

0150-00939-0122

**TRANSMITTAL**

TO  
Deborah Flint, Chief Executive Officer  
Department of Airports

DATE

**AUG 22 2017**

COUNCIL FILE NO.

FROM  
The Mayor

COUNCIL DISTRICT  
11

**Proposed Second Amendment to the Terminal Facility Lease and License Agreement  
with Southwest Airlines Company for Space in Terminal 1 at  
Los Angeles International Airport**

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

  
MAYOR

Ana Guerrero

RHL:AVM:10180014t


REPORT FROM

## OFFICE OF THE CITY ADMINISTRATIVE OFFICER

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Date: August 18, 2017  
CAO File No. 0150-00939-0122  
Council File No.  
Council District: 11

To: The Mayor

From: Richard H. Llewellyn, Jr., Interim City Administrative Officer  


Reference: Communication from the Department of Airports dated July 11, 2017, referred by the Mayor for a report on July 11, 2017

Subject: **PROPOSED SECOND AMENDMENT TO THE TERMINAL FACILITY LEASE AND LICENSE AGREEMENT WITH SOUTHWEST AIRLINES COMPANY FOR SPACE IN TERMINAL 1 AT LOS ANGELES INTERNATIONAL AIRPORT**

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### SUMMARY

That the Mayor:

1. Approve a proposed Second Amendment (Amendment) with Southwest Airlines Company (SWA) to its Terminal Facilities Lease and License Agreement (Lease LAA-8757), to increase its leasehold space at Los Angeles International Airport (LAX) in Terminal 1 (T1) by 48,557 square feet, and to add 23,109 square feet to Lease LAA-8757 in a new facility Terminal 1.5, if built adjacent to T1, and to retain its existing June 30, 2024 expiration date, subject to City Attorney approval as to form. The proposed Amendment is anticipated to generate revenue of approximately \$96,250,000 during the remaining term of Lease LAA-8757. Prior to the Amendment execution, SWA must (a) be determined by the Public Works Department, Office of Contract Compliance, to be in compliance with provisions of the Equal Benefits Ordinance, and (b) submit the Contractor Responsibility Program Pledge of Compliance. In addition, SWA will comply with the City's Standard Provisions for Affirmative Action Program, Child Support Obligations Ordinance, Contractor Responsibility Program, First Source Hiring Program for all non-trade LAX Airport jobs, Living Wage Ordinance and Service Contractor Worker Retention Ordinance. The Department of Airports notes that SWA has approved insurance documents on file;
2. Authorize the Chief Executive Officer to execute the proposed Amendment; and,
3. Return the request to the Department of Airports for further processing, including Council consideration.

## **SUMMARY**

Southwest Airlines Company (SWA) has a Terminal Facilities Lease and License Agreement (Lease LAA-8757) with the Department of Airports (Department) that was approved in January 2013 by the Board of Airport Commissioners (BOAC) with a term of 11 years and three months. The commencement date was March 13, 2014 and its expiration date is June 30, 2024. At Los Angeles International Airport (LAX), SWA occupies 115,595 square feet in Terminal 1 (T1). Provisions in Lease LAA-8757 suggest that SWA would construct approximately \$400,000,000 in terminal renovations and the Department was obligated to acquire approximately \$384,008,000 in improvements, when completed, through cash and rent credits. In April 2013, the BOAC (a) authorized the Department's Chief Executive Officer to exercise an option to purchase certain renovations from SWA rather than issue rent credits, and (b) approved an appropriation of \$146,929,000 from the LAX Revenue Fund. A year later on May 19, 2014, the BOAC approved a First Amendment to increase the Department's acquisitions of terminal improvements by \$125,793,000, to \$509,801,000 due to additional scope including more holdroom space.

In February 2016, SWA began international flight service at LAX. However since there are no Federal Inspection Service (FIS) capable gates or facilities in T1, the SWA passengers initially used FIS facilities in Terminal 2 (T2). In May 2017, Delta Air Lines moved from Terminals 5 and 6 into T2 and Terminal 3. Staff notes the SWA international flights were impacted primarily in two ways: (a) its arrival and departure gates were relocated to the Tom Bradley International Terminal (TBIT), and (b) its international operations check-in ticket counters and offices in T2 were relinquished. Currently, SWA international passengers are bussed from T1 to TBIT.

Approval of a proposed Second Amendment (Amendment) will provide additional space for SWA to operate at LAX. Upon execution of the proposed Amendment, there will be an increase of 48,557 square feet in T1, under Lease LAA-8757. Also, if the Department gets a new facility, anticipated to be built on property located between T1 and T2, through cash acquisition (separate request, Terminal 1.5), an additional 23,109 square feet will be added to the leasehold. The proposed Amendment extends a construction completion deadline by 30 months due to the interfaces between the T1 and Terminal 1.5 projects. Pursuant to the Amendment, the operations space for SWA at LAX will increase from 115,595 square feet to a total of 164,152 square feet, and perhaps to 187,261 square feet when the new facility Terminal 1.5 area is considered. Annual revenue generated through Lease LAA-8757 will increase by approximately \$8.3 million, from its current amount of \$19,812,213 to an estimate of \$28,135,653, given 164,152 square feet.

The BOAC approved the proposed Ground Lease Amendment at its meeting on July 13, 2017.

## **FISCAL IMPACT STATEMENT**

Approval of the proposed Second Amendment (Amendment) of Lease LAA-8757 between Southwest Airlines Company (SWA) and the Department of Airports (Department) has no impact on the General Fund. The Amendment will retain the Lease expiration date of June 30, 2024 and will provide at least an additional 164,152 square feet of space for SWA to operate in Terminal 1 at Los Angeles International Airport. Annual revenue generated through Lease LAA-8757 will

increase by approximately \$8.3 million, to an estimated \$28,135,653. It is anticipated that total revenue in an amount of approximately \$96,250,000 will be generated during the remaining term of Lease LAA-8757. The project complies with the Department's adopted Financial Policies.

*RHL:AVM:10180014*