type: none"> <li>CLT</li> <li>PHL</li> <li>DTW</li> <li>MSP</li> <li>EWR</li> </ul>	<ul style="list-style-type: none"> <li>SFO</li> <li>SJC</li> <li>OAK</li> <li>SMF</li> <li>SEA</li> </ul>	<ul style="list-style-type: none"> <li>BOS</li> <li>RDU</li> <li>MEM</li> <li>IND</li> <li>ECP</li> <li>CHS</li> </ul>
Proposed aircraft	<ul style="list-style-type: none"> <li>CRJ-900 (76 seats)</li> <li>Boeing 717 (110 seats)</li> </ul>	<ul style="list-style-type: none"> <li>A320 (146 seats)</li> </ul>	<ul style="list-style-type: none"> <li>737-700 (143 seats)</li> <li>737-800 (175 seats)</li> </ul>		
Additional considerations	<ul style="list-style-type: none"> <li>Requesting gates for common use, which Delta would then use as needed</li> <li>Requires 3 gates for its full plan, implying potential access to United's gates</li> </ul>	<ul style="list-style-type: none"> <li>Dallas area expansion plans contingent upon obtaining 2 DAL gates</li> <li>Virgin has stated that they would exit DFW</li> </ul>	<ul style="list-style-type: none"> <li>Southwest already has 16 of 20 gates at DAL</li> <li>Southwest cannot fly out of DFW without relinquishing DAL gates, so this is their most realistic expansion opportunity</li> </ul>		
Proposal thesis	<ul style="list-style-type: none"> <li>Provide DAL with 1-stop access to global destinations</li> </ul>	<ul style="list-style-type: none"> <li>Offer a competing network of flights with a differentiated product and lower fares to large business markets from DAL</li> </ul>	<ul style="list-style-type: none"> <li>Introduce meaningful competition to American Airlines and more destinations from DAL</li> </ul>		

## Given the City's responsibilities, Dallas residents and the local business community should be seen as the primary stakeholders in the gate decision

### Stakeholders

Primary stakeholders	Dallas residents	<p><u>Primary needs and motivations:</u></p> <ul style="list-style-type: none"> <li>● Greatest number of non-stop destinations from Dallas (DAL + DFW)</li> <li>● Low fares</li> <li>● Greatest number of non-stop destinations from Dallas (DAL + DFW)</li> <li>● Best possible flight schedule / frequency of service</li> <li>● New convenient premium class service at DAL</li> <li>● Increased business activity</li> </ul>
	Local business community	
Secondary stakeholders	DAL airport	<ul style="list-style-type: none"> <li>● Maximum traffic through the airport, increasing airport revenues</li> <li>● Minimum risk of airline service level changes</li> </ul>
	DAL airport employees	<ul style="list-style-type: none"> <li>● Maximum job creation</li> </ul>
	DFW airport	<ul style="list-style-type: none"> <li>● Minimum direct route overlap between DFW and DAL, to reduce potential passenger loss</li> </ul>
Other stakeholders <i>not included in this analysis</i>	DOJ	<ul style="list-style-type: none"> <li>● Increased competition for AA in Dallas</li> <li>● Greater LCC presence in Dallas and nationally</li> </ul>
	American Airlines	<ul style="list-style-type: none"> <li>● Minimize number of competitors in the Dallas area</li> <li>● Minimize direct route overlap</li> </ul>

We have excluded "other stakeholder" considerations from our analysis in order to remain objective; The DOJ's needs do not necessarily overlap with the needs of the primary stakeholders

