

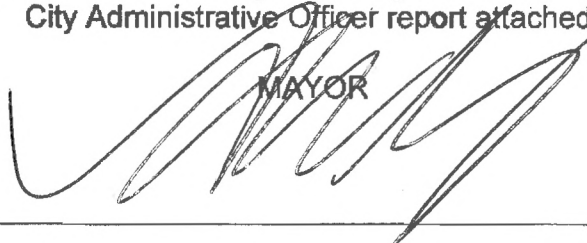
0150-09559-0001

TRANSMITTAL

TO Deborah Flint, Chief Executive Officer Department of Airports	DATE MAY 09 2019	COUNCIL FILE NO.
FROM The Mayor	COUNCIL DISTRICT 11	

Request to Approve an Amended and Restated Lease and License Agreement with Alaska Airlines for Terminal 6 Space and Improvements at the Los Angeles International Airport

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


MAYOR

Ana Guerrero

RHL:WDC: 10190098t

CAO 649-d

REPORT FROM

OFFICE OF THE CITY ADMINISTRATIVE OFFICER

Date: May 8, 2019

CAO File No. 0150-09559-0001

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 April 29, 2019; referred by the Mayor for report on May 6, 2019

Subject: **APPROVAL OF AMENDED AND RESTATED LEASE AND LICENSE AGREEMENT WITH ALASKA AIRLINES FOR TERMINAL 6 SPACE AND IMPROVEMENTS AT THE LOS ANGELES INTERNATIONAL AIRPORT**

RECOMMENDATIONS

That the Mayor:

1. Approve the proposed Amended and Restated Lease and License Agreement LAA-8581 between the Los Angeles World Airports and Alaska Air Group, Inc. for the consolidation of space in Terminal 6 at the Los Angeles International Airport and extension of the current 10-year lease by six years (for a total of approximately 16 years) to January 1, 2028, to allow the airline to make improvements to the terminal and earn additional Preferential-Use Gates and Preferential Flights subject to Alaska Airlines' compliance with the City's Standard Provisions for Contracting, including the Living Wage/Worker Retention Ordinance, Affirmative Action Program, Contractor Responsibility Program, Child Support Obligations Ordinance, Equal Benefits Ordinance, First Source Hiring Program for all non-trade airport jobs, and the Bidder Contributions CEC (City Ethics Commission) Form 55 provisions, and City Attorney approval as to form;
2. Authorize the Chief Executive Officer to execute the Amended and Restated Lease and License Agreement; and,
3. Return the Lease and License Agreement to the Department for further processing, including Council consideration.

SUMMARY

The Chief Executive Officer of the Los Angeles World Airports (LAWA; Department) requests approval to execute an Amended and Restated Lease and License Agreement (LAA-8581) with Alaska Air Group, Inc. (Alaska Airlines) for 102,675 square feet of space in Terminal 6 at the Los

Angeles International Airport (LAX). The amendment will modify the space rental rates and extend the current 10-year lease agreement by approximately six years (from March 31, 2022 to January 1, 2028) to allow Alaska Airlines to make improvements to and upgrade the terminal's security screening, layout, boarding gates and boarding bridges, holdrooms, lounge access, and an aircraft parking apron. The proposed term extension will generate approximately \$23,000,000 in revenue during the first year of the lease and approximately \$196,000,000 over the six-year term.

The proposed amendment will increase Alaska Airlines' current space by 35,265 square feet by consolidating space formerly leased by Virgin America Airlines (which was, as the result of a July 2018 merger, fully integrated into Alaska Airlines). Under the proposed amendment, the per-square-foot space rental for Alaska Airlines will increase by \$19.43 (from \$171.40 to \$190.83); there will also be an option for the airline to earn additional Preferential-Use Gates and Preferential Flights by (1) meeting gate utilization standards (e.g., seats-per-gate-per-day), (2) completing the gates reconfiguration and construction of two additional gates to service the new preferential flights within three years of project approval by the Board of Airport Commissioners (Board), and (3) exceeding the average use of all airline Preferential-Use Gates at LAX by 25 percent. Likewise, the option to receive the full six-year lease term is contingent upon Alaska Airlines submitting a Defined Terminal Improvement Program for various terminal improvements beyond those discussed above.

All proposed improvements to the Terminal 6 space are subject to the California Environmental Quality Act and National Environmental Policy Act environmental reviews. The Department may, upon approval by the Board, acquire all improvements from Alaska Airlines at a date to be determined.

The following table summarizes the terms of the proposed amendment to the Alaska Airlines lease and license agreement:

ALASKA AIRLINES TERMINAL 6 - AMENDED AND RESTATED LEASE AND LICENSE AGREEMENT						
Description		Current Versus Proposed Terms				
Contract Period	10 Years	Current	Est. Annual Revenue to LAWA	6-Year Extension - (for a total of 16 years)	Proposed	Est. Annual Revenue to LAWA
	6/24/2011 - 3/31/2022			4/1/2022 - 1/1/2028		
Cancellation Provision	180 days' written notice			180 days' written notice		
Demised Premises - Terminal 6	67,410 SF	\$171.40 PSFPY*	\$11,554,100	102,675 SF	\$190.83 FSFPY	\$23,000,000
Preferential Gates		6			11**	
Preferential Flights		0			5	
*Per Square Foot Per Year						
**Reflects 4 Preferential-Use Gates previously dedicated to Virgin America and 1 Preferential-Use Gate to be available upon completion of gate reconfiguration						

The Amended and Restated Lease and License Agreement with Alaska Air Group, Inc. was approved by the Board at its meeting of May 2, 2019. To become effective, the Amended and Restated Lease and License Agreement must be approved by the Council and by the City Attorney as to form.

FISCAL IMPACT STATEMENT

Approval of the Amended and Restated Lease and License Agreement with Alaska Air Group, Inc. (Alaska Airlines) to modify the space rental rates at the Los Angeles International Airport's Terminal 6 and extend the current 10-year lease by approximately six years to allow Alaska Airlines to make improvements to and upgrade the terminal's security screening, hold rooms, and layout will result in approximately \$23,000,000 in rental revenue being generated for the Los Angeles World Airports during the first year and approximately \$196,000,000 over the six-year term. This project complies with the Los Angeles World Airport's adopted Financial Policies. Approval of the Amended Lease and License Agreement will have no impact on the City's General Fund.

RHL:WDC:10190098