

REPORT FROM

OFFICE OF THE CITY ADMINISTRATIVE OFFICER

Date: September 19, 2024

CAO File No. 0150-12747-0000

Council File No.

Council District: 11

To: The Mayor

From: Matthew W. Szabo, City Administrative Officer

Reference: Correspondence from the Los Angeles World Airports Board of Airport Commissioners dated July 18, 2024 and August 5, 2024; referred by the Mayor for a report on July 29, 2024

Subject: **RESOLUTION NO. 27995 AND PROPOSED COMMON-USE PASSENGER LOUNGE CONCESSION AGREEMENT WITH AD PARTNERSHIP, LLC IN THE TOM BRADLEY INTERNATIONAL TERMINAL AT LOS ANGELES INTERNATIONAL AIRPORT**

RECOMMENDATION

That the Mayor:

1. Approve Los Angeles World Airports (LAWA) Board Resolution No. 27995 authorizing a proposed Common-Use Passenger Lounge Concession Agreement with AD Partnership, LLC to develop and operate a new common use passenger lounge in the Tom Bradley International Terminal at Los Angeles International Airport, consisting of a 12-year term with a one-time three-year extension option, generating approximately \$79 million in rent revenue over the duration of the agreement;
2. Adopt the California Environmental Quality Act (CEQA) determinations of the August 10, 2024 Board of Airport Commissioners (Board) Resolution 27995, that this action is exempt from the CEQA pursuant to Article III, Class 1 (18)(c) of the Los Angeles City CEQA Guidelines; and
3. Authorize the LAWA Chief Executive Officer, or designee, to execute the proposed Common-Use Passenger Lounge Concession Agreement upon approval as to form by the City Attorney and approval by the Council.

SUMMARY

The Los Angeles World Airports (LAWA) Board of Airport Commissioners (Board) requests approval of its August 10, 2024 Resolution 27995 authorizing a proposed Common-Use Passenger Lounge Concession Agreement (Agreement) with AD Partnership, LLC (referred to as "ADP") in

the Tom Bradley International Terminal (known as "TBIT") at Los Angeles International Airport (LAX). The agreement has a 12-year term, with a one-time option to extend the agreement for an additional three years, resulting in a total contract term of 15 years. LAWA expects to generate at least \$79 million in rent revenue over the initial term, not including the extension period, annual rent escalations, or additional rent that may be triggered by percent rent and concession fees.

Approval of the proposed agreement will allow ADP to develop and operate a 9,234 square foot common-use passenger lounge on the Concourse level (Level 4) of the TBIT Gateway at LAX. The tenant has committed to investing financial resources of approximately \$27.7 million to construct a premier lounge, which will be accessible to travelers in the TBIT once the work is finalized.

The proposed agreement has been approved as to form by the City Attorney. Pursuant to Charter Section 606 and Los Angeles Administrative Code Section 10.5, Council approval is required because the cumulative contract term exceeds five years. Our Office has reviewed the request and recommends approval.

BACKGROUND

Common-Use Lounges at LAX – Currently, LAX lacks common-use lounges accessible to all travelers. The existing lounge options are limited to airline-specific lounges and the Centurion Lounge, both of which have restrictive eligibility requirements for entry. Airline lounges typically require first-class tickets or elite frequent flyer status, while the Centurion Lounge is exclusively for American Express cardholders with specific higher-tier cards.

Enhancing Passenger Lounge Accessibility – The introduction of a common-use lounge would enhance the airport experience for a broader range of passengers by offering premium amenities for relaxation, work, and dining to travelers who don't meet the criteria for existing lounges but are willing to pay for the enhanced comfort.

Passenger Lounge Space Solicitations – LAWA's efforts to establish a common-use lounge in the TBIT have been ongoing for several years. The Department initiated three separate solicitations to the business community, aiming to convert a vacant space in the TBIT into a lounge accessible to a broader range of passengers. These initiatives were stalled as a result of challenges created by the COVID-19 pandemic.

Competitive Process – On June 2, 2022, LAWA issued a Request for Proposals (RFP) for a Common-Use Lounge Operator at the TBIT Gateway. A pre-proposal conference was held on August 4, 2022, to present the Department's objectives and address potential bidders' inquiries. To encourage broader participation, LAWA extended the proposal deadline from August 26, 2022 to September 30, 2022. Two proposals were received by the due date: one from ADP and another from Plaza Premium Group. After evaluation, LAWA staff determined that ADP's proposal offered superior amenities and demonstrated the necessary funding to construct a premier lounge facility, aligning with the Department's goals of enhancing passenger experience.

