

Attachment A

November 1, 2020

Ed Zuercher
Phoenix City Manager
Phoenix City Hall
200 W. Washington Street
Phoenix, AZ 85003

Via Email Ed.Zuercher@phoenix.gov

**Re: COVID-19 Pandemic – Impact on Concessionaires at Phoenix Sky Harbor Airport
A Strategy for Business Stabilization, Employee Retention, and Operation Recovery.**

Dear City Manager Zuercher,

The Phoenix Sky Harbor International Airport (PHX) concessionaires are grateful for the proactive leadership of the Mayor, the City Council and aviation management in providing the modification that allowed a percentage rent structure from April-December 2020.

When this decision was made, however, the nation and the airport industry did not fully understand the extent and duration of the COVID-19 pandemic or its long-lasting effect on the aviation sector (3 to 5-year recovery). What we are going through is far worse than anything we have previously seen including the terrible impact of 9/11 and the recession of 2008. While we have all planned for ups and downs and survived them, this pandemic is far worse than anything we could have contemplated.

There is only one certainty and that is that nobody can realistically tell us when things will return to a level of business that will allow us to pay our debts and bring back our workforce.

With your leadership we respectfully request PHX take additional steps to support the many businesses and their employees associated with Phoenix Sky Harbor International Airport.

Specifically, we request:

- 1) In 2021 set the rent as standard percentage rent for all sales from January 01, 2021 through December 31, 2021.
- 2) Provide an extension to the existing contract, so we can have the time needed to re-finance and repay our loans and financial obligations.

These actions will help ensure our survival and will facilitate our ability to bring back our employees as business returns.

The PHX concessions program benefits the experience of millions of travelers (that normally travel through PHX); it benefits the City of Phoenix; it benefits the state of Arizona; and it is absolutely crucial to thousands of employees who rely on its operations for their livelihood.

PHX's concessions program was recently recognized as one of the best programs in the country; it has dramatically increased the Airport Concessions Disadvantaged Business Enterprise (ACDBE) participation, and it is a key contributor to delivering on the promise of "Americas Friendliest Airport."

Forthcoming (in the next couple of weeks) will be a short video with testimonials from PHX concessions operators sharing their individual stories - we hope that you find the time to watch this heartfelt plea. Also attached is a comprehensive write-up that lays out the case for support regarding the imminent ACDBE debt crisis.

Please realize that many of us have asked for relief from our banking partners. While several have worked with us to provide temporary relief that time has now run out. Without help from the City, we may not survive. Our businesses and our ability to bring back our tenured workforce is at serious risk – please help.

Respectfully,
Your Sky Harbor ACDBE Concessions Operators:

| | | |
|---|--|--|
| Joya Kizer President/CEO CASA Unlimited Enterprises, Inc. | Bruce D. Mosby President Mosby and Company, Inc | Gonzalo A. De La Melena President ED Market Ventures, Inc. |
| Jason Silberschlag Jr. President Cartel Coffee Lab | Lachele Mangum President LAM Holdings | Gregory E. Torrez President/CEO Torrez International LL |
| Teresa Dominguez President Maja Art, Inc | Kurt Mangum President PM Consulting Services | Frank Dominguez Partner Maja Art, Inc |
| Nava Singam President Kind Hospitality | Ricardo De Leon President Cambios y Servicios, Inc | Melissa Trujillo Partner Cambios y Servicios, Inc |
| Tracy Basile President Wildflower Bread Company | Sara Levy President S.Levy Foods | Eddie Wang President ELPX LLC |
| Sonya Anderson President Grand Isle Yogurt | Shelley Bonner-Carson President GSS Corp NV | Jason Pastore President JMJ-LLC |
| Dr. Jeremy Levitt President The Levitt Group LLC | Ray Ann Cam President Concessionaire | |

ACDBE DEBT CRISIS: Local & Small businesses Survival Threatened by the COVID-19 Pandemic

Significant Capital Investments in Airport Concessions required ACDBE's to Take on High Levels of Debt.

What do we need?

1) Rent Relief, 2) Term Extensions 3) Access to Capital = keys to survival of the program and the ACDBE firms.