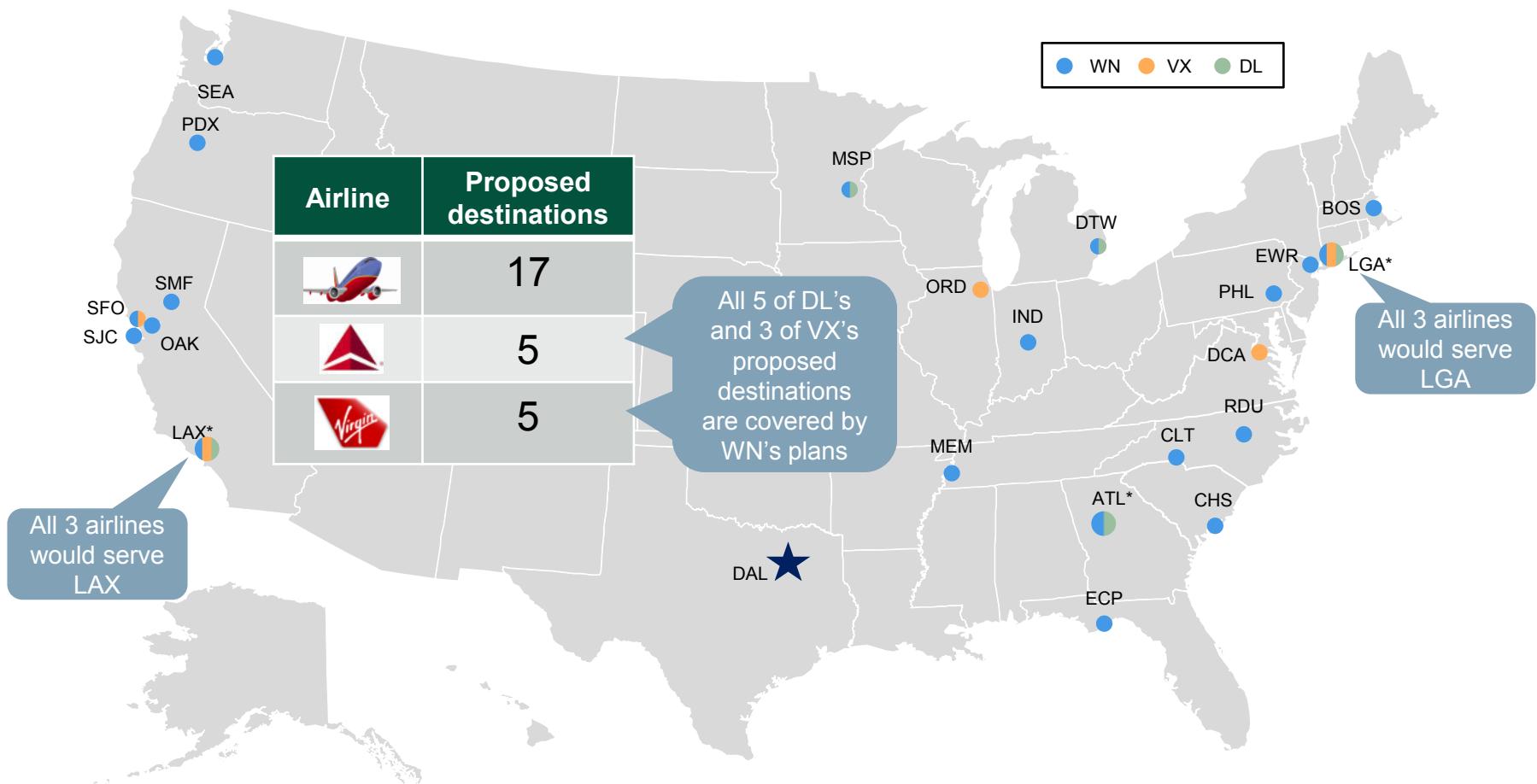
# The City's main objective should be to maximize O&D passenger throughput across both DAL and DFW, as that would represent maximum utility for stakeholders

