



RESOLUTION NO. 26030

LAX
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City of Los Angeles

Eric Garcetti
Mayor

**Board of Airport
Commissioners**

Sean O. Burton
President

Valeria C. Velasco
Vice President

Jeffery J. Daar
Gabriel L. Eshaghian
Beatrice C. Hsu
Nolan V. Rollins
Dr. Cynthia A. Telles

Deborah Flint
Chief Executive Officer

BE IT RESOLVED that the Board of Airport Commissioners approved a Terminal Facilities Lease and License Agreement with Delta Air Lines, Inc. to enable relocation to Terminals 2 and 3 at Los Angeles International Airport, no earlier than May 2017, subject to certain preconditions, renovation of both terminals and requiring relocation of affected airlines, for estimated revenue of \$4.9 million in the first year, as referenced in the Board-adopted staff report attached hereto and made part hereof; and

BE IT FURTHER RESOLVED that the Board of Airport Commissioners authorized the Chief Executive Officer or designee to execute the Terminal Facilities Lease and License Agreement with Delta Air Lines, Inc. for space in Terminals 2 and 3 at Los Angeles International Airport upon approval as to form by the City Attorney and upon approval by the Los Angeles City Council; and

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

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. 26030 is true and correct, as adopted by the Board of Airport Commissioners at its Special Meeting held on Wednesday, July 20, 2016.

Sandra J. Miller – Secretary
BOARD OF AIRPORT COMMISSIONERS





Los Angeles World Airports

REPORT TO THE

BOARD OF AIRPORT COMMISSIONERS

Item Number
16

Dave Jones
Approved by: Dave Jones - Airport Property and Concession Services

Debbie L. Bowers
Reviewed by: Debbie L. Bowers - Deputy Executive Director -
Commercial Development Group

Deborah Flint
City Attorney
Deborah Flint
Deborah Flint - Chief Executive Officer

Meeting Date:

7/20/2016

CAO Review:

- Completed
 Pending
 N/A

Reviewed for	Date	Approval Status	By
Capital Budget	7/8/2016	<input checked="" type="checkbox"/> Y <input type="checkbox"/> N <input type="checkbox"/> NA	NE
Operating Budget	7/8/2016	<input checked="" type="checkbox"/> Y <input type="checkbox"/> N <input type="checkbox"/> NA	RW
CEQA	7/18/16	<input checked="" type="checkbox"/> Y <input type="checkbox"/> N	AE
Procurement	7/14/16	<input checked="" type="checkbox"/> Y <input type="checkbox"/> N <input type="checkbox"/> L. Cond	MT
Guest Experience	7/20/16	<input checked="" type="checkbox"/> Y <input type="checkbox"/> N	BY

SUBJECT: Terminal Facilities Lease and License Agreement with Delta Air Lines, Inc. for space in Terminals 2 and 3 at Los Angeles International Airport

Approve a Terminal Facilities Lease and License Agreement with Delta Air Lines, Inc. for space in Terminals 2 and 3 at Los Angeles International Airport, which will generate approximately \$4,900,000 in revenue the first year.

RECOMMENDATIONS:

Management RECOMMENDS that the Board of Airport Commissioners:

1. ADOPT the Staff Report.
2. 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.
3. APPROVE the proposed Terminal Facilities Lease and License Agreement with Delta Air Lines Inc., for space in Terminals 2 and 3 at Los Angeles International Airport.
4. AUTHORIZE the Chief Executive Officer or her designee to execute the Terminal Facilities Lease and License Agreement with Delta Air Lines, Inc. for space in Terminals 2 and 3 at Los Angeles International Airport subject to approval as to form by the City Attorney and

upon approval by the Los Angeles City Council.

5. APPROPRIATE funds in the amount of \$134,750,000 to purchase Airline Renovations, \$60,000,000 to purchase Airline Relocations, and \$267,860,000 to purchase Terminal Renovations, including interest during construction.

DISCUSSION:

1. Purpose

Enable Delta Air Lines, Inc. (Delta) to relocate to Terminals 2 and 3 at Los Angeles International Airport (LAX), no earlier than May 2017 and subject to Los Angeles World Airports (LAWA) approval that certain preconditions have been met, while requiring that Delta renovate both terminals and facilitate relocation of certain other airlines affected by Delta's relocation.

2. Prior Related Actions

- August 1, 2011 - Board Resolution No. 24529
The Board of Airport Commissioners (Board) approved an Amended and Restated Terminal Facilities Lease and License Agreement with Delta for Space in Terminal 5 (LAA-4983) that obligated Delta to invest \$148,900,000 in Terminal 5 (Terminal 5 Lease).
- September 17, 2013 - Board Resolution No. 25243
The Board approved the First Amendment to the Terminal 5 Lease to include space in Terminal 6 (LAA-4983A) and obligate LAWA to acquire approximately \$50,000,000 in additional renovations (Terminals 5 and 6 Lease).
- December 2, 2014 – Board Resolution No. 25285
The Board approved an option to purchase renovations from Delta with cash instead of rent credits in accordance with the Terminals 5 and 6 Lease.
- July 16, 2015 – Board Resolution No. 25759
The Board approved appropriation of \$29,500,000 to acquire additional improvements in accordance with the Terminals 5 and 6 Lease.

3. Current Action

Over the past seven years, Los Angeles World Airports (LAWA) has worked with numerous tenants, including but not limited to Delta, Alaska Airlines, American Airlines, Southwest Airlines, United Airlines