

June 3, 2014

The Honorable City Council  
of the City of Los Angeles  
City Hall, Room 395  
Los Angeles, CA 90012

LAX  
LA/Ontario  
Van Nuys  
City of Los Angeles

**Subject: APPROVAL OF FIRST AMENDMENT TO THE TERMINAL FACILITIES LEASE AND LICENSE AGREEMENT WITH SOUTHWEST AIRLINES COMPANY FOR SPACE IN TERMINAL 1 AT LOS ANGELES INTERNATIONAL AIRPORT**

Eric Garcetti  
Mayor

In accordance with Section 606 of the City Charter, the Board of Airport Commissioners transmits for your approval the First Amendment to the Terminal Facilities Lease and License Agreement with Southwest Airlines Company, Lease No. LAA-8757, for space in Terminal 1 at Los Angeles International Airport.

**Board of Airport Commissioners**

Sean O. Burton  
President

**RECOMMENDATION FOR CITY COUNCIL**

Valeria C. Velasco  
Vice President

Gabriel L. Eshaghian  
Jackie Goldberg  
Beatrice C. Hsu  
Matthew M. Johnson  
Dr. Cynthia A. Telles

1. APPROVE the First Amendment to Lease No. LAA-8757 with Southwest Airlines Company for space in Terminal 1 at Los Angeles International Airport that will increase the acquisition of renovations with 20-30 year life expectancy in Terminal 1 from \$384,008,000 to \$509,801,000 and provide approximately \$14,000,000 in rent in the first year and \$193,250,000 over the remaining 10 years of term of the Lease.
2. CONCUR in the Board's action authorizing the Executive Director to execute the First Amendment to Lease No. LAA-8757 with Southwest Airlines Company.
3. CERTIFIED that the Initial Study/Negative Declaration has been prepared in accordance to the requirements of the California Environmental Quality Act (CEQA) and City of Los Angeles CEQA Guidelines.
4. FOUND that the Board of Airport Commissioners, as the decision making body of the lead agency, considered the information contained in the Negative Declaration prior to approving the project including the Initial Study and any comments received; that there is no substantial evidence that the project will have a significant effect on the environment on the basis of the whole record before it; and that the Negative Declaration reflects the independent judgment and analysis of the lead agency.
5. ADOPTED the Negative Declaration.

Gina Marie Lindsey  
Executive Director



Los Angeles City Council  
June 3, 2014  
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The Board of Airport Commissioners, at their meeting held on May 19, 2014, by Resolution No. 25414 approved the First Amendment with Southwest Airlines Company, subject to the approval of your Honorable Body is attached.

The Board of Airport Commissioners transmits the Final Negative Declaration for Southwest Airlines Los Angeles International Airport Terminal 1 Modernization Project.

There is no impact on the General Fund.

*CONCLUSION*

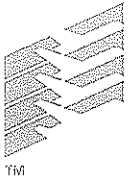
Please return the attached First Amendment with Southwest Airlines Company to the Department of Airports' Board Office after City Council approval and Certification of that approval.

Very truly yours,



Sandra J. Miller – Commission Executive Assistant II  
BOARD OF AIRPORT COMMISSIONERS

cc: Trade, Commerce and Tourism Committee  
Councilmember LaBonge, E-file  
Councilmember Bonin, E-file  
Councilmember Buscaino, E-file  
CAO (Airport Analyst), E-file  
CLA (Airport Analyst), E-file  
City Clerk's Office, Enc. (one original)



RESOLUTION NO. 25414

BE IT RESOLVED that the Board of Airport Commissioners approved the First Amendment to the Terminal Facilities Lease and License Agreement LAA-8757 with Southwest Airlines Company for space in Terminal 1 at Los Angeles International Airport that will increase the acquisition of renovations with 20 – 30 year life expectancy in Terminal 1 from \$384,008,000 to \$509,801,000 and provide approximately \$14,000,000 in rent in the first year and \$193,250,000 over the remaining ten (10) years of term of the Lease, as referenced on the board report attached herein and made part hereof; and