## Objectives

		<u>Needs met</u>	<u>Stakeholders supported</u>
Tier 1 objectives	1 Increase non-stop destinations from DAL	<ul style="list-style-type: none"> <li>More non-stop destinations from DAL</li> </ul>	Residents Business community
	2 Maximize O&D passenger throughput across DAL & DFW	<ul style="list-style-type: none"> <li>Greatest number of key routes being served (demonstrated by demand)</li> <li>Maximize DAL aero &amp; non-aero revenue</li> <li>Maximize local economic growth</li> <li>Maximize indirect jobs in Dallas</li> </ul>	Residents Business community DAL airport DAL airport employees
Tier 2 objectives	3 Lower fares from DAL	<ul style="list-style-type: none"> <li>Lower fares caused either by an increase in competition or new LCC entrant</li> </ul>	Residents Business community
	4 Minimize route overlap with DFW	<ul style="list-style-type: none"> <li>Limited cannibalization of existing DFW passenger volume</li> </ul>	DFW Airport AA
Tier 3 objectives	5 Add convenient premium class service at DAL	<ul style="list-style-type: none"> <li>New premium (first class) service to key cities from the more convenient DAL location (vs. DFW)</li> </ul>	Business community Residents
	6 Increase number of DAL jobs	<ul style="list-style-type: none"> <li>Increase DAL jobs</li> </ul>	DAL airport DAL airport employees
	7 Airline stability and commitment at DAL	<ul style="list-style-type: none"> <li>Minimize risk to DAL and City of Dallas given reliance on limited airlines; ensure longstanding commitment</li> </ul>	Residents DAL airport DAL airport employees
	8 Add a partner that will contribute to the community	<ul style="list-style-type: none"> <li>Commitment to the community</li> </ul>	Residents Business community

# 1 Southwest's proposal would likely lead to the highest number of non-stop destinations from DAL

## Proposed DAL destination airports for WN, VX and DL



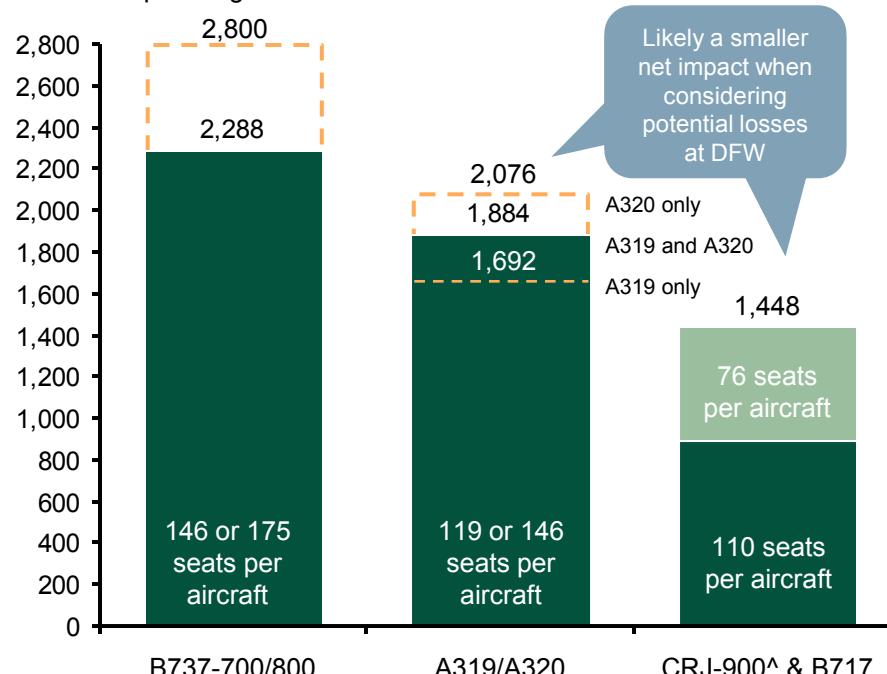
Note: \* Current/planned WN destinations w/out gates ^Includes destinations from Delta's and Virgin's proposals that Southwest is already planning to fly with its existing gates  
Source: L.E.K. analysis of company proposals and Dio Mii

2

## Based on fleet plans and potential cannibalization at DFW, Southwest would likely drive the most passenger traffic across both DAL & DFW

### Potential DAL passengers per day by aircraft type

Number of passengers\*



### Commentary

- Based on intended aircraft and gate usage, Southwest is projected to have the highest passenger throughput for DAL
  - While Southwest claims 737-800s would be deployed, 737-700s are more probable on marginal routes
- Virgin could serve nearly as many DAL pax as Southwest, but at some risk to DFW
  - While Virgin proposes using A320s; we have assumed they would split their service between A319s and A320s as a new entrant
  - As Virgin will be pulling out of DFW, the net impact to the Metroplex could only be 1,200 – 1,300 pax/day
- With smaller aircraft planned, Delta is expected to serve fewer passengers than WN or VX
  - Delta proposes using 16 CRJ-900s; while they suggest a 3<sup>rd</sup> gate would be necessary, we have capped their total flights at 20, matching Southwest
  - As these services would overlap with existing DFW service, it is likely that a substantial number of pax would be pulled from the existing service

