

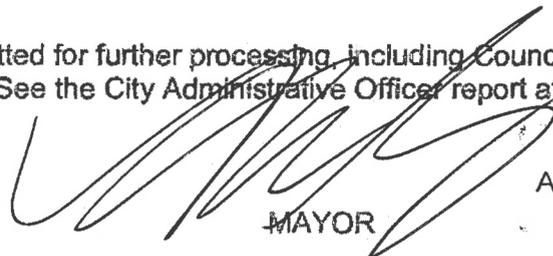
0150-08397-0003

**TRANSMITTAL**

TO Deborah Flint, Chief Executive Officer Los Angeles World Airports	DATE AUG 30 2018	COUNCIL FILE NO.
FROM The Mayor	COUNCIL DISTRICT 11	

**Award of Seven Concession and Lease Agreements for the Consolidated Rental Car Facility at Los Angeles International Airport**

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



MAYOR

Ana Guerrero

RHL:AVM:10190018t

REPORT FROM

## OFFICE OF THE CITY ADMINISTRATIVE OFFICER

---

Date: August 30, 2018

CAO File No. 0150-08397-0003

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 August 13, 2018, referred by the Mayor for a report on August 13, 2018

Subject: **AWARD OF SEVEN CONCESSION AND LEASE AGREEMENTS FOR THE CONSOLIDATED RENTAL CAR FACILITY AT LOS ANGELES INTERNATIONAL AIRPORT**

---

### RECOMMENDATIONS

That the Mayor:

1. Approve the award of a Concession and Lease Agreement to seven companies, to operate a rental car concession and lease certain space in the Consolidate Rental Car Facility at Los Angeles International Airport. Each lease term is 20 years and has an optional five-year extension. The seven companies are: Avis Budget Car Rental, LLC; Enterprise Rent-A-Car Company of Los Angeles, LLC; The Hertz Corporation; Fox Rent A Car, Inc. (Fox); DR Car Rental, Inc. (DR); Sixt Rent a Car, LLC (Sixt); and, Advantage Opco, LLC (Advantage).
2. Authorize the Chief Executive Officer to award and execute the Concession and Lease Agreements, subject to (1) Fox, DR, and Sixt having approved insurance documents, in the terms and amounts required, on file with the Los Angeles World Airports (2) Advantage being determined by the Public Works Department, Office of Contract Compliance, to be in compliance with the provisions of the Equal Benefits Ordinance, and (3) Advantage submitting the Contractor Responsibility Program Questionnaire and Pledge of Compliance and comply with Contractor Responsibility Program provisions, and, subject to approval as to form by the City Attorney.
3. Determine the action is exempt from the California Environmental Quality Act (CEQA) pursuant to Article II, Section 2.i. of the Los Angeles CEQA Guidelines. A Final Environmental Impact Report for the LAX Landside Access Modernization Program, which included this project, was adopted by the City Council on June 7, 2017.
4. Return the request to the Department of Airports for further processing, including Council consideration.

## **SUMMARY**

The Chief Executive Officer of the Los Angeles World Airports (LAWA) requests authority to award and execute a Concession and Lease Agreement (Agreements) to seven rental car companies: Avis Budget Car Rental, LLC (Avis); Enterprise Rent-A-Car Company of Los Angeles, LLC (Enterprise); The Hertz Corporation (Hertz); Fox Rent A Car, Inc. (Fox); DR Car Rental, Inc. (DR); Sixt Rent a Car, LLC (Sixt); and, Advantage Opco, LLC dba Advantage Rent A Car (Advantage). The Board of Airport Commissioners (BOAC) met on August 16, 2018 and approved the proposed Agreements; each has a term of 20 years, and an optional five-year extension. That action will enable the rental car companies to operate concessions from LAWA's planned Consolidated Rental Car Facility (ConRAC) at Los Angeles International Airport (LAX).

The BOAC also approved an appropriation of up to \$30 million from the LAX Revenue Fund which the rental car company concessionaires may use to fund tenant improvements (to repay with interest). Department of Airports staff anticipates ConRAC will generate approximately \$2.4 billion in revenue over the term of 25 years. In addition, each rental car company will comply with the City's Standard Provisions for Affirmative Action Program, Bidder Contributions City Ethics Commission Form 55, Child Support Obligations Ordinance, First Source Hiring Program for all non-trade Airport jobs, and Living Wage Ordinance.

## **Background**

Through its Landside Access Modernization Program (LAMP), the Department of Airports (Department) proposes to continue to transform LAX into a world-class airport by implementing projects to reduce traffic congestion around LAX and within the Central Terminal Area (CTA), improve the travel experience for passengers and connect LAX to the area's regional public and private transportation system. Two of the LAMP projects that will help transform LAX are the ConRAC and an Automated People Mover (APM) system. Another benefit that LAWA expects will result from implementing these projects will be improved air quality in the surrounding area if emissions from transportation sources are reduced as fewer vehicles are driven within the CTA. According to LAWA staff, to date, 13 of the top 15 airports in the United States have either opened a consolidated rental car facility or are in pre-development stages of construction for one.

The proposed ConRAC will be located approximately two miles east of LAX, near the 405 Freeway (Manchester Square area). The seven rental car companies represent 14 rental car brands which are authorized to operate "on-airport" at LAX, and will operate out of the planned ConRAC after it is constructed. The BOAC will consider awarding a ConRAC construction contract in the future. Currently, the authorized rental car companies are spread out across over 20 locations east of LAX and require eight independent shuttle-busing systems to access the CTA, according to LAWA staff. On April 11, 2018, the City Council approved a 30-year, \$4.9 billion contract with LAX Integrated Express Solutions (LINXS) to design, build, finance operate and maintain the APM (C.F. No. 18-0283). The APM will move along a 2.25 mile elevated guideway to transport passengers to and from LAX between six stations, the CTA and the ConRAC. The LINXS Team is contractually obligated to have the APM achieve Passenger

Service Availability by March, 2023.

