



Los Angeles World Airports



REPORT TO THE BOARD OF AIRPORT COMMISSIONERS

| <u>MICHELLE IRWIN (Oct 14, 2021 10:12 PDT)</u> Approved by: Michelle Irwin, Commercial Development Division | | <u>Meeting Date:</u> 10/21/2021 | | | | | | | | | | | | | | | | | | | | | | | | | |
|--|-----------|---|----|--------------|------|-----------------|----|---------|-----------|--|----|------|----------|--|----|-------------|----------|--|----|------------------|----------|--|----|--------------------|----------|--|----|
| Reviewed by: Dave Jones, Deputy Executive Director, Commercial Development Division | | <u>CAO Review:</u> <div style="display: flex; align-items: center;"> <input type="checkbox"/> Completed <input checked="" type="checkbox"/> Pending <input type="checkbox"/> N/A </div> | | | | | | | | | | | | | | | | | | | | | | | | | |
| <u>Brian Ostler (Oct 14, 2021 10:45 PDT)</u> City Attorney | | <table border="1"> <thead> <tr> <th>Reviewed for</th> <th>Date</th> <th>Approval Status</th> <th>By</th> </tr> </thead> <tbody> <tr> <td>Finance</td> <td>8/19/2021</td> <td><input checked="" type="checkbox"/> Y <input type="checkbox"/> N <input type="checkbox"/> NA</td> <td>JS</td> </tr> <tr> <td>CEQA</td> <td>6/3/2021</td> <td><input checked="" type="checkbox"/> Y <input type="checkbox"/> N</td> <td>VW</td> </tr> <tr> <td>Procurement</td> <td>6/3/2021</td> <td><input type="checkbox"/> Y <input type="checkbox"/> N <input checked="" type="checkbox"/> Cond</td> <td>LK</td> </tr> <tr> <td>Guest Experience</td> <td>6/4/2021</td> <td><input checked="" type="checkbox"/> Y <input type="checkbox"/> N</td> <td>TB</td> </tr> <tr> <td>Strategic Planning</td> <td>6/3/2021</td> <td><input checked="" type="checkbox"/> Y <input type="checkbox"/> N <input type="checkbox"/> NA</td> <td>KC</td> </tr> </tbody> </table> | | Reviewed for | Date | Approval Status | By | Finance | 8/19/2021 | <input checked="" type="checkbox"/> Y <input type="checkbox"/> N <input type="checkbox"/> NA | JS | CEQA | 6/3/2021 | <input checked="" type="checkbox"/> Y <input type="checkbox"/> N | VW | Procurement | 6/3/2021 | <input type="checkbox"/> Y <input type="checkbox"/> N <input checked="" type="checkbox"/> Cond | LK | Guest Experience | 6/4/2021 | <input checked="" type="checkbox"/> Y <input type="checkbox"/> N | TB | Strategic Planning | 6/3/2021 | <input checked="" type="checkbox"/> Y <input type="checkbox"/> N <input type="checkbox"/> NA | KC |
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| Finance | 8/19/2021 | <input checked="" type="checkbox"/> Y <input type="checkbox"/> N <input type="checkbox"/> NA | JS | | | | | | | | | | | | | | | | | | | | | | | | |
| CEQA | 6/3/2021 | <input checked="" type="checkbox"/> Y <input type="checkbox"/> N | VW | | | | | | | | | | | | | | | | | | | | | | | | |
| Procurement | 6/3/2021 | <input type="checkbox"/> Y <input type="checkbox"/> N <input checked="" type="checkbox"/> Cond | LK | | | | | | | | | | | | | | | | | | | | | | | | |
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| Strategic Planning | 6/3/2021 | <input checked="" type="checkbox"/> Y <input type="checkbox"/> N <input type="checkbox"/> NA | KC | | | | | | | | | | | | | | | | | | | | | | | | |
| <u>Justin Erbacci (Oct 14, 2021 10:48 PDT)</u> Justin Erbacci, Chief Executive Officer | | | | | | | | | | | | | | | | | | | | | | | | | | | |

SUBJECT

Amend the Rental Car Concession Agreements at Los Angeles International Airport to update provisions related to, and establish consistency for, the calculation of Minimum Annual Guarantee rent.

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 II, Section 2.f. of the Los Angeles City CEQA Guidelines.
3. APPROVE the Seventh Amendments to the following nine concession agreements: the Hertz Corporation (LAA-8136); Avis Rent A Car System, LLC (LAA-8137); Budget Rent A Car System, Inc. (LAA-8138); Alamo Rental (US) LLC (LAA-8139); National Rental (US) LLC (LAA-8140); DTG Operations, Inc. dba Dollar Rent A Car (LAA-8141); Enterprise Rent-A-Car Company of Los Angeles, LLC (LAA-8142); Fox Rent A Car, Inc. (LAA-8143); and DTG Operations, Inc. dba Thrifty Car Rental (LAA-8144); and the Fourth Amendment to concession agreement with Sixt Rent A Car, LLC (LAA-8870), as referenced in the report. Altogether, there are 10 concession agreements to be amended.

4. AUTHORIZE the Chief Executive Officer to execute the amendments to the specified concession agreements after approval as to form by the City Attorney and approval by the Los Angeles City Council.

DISCUSSION

1. Purpose

Revise rental car concession agreements at Los Angeles International Airport to establish a consistent period to recalculate the Minimum Annual Guarantee amounts and sustainably reintroduce Minimum Annual Guarantee rent provisions.

2. Prior Related Actions

- **January 21, 2003 – Board Order No. AO-4844**
The Board of Airport Commissioners (Board) approved award of concession agreements between Los Angeles World Airports and 10 rental car companies at Los Angeles International Airport: Avis Rent a Car System, LLC (f/k/a Avis Rent A Car System, Inc.) (LAA-8137); Alamo Rental (US), LLC (f/k/a Alamo Rental (US) Inc. and Alamo Rent-A-Car LLC) (LAA-8139); Budget Rent A Car System, Inc. (LAA-8138); National Rental (US) LLC (f/k/a National Rental [US] Inc. and National Car Rental System, Inc.) (LAA-8140); DTG Operations, Inc. dba Dollar Rent A Car (LAA-8141); DTG Operations, Inc. dba Thrifty Car Rental (assignees to T.C.R.L.P.'s agreement) (LAA-8144); Enterprise Rent-A-Car Company of Los Angeles, LLC (LAA-8142); The Hertz Corporation (LAA-8136); Fox Rent A Car, Inc. (LAA-8143); and Simply Wheelz, LLC dba Advantage Rent A Car (assignee to Coast Leasing Corp.'s agreement) (LAA-8145) commencing February 1, 2003, and expiring on January 31, 2008.
- **December 3, 2007 – Board Order No. AO-5090**
The Board approved the First Amendment to extend the term of the agreements to January 31, 2010, and add additional provisions.
- **December 21, 2009 – Board Order No. AO-5153**
The Board approved the Second Amendment to extend the terms of the agreements, as amended, to January 31, 2015, and add additional provisions.
- **January 15, 2015 – Resolution No. 25615**
The Board approved a Third Amendment to 10 existing rental car concession agreements to extend the term of the agreements through January 31, 2018, plus two one-year extension options exercisable by Los Angeles World Airports.
- **July 16, 2015 – Resolution No. 25760**
The Board approved award of concession agreements to (a) DR Car Rental, Inc.; (b) Midway Rent-A-Car, Inc., and (c) Sixt Rent a Car, LLC expiring January 31, 2018, with two one-year extension options exercisable by Los Angeles World Airports for operation of rental car concessions.
- **November 21, 2019 – Resolution No. 26889**
The Board approved amendments to 10 concession agreements to extend the term for up to four years and update provisions.

- **April 16, 2020 – Resolution No. 27003**
The Board approved First Letter Agreements for the Concessionaire Relief Program amending concession agreements.
- **October 21, 2020 – Resolution No. 27118**
The Board approved Second Letter Agreements for the Concessionaire Relief Program amending concession agreements.

3. Current Action

Staff recommends amending all ten (10) rental car concession agreements to establish a consistent methodology to recalculate the Minimum Annual Guarantee amounts in support of Los Angeles World Airports' objective to sustainably reintroduce Minimum Annual Guarantee rent provisions.

The rental car concession agreements require rent payments in an amount equal to the greater of Concession Fees calculated at 10 percent of total gross revenue, or a Minimum Annual Guarantee rent. The Minimum Annual Guarantee is calculated annually as the greater of 90 percent of the prior period 12 months' Concession Fee or \$730,000. The decline in passenger traffic due to COVID-19 significantly reduced concession sales and prompted the Board of Airport Commissioners to authorize Los Angeles World Airports to temporarily waive the Minimum Annual Guarantee rent requirement through June 30, 2021. During this period, the rental car concessions continued to pay the Concession Fee.

As the waiver of Minimum Annual Guarantee rent expired on June 30, 2021, the rental car concessions reverted back to paying the greater of the Concession Fee or Minimum Annual Guarantee amounts effective July 1, 2021. Since the Minimum Annual Guarantee has been suspended for the past 14 months, a new Minimum Annual Guarantee is being established for each rental car agreement.

The rental car concession agreements require that the Minimum Annual Guarantee rent be reset annually using a 12-month period that is based on the date each agreement was executed. Because the agreements were not all executed at the same time, the 12-month periods used to establish each rental car concession's Minimum Annual Guarantee are different. This anomaly results in a different basis period being used to reset the Minimum Annual Guarantee rent each rental car concession was to begin paying on July 1, 2021, which is inconsistent with Los Angeles World Airports' intent to treat all concessionaires equally.

In order to create a level basis for all rental car concessionaires, staff recommends amending the rental car concession agreements to establish the same 12-month period to calculate all 10 rental car concessions' Minimum Annual Guarantee amounts. The proposed change also improves the recalculation process by providing advance notice of the new amounts rather than the current system which applies the amounts retroactively. Proposed changes are in the table below.

| | |
|--|--|
| Effective Date | July 1, 2021 |
| Reset of Minimum Annual Guarantee | Minimum Annual Guarantee to be calculated based on the 12-month period March 1, 2020 through February 28, 2021. |
| Future Year Minimum Annual Guarantee Calculation | Future year Minimum Annual Guarantees are to be recalculated annually based on revenue reports submitted for the previous 12-month period (beginning on the first day of March through the last day of February the following year). |

All other terms of the agreements remain unchanged.

How this action advances a specific strategic plan goal and objective

This action advances this strategic goal and objective: *Sustain a Strong Business: Diversify and grow revenue sources, and manage costs.* This action will help ensure rental car concessionaires remain viable and continue to provide a stable source of revenue.

Fiscal Impact

Approval of the amendments will ensure Los Angeles World Airports will receive the greater of concessions fee revenue or Minimum Annual Guarantee rents. Concession fee revenue to Los Angeles World Airports is forecasted to be \$40.6 million in Fiscal Year 2022.

4. Alternatives Considered

- ***Take No Action***

Taking no action would require all concessionaires to remain under current Minimum Annual Guarantee provisions. This would result in some concessionaires paying Minimum Annual Guarantee fees based largely on pre-pandemic revenues with the majority of others paying Minimum Annual Guarantee based on the lower rent relief period revenues. With a full economic recovery not expected for a period, this exposes Los Angeles World Airports to an increased risk of some concessionaires being unable to sustain operations.

APPROPRIATIONS

No appropriation of funds is required for this action.

STANDARD PROVISIONS

1. This action, as a continuing administrative activity, is exempt from California Environmental Quality Act (CEQA) requirements pursuant to Article II, Section 2.f. of the Los Angeles City CEQA Guidelines.
2. The proposed document(s) is/are subject to approval as to form by the City Attorney.
3. 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.

4. Concessionaires are required by contract to comply with the provisions of the Living Wage Service Contractor Worker Retention Ordinances.
5. Procurement Services Division has reviewed this action (File #6985) and established a 3.5 percent Airport Concessions Disadvantaged Business Enterprise (ACDBE) goal for these contracts. Concessionaires have committed to 3.5 percent participation. In federal Fiscal Year 2020, concessionaires achieved:

| | |
|------------|--------|
| Alamo | 1.21% |
| Avis | 1.74% |
| Budget | 1.75% |
| Dollar | 0.19% |
| Enterprise | 6.49% |
| Fox | 8.20% |
| Hertz | 0.07% |
| National | 18.70% |
| Sixt | 0.57% |
| Thrifty | 0.06% |

6. Concessionaires are required by contract to comply with the provisions of the Affirmative Action Program.
7. Concessionaires have each been assigned a Business Tax Registration Certificate number.
8. Concessionaires are required by contract to comply with the provisions of the Child Support Obligations Ordinance.
9. Concessionaires have approved insurance documents, in the terms and amounts required, on file with the Los Angeles World Airports.
10. This action is not subject to the provisions of Charter Section 1022 (Use of Independent Contractors).
11. Concessionaires have submitted the Contractor Responsibility Program Pledge of Compliance and will comply with the provisions of the Contractor Responsibility Program.
12. Concessionaires must be determined by Public Works, Office of Contract Compliance, to be in compliance with the provisions of the Equal Benefits Ordinance prior to execution of the Amendment.
13. Concessionaires will be required to comply with the provisions of the First Source Hiring Program for all non-trade Airport jobs.
14. Concessionaires will comply with the provisions of the Bidder Contributions CEC Form 55.
15. Concessionaires will comply with the provisions of the MLO Bidder Contributions CEC Form 50.
16. This item is not subject to the provisions of the Iran Contracting Act.

Attachment

- Rental Car Concession Agreement Summary Exhibit

Rental Car Concession Agreement Summary Exhibit

| Agreement With | Agreement No. | Local Contact | Corporate Address |
|---|---------------|----------------------|---|
| Alamo Rental (US) Car System, LLC | LAA-8139 | Thomas Klingler | 333 City Boulevard West, Suite 1101, Orange, CA 92868 |
| Avis Rent a Car System, LLC | LAA-8137 | Anne D. Morrison | 6 Sylvan Way, 3rd Floor, Parsippany, NJ 07054 |
| Budget Rent a Car System, Inc. | LAA-8138 | Anne D. Morrison | 6 Sylvan Way, 3rd Floor, Parsippany, NJ 07054 |
| DTG Operations dba Dollar Rent A Car | LAA-8141 | Stephen A. Blum | 8501 Williams Road, Estero FL 33928 |
| Enterprise-Rent-A-Car Company of Los Angeles, LLC | LAA-8142 | Thomas Klingler | 333 City Boulevard West, Suite 1101, Orange, CA 92868 |
| Fox Rent A Car, Inc. | LAA-8143 | Mary Lockhart | 4135 S. 100th East Ave Miles Building Suite 200 Tulsa, OK 74146 |
| The Hertz Corporation | LAA-8136 | Stephen A. Blum | 8501 Williams Road, Estero FL 33928 |
| National Rental (USA) | LAA-8140 | Thomas Klingler | 333 City Boulevard West, Suite 1101, Orange, CA 92868 |
| Sixt Rent a Car, LLC | LAA-8870 | Clemens Schoenberger | 9000 Bellanca Ave. Los Angeles, CA 90045 |
| DTG Operations dba Thrifty Car Rental | LAA-8144 | Stephen A. Blum | 8501 Williams Road, Estero FL 33928 |