Proposed Common-Use Lounge – ADP proposed the LAX Chase Sapphire Common-Use Lounge, offering priority access to Chase Sapphire cardholders while also allowing access to non-cardholders for a fee. Recognizing the potential of this hybrid model to meet both exclusive and common-use needs, LAWA entered into negotiations with ADP.

On July 18, 2024 and August 10, 2024, the Board approved a LAWA staff report and Resolution 27995 requesting authority to execute a proposed Common-Use Passenger Lounge Concession Agreement with ADP in the TBIT. The proposed agreement has a 12-year initial term, with a one-time option to extend for three years, allowing ADP to develop and operate a lounge for Chase Sapphire cardholders and common-use airline passengers. The new agreement will increase LAWA's revenue by approximately \$79 million over the initial 12-year period. LAWA expects that the lounge will become operational in the second quarter of 2026.

Lounge Renovation Timeline and Financial Commitment – Under the agreement, ADP must complete the lounge construction within two years of executing the lease. The renovation cost, projected at \$27.7 million, will be covered at the sole expense of the tenant. The financial commitment from ADP minimizes the financial risk for LAWA while still allowing the Department to benefit from the proposed revenue sharing arrangement.

Concession Agreement Revenues – From the rent commencement date, ADP will begin paying LAWA according to the escalating rent schedule shown in Attachment 1.

CITY COMPLIANCE

Airport Concession Disadvantaged Business Enterprise (ACDBE) Participation – The Department's Procurement Services Division staff reviewed this action (File No. 10131) and established a 10 percent goal of ACDBE participation. AD Partnership exceeded LAWA's objective by proposing a 20 percent ACDBE participation rate.

Charter Section 1022 – Concession agreements are not subject to the provisions of Charter Section 1022 on the use of independent contractors.

California Environmental Quality Act (CEQA) – The Department has determined that this action is exempt from CEQA requirements pursuant to Article III, Class 1 (18)(c) of the Los Angeles City CEQA Guidelines.

The proposed Common-Use Passenger Lounge Concession Agreement includes provisions to ensure compliance with applicable City Ordinances, contracting, and insurance requirements. The proposed agreement is subject to approval as to form by the City Attorney and approval by the Council. In accordance with Charter Section 606 and Administrative Code Section 10.5(c), the Agreement requires Council approval because the total term of the Agreement exceeds five years. Our Office recommends approval.

FISCAL IMPACT STATEMENT

Approval of the proposed Common-Use Passenger Lounge Concession Agreement between the Los Angeles World Airports and AD Partnership, LLC will generate at least \$79 million in rent revenue to the LAX Revenue Fund, excluding optional space, annual rent escalations, and additional percent rent from other services. The actions of the proposed agreement comply with Los Angeles World Airports' adopted Financial Policies. Approval of the proposed agreement will have no impact on the City's General Fund.

Attachment 1 – AD Partnership – Payment Schedule

Attachment 2 – July 18, 2024 BOAC Report and August 10, 2024 Resolution No. 27995

MWS/PJH/JVW:DLG:10250062

**AD Partnership, LLC Common-Use Passenger Lounge Concession Agreement
Compensation Structure**

Payment Schedule						
Year 1	Greater of (x) or (y)	x	20% of all gross receipts			
		y	\$6/Passenger using the lounge			
Year 2	Greater of (i) or (ii)	i	MAG* (Greater of \$680/SF)			
		ii	Greater of (x) or (y)	x	20% of all gross receipts	
				y	\$6/Passenger using the lounge	
Year 3 Through End of Term	Greater of (i) or (ii)	i	Greater of (1) or (2)	1	85% of the immediate prior year's actual rent paid	
				2	Immediate prior year's MAG adjusted by CPI greater or equal to 2%	
		ii	Greater of (x) or (y)	x	20% of all gross receipts	
				y	\$6/Passenger using the lounge	

*MAG – Minimum Annual Guarantee

- The MAG can never be less than the immediately prior year's MAG adjusted by two percent.

July 23, 2024

The Honorable Karen Bass
Mayor, City of Los Angeles
City Hall – Room 303
Los Angeles, CA 90012

ATTN: Heleen Ramirez, Legislative Coordinator
ATTN: Thomas Arechiga, Deputy Legislative Coordinator

LAX

Van Nuys

City of Los Angeles

Karen Bass
Mayor

**Board of Airport
Commissioners**

Karim Webb
President

Matthew M. Johnson
Vice President

Vanessa Aramayo
Courtney La Bau
Victor Narro
Nicholas P. Roxborough
Valeria C. Velasco

John Ackerman
Chief Executive Officer

RE: 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

In accordance with Executive Directive No. 4, we are transmitting a copy of the specified board report for the 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.

