



RESOLUTION NO. 26289

LAX
Van Nuys
City of Los Angeles

BE IT RESOLVED that the Board of Airport Commissioners approved a Second Amendment to Terminal Facility Lease & License Agreement LAA-8757 with Southwest Airlines Company for additional operations space at Los Angeles International Airport, as referenced in the Board-adopted staff report attached hereto and made part hereof; and

Eric Garcetti
Mayor

BE IT FURTHER RESOLVED that the Board of Airport Commissioners authorized the Chief Executive Officer or designee to execute the said Second Amendment upon approval as to form by the City Attorney and upon approval of the Los Angeles City Council; and

**Board of Airport
Commissioners**

Sean O. Burton
President

BE IT FURTHER RESOLVED that the issuance of permits, leases, agreements, gate and space assignments, and renewals, amendments or extensions thereof, or other entitlements granting use of existing airport facilities or its operations is exempt from the requirements of the California Environmental Quality Act (CEQA) pursuant to Article III Class 1(18)(c) of the Los Angeles City CEQA Guidelines; and

Valeria C. Velasco
Vice President

Jeffery J. Daar
Gabriel L. Eshaghian
Beatrice C. Hsu
Thomas S. Sayles
Dr. Cynthia A. Telles

BE IT FURTHER RESOLVED that 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.

Deborah Flint
Chief Executive Officer

o0o

I hereby certify that this Resolution No. 26289 is true and correct, as adopted by the Board of Airport Commissioners at its Special Meeting held on Thursday, July 13, 2017.

Sandra J. Miller – Secretary
BOARD OF AIRPORT COMMISSIONERS





Los Angeles World Airports

18

REPORT TO THE BOARD OF AIRPORT COMMISSIONERS

Approved by: Debbie Bowers
Dave Jones - Airline Property and Concession Services

Reviewed by: Debbie Bowers
Debbie Bowers, Chief Commercial Officer

Ernest J. [Signature]
City Attorney

Deborah Flint
Deborah Flint - Chief Executive Officer

Meeting Date:

7/13/2017

CAO Review:

Completed
 Pending
 N/A

Reviewed for	Date	Approval Status	By
Finance	5/17/2017	<input checked="" type="checkbox"/> Y <input type="checkbox"/> N <input type="checkbox"/> NA	RW
CEQA	5/15/2017	<input checked="" type="checkbox"/> Y <input type="checkbox"/> N	AE
Procurement	5/10/2017	<input type="checkbox"/> Y <input type="checkbox"/> N <input checked="" type="checkbox"/> Cond	MT
Guest Experience	5/17/2017	<input checked="" type="checkbox"/> Y <input type="checkbox"/> N	BY

SUBJECT: Approval of a Second Amendment to the Terminal Facility Lease and License Agreement with Southwest Airlines Company for Space in Terminal 1 at Los Angeles International Airport

Approve the Second Amendment to the Terminal Facility Lease and License Agreement with Southwest Airline Company for space in Terminal 1 at Los Angeles International Airport that will generate approximately \$28,000,000 in gross revenue in the first year and \$96,250,000 over the remaining term.

RECOMMENDATIONS:

Management RECOMMENDS that the Board of Airport Commissioners:

- ADOPT the Staff Report.
- DETERMINE that this 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.
- APPROVE the proposed Second Amendment to the Terminal Facility Lease and License Agreement with Southwest Airline Company for space in Terminal 1 at Los Angeles International Airport.
- AUTHORIZE the Chief Executive Officer or her designee to execute the proposed Second Amendment to the Terminal Facility Lease and License Agreement with Southwest Airline

Company, subject to approval as to form by the City Attorney and upon approval of the Los Angeles City Council.

DISCUSSION:

1. Purpose

Provide Southwest Airlines Company (Southwest) additional operations space at Los Angeles International Airport (LAX).

2. Prior Related Actions

- January 14, 2013 – Board Resolution No. 25009
The Board of Airport Commissioners (Board) approved an 11-year and three-month Terminal Facilities Lease and License Agreement (Lease LAA-8757), with Southwest that contemplated approximately \$400,000,000 in terminal renovations to be constructed by Southwest and obligated Los Angeles World Airports (LAWA) to acquire \$384,008,000 of these improvements through cash purchase and rent credits upon completion.
- April 2, 2013 - Board Resolution No. 25077
The Board authorized the Chief Executive Officer (CEO) to exercise the option to purchase from Southwest instead of issuing rent credits for certain renovations in accordance with the Lease, and approved appropriation of \$146,929,000 from the LAX Revenue Fund.
- May 19, 2014 – Board Resolution No. 25414
The Board approved the First Amendment to LAA-8757 with Southwest to increase the acquisition of renovations from \$384,008,000 to \$509,801,000, due to additional scope including more holdroom space.

3. Current Action

Southwest currently occupies space in Terminal 1 pursuant to Lease LAA-8757. Terminal 1 does not have any Federal Inspection Service (FIS) capable gates or facilities. In February 2016, Southwest launched international service and used FIS facilities in Terminal 2, which caused Southwest to operate a split terminal operation. To support this operation, passengers walked curbside between Terminals 1 and 2, with minimal busing for connecting passengers post security between the terminals using a temporary bus gate in Terminal 1.

As part of the approved Airline Relocation Plan that resulted from the Delta Air Lines, Inc. relocation from Terminals 5 and 6 to Terminals 2 and 3, Southwest's international flights have been relocated to the Tom Bradley International Terminal (TBIT), which is considerably further from Terminal 1 than Terminal 2 is. To support this split terminal operation Southwest will bus all passengers from Terminal 1 to TBIT.