Proposed flights per day**	20	18	CRJ-900: 14^^ B717: 6
System wide load factor***	80%	79%	84%

Note: \* Calculated as (aircraft seats) x (flights/day) x (system-wide load factor); \*\* Max potential assumed to be 11 turns per day based on Southwest performance at MDW; typical efficient gate usage is 7-8 turns per day; \*\*\* 2012 system wide load factor; ^ Some flights may be operated by an E175 with the same number of seats; ^^ Based on the assumption that Delta only gets two gates (proposing 16 total for 3 gates)

Source: L.E.K. analysis of ADP; company proposals; company seating charts

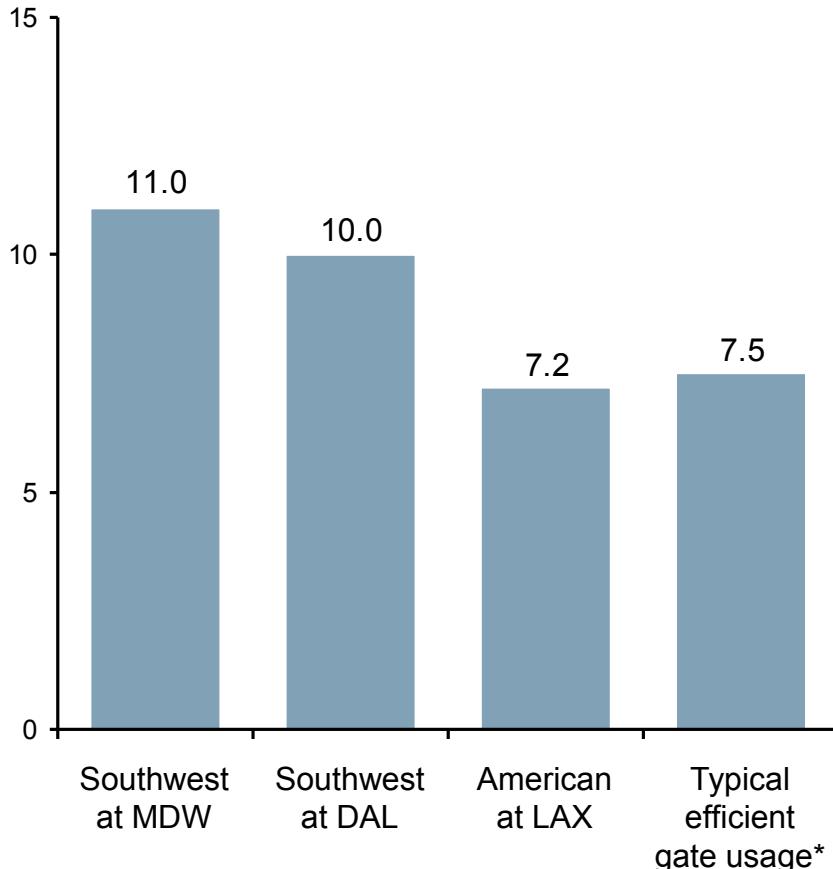
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## 2 The Southwest and Delta proposals likely represent the maximum daily usage of the available gates