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Executive Director

BE IT FURTHER RESOLVED that the Board of Airport Commissioners certified that the Initial Study/Negative Declaration has been prepared in accordance to the requirements of the California Environmental Quality Act (CEQA) and City of Los Angeles CEQA Guidelines; and

BE IT FURTHER RESOLVED that the Board of Airport Commissioners found:

- a) That the Board of Airport Commissioners, as the decision making body of the lead agency, considered the information contained in the Negative Declaration prior to approving the project including the Initial Study and any comments received;
- b) That there is no substantial evidence that the project will have a significant effect on the environment on the basis of the whole record before it;
- c) That the Negative Declaration reflects the independent judgment and analysis of the lead agency; and

BE IT FURTHER RESOLVED that the Board of Airport Commissioners adopted the Negative Declaration; and

BE IT FURTHER RESOLVED that the Board of Airport Commissioners authorized the Executive Director or designee to execute the First Amendment to said Terminal Facilities Lease and License Agreement upon approval as to form by the City Attorney and upon approval by the Los Angeles City Council; and

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.

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I hereby certify that this Resolution No. 25414 is true and correct, as adopted by the Board of Airport Commissioners at its Regular Meeting held on Monday, May 19, 2014.

Sandra J. Miller – Secretary  
BOARD OF AIRPORT COMMISSIONERS





Los Angeles World Airports

Item Number  
11

# REPORT TO THE BOARD OF AIRPORT COMMISSIONERS

*Debbie L. Bowers*  
Approved by: Debbie L. Bowers, Deputy Executive Director  
Commercial Development Group

*Stephen Martin*  
Reviewed by: Stephen Martin Chief Operating Officer

*Timothy J. [Signature]*  
City Attorney

*Gina Marie Lindsey*  
Gina Marie Lindsey - Executive Director

Meeting Date:

5/19/2014

CAO Review:

- Completed
- Pending
- N/A

Reviewed for	Date	Approval Status	By
Capital Budget	5/9/2014	<input checked="" type="checkbox"/> Y <input type="checkbox"/> N <input type="checkbox"/> NA	DS
Operating Budget	date	<input type="checkbox"/> Y <input type="checkbox"/> N <input type="checkbox"/> NA	Init
CEQA	5/2/2014	<input checked="" type="checkbox"/> Y <input type="checkbox"/> N	CK
Procurement	4/18/2014	<input checked="" type="checkbox"/> Y <input type="checkbox"/> N <input type="checkbox"/> C <input type="checkbox"/> Cand	MT

**SUBJECT: First Amendment to the Terminal Facilities Lease and License Agreement with Southwest Airlines Company for space in Terminal 1 at Los Angeles International Airport**

Approve First Amendment to the Terminal Facilities Lease and License Agreement with Southwest Airlines Company for space in Terminal 1 at Los Angeles International Airport that will increase the acquisition of renovations with 20 – 30 year life expectancy in Terminal 1 from \$384,008,000 to \$509,801,000 and provide approximately \$14,000,000 in rent in the first year and \$193,250,000 over the remaining 10 years of term of the Lease.

**RECOMMENDATIONS:**

Management RECOMMENDS that the Board of Airport Commissioners:

1. ADOPT the Staff Report.
2. CERTIFY that the Initial Study/Negative Declaration has been prepared in accordance to the requirements of the California Environmental Quality Act (CEQA) and City of Los Angeles CEQA Guidelines.
3. FIND:
  - a) That the Board of Airport Commissioners, as the decision making body of the lead agency, considered the information contained in the Negative Declaration prior to approving the project including the Initial Study and any comments received;

- b) That there is no substantial evidence that the project will have a significant effect on the environment on the basis of the whole record before it;
  - c) That the Negative Declaration reflects the independent judgment and analysis of the lead agency.
4. ADOPT the Negative Declaration
  5. APPROVE the proposed First Amendment to the Terminal Facilities Lease and License Agreement with Southwest Airlines Company for space in Terminal 1 at Los Angeles International Airport (LAA-8757).
  6. AUTHORIZE the Executive Director or his/her designee to execute the First Amendment to the Terminal Facilities Lease and License Agreement with Southwest Airlines Company for space in Terminal 1 at Los Angeles International Airport (LAA-8757) for subject to approval as to form by the City Attorney and upon approval by the Los Angeles City Council.

