



Los Angeles World Airports

## REPORT TO THE

# BOARD OF AIRPORT COMMISSIONERS

15

*Dave Jones*

Approved by: Dave Jones, Director of Airline Property and Concession Services

*[Signature]*

Reviewed by: Jeffrey Utterback, Deputy Executive Director, Commercial Development Group

*D. Utterback*

*[Signature]*

City Attorney

Justin Erbacci, Chief Executive Officer

Meeting Date:

12/10/2020

CAO Review:

☐ Completed  
☒ Pending  
☐ N/A

<u>Reviewed for</u>	<u>Date</u>	<u>Approval Status</u>	<u>By</u>
Finance	11/9/2020	<input checked="" type="checkbox"/> Y <input type="checkbox"/> N <input type="checkbox"/> NA	CI
CEQA	11/5/2020	<input checked="" type="checkbox"/> Y <input type="checkbox"/> N	VW
Procurement	11/5/2020	<input checked="" type="checkbox"/> Y <input type="checkbox"/> N <input type="checkbox"/> Cond	QM
Guest Experience	11/6/2020	<input checked="" type="checkbox"/> Y <input type="checkbox"/> N	TB
Strategic Planning	11/6/2020	<input checked="" type="checkbox"/> Y <input type="checkbox"/> N <input type="checkbox"/> NA	KC

### **SUBJECT: Second Letter Agreements to Amend Concession Agreements LAA-8586 and LAA-8587 with Host International, Inc., at Los Angeles International Airport**

Approve the Second Letter Agreements for the Concessionaire Relief Program to amend Concession Agreements LAA-8586 and LAA-8587 with Host International, Inc., at Los Angeles International Airport as follows: (i) abate or adjust the Minimum Annual Guarantee through June 30, 2021, (ii) defer Storage Rent through December 31, 2020 and allow the payback of deferred Storage Rent to commence January 1, 2021, (iii) extend the current expiration dates of the respective individual In-Terminal Concession Agreements by twenty-four (24) months, and (iv) authorize the Chief Executive Officer to have two consecutive twelve-month options to delay the required mid-term refurbishment dates, in his or her sole discretion.

### **RECOMMENDATIONS:**

Management RECOMMENDS that the Board of Airport Commissioners:

1. ADOPT the Staff Report.
2. DETERMINE that this action is administratively exempt from the California Environmental Quality Act (CEQA) pursuant to Article II, Section 2.f. of the Los Angeles City CEQA Guidelines.
3. FIND that the use of competitive bidding for the 24-month extensions to the expiration dates for Concession Agreements LAA-8586 and LAA-8587 with Host International, Inc., would be

undesirable and impractical under Section 10.15(a)(10) of the City of Los Angeles Administrative Code and Section 371(e)(10) of the City of Los Angeles Charter.

4. APPROVE the extension of the current expiration dates in the Concession Agreements LAA-8586 and LAA-8587 with Host International, Inc., by twenty-four (24) months.
5. AUTHORIZE the Chief Executive Officer or his or her designee to have two consecutive twelve-month options to delay the required mid-term refurbishment dates for Concession Agreements LAA-8586 and LAA-8587 with Host International, Inc.
6. APPROVE the proposed Second Letter Agreements for the Concessionaire Relief Program that amends the Concession Agreements LAA-8586 and LAA-8587 with Host International, Inc.
7. AUTHORIZE the Chief Executive Officer or his designee to execute the proposed Second Letter Agreements for the Concessionaire Relief Program that amends Concession Agreements LAA-8586 and LAA-8587 with Host International, Inc., at Los Angeles International Airport, subject to approval as to form by the City Attorney and approval by the Los Angeles City Council.

## **DISCUSSION:**

### **1. Purpose**

To amend Concession Agreements LAA-8586 and LAA-8587 with Host International, Inc., to temporarily revise the payment terms and defer storage rent, extend the expiration date by twenty-four months, and authorize the Chief Executive Officer to have two consecutive twelve-month options to delay the required mid-term refurbishment dates, in his or her sole discretion.

### **2. Prior Related Actions**

- **May 16, 2011 – Board Resolution No. 24452**  
The Board of Airport Commissioners (Board) approved award of a ten-year Food and Beverage Concession Agreement to Host International, Inc. (Host) (LAA-8586.)
- **October 14, 2015 – Board Resolution No. 25740**  
The Board approved First Amended and Restated Food and Beverage Concession Agreement with Host International, Inc. (LAA-8586) to make technical adjustments.
- **August 4, 2016 – Board Resolution No. 26049**  
The Board approved Consent to Assignment of Food and Beverage Concession Agreement LAA-8587A from CMS Hospitality, LLC to Host International, Inc.
- **April 16, 2020 – Resolution No. 27003**  
The Board approved revisions of payment terms of Certain In-Terminal Concession Agreements and Rental Car Concession Agreements. Under these agreements, Concessionaires will make payment of deferred percent rents/fees accrued during the

initial rent relief period of April 1, 2020 through June 30, 2020 in six (6) equal payments starting July 1, 2020.

- **October 1, 2020 – Resolution No. 27118**

The Board approved the second revisions of payment terms of Certain In-Terminal Concession Agreements and Rental Car Concession Agreements, which includes Host International, Inc. concession agreements LAA-8586A and LAA-8587A. The action amended the agreements to (1) Abate or adjust the Minimum Annual Guarantee through June 30, 2021, (2) Defer Storage Rent through December 31, 2020 and allow payback of deferred Storage Rent to commence January 1, 2021, and (3) Extend the current expiration dates an additional 24 months to June 30, 2025.

