

Approved by:	Marla Bleavins Chief Airport Administrative Officer	<i>Marla Bleavins</i>
ITEM TYPE	<input type="checkbox"/> Award <input checked="" type="checkbox"/> Amendment <input type="checkbox"/> Appropriation <input type="checkbox"/> Policy/Program <input type="checkbox"/> Other	
SUBJECT	Request to adopt the following report and approve the Seventh Amendment to Duty Free Merchandise Concession Agreement No. LAA-8647 with DFS Group L.P. at Los Angeles International Airport to amend the Base Rent terms for the Per International Passenger Payment element and Minimum Annual Guarantee element, covering duty free merchandise concession at Los Angeles International Airport	

Item REQUIRES City Council Approval.    Item is subject only to STANDARD REVIEW by the City Council.

**DISCUSSION**

**1. Background and Necessity of Requested Action**

<b>08-06-2012</b>	<b>Resolution #24863 (LAA-8647)</b>	Concession Agreement
Established a 10-year Duty Free Merchandise Concession Agreement with DFS Group L.P. (DFS), with three additional one-year options, which require development and operation of duty-free and duty-paid merchandise concessions at Los Angeles International Airport (LAX).		
<b>04-15-2015</b>	<b>Resolution #25617 (LAA-8647A)</b>	First Amendment
Approved the First Amendment to LAA-8647 to extend the term by one year.		
<b>04-16-2020</b>	<b>Resolution #27003 (LAA-8647B)</b>	Second Amendment
Approved the Second Amendment to revise payment terms of certain In-Terminal Concession Agreements to make payments of deferred percent rents/fees accrued during the initial COVID-19 rent relief period of April 1, 2020, through June 30, 2020.		
<b>10-01-2020</b>	<b>Resolution #27118 (LAA-8647C)</b>	Third Amendment
Approved the Third Amendment for the Concessionaire Relief Program amending concession agreements at LAX providing Minimum Annual Guarantee (MAG) abatement, rent deferrals, mid-term refurbishment delays, and term extensions.		
<b>01-07-2021</b>	<b>Resolution #27191 (LAA-8647D)</b>	Fourth Amendment
Approved the Fourth Amendment to allow adjustment of the Faithful Performance Guarantee covering duty-free concession at LAX.		

<b>10-25-2021</b>	<b>Resolution # 27363 (LAA-8647E)</b>	<b>Fifth Amendment</b>
Approved the Fifth Amendment to extend the Concessionaire Relief Program continuing MAG suspension and continuing the three percent health care surcharge.		
<b>03-02-2023</b>	<b>Resolution # 27690 (LAA-8647F)</b>	<b>Sixth Amendment</b>
Approved the Sixth Amendment to allow DFS to return space on a case-by-case basis due to changes in international passenger traffic and airline relocations and to extend the agreement term by five years to support DFS' investment to expand duty-free luxury retail offerings in the Tom Bradley International Terminal (TBIT).		

The proposed amendment was requested by DFS to provide temporary rent relief while international enplanements and duty-free spending remain lower than anticipated.

In 2012, DFS was awarded a Concession Agreement to design, develop, construct, and operate duty-free concessions in all terminals at LAX. The agreement requires DFS to sell traditional duty-free merchandise such as spirits and wine, fragrances, cosmetics, and tobacco products. In addition, DFS is required to operate high-end specialty stores offering internationally recognized brand-name merchandise. Pursuant to the agreement, DFS operates a duty-free concession program to support international passenger departures at LAX in Terminals 2, 5, 6, and 7, as well as a flagship operation in TBIT, including a new location in the West Gates at TBIT (West Gates) as of June 19, 2024.

Since the COVID-19 pandemic, the airport concessions business environment has been challenging. The macroeconomics and travel recovery of high-spending travelers remain low compared to pre-pandemic levels in 2019, particularly for travelers from the People's Republic of China (PRC). Air traffic for PRC travelers remains 54 percent lower than in 2019 and sales from DFS' PRC customers are 63 percent lower than in 2019, while DFS' overall sales are down 26 percent versus 2019. At the same time, the costs of doing business at LAX have escalated due to record inflation, increasing capital expenditure for store renovations, and rising employee wages as required by the City of Los Angeles.

Additionally, DFS' terms for its MAG rental payments have exacerbated the situation. The MAG will be the greatest of three annual amounts: the Floor Element amount, the Prior Year Element amount, or the Per International Passenger Payment (PIPP) Element amount. The PIPP formula originally used the total number of enplaned international passengers at LAX for a given year. As of July 1, 2022, the Fifth Amendment amended the PIPP formula to use enplaned international passengers at TBIT only. This change was one of the MAG revisions under Los Angeles World Airports' (LAWA) Concessionaire Relief Program to address fiscal challenges brought on by COVID-19.

The amended PIPP formula is no longer aligned with where DFS generates sales at TBIT. Traffic and sales are separated between TBIT and the West Gates. For the second half of 2024, TBIT had 49 percent of LAX international traffic but 90 percent of DFS sales, driven by the concentration of luxury goods. The West Gates had 21 percent of LAX international traffic but only three percent of DFS total sales. This results in DFS paying LAWA more per enplanement for the West Gates than for TBIT.

Lack of high-spending PRC customers and DFS' escalating MAG amounts have led to cumulative losses of more than \$50 million for DFS since 2023. As such, 25 percent of those losses were borne by DFS' three Airport Concession Disadvantaged Business Enterprise

partners.

To address these issues, LAWA and DFS agreed to the following changes:

- PIPP Element
  - Only include TBIT international traffic and exclude West Gates traffic
  - Effective April 1, 2025, until PRC annual traffic reaches 90 percent of 2019 PRC traffic
- MAG
  - Suspend for one year and three months from April 1, 2025, to June 30, 2026
  - Beginning July 1, 2026, the calculation resets to 90 percent of the prior year's rent

With the expectation that duty-free sales will still rebound, albeit more gradually than previously anticipated, the revised PIPP Element will be contingent on PRC traffic.

2. **Selection Process:**  Competitive process.  Other process.  Not applicable.

3. **Fiscal Impact:**  None.  Revenue generation.  Cost/cost recovery.  Other.

Approval of the proposed amendment is expected to reduce LAWA's revenue by approximately \$11,000,000 per year until PRC annual traffic reaches 90 percent of 2019 levels.

4. **Alternative Actions:**  Alternatives considered.  No alternatives considered.

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### APPROPRIATIONS

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Appropriation required.  No appropriation required.  Funding is available.

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### INCLUSIVITY & IMPACT

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Goals/requirements identified.  No goals/requirements stipulated.  N/A or other.

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### PROVISIONS

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The Chief Executive Officer has approved this item.

The Board of Airport Commissioners is hereby requested to adopt staff's determination that the requested 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.

The Board is hereby further requested to authorize the Chief Executive Officer, or designee, to execute said Seventh Amendment to Concession Agreement LAA-8647 with DFS Group LP subject to approval by the Los Angeles City Council and 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.