

0150-10362-0000

**TRANSMITTAL**

TO Gina Marie Lindsey, Executive Director Department of Airports	DATE MAR 23 2015	COUNCIL FILE NO.
FROM The Mayor	COUNCIL DISTRICT 11	

**Proposed Nine-Year Agreement with Areas USA LAX, LLC to Manage and Operate a  
Branded Coffee Food and Beverage Concession in Terminal 4 at Los Angeles International  
Airport**

Transmitted for further processing, including Council consideration. See the  
City Administrative Officer report attached.

  
MAYOR

(Ana Guerrero)

MAS:JFH.101500711

REPORT FROM

## OFFICE OF THE CITY ADMINISTRATIVE OFFICER

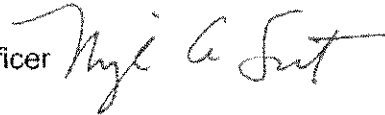
---

Date: March 17, 2015

CAO File No. 0150-10362-0000  
Council File No.  
Council District: 11

To: The Mayor

From: Miguel A. Santana, City Administrative Officer



Reference: Communication from the Los Angeles World Airports dated January 9, 2015;  
referred by the Mayor for report on February 20, 2015

Subject: **REQUEST TO APPROVE AN AGREEMENT WITH AREAS USA LAX, LLC TO  
MANAGE AND OPERATE A BRANDED COFFEE FOOD AND BEVERAGE  
CONCESSION IN TERMINAL 4 AT LOS ANGELES INTERNATIONAL AIRPORT**

---

### SUMMARY

Los Angeles World Airports (LAWA; Department) is currently constructing the \$115 million multi-use, multi-purpose secure T4 Connector between Terminal 4 and the Tom Bradley International Terminal at Los Angeles International Airport (LAX). The Department indicates that certain property rights, which are part of American Airlines, Inc.'s (American) Terminal 4 Lease, are required by LAWA in order to join the two buildings to create a passageway to the T4 Connector. As part of the property rights acquisition, LAWA and American have also identified space that can be used by the Department to develop a new Branded Coffee, Food and Beverage concession in Terminal 4.

On June 18, 2014, 10 proposals were submitted in response to LAWA's Request for Proposals (RFP) for the proposed new Terminal 4 concession. Following interviews of the five most responsive proposers, the LAWA proposal evaluation committee selected Areas USA LAX, LLC (Areas) to construct and operate the new concession. The Areas proposal recommended by the selection committee utilizes the Dunkin Donuts brand to provide a lower price point food and beverage choice than the other similar concessions currently located in Terminal 4 and responds to customer complaints regarding lack of choice and long lines.

The Executive Director of LAWA requests approval to execute a proposed new Agreement with Areas to manage and operate the new concession occupying approximately 1,000 square feet in Terminal 4 adjacent to Gate 45. The proposed Agreement will expire on June 30, 2023, at the same time as other LAX concession agreements in Terminal 4 and will generate minimum payments to the Department of \$1,000,000 annually and \$9,000,000 over the proposed nine-year term of the Agreement not including Consumer Price Index (CPI) adjustments.

A Resolution approving the proposed Agreement with Areas was adopted by the Board of Airport Commissioners (Board) at its meeting of January 15, 2015. A Resolution approving the sublease of the space required for the new concession from American was also approved by the Board on January 15, 2015, and transmitted to the Council for approval as a separate action.

City Council approval of the proposed Agreement is required in accordance with Charter Section 606, and the Los Angeles Administrative Code Section 10.5. Furthermore, to become effective, the City Attorney must approve the Agreement as to form. The above-referenced aspects of the proposed Agreement, and this report, incorporate revised information received from the Department subsequent to the initial request submittal.

### **Background of the Proposed Concession Agreement and Significant Provisions**

The Department is currently constructing the \$115 million multi-use, multi-purpose secure T4 Connector between Terminal 4 and the Tom Bradley International Terminal at LAX. The Department indicates that certain property rights, which are part of American's Terminal 4 Lease, are required in order to join the two buildings to create a passageway to the T4 Connector. As part of the property rights acquisition, LAWA and American have also identified space that can be used for a new Branded Coffee, Food and Beverage concession in Terminal 4.

The Department indicates that on June 18, 2014, 10 proposers submitted proposals for this new Terminal 4 Beverage Concession opportunity. Using an evaluation criteria published in the RFP, LAWA's evaluation committee short listed five proposers for interview. Following the interviews, the five member LAWA evaluation committee selected Areas to construct and operate the new concession. The Areas proposal recommended by the selection committee utilizes Dunkin Donuts brand to provide a lower price point food and beverage choice than the other similar concessions currently located in Terminal 4 which responds to customer complaints regarding lack of choice and long lines.