### **3. Current Action**

On October 1, 2020, in response to the economic impacts from the COVID-19 pandemic, the Board approved a second rent relief package for concessionaires at Los Angeles International Airport. The Board's action included proposed amendment for Host International' Inc.'s agreements. All of the Second Letter Agreements were approved by the City Council on October 21, 2020, with the exception of those regarding Host's Concession Agreements LAA-8586 and LAA-8587 (Host's Second Letters). The City Council returned Host's Second Letters to the Board for reconsideration and resubmission, due to a pending resolution of an outstanding audit of the Living Wage Ordinance requirements. The City Council requested:

"the Board of Airport Commissioners, in conjunction with the Bureau of Contract Administration (BCA), to confirm that HMS Host Corporation has fully corrected Living Wage Ordinance (LWO) violations, and can continue to remain in compliance with the terms of the LWO, before sending the matter back to Council for further consideration."

Los Angeles World Airports (LAWA) staff have been informed by the City of Los Angeles Bureau of Contract Administration that the audit has been successfully resolved and that Concession Agreements LAA-8586 and LAA-8587 with Host International, Inc., are both in full compliance with the Living Wage Ordinance requirements.

LAWA staff will continue to coordinate closely and proactively with the Bureau of Contract Administration to determine if Host and other concessionaires are complying with the Living Wage Ordinance on an ongoing basis. LAWA will support the Bureau of Contract Administration process to litigate any non-compliance and, as warranted, will pursue our remedies under the concession agreements for breach.

Therefore, in order to provide equitable rent relief to all eligible concessionaires at Los Angeles International Airport, staff request the Board approve the proposed updated second rent relief package for Concession Agreements LAA-8586 and LAA-8587 with Host International, Inc. The updated version extends the deadline for Host International, Inc., to comply with the requirements to provide contribution or premium payments for health insurance coverage, and proof of the same, from October 31, 2020 to 10 days following approval of this proposed action by the Los Angeles City Council. All other terms 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.* Authorizing and approving the proposed extension to Temporary Relief and Forbearance Period Program will enable Host International, Inc., to substantially reduce operating expenses. Temporarily relieving the burden of the MAG component will allow Host International, Inc., to pay rent/fees based on percentage of sales and airport revenues will recover in parallel to passenger level increases.

### ***Action Requested***

LAWA staff requests the Board authorize the Chief Executive Officer to execute the proposed second letter agreements for Concession Agreements LAA-8586 and LAA-8587 with Host International, Inc., that will temporarily revise the payment terms, defer Storage Rent and allow the payback of deferred Storage Rent, extend the expiration date by twenty-four months, authorize the Chief Executive Officer to have two consecutive twelve-month options to delay the required mid-term refurbishment dates. in his or her sole discretion, as set forth in this report.

### ***Fiscal Impact***

The Fiscal Impact of this action to extend the temporary relief program for Concession Agreements LAA-8586 and LAA-8587 with Host International, Inc., is projected to be an additional loss of approximately \$3.46 million in FY2021 revenue, and is also estimated to reduce LAWA unrestricted cash in FY2021 by the same amount. The actual loss of revenue and reduction in unrestricted cash will largely depend on the levels of passenger traffic during the extended temporary period through June 30, 2021. LAWA staff has previously anticipated the possibility of extending the temporary relief program through the end of FY2021 and has budgeted FY2021 revenue accordingly.

## **4. Alternatives Considered**

- ***Take No Action***

Taking no action would Host International, Inc., to pay rent/fees at Minimum Annual Guarantee (MAG) levels established during normal passenger activity and corresponding sales levels. The continued dramatic decline in passenger traffic makes these MAG payments unsustainable. If Host International, Inc., remains obligated to pay the full MAG amounts during this downturn, they may not generate enough gross revenue to cover the MAG rent obligations which is unsustainable and likely cause them to cease operations, which would be detrimental to the airport.

### **APPROPRIATIONS:**

No appropriation of funds is required for this action.

### **STANDARD PROVISIONS:**

1. This action, as a continuing administrative activity, is administratively exempt from California Environmental Quality Act (CEQA) requirements pursuant to Article II, Section 2.f. of the Los Angeles City CEQA Guidelines.

2. The City Attorney has approved this item.
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. Host will comply with the provisions of the Service Contractor Worker and/or Living Wage Ordinances.
5. For LAA-8586, Host committed to 10% ADCBE participation and has achieved 10%. For LAA-8587, Host acquired the agreement through from CMS Camacho Ventures and committed to 25% ACDBE and has achieved 25%.
6. Host will comply with the provisions of the Affirmative Action Program.
7. Host has been assigned Business Tax Registration Certificate number 0000605063-0001-3.
8. Host will comply with the provisions of the Child Support Obligations Ordinance.
9. Host has approved insurance documents, in the terms and amounts required, on file with the Los Angeles World Airports.
10. Pursuant to Charter Section 104 (g) staff determined that airport concession agreements are exempt from the provisions of Charter Section 1022 (Use of Independent Contractor).
11. Host will comply with the provisions of the Contractor Responsibility Program prior to execution of the Consent to Assignment.
12. Host will comply with the provisions of the Equal Benefits Ordinance.
13. Host will be required to comply with the provisions of the First Source Hiring Program for all non-trade LAX Airport jobs.
14. Host must submit the Bidder Contributions CEC Form 55 and comply with its provisions prior to execution of the Consent to Assignment.