### Maximum efficient gate usage

Number of gate turns per day



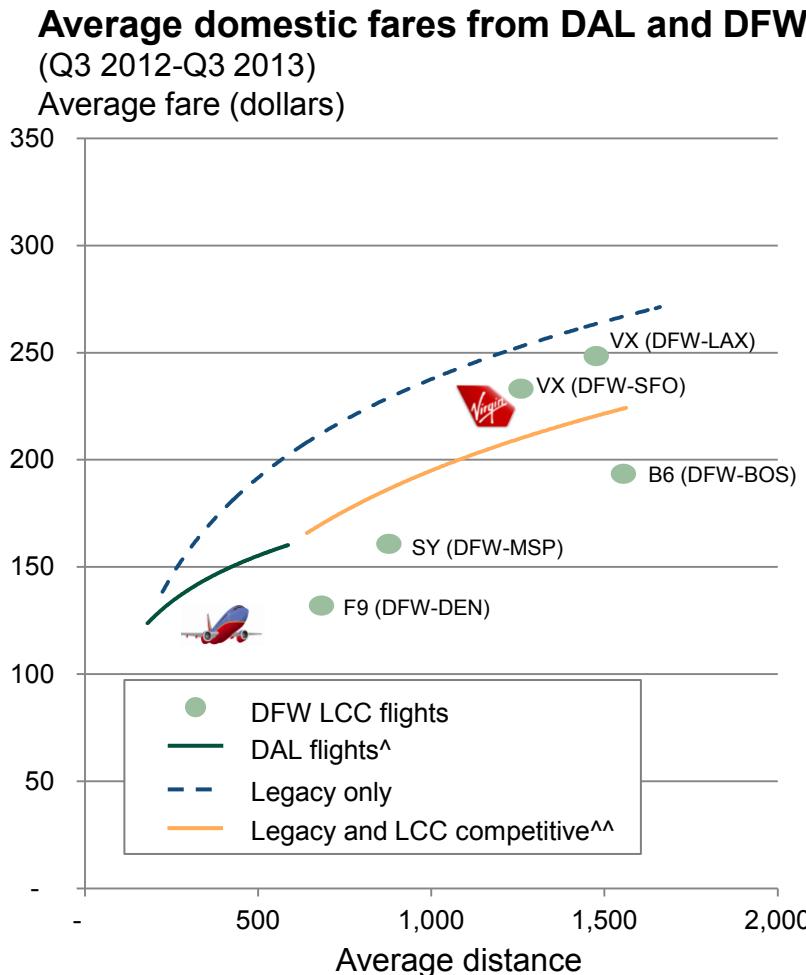
Note: \* Based on L.E.K. experience and industry observation

Source: L.E.K. analysis of Diio Mi

- Maximum efficient gate usage is based on three main factors:
  - (1) Size of aircraft, as larger aircraft take longer to turn
  - (2) Airline operational efficiency, as certain airlines perform better at catering, fueling, inspecting, and loading aircraft
  - (3) Consistency of demand throughout the day, as airlines attempt to match their schedule to the most popular times to fly (typically motivated by business travel)
- In gate-constrained situations, U.S. airlines typically can operate ~7.5 flights per day out of a single gate
  - At LAX, where pre-merger American is gate-constrained, it is able to support ~94 mainline flights per day out of its 13 gates (7.2 flights per gate per day)
  - Southwest, with an all narrow-body fleet and efficient operations, is able to support up to 11 flights per day at some gates at MDW

Given industry evidence of efficient gate usage, we have assumed that 10-11 turns per gate is a reasonable estimate for DAL

### ③ Historically, Southwest has driven a greater fare differential in Dallas than Virgin; however it has a mixed track record in other markets



**Fare differentials from legacy fares in similar markets to DAL/DFW**  
(Q3 2012-Q3 2013)

Comparison	Houston (HOU/IAH)	Chicago (MDW/ORD)
Avg. WN fare differential (%)	20	13
Avg. LCC fare differential (%)	28	28

### Key Observations

- Historically, Virgin has not offered significantly lower fares in Dallas relative to WN or other LCCs
- Neither Southwest nor Virgin typically offer Dallas fares as low as JetBlue, Frontier, or Sun Country
- While Southwest has historically offered lower fares in Dallas, Houston, and Chicago, its track-record is mixed – fares have actually increased ~23% in ATL (vs. 4% nationally) since Southwest took over AirTran