## **DISCUSSION:**

### **1. Purpose**

Enhance renovations to Terminal 1 at Los Angeles International Airport (LAX) which will improve the passenger experience.

### **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 Airlines Company (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 Executive Director 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.

### **3. Current Action**

The existing Lease obligates LAWA to acquire from Southwest up to \$384,008,000 of approved renovations to Terminal 1 upon completion and required tenant relocations. These approved renovations included improving the passenger security screening checkpoint, designing and implementing a new inline CBIS and baggage sorting system, upgrading holdrooms and associated building infrastructure, refurbishing the arrival/baggage claim area, replacing passenger boarding bridges, and replacing aircraft paving sections and associated fuel hydrant pit locations to accommodate larger aircraft. The renovations and estimated costs contemplated in the Lease were based on conceptual plans developed by Southwest prior to execution of the Lease. In accordance with the Lease, after execution,

Southwest developed and presented to LAWA more detailed construction documents which identified new construction requirements and the potential to enhance the passenger experience in Terminal 1 by expanding the terminal building to provide additional space for the Security Screening Check Point, holdrooms concessions space, and passenger conveyance.

LAWA staff recommends that the Lease be amended pursuant to the proposed First Amendment to the Terminal Facilities Lease and License Agreement (First Amendment) to include the following additional renovations:

- Concourse Improvements - Increase the square feet in the northern portion of the concourse by approximately 25 feet on each side to provide for larger holdrooms, larger restrooms, and open and inviting retail, food and beverage concessions integrated into the holdroom experience.
- Security Screening Check Point Building Improvements - Increase the square feet of the ticketing building to provide post-security screening check point recompose area and allow state-of-the-art, industry standard Transportation Security Administration (TSA) passenger screening lanes to be constructed within the footprint of the existing facility. The expanded area includes new stairs, escalators and elevators connecting the departures and concourse levels of the terminal. The space will be designed with high ceilings and natural daylight through expansive windows.
- Roof Replacement – The proposed renovation work will require extensive roof penetrations. Since the existing roof is nearing its useful life it is in the best interest of LAWA and Southwest to replace the roof as part of the renovation.
- Fire Water Loop Replacement - The airside fire loop will be upgraded as part of the aircraft parking ramp replacement in order to avoid operational disruptions and additional cost of performing this work independently.
- Seismic Improvement Program - Structural voluntary seismic upgrades will be included in the renovations.
- Canopy Replacement & Exterior Façade Enhancement - The existing curbside canopy is being replaced with a new structure designed to emulate the canopy recently constructed at the Tom Bradley International Terminal. The new structure will be cantilevered from the existing terminal building, removing all columns and providing pedestrians with full use of the sidewalk. The exterior façade will be improved by replacing the existing automatic doors and storefront glazing system. Perforated metal panel screens will be incorporated into the existing façade to improve and modernize the overall curb appeal of this first terminal the public sees as they enter LAX.

The proposed additional renovations are estimated to cost an additional \$125,793,000 including construction financing costs. Approval of these additional renovations will result in LAWA to acquiring up to \$509,801,000 of approved renovations from Southwest through cash and rent credits, which are defined in two categories, Airline Renovations and Terminal Renovations.