### **Award of the proposed Concession and Lease Agreements**

As reported by Department staff, LAX is the second-largest rental car airport market in the United States and an average of 267,000 vehicles are rented monthly from LAX rental car companies. Working with representatives of the rental car industry from 2014 through 2016, LAWA staff met and discussed the ConRAC preferred design, facility requirements and business terms. Staff noted a Memorandum of Understanding (MOU) which documented the discussions was executed in early 2017 with the rental car concessionaires. The MOU is the basis for the proposed Agreements. The concessionaires will operate from the ConRAC on a non-exclusive basis to provide rental car services for which a Customer Facility Charge (CFC) can lawfully be charged.

Key provisions of the Agreement are presented below.

- *Term*: 20 years in duration, from the ConRAC opening.
- *Optional Term Extension*: one five-year extension either by LAWA's option, or automatically by achieving certain target criteria.
- *Early Termination*: LAWA may terminate the proposed Agreement if a notice of ConRAC construction is not provided by December 31, 2021, or if the State of California reduces or suspends the CFC.
- *Required APM Use*: At the time of ConRAC 'Date of Beneficial Occupancy' (DBO), concessionaires will be required to use the APM, not third-party shuttles or rental vehicles to pick-up/drop off customers at the CTA.
- *Fee Payments*: Some of the existing and new fee payments made by the concessionaires, to LAWA, are highlighted below:
  - Existing – (a) Concession Fees, greater of ten percent of gross revenue, or minimum annual guarantee (MAG) that is the greater of the base of \$730,000, subject to increases;
  - (b) CFCs, as currently set by the BOAC are at \$7.50 per rental car transaction day, up to five days. Proposed CFC increase is to \$9.00 per rental car transaction, at ConRAC DBO;
  - New – (a) Land Rent, an annual amount, paid monthly during the rental period, based upon an established formula using the concessionaires' and City's occupied square footage, ConRAC square footage and land rent rate – to be set by the BOAC prior to DBO;
  - (b) Common Transportation System (CTS) payments will be used to pay up to 41 percent of APM operating and capital costs; and,
  - (c) Operation and Maintenance (O&M Fee will be used to recover two costs associated with operating and maintaining the facility – ConRAC developer O&M expenses and LAWA O&M expenses for the facility.
- *Tenant Improvement Fund*: The Department will make available up to \$30 million for tenant improvements. If concessionaires decide to use a pro-rata share, the agreement will be to pay tenant improvement rent to LAWA with interest.
- *Vehicle Storage Area*: In phases and increments, LAWA may redesignate the storage area to non-rental car services uses if rental car transaction day targets are not met.
- *Future Ground Transportation Policy*: The Department management and concessionaires

will meet and confer at least twice during the preparation of a LAX ground transportation policy regarding access to the ConRAC, the intermodal facility (another LAMP project) and the CTA by ground transportation providers other than the concessionaires. Subject to BOAC approval, the Department may impose fees and restrictions on rental car companies that do not operate from the ConRAC.

The proposed Concession and Lease Agreements are nearly identical documents for each of the seven concessionaires. The seven concessionaires and 14 associated brands are listed below.

1. Avis Budget Car Rental, LLC - - Avis, Budget, and Zip Car
2. Enterprise Rent-A-Car Company of Los Angeles, LLC - - Enterprise, Alamo, and National
3. The Hertz Corporation - - Hertz, Thrifty, and Dollar
4. Fox Rent A Car, Inc. - - Fox
5. DR Car Rental, Inc. - - Payless
6. Sixt Rent a Car, LLC - - Sixt
7. Advantage Opco, LLC - - Advantage, and EZ

In addition to anticipating improved traffic flow within the CTA and areas surrounding LAX and improved guest experience after the rental car companies relocate to ConRAC, LAWA staff expects rental car companies will improve operational efficiencies. Shuttle wait and transit times may decrease when the APM becomes operational, costs may be reduced when independent shuttle-busing systems are no longer contracted and when benefits are realized from sharing resources, such as vehicle storage area, fuel and wash area, visitor and employee parking area. An overview of the ConRAC areas is as follows:

Area	Stalls	ConRAC area
Ready / Return Area	6,600	39 percent
Vehicle Storage Area	10,000	32 percent
Quick Turnaround Area (fuel, maintenance)		17 percent
ConRAC Employee / Visitor Parking	1,175	6 percent
Customer Service Building		6 percent
<b>TOTAL</b>	<b>17,775</b>	<b>100 percent</b>

Currently, the rental car companies pay the Department a ten percent concession fee on gross rental car revenue. The proposed Agreement continues the concession fees and staff expect to increase the customer facility charge fee when the ConRAC opens. According to LAWA, excluding the new O&M costs passed on to the ConRAC concessionaires, approval of the proposed Agreements will generate approximately \$2.4 billion in revenue over the term of 25 years. The projected revenue components are \$1.5 billion of CTS contributions and \$903.0 million of Land Rent payments.

#### FISCAL IMPACT STATEMENT

Approval of the Concession and Lease Agreement to seven rental car companies, to operate a rental

car concession and lease certain space in the Consolidate Rental Car Facility at Los Angeles International Airport, will have no impact on the City's General Fund. Approval of the proposed Agreements will generate approximately \$2.4 billion in revenue over the term of 25 years. Authorization for an appropriation and allocation of an amount not to exceed \$30 million, from the LAX Revenue Fund, is being requested to provide Tenant Improvement Funds. Award of the Agreements complies with the Department of Airports adopted Financial Policies.

*RHL:AVM:10190018*