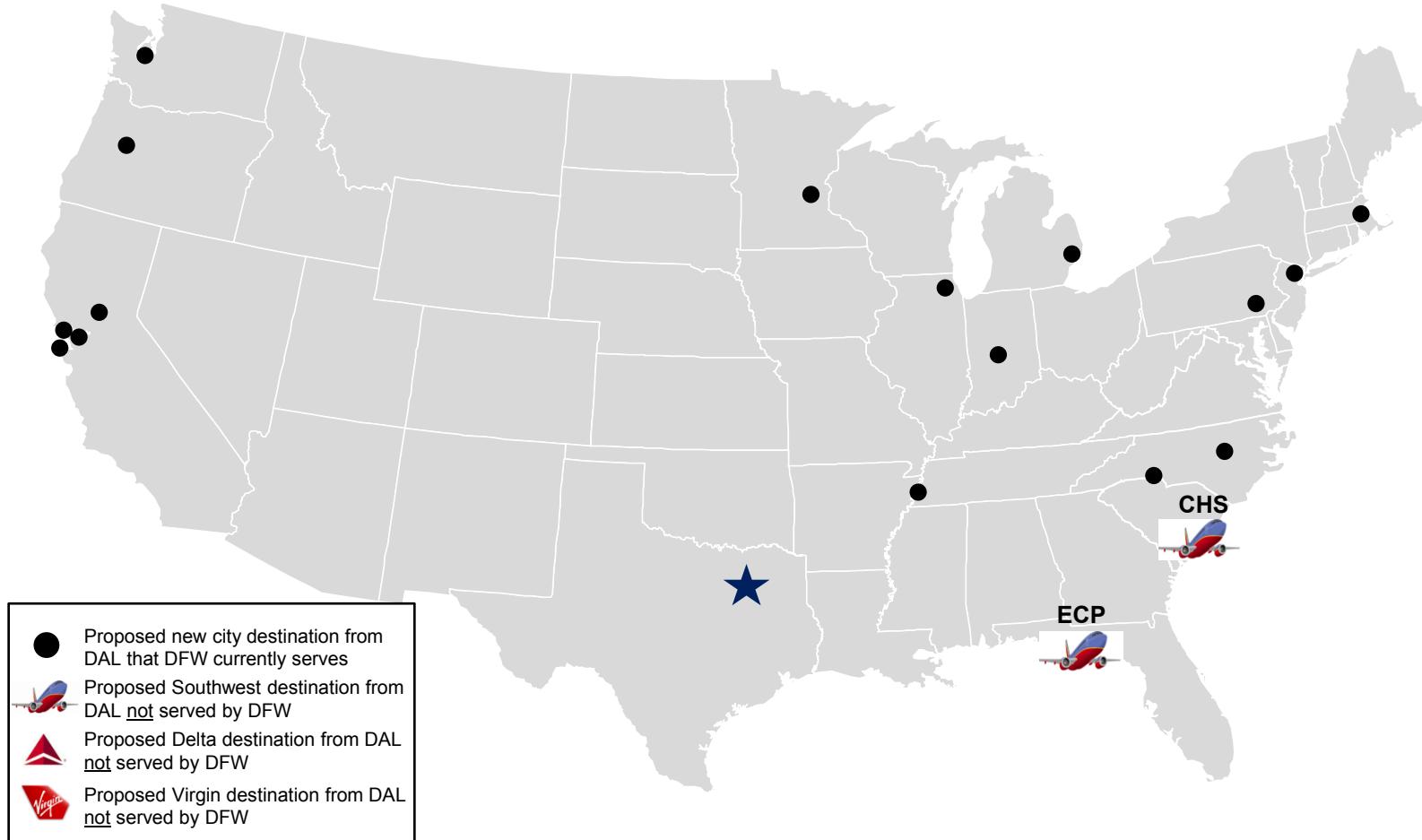
Note: \* Only nonstop destinations from DAL with passengers per day greater than 50 passengers per day; NK was not included in this analysis, as they appear to have minimal impact on other carrier's fares; ^ "DAL flights" are all non-stop flights from DAL; ^^ "Legacy and LCC competitive" are routes with both Legacy and LCC presence

Source: Airlines and Aviation: Dallas Business Telegram, L.E.K. analysis of Dio Mii

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4 Despite the substantial increase in nonstop destinations, only CHS and ECP (both Southwest) do not overlap with existing service from DFW