Airline Renovations are non-proprietary improvements to that are usable by any airline operating in Terminal 1, located in parts of the terminal classified as "airline areas", and include a proportionate share of building improvements allocated to "airline areas" of the terminal. The total Airline Renovations LAWA will purchase upon completion of renovation components, including construction financing costs, will not exceed \$274,402,000.

Terminal Renovations are Improvements allocated to the "public areas" of Terminal 1, including expansion of the building footprint, renovations specific to the "public areas" and a proportionate share of the building improvements allocated to "public areas" of the terminal. The Lease provides that Terminal Renovations will be acquired by LAWA issuing rent credits to Southwest over the term of the Lease, including annualized accrued interest on the outstanding principal for the value of such improvements. Alternatively, LAWA, subject to Board approval, may provide written notice to Southwest of its intent to purchase the Terminal Renovations with cash instead of rent credits. The total Terminal Renovations LAWA will purchase upon completion of renovation components, including construction financing costs, will not exceed \$235,399,000.

Southwest's current phasing plan for the renovation work will require an additional 18 months to complete the construction. Therefore, the First Amendment extends the allowable construction period from 42 months to 60 months from March 13, 2013. The table below highlights projected openings for renovated areas of the terminal:

Item	Anticipated Opening
<u>West Terminal Building</u> : New Skycap, Ticket Lobby, New Baggage Claim, Airline Admin Offices and Bus Gate Holdroom	4 <sup>th</sup> Quarter 2015
<u>Exterior Canopy</u> : Terminals Canopy and Exterior Facade	3 <sup>rd</sup> Quarter 2016
<u>East Terminal Building</u> : New Security Screening Check Point, Checked Baggage Inspection System	4 <sup>th</sup> Quarter 2016
<u>Concourse</u> : New Holdrooms and Concessions, Gate Systems Passenger Boarding Bridges	1 <sup>st</sup> Qtr 2015 to 1 <sup>st</sup> Qtr 2018
Mechanical, Electrical, Plumbing, Fire Alarm & Suppression Systems	1 <sup>st</sup> Qtr 2015 to 1 <sup>st</sup> Qtr 2018

The proposed First Amendment also provides that Southwest may finance some or all of the construction of the renovations through (1) a lender or lending institution, (2) a special purpose entity, or (3) the Regional Airports Improvement Corporation or another similar financing entity. Southwest has advised LAWA that it wishes to finance some or all of the construction of the renovations using the Regional Airports Improvement Corporation or similar financing entity (Borrower). The Borrower will be permitted to obtain funds pursuant to a credit facility provided by a group of banking or financial institutions and Southwest will have the right to assign its rights to receive the payments for the purchase of the renovations to the Borrower, and the

Borrower has the right to assign these payments to a trustee acting for the benefit of the Lenders (the "Trustee") and grant a security interest therein to an administrative agent or collateral agent acting on behalf of the Lenders. The total financing costs are calculated to be \$32,787,000 assuming a 4% interest rate. However, the planned financing should lower this cost to approximately \$18,350,000 if interest rates remain flat over the construction period.

The Lease provides Southwest 12 preferential use gates in Terminal 1. The proposed First Amendment provides that Southwest may earn a 13<sup>th</sup> preferential use gate if Southwest maintains an average number of departing and arriving airline seats per day of 2,200 per gate in Terminal 1.

The following is a summary in table format of the proposed First Amendment:

<b>PROPOSED FIRST AMENDMENT SUMMARY</b>		
	<b><u>CURRENT:</u></b>	<b><u>PROPOSED:</u></b>
<b>Commencement/Effective Date</b>	March 13, 2013	Same
<b>Expiration</b>	June 30, 2024	Same
<b>Demised Premises Terminal 1</b>	115,595 SF	115,595 SF increasing to approx. 126,400 SF after construction
<b>Annual Rental Rate</b>	Board Approved Rates (Rate Agreement)	Same
<b>Preferential Use Gates</b>	12 Preferential Use Gates	12 Preferential Use Gates with ability to earn 13 <sup>th</sup> Preferential Use Gate
<b>Proposed Renovations:</b>		
<b>LAWA Acquisition:</b>	\$384,008,000	\$509,801,000
<b>Construction Period:</b>	42 months from Lease Execution	60 months from Lease Execution