The Executive Director of LAWA requests approval to execute a proposed Concession Agreement with Areas to manage and operate the new Branded Coffee, Food and Beverage Concession occupying approximately 1,000 square feet in Terminal 4 adjacent to Gate 45. Areas will also manage all aspects of the construction of the new concession location, guaranteeing a capital investment of \$1.6 million.

The proposed Agreement will expire on June 30, 2023, at the same time as other LAX concession agreements and require payment to LAWA of 16.5 percent of branded coffee, bakery, sundries, food and non-alcoholic drink gross revenue and 21.5 percent of all other gross revenues received. The proposed Agreement will generate guaranteed minimum payments to the Department of \$1,000,000 annually and \$9,000,000 over proposed term of the Agreement not including CPI adjustments.

A Resolution approving the proposed Concession Agreement with Areas was adopted by the LAWA Board at its meeting of January 15, 2015 a Resolution approving the sublease of the space required for the new concession from American was also approved by the Board on January 15, 2015, and transmitted to the Council for approval as a separate action.

### **Alternatives to the Proposed Agreement**

The Department indicates that not awarding the proposed Concession Agreement to Areas was considered. However, LAWA reports that representatives of American believe that Terminal 4 is underserved for branded coffee, food and beverage service. The Department indicates that American's belief is reinforced by customer complaints regarding long lines and lack of choice for this type of service in Terminal 4.

### **Compliance with City Administrative Requirements**

According to the Department, Areas must comply with City Standard Provisions for concession (lease) agreements including: Living Wage and Service Worker Retention Ordinances, Affirmative Action Program, Child Support Obligations Ordinance, City insurance requirements, Contractor Responsibility Program, First Source Hiring Program, submission of the Bidder's Contributions CEC (City Ethics Commission) Form 55, and determination by the Department of Public Works, Office of Contract Compliance, of each concessionaire's compliance with provisions of the Equal Benefits Ordinance.

The Department indicates that the proposed Agreement is not subject to the provisions of Charter Section 1022 regarding the use of independent contractors.

City Council approval of the proposed Agreement is required pursuant to Charter Section 606, "Process for Granting Franchises, Permits, Licenses and Entering Into Leases," for a lease with a term greater than five years and Los Angeles Administrative Code Section 10.5 which further defines a term greater than five years. Additionally, to become effective, the City Attorney must approve the proposed Agreement as to form.

### **California Environmental Quality Act Guidelines**

With respect to CEQA (California Environmental Quality Act) compliance, the Department indicates that the issuance of permits, leases, agreements and renewals, amendments or extensions thereof, or other entitlements granting the use of an existing airport facility involving negligible or no expansion of use and/or alteration or modification of the facilities or its operations beyond that previously existing or permitted is exempt from the requirements of CEQA pursuant to Article III, Class 1 (18)(c) of the Los Angeles City CEQA guidelines.

### **RECOMMENDATIONS**

That the Mayor:

1. Approve the proposed Concession Agreement with Areas USA LAX, LLC to manage and operate a Branded Coffee, Food and Beverage Concession in Terminal 4 at Los Angeles International Airport which expires no later than June 30, 2023, subject to City Attorney approval as to form and compliance with City Standard Provisions for concession agreements including: Living Wage and Service Worker Retention Ordinances, Affirmative Action Program, Child Support Obligations Ordinance, City insurance requirements, Contractor Responsibility Program, First Source Hiring Program, submission of the Bidder's Contributions CEC (City Ethics Commission) Form 55, and determination by the Department of Public Works, Office of Contract Compliance, of each concessionaire's compliance with provisions of the Equal Benefits Ordinance prior to execution of the Agreement;
2. Authorize the Executive Director to execute the proposed Agreement; and
3. Return the proposed Agreement to the Department for further processing, including Council consideration.

## **FISCAL IMPACT STATEMENT**

The Department indicates that approval of the proposed Concession Agreement with Areas USA LAX, LLC to construct and operate a new Branded Coffee, Food and Beverage concession will pay the Los Angeles World Airports a percentage of between 16.5 and 21.5 percent of gross revenue received subject to a Minimum Annual Guarantee of \$1,000,000 not including annual increases based on the Consumer Price Index (CPI.) The net revenue increase to the Department's operating budget as a result of the new Agreement will, therefore, be a minimum of \$9,000,000 over nine years not including Consumer Price Index adjustments.. The nine-year Agreement term will align it with the term of other LAX terminal concessions. The proposed Agreement will have no impact on the City's General Fund.

### **Time Limit for Council Action**

Pursuant to Charter Section 606 and the Los Angeles Administrative Code Section 10.5, unless the Council takes action disapproving a franchise, permit, license or lease that is longer than five years within 30 days after submission to Council, the lease shall be deemed approved.

*MAS:JFH:10150071*

Attachment