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# Report to the BOARD OF AIRPORT COMMISSIONERS

Approver:   
 Dave Jones, Deputy Executive Director  
 Commercial Development Division

Reviewer:   
 Brian C. Ostler, City Attorney

  
 John Ackerman, Chief Executive Officer

<u>Meeting Date</u>			
7/18/2024			
Needs Council Approval: <input checked="" type="checkbox"/> Y			
Reviewed for/by	Date	Approval Status	By
Finance	5/2/2024	<input checked="" type="checkbox"/> Y <input type="checkbox"/> NA	JS
CEQA	4/17/2024	<input checked="" type="checkbox"/> Y	MD
Procurement	4/17/2024	<input checked="" type="checkbox"/> Y <input type="checkbox"/> Cond	BG
Guest Experience	3/27/2024	<input checked="" type="checkbox"/> Y	TB
Strategic Planning	4/16/2024	<input checked="" type="checkbox"/> Y	BNZ

## SUBJECT

Request to approve the award of a 12-year Common-Use Passenger Lounge Concession Agreement, with option to extend the term for one period of three years, to AD Partnership, LLC to develop and operate a new common use passenger lounge in the Tom Bradley International Terminal at Los Angeles International Airport that will generate approximately \$79 million in rent revenue over the 12-year term.

## RECOMMENDATIONS

Management RECOMMENDS that the Board of Airport Commissioners:

1. ADOPT the Staff Report.
2. DETERMINE that this action is exempt from the California Environmental Quality Act (CEQA) pursuant to Article III, Class 1 (18)(c) of the Los Angeles City CEQA Guidelines.
3. APPROVE the award of the proposed Common-Use Passenger Lounge Concession Agreement with AD Partnership, LLC to develop and operate a common use passenger lounge in the Tom Bradley International Terminal at Los Angeles International Airport.
4. AUTHORIZE the Chief Executive Officer, or designee, to execute the proposed Common Use Passenger Lounge Concession Agreement with AD Partnership, LLC, subject to approval as to form by the City Attorney and approval by the Los Angeles City Council.

## **DISCUSSION**

### **1. Purpose**

The proposed Common-Use Passenger Lounge Concession Agreement (Agreement) with AD Partnership, LLC (ADP) will provide access to common-use lounge amenities in Tom Bradley International Terminal (TBIT) and increase non-aeronautical revenues at Los Angeles International Airport (LAX).

### **2. Prior Related Actions/History of Board Actions**

None.

### **3. Background**

Over 50 international airlines serve TBIT, and on average, over 43,000 passengers pass through the facility daily. Currently, there are four airline premium passenger lounges in TBIT, and a new 11,500 square foot Air France premium passenger lounge will open in Q3 2024. In addition, American Express operates a Centurion Lounge that provides lounge services for American Express members.

There is still additional demand lounge access, especially for a common-use lounge which provides access to passengers on a pay-per-use basis as well as through memberships and other programs such as those affiliated with bank credit card programs. To support the continued demand for lounge access, LAWA staff released a Request for Proposals (RFP) for development and operation of a common-use lounge in TBIT.

### **4. Current Action / Rationale**

In response to the RFP, LAWA selected ADP to build and operate a new 9,234 square foot lounge in TBIT. ADP is comprised of a partnership between Airport Dimensions, a leading U.S.-based shared-use lounge operator that manages a global network of over 50 common-use lounges, and JPMorgan Chase. The partnership brings together two best-in-class industry experts.

ADP has committed to a minimum of 10% Airport Concession Disadvantaged Business Enterprise (ACDBE). Hyde Park Hospitality, LLC will manage all hiring, training, and direct supervision of the lounge employees. Also, ADP committed to achieving a minimum of 25% DBE participation for construction of the new lounge.

The proposed agreement is for 12 years, with option to extend the term for one period of three years. For the first full year of operation, ADP will pay a monthly rent equal to the greater of (x) 20% of all gross receipts or (y) \$6 per passenger using the lounge (Percent Rent). Beginning in the second year of operation, ADP will pay the greater of Minimum Annual Guarantee (MAG) of \$680/square foot or the Percent Rent. Beginning in the third year of operation and all subsequent years, the MAG will be reset as the greater of (i) 85% of the immediately prior year's actual rent or (ii) the immediately prior year's MAG adjusted by 2% per agreement year. The MAG can never be less than the immediately prior year's MAG.

## **5. Selection Process**

On June 2, 2022, LAWA released an RFP for a Common Use Lounge Operator at the TBIT Gateway at LAX. A pre-proposal conference was held on August 4, 2022. On August 30, 2022, LAWA issued an addendum to the RFP that extended the due date from August 26, 2022, to September 30, 2022.

On September 30, 2022, two proposals were received: one from ADP, and one from Plaza Premium Group. On March 3, 2023, LAWA staff issued a notification letter to ADP of LAWA's intent to recommend ADP to the Board for the award of the Common Use Passenger Lounge Concession Agreement and proceeded to negotiate the proposed Agreement.

Procurement Services reviewed this action (File No. 10131) and established a goal of 10% Airport Concessions Disadvantaged Business Enterprise Program participation. AD Partnership, LLC proposes 20% ACDBE participation.

## **6. Fiscal Impact**

Approval of the proposed agreement will provide a minimum of \$79 million in revenue to LAWA over the term of the Agreement, excluding the annual rental rate adjustment.

## **7. Alternatives Considered**

- ***Take No Action***

Taking no action is not recommended as it will delay the investment to create a new common-use passenger lounge, which would be a detriment to airline passengers expecting this amenity.

## **APPROPRIATIONS**

No appropriations of funds are required for this action.

## **STANDARD PROVISIONS**

The proposed document(s) is/are subject to approval as to form by the City Attorney.

Actions taken on this item by the Board of Airport Commissioners will become final pursuant to the provisions of Los Angeles City Charter Section 606.