### ***Environmental Review***

LAWA, as the lead agency for the Terminal Facilities with Southwest Airlines Company for space in Terminal 1, processed a project-level Negative Declaration. The Negative Declaration analyzed the proposed development's effect on the environment and concluded that there is no substantial evidence that the project will have a significant effect on the environment. The Negative Declaration was available for review and comment from March 13, 2014 through April 2, 2014, in accordance with CEQA Guidelines Section 15073. Four comment letters were received during the comment period: three supporting the project and one inquiring about project cost; therefore, no change to the findings was made nor was new evidence presented to warrant a change in the Negative Declaration. The Negative Declaration was prepared in accordance with CEQA, Public Resources Code Section 21000 et seq. and the State CEQA Guidelines Title 14 California Code of Regulations (CCR) Section 15000 et seq.



The Notice of Intent to Adopt a Negative Declaration for project was published in the Los Angeles Times and Posted at the offices of the City Clerk and County Clerk on March 7, 2014 and was mailed to 400 organizations and individuals potential affected by or interested in the project. Copies of the Negative Declaration were available for review at the following libraries: (1) Westchester-Loyola Village Branch: 7114 W. Manchester Avenue, Los Angeles, CA 90045; (2) El Segundo Library: 111 W. Mariposa Avenue, El Segundo, CA 90245; (3) Inglewood Library: 101 W. Manchester Boulevard, Inglewood, CA 90301; and at Los Angeles World Airports: 1 World Way, Room 218, Los Angeles, CA 90045. In addition, the document was also available online at LAWA's website, [www.ourlax.org](http://www.ourlax.org), under "Current Projects – Publications."

### ***Action Requested***

Staff requests the Board approve the proposed First Amendment to LAA-8757 and authorize the Executive Director to execute the proposed First Amendment, subject to approval as to form by the City Attorney, and upon approval by the Los Angeles City Council.

### ***Fiscal Impact***

The First Amendment with Southwest Airlines will result in LAWA purchasing through cash and rent credits an amount not-to-exceed \$509,801,000 of the "Terminal 1 Southwest Renovations Project" which is a capital project at LAX. The costs for this project will be recovered through a combination of Passenger Facility Charge (PFC) fees as well as through terminal rates and charges paid by the airlines.

Approval of the proposed First Amendment will provide approximately \$14,000,000 in rent during the first year.

## **4. Alternatives Considered**

- ***Take No Action***

Not executing the proposed First Amendment would prevent LAWA from acquiring the additional improvements which would likely deter Southwest from making the enhancements that would improve the passenger experience in the most used domestic terminal at LAX.

## **APPROPRIATIONS:**

The "Terminal Southwest Renovations Project" is an approved capital project at LAX. Prior BOAC action appropriated funding from the LAX Revenue Fund to this capital project. Staff requests that additional funds be appropriated so that the total not-to-exceed amount of \$509,801,000 for the Terminal 1 Southwest Renovations Project be appropriated and allocated from the LAX Revenue Fund to WBS Element 1.13.11-700 as may be required.

**STANDARD PROVISIONS:**

1. A Negative Declaration has been prepared for the Terminal Facilities with Southwest Airlines Company for space in Terminal 1 in compliance with the California Environmental Quality Act (CEQA) and the Los Angeles City CEQA Guidelines. As described in the Negative Declaration, implementation of the project will have a less than significant environmental impact. Pursuant to CEQA Guidelines Section 15074(c), the location of the custodian of documents and materials for the Negative Declaration is the Los Angeles World Airports, Capital Programming and Planning Group, 1 World Way, Los Angeles, CA 90045.
2. This contract 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, 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.