Incremental non-stop destinations from DAL by carrier

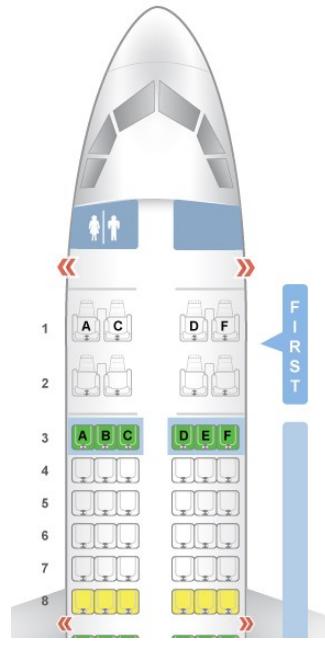


5 With both more flights and more first class seats per aircraft, Delta would provide the greatest increase in premium class service at DAL



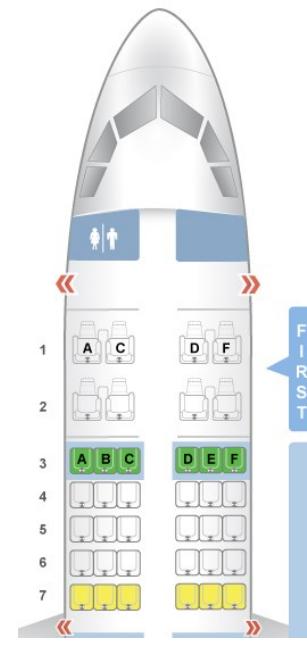
A319

8 first class seats



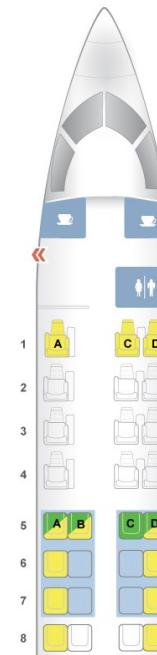
A320

8 first class seats



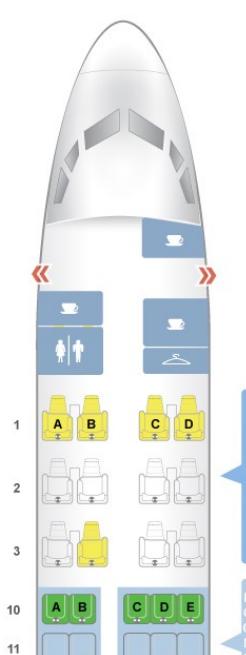
CRJ-900

12 first class seats



B717

12 first class seats



8 first class seats x 18 flights  
= 144 first class seats per day

12 first class seats x 20 flights  
= 240 first class seats per day

## Delta or Virgin would likely create the greatest number of new jobs at DAL and similarly represent a greater opportunity to increase corporate partnership with the community (whereas Southwest is already a strong partner)

6

Increase number of DAL jobs

### Rationale

- Additional carriers at DAL would likely require incremental airport employees

7

Airline stability and commitment

- Given that DAL currently relies on Southwest for 96% of all passenger throughput, it is significantly exposed to any risk associated with the airline
- Diversification could mitigate some of DAL's airline customer risk

8

Add a partner that will contribute to the community

- American Airlines and Southwest both have a large footprint and positive impact in the Dallas community
- If a carrier receives preferential gates at restricted DAL, a similar high level of community involvement should be expected

### Implications

- Virgin or Delta would likely create more jobs at DAL due to the added requirements of supporting an incremental carrier
- Delta is the only legacy carrier vying for the gates at DAL and given its scale is likely the most stable of the three carriers; however, DL has left Dallas once before
- Southwest, one of the largest employers in Dallas, is very likely to remain at DAL; we expect that they will use the gates fully but may not reach new destinations as those markets are unproven
- While Virgin would help from a diversification standpoint, it would come with some element of risk, as it is the smallest of the three carriers with the smallest existing presence in Dallas

- If either Delta or Virgin could use the gates at DAL to grow their presence in the market, they could similarly increase their profile in the community and partnership with the city
- It is less likely that the gain of 2 incremental gates would have a material impact on Southwest's community support, which is already strong

## Southwest is the most attractive option for the City of Dallas, given both expectations for its O&D pax throughput and potential for low fares

### Objectives (% weighting)



### Rationale

- Most beneficial
- Least beneficial

Tier 1 (50%)

- 1 Increase non-stop destinations from DAL



- Southwest is proposing 17 new nonstop destinations vs. 5 (DL) and 5 (VX)

- 2 Maximize O&D pax throughput across DAL & DFW



- While both Southwest and Virgin would serve substantial passengers, Virgin would be removing flights from DFW

Tier 2 (40%)

- 3 Lower fares from DAL



- Historically, Southwest has driven a greater fare differential in Dallas than Virgin; however it has a mixed track record in other markets

- 4 Minimize route overlap with DFW



- ECP and CHS (both WN) are the only proposed new destinations that are not currently served by DFW

- 5 Add convenient premium class service at DAL



- With both more flights and more first class seats per aircraft, Delta would provide the greatest increase in premium class service at DAL

Tier 3 (10%)

- 6 Increase number of DAL jobs



- VX or DL would likely create more jobs at DAL due to the added requirements of supporting an incremental carrier

- 7 Airline stability and commitment



- Delta's scale gives it stability although it has left Dallas before, while Southwest is fully committed as the home-town carrier

- 8 Add a partner that will contribute to the community



- DL or VX represent a greater opportunity to increase corporate partnership with the community (whereas Southwest is already a strong partner)

### Overall attractiveness



Southwest is the most attractive option for the City of Dallas

## A common-use strategy could allow the City to manage the gates in an optimal way across carriers

### ***Benefits of a common-use model***

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- Airlines could be held accountable for the benefits stated in their proposal (planned routes, aircraft) if they risk losing the gates
  - Conditions can be made public that gate usage is lost when destinations or routes fall below a predetermined number and a competing carrier desires to add service
- Common use is generally seen as the best way to allow new entrants

“... Airport-controlled common-use gates give the airport operator more flexibility to assign gates and to facilitate entry ...”  
FAA/OST Task Force, October 1999
- Depending on carrier flexibility, more than one of the bidders could be partially accommodated within the two gates
- Additional carriers that may not be able to support a full gate at DAL would have easier access to the terminal on a more limited basis, for example:
  - JetBlue could shift its three BOS flights from DFW to DAL
  - Allegiant could have a Saturday flight to LAS

## Agenda

- Background and objectives
- Review of airline proposals and recommendations
- Appendix

## Current DFW and DAL nonstop destinations in the U.S. with more than 50 passengers per day

Airport Code	PAx per day	Airport Code	PAx per day	Airport Code	PAx per day	Airport Code	PAx per day
ORD	1310	DCA	472	MDW	172	RIC	90
LAX	1238	SAN	471	BHM	170	VPS	86
DEN	1215	FLL	462	OMA	161	BTR	83
ATL	1156	SNA	406	CLE	156	HNL	80
LAS	1082	TPA	386	MKE	148	RNO	72
LGA	1061	ELP	353	JAX	147	DSM	72
HOU	1060	ABQ	335	SMF	144	JAN	71
SFO	834	CLT	333	OKC	132	SJU	70
STL	804	BNA	315	ONT	130	XNA	66
SAT	753	TUL	286	CRP	120	ICT	63
MCO	750	SLC	282	HRL	118	TYS	59
BOS	741	LBB	282	BDL	117	PNS	57
PHX	623	MAF	267	SDF	113	ORF	57
PHL	622	MIA	260	RSW	113	GSP	54
MSY	607	IAD	257	COS	105	GRR	53
MCI	547	LIT	247	TUS	103		
MSP	546	AMA	239	MEM	103		
SEA	532	PDX	222	MFE	100		
EWR	529	IND	207	CVG	99		
AUS	520	SJC	203	AZA	98		
DTW	500	CMH	193	OAK	96		
IAH	494	PIT	192	PBI	92		
BWI	487	RDU	174	DAY	91		