Background

- Building retail stores and restaurants in airports is expensive and in-line with compliance to the ACDBE program, DBEs are required to contribute their own capital for the initial investments but are also taking on significant debt to finance their share of the rest of the buildout costs. This could represent several hundreds of thousand dollars of debt for the smaller concession's programs, and several millions of dollars for larger concessions programs.
- In airport retail or restaurant concessions, the basic economic model is that the cash that is left once all operating expenses are paid for (cost of goods sold, payroll, rent, credit card fees, utilities, supplies, etc.) goes to the service the debt.
- When a store or restaurant is performing well and generating cash after all operating expenses are covered, the debt can be paid back before the end of the concessions contract. At that point, excess cash becomes available for-profit distribution, **but the timing of COVID-19 interrupts that portion of the equation.**

Dramatic Shortfall in Sales = Shortfall in Cash Available to Service Debt

- In the context of Covid-19, where all concessionaires in U.S. airports are bleeding cash and need to acquire more debt just to stay in business, the ability for the retail or restaurant unit to complete its debt repayment before the ending of the concessions contract is severely impacted if not impossible
- It is expected that traffic will not return to 2019 levels for another 3-5 years, maybe more for some airports, which means the concessions units will not generate anywhere near the amount of cash flow anticipated in the initial business plan that served as the basis to obtain the debt necessary for the initial buildout.
- As a result of this multi-year drop in revenues, it is realistic to anticipate that a very large number of ACDBE's will not be able to pay for the current debt service from the initial buildout of their store or restaurant. Further, this inability to pay current debt service will result in many ACDBE's having outstanding debt at the end of their concessions contracts.
- The extent of the ACDBE debt crisis will lead to a collapse of the DBE program across U.S. airports

Prime Concessionaires Can Help, Partially

- An estimated 85% of ACDBE participation in U.S. airports concessions programs is achieved through joint ventures with Prime Concessionaires ("Primes").
- During Covid-19 with concessionaires bleeding cash, the Primes are taking on a significant amount of debt on their own to stay alive which ultimately allows them to continue to provide infrastructure support to the joint ventures they have with ACDBE partners.

- Many joint ventures don't have enough accumulated cash reserves to offset the severe shortfall of cash from operations and will therefore also require capital calls to add cash to the joint venture, which means both the ACDBE's and Prime's amount of debt will actually increase.
- Even if they had the ability in the face of the pandemic, the Primes are not in a position to absorb any of the DBE's debt service obligations as this would go against the ACDBE regulations that require the DBE to be subject to business risk in a way that is commensurate to their level of participation.
- The fact that many Primes are large entities operating in several countries makes no difference as Covid-19 is a global pandemic during which airport concessions around the world are bleeding cash, therefore having a global footprint makes matters worse.

The ACDBE Debt Crisis is an Airport Crisis

- U.S. airports receive funding through various FAA Airport Improvement Programs (AIP) for infrastructure work (\$1.2 billion in 2019) subject to grant assurances that a percentage of their construction and concessions contracts include DBE participation.
- A collapse of the ACDBE program may put Airport sponsors in default and will require a significant restructuring of the funding model because airport concessions will no longer be in a position to support DBE participation and in many markets, there may not even be ACDBEs still in business and able to participate.
- Most ACDBEs firms in a given airport are from that airport's local community and damage from the ACDBE debt crisis will therefore have a multiplier effect and hit the local business community the most.
- As a way to help mitigate this situation, airports could provide term extensions as this would provide for a longer period to pay down the debt (assuming return to positive cash being generated fast enough; extending a contract that continues to bleed cash would be of any help).
- We need Congress to Implement Measures to Mitigate the ACDBE Debt Crisis
- A joint coalition of AMAC, ARRA, ACI, AAAE etc. already asked Congress to make \$3.5 billion available for airports to provide rent relief to airport concessionaires through end of 2021.
- This rent relief, which has not yet been voted on, is critical for concessionaires to mitigate the cash burn while allowing airports to continue their required operations.
- **Access to capital is the third critical solution for ACDBE's survival:** to allow for financing, re-financing and DBE's ability to weather the storm. Loan and Grant programs like PPP Second draw, Mainstreet Lending Program, Economic Impact & Disaster Loan (EIDL) and 7a disaster recovery loan all have potential but need some additional tweaking of the legislation to allow for loans/capital that are invested in a public asset (i.e. an airport).

In Summary, 1) Rent Relief, 2) Term Extensions 3) Access to Capital are the key solutions to survival.

These measures would ensure debt continues to be serviced and avoid the collapse of the ACDBE program, which collapse would have negative ripple effects for generations to come.

- Given the civil unrest of 2020 and the highly visible divide being created with minorities in a Presidential election year, now is the time to act to show that it is important to prevent a collapse of the 40-year old ACDBE program.
- Please be vocal and write to your elected officials asking for their clear, unequivocal support of our ask to save the ACDBE program and save your business as a certified ACDBE.