

RESOLUTION NO. 27189

WHEREAS, on recommendation of Management, there was presented for approval, Second Amendment to Concession Agreement LAA-8940 with Smarte Carte, Inc. to modify the monthly concession fee and management fee and establish rental rate increases for Calendar Years 2021 and 2022, covering a luggage cart concession at Los Angeles International Airport; and

WHEREAS, under its agreement, Smarte Carte, Inc. (Smarte Carte) has a non-exclusive right to operate and maintain luggage cart service at Los Angeles International Airport (LAX). The agreement has hybrid service/concession structure, which allows Los Angeles World Airports (LAWA), consistent with most international airports in Asia and all major U.S. west coast international airports, to provide luggage carts for free to international arriving passengers in the Federal Inspection Services (FIS) areas at LAX, while allowing Smarte Carte to operate as a concession in international departing and domestic departing and arriving areas where guests pay a concessions fee to rent luggage carts. Since December 5, 2019, the cart rental rate at LAX has been set at \$6. The hybrid structure is as follows:

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Chief Executive Officer

1. **Service:** LAWA pays Smarte Carte approximately \$4 million annually (adjusted each year based on the Consumer Price Index (CPI)) to provide free carts to international arriving passengers. A portion of this expense is recovered directly from international airlines through the terminal rate base and the FIS fee. Based on current projections, LAWA will pay Smarte Carte a management fee of \$4.3 million in Fiscal Year 2021 as shown in the following table.
2. **Concession:** Smarte Carte pays LAWA annually a base fee of \$200,000 plus 50% of gross sales over \$2 million earned from the rental of carts to all passengers outside of the FIS areas. For the most recent agreement year, the total rent payment from Smarte Carte to LAWA is estimated to be \$434,000 as shown in the following table.

Contract Year	Calendar Year	Rent to LAWA	Management Fee
1	2016	\$ 2,602,218	\$ 4,000,000
2	2017	\$ 1,906,001	\$ 4,080,000
3	2018	\$ 1,815,271	\$ 4,161,600
4	2019	\$ 1,566,133	\$ 4,244,832
5	2020	\$ 434,000*	\$ 4,329,729

* Due to significant decrease in passenger travel, caused by COVID-19, sales from cart rentals are expected to be slightly over \$2 million and, therefore, rent to LAWA will consist of the Minimum Annual Guarantee (MAG) of \$200,000 plus 50% of anything over \$2 million which is estimated to be \$234,000; and

WHEREAS, due to COVID-19 impacts, arriving international passenger traffic at LAX has decreased by nearly 90%. However, the agreement does not have a mechanism to reduce the management fee proportionate with the reduction in international arrivals. Therefore, LAWA and Smarte Carte agreed to restructure the agreement to reduce the management fee payment. Further, in recognition of the reduction to the management fee and because Smarte Carte has not received any concession rent relief at LAX, LAWA will also reduce the rent Smarte Carte pays to LAWA and allow increases to the luggage cart rental rates; and

WHEREAS, the Second Amendment will adjust the management fee to a payment of a flat rate of \$2 million annually to cover fixed costs including depreciation and basic staffing levels, plus a variable per passenger fee of \$0.20 per arriving international passenger. LAWA estimates this will reduce LAWA's payment by approximately \$2 million per year at current passenger levels, and directly link future fee amounts to actual international passenger number; and



WHEREAS, the Second Amendment will also change the percentage rent that Smarte Carte pays from 50% of Total Gross Revenues over \$2 million to 38% of Total Gross Revenues over \$2 million. The following chart provides a comparison on revenue to LAWA, based on estimated sales:

Calendar Year	Estimated Total Sales	Estimated Rent at Previous 50% Contingent Fee (plus \$200K MAG)	Estimated Rent at New 38% Contingent Fee (plus \$200K MAG)
2020	\$2,468,000	\$ 434,000**	\$ 434,000**
2021	\$3,282,794*	\$ 841,397**	\$ 648,978**
2022	\$5,064,881*	\$1,732,441**	\$1,272,708**

* Sales based on automatic increase in per cart rate in 2021 to \$7/cart and in 2022 to \$8/cart.

** Estimated Revenue includes \$200,000 MAG; and

WHEREAS, based on declining cart usage and the cost to operate the luggage cart program, Smarte Carte requested an increase to the per cart rental fee. LAWA and Smarte Carte negotiated to allow an increase to the rental rate charged at LAX from \$6 to \$7 starting January 1, 2021 and from \$7 to \$8 starting January 1, 2022; and

WHEREAS, following is a summary of the changes to the agreement; all other terms in the agreement remain the same:

Item	Previous Terms	New Terms
Luggage Cart Rental Rate	\$6 per cart	Effective January 1, 2021 increase to \$7 per cart Effective January 1, 2022 increase to \$8 per cart
Monthly Concessions Fee	MAG of \$200,000; and, Annual Contingent Percentage Fee of 50% of the Total Gross Revenues over \$2M for the applicable Agreement Year	MAG of \$200,000; and, Annual Contingent Percentage Fee of 38% of the Total Gross Revenues over \$2M for the applicable Agreement Year
Management Fee	Annual fee of \$4M subject to an annual CPI adjustment with a maximum rate of 2%	Annual fee of \$2M subject to an annual CPI adjustment with a maximum rate of 2%; and, A rate of \$0.20 per arriving international passenger, subject to an annual CPI adjustment; and

WHEREAS, using the 2020 estimated passenger numbers and luggage cart sales, LAWA estimates that the cumulative impact of revising the management fee and cart rental fees would result in slightly less revenue (\$331,763 instead of \$332,063), but a significantly reduced management fee (\$2.6M instead of \$4.0M); and

WHEREAS, funds for this item are available in the Fiscal Year 2020-2021 LAWA Operating Budget in Cost Center 2001097, Commitment Item 520160 – Operations Contracts. Funding for subsequent fiscal years will be requested as part of the annual budget process; and

WHEREAS, establishment or modification of any rate, fee or charge is exempt from California Environmental Quality Act (CEQA) requirements pursuant to Article III, Class 1 (31) of the Los Angeles City CEQA Guidelines; and

WHEREAS, Smarte Carte is required by contract to comply with the provisions of the Living Wage/Worker Retention Ordinances, Affirmative Action Program, and Child Support Obligations Ordinance; and

WHEREAS, Procurement Services has reviewed this action (File 7612), and established a 5% Airport Concessions Disadvantaged Business Enterprise (ACDBE) goal for the project. Smarte Carte committed to 5% ACDBE; and

WHEREAS, Smarte Carte is assigned Business Tax Registration Certificate 0000866231; and

WHEREAS, Smarte Carte has approved insurance documents, in the terms and amounts required, on file with LAWA; and

WHEREAS, Smarte Carte has submitted the Contractor Responsibility Program Questionnaire and Pledge of Compliance, and will comply with the provisions of said program; and

WHEREAS, Smarte Carte must be determined by Public Works, Office of Contract Compliance, to be in full compliance with the provisions of the Equal Benefits Ordinance prior to execution of the Second Amendment; and

WHEREAS, Smarte Carte has submitted the Bidder Contributions CEC Form 55, and will comply with its provisions; 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 (CEQA) pursuant to Article III, Class 1 (31) of the Los Angeles City CEQA Guidelines; approved the Second Amendment to Concession Agreement LAA-8940 with Smarte Carte, Inc. to modify the monthly concession fee and management fee and establish rental rate increases for Calendar Years 2021 and 2022, covering a luggage cart concession at Los Angeles International Airport; and authorized the Chief Executive Officer to execute said Second Amendment to Concession Agreement LAA-8940 with Smarte Carte, Inc. after approval as to form by the City Attorney and approval by the Los Angeles City Council.

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I hereby certify that this Resolution No. 27189 is true and correct, as adopted by the Board of Airport Commissioners at its Regular Meeting held on Thursday, January 7, 2021.


Grace Miguel Secretary
BOARD OF AIRPORT COMMISSIONERS