City Council approval is required pursuant to Section 606 of the Los Angeles City Charter.

Sincerely,



Becca Doten
Chief of Staff

BD:MSA:kfs

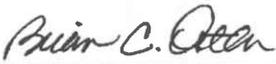




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Report to the BOARD OF AIRPORT COMMISSIONERS

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:

- ADOPT the Staff Report.
- 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.
- 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.
- 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.

August 5, 2024

The Honorable City Council
of the City of Los Angeles
(via email)

Subject: Common-Use Passenger Lounge Concession Agreement with AD Partnership LLC

Enclosed for your consideration is the Common-Use Passenger Lounge Concession Agreement with AD Partnership LLC that was approved by the Board of Airport Commissioners at its July 18, 2024 meeting. There is no impact to the General Fund.

LAX

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City of Los Angeles

Karen Bass
Mayor

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John Ackerman
Chief Executive Officer

RECOMMENDATIONS FOR CITY COUNCIL:

1. Adopt the determination by said Board 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; and
2. Approve Award of twelve (12)-year Common-Use Passenger Lounge Concession Agreement to AD Partnership LLC, with option to extend the term for one period of three (3) years, covering development and operation of a new common use passenger lounge in the Tom Bradley International Terminal at Los Angeles International Airport; and
3. Concur with said Board's action on July 18, 2024, by Resolution 27995, authorizing the Chief Executive Officer, or designee, of Los Angeles World Airports to execute said Common-Use Passenger Lounge Concession Agreement to AD Partnership LLC.

This document and its attachments are advisory only and do not constitute a complete and official submittal to the City Council. The official submittal, including this document and its attachments, will be submitted electronically to the City Council and the Council File Management System pursuant to Charter Section 606 via the City Clerk's website when the file is complete.

Very truly yours,



Grace Miguel, Commission Executive Assistant II
Board of Airport Commissioners Office
Los Angeles World Airports

Enclosures

cc: CAO (Airport Analyst), e-file
CLA (Airport Analyst), e-file



RESOLUTION NO. 27995

WHEREAS, on recommendation of Management, there was presented for approval, Award of twelve (12)-year Common-Use Passenger Lounge Concession Agreement to AD Partnership LLC, with option to extend the term for one period of three (3) years, covering development and operation of a new common use passenger lounge in the Tom Bradley International Terminal at Los Angeles International Airport; and

WHEREAS, over 50 international airlines serve the Tom Bradley International Terminal (TBIT), and on average, over 43,000 passengers pass through the facility daily. Currently, there are four (4) 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 its members; and

WHEREAS, 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; and

WHEREAS, to support the continued demand for lounge access, Los Angeles World Airports (LAWA) released a Request for Proposals for development and operation of a common-use lounge in TBIT. Two proposals were received: one from AD Partnership LLC (ADP), and one from Plaza Premium Group; and

WHEREAS, 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; and

WHEREAS, ADP has committed to a minimum of 10% Airport Concessions Disadvantaged Business Enterprise participation. 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% Disadvantaged Business Enterprise participation for construction of the new lounge; and

WHEREAS, under the Concession Agreement, 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; and

WHEREAS, the Concession Agreement will provide a minimum of \$79 million in revenue to LAWA over the term of the Agreement, excluding the annual rental rate adjustment; and

WHEREAS, 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;

NOW, THEREFORE, BE IT RESOLVED that the Board of Airport Commissioners adopted the Staff Report; determined that this action is exempt from the California Environmental Quality Act

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City of Los Angeles

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Mayor
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(CEQA) pursuant to Article III, Class 1 (18)(c) of the Los Angeles City CEQA Guidelines; approved Award of twelve (12)-year Common-Use Passenger Lounge Concession Agreement to AD Partnership LLC, with option to extend the term for one period of three (3) years, covering development and operation of a new common use passenger lounge in the Tom Bradley International Terminal at Los Angeles International Airport; and authorized the Chief Executive Officer, or designee, to execute said Common-Use Passenger Lounge Concession Agreement with AD Partnership LLC after approval by the Los Angeles City Council and approval as to form by the City Attorney.

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I hereby certify that this Resolution No. 27995 is true and correct, as adopted by the Board of Airport Commissioners at its Special Meeting held on Thursday, July 18, 2024.

A handwritten signature in blue ink, appearing to read "Grace Miguel".

Grace Miguel – Secretary
BOARD OF AIRPORT COMMISSIONERS