Contemporaneously with this action, LAWA is requesting the Board to approve a ground lease (T1.5 Lease) that will enable Southwest to construct a new facility adjacent to Terminal 1. Southwest requested to lease the ground between Terminals 1 and 2 to construct and operate a new facility (Terminal 1.5) that will provide additional passenger check-in, passenger screening areas, and baggage system capacity, including arrival

baggage claims; increase airline office support space; and create a fully functional bus gate, providing a better guest experience. Southwest, if it proceeds with its plans to construct Terminal 1.5, intends to occupy and use the majority of this new facility to provide additional check-in capacity and use the proposed bus gate to transport passengers to TBIT. The remaining passenger processing areas, airline office space, and the new bus gate will be available for other airlines to use to support passenger processing for the MSC and other future operations requiring passenger busing.

To provide LAWA control of occupancy of the remaining space and to retain the uniform rental rates that airlines pay for terminal space at LAX, if Southwest proceeds with its plans to construct Terminal 1.5, under the T1.5 Lease LAWA will obtain the property rights to all the space in the new facility from Southwest either through a sublease or by acquiring the facility. Pursuant to the proposed Second Amendment, if LAWA acquires the new facility through cash acquisition, the additional 23,109 square feet (SF) that Southwest will occupy will be added to in the T1 Lease. If instead, LAWA subleases the new facility then the space will be occupied by Southwest pursuant to a separate sub-sublease that will require separate Board approval.

In addition, the proposed Second Amendment adds 48,557 SF of space in Terminal 1, consisting of ramp office space, plus ticket counters and inbound/outbound baggage areas. Southwest currently occupies most of this space pursuant to the LAX Passenger Terminal Tariff (Tariff). The remainder of this additional space is currently vacant, and Southwest has requested to add this to its leased premises pursuant to the proposed Second Amendment along with the space currently occupied pursuant to the Tariff.

The proposed Second Amendment will also provide Southwest the potential to earn Preferential Use Gates or Preferential Scheduling Rights in TBIT or the Midfield Satellite Concourse (MSC). After both Terminal 1.5 (if constructed) and MSC are opened and operational, Southwest will receive preferential scheduling for up to eight international flights, and can earn up to four additional preferential scheduled international flights, operated on narrow body aircraft so long as Southwest is meeting all requirements for use of its existing preferential use gates and so long as no more than two international preferential flights operate simultaneously.

Due to interfaces between Terminal 1 and Terminal 1.5, staff is proposing to extend the construction completion deadline for Terminal 1 by an additional 30 months.

The table below provides a summary of key elements of the proposed Second Amendment:

<u>LEASE SUMMARY</u>		
Terms:	Original Lease:	Second Amendment:
Commencement Date	March 13, 2014	Upon Approval and Execution
Expiration Date	June 30, 2024	Same
Construction Completion Deadline	42 months from Commencement Date	72 months from Commencement Date
Demised Premises:	115,595 SF	a) Upon Execution of 2 nd Amendment - an additional 48,557 SF for a total of 164,152 SF b) If Terminal 1.5 is constructed and if LAWA purchases the new facility, upon termination of the ground lease between Terminals 1 & 2 - an additional 23,109 SF for a total of 187,261 SF
Rent:		
Space Rental Rate CY17:	\$171.40 PSFPY	Same
Annual Space Rent (est.):	\$19,812,213	\$28,135,653

Action Requested

Staff requests the Board approve the proposed Second Amendment and authorize the CEO to execute the Second Amendment upon approval by the City Council and after approval as to form by the City Attorney.

Fiscal Impact

Approval of the proposed Second Amendment will generate approximately \$8,350,000 in additional annual space rental revenue to LAWA, not including passenger and flight activity charges and common use fees.

4. Alternatives Considered

- ***Take No Action***

If Southwest proceeds with its plans to construct Terminal 1.5, not leasing space to Southwest in Terminal 1.5 would impede Southwest's international operations and would deprive LAWA of rental income to recoup the cost of construction of the terminal.

- **Lease to Another Airline**

There will be space available to lease to another airline but no airline has requested all of the available space.

APPROPRIATIONS:

No appropriations are required for this item.

STANDARD PROVISIONS:

1. The issuance of permits, leases, agreements, gate and space assignments, and renewals, amendments or extensions thereof, or other entitlements granting use of existing airport facilities or its operations is exempt from the requirements of the California Environmental Quality Act (CEQA) pursuant to Article III, Class 1 (18)(c) of the Los Angeles City CEQA Guidelines.
2. This item is subject to approval as to form by the City Attorney.
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. Southwest Airlines Company is required by contract to comply with the provisions of the Living Wage/Service Contractor Worker Retention Ordinances.
5. Small Business Enterprise Program does not apply to leases.
6. Southwest Airlines Company is required by contract to comply with the provisions of the Affirmative Action Program.
7. Southwest Airlines Company is not required to obtain a Business Tax Registration Certificate for this Lease Amendment.
8. Southwest Airlines Company is required by contract to comply with the provisions of the Child Support Obligations Ordinance.
9. Southwest Airlines Company has approved insurance documents, in the terms and amounts required, on file with Los Angeles World Airports.
10. This action is not subject to the provisions of City Charter Section 1022 (Use of Independent Contractors).
11. Southwest Airlines Company must submit the Contractor Responsibility Program Pledge of Compliance and comply with the provisions of the Contractor Responsibility Program prior to execution of Lease Amendment.
12. Southwest Airlines Company must be determined by Public Works, Office of Contract Compliance, to be in compliance with the provisions of the Equal Benefits Ordinance prior to execution of Lease Amendment.

13. Southwest Airlines Company will be required to comply with the provisions of the First Source Hiring Program for all non-trade LAX Airport jobs.
14. This action is not subject to the provisions of the Bidder Contributions CEC Form 55.