

REPORT FROM

OFFICE OF THE CITY ADMINISTRATIVE OFFICER

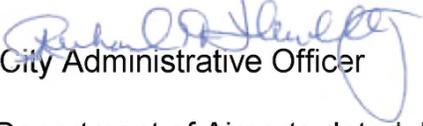
Date: February 16, 2021

CAO File No. 0150-03519-0018

Council File No.

Council District: 11

To: The Mayor

From: Richard H. Llewellyn, Jr.,  City Administrative Officer

Reference: Communication from the Department of Airports dated January 7, 2021; referred by the Mayor for a report on January 7, 2021

Subject: **PROPOSED FOURTH AMENDMENT TO CONCESSION AGREEMENT LAA-8647 WITH DFS GROUP, L.P.**

RECOMMENDATIONS

That the Mayor:

1. Approve a proposed Fourth Amendment to Concession Agreement LAA-8647 with DFS Group, L.P. to adjust the Faithful Performance Guarantee, subject to City Attorney approval as to form;
2. Authorize the Chief Executive Officer to execute the proposed Amendment, upon approval by the Los Angeles City Council; and
3. Return the request to the Los Angeles World Airports for further processing, including Council consideration.

SUMMARY

The Los Angeles World Airports (LAWA; Department) Board of Airport Commissioners (BOAC) requests approval of a proposed Fourth Amendment to Concession Agreement LAA-8647 with DFS Group, L.P. to adjust the Faithful Performance Guarantee in proportion to the reduced rent of the rent relief program approved by the BOAC to address the impacts of COVID-19. The adjustment will provide DFS Group with the same flexibility made available to other concessionaires that received rent relief packages.

All concession agreements at Los Angeles International Airport (LAX) require the concessionaire to post a Faithful Performance Guarantee in the form of a Letter of Credit equal to three months of rent. LAWA reviews and adjusts the Faithful Performance Guarantee requirements annually based

on prior year rent payments. LAWA reports that historically, rents have increased, and the Faithful Performance Guarantees were adjusted to reflect the increases in the required rent guarantees. In April and October 2020, the BOAC approved rent relief for concessionaires that waived the required Minimum Annual Guarantee rent, and allowed payment based only on percentage of gross sales, which resulted in reduced rental payments due to a decrease in passenger traffic and gross sales. While the majority of concession agreements will allow the Faithful Performance Guarantees to reset to reflect lower monthly rent payments, the Concession Agreement with DFS Group includes language that prevents reducing the amount of the Faithful Performance Guarantee below the initial amount of the original agreement. LAWA indicates that DFS Group is facing a financial burden, and has requested relief from this requirement.

LAWA proposes the Fourth Amendment to allow the Faithful Performance Guarantee amounts of the Concession Agreement with DFS Group to reset to align with the rent relief packages approved for other concessionaires. The proposed amendment will adjust the minimum Faithful Performance Guarantee amount from \$7,500,000 to \$5,000,000, and the revised Faithful Performance Guarantee will be the greater of \$5,000,000, or three times the monthly rental rate, whichever is higher.

In August 2012, the BOAC approved a ten-year Concession Agreement with three one-year extension options to develop and operate duty-free locations at LAX. In February 2018, the BOAC approved a term extension of one year to compensate for increased construction costs because of delayed delivery of space. In April 2020, the BOAC approved a Letter Agreement for a concessions relief program to abate and adjust the Minimum Annual Guarantee for the period of April 1, 2020 to June 30, 2020, and defer fees to July 1, 2020. The BOAC approved a Second Letter Agreement for a concessions relief program to abate and adjust the Minimum Annual Guarantee through June 30, 2021, and defer payments to January 2021.

The BOAC approved the proposed Fourth Amendment at its meeting on January 7, 2021. Actions taken on this item by the BOAC will become final pursuant to the provisions of Los Angeles City Charter Section 606.

FISCAL IMPACT STATEMENT

Approval of the proposed Fourth Amendment to Concession Agreement LAA-8647 with DFS Group, L.P. to adjust the Faithful Performance Guarantee will have no impact on the General Fund. The proposed Fourth Amendment complies with LAWA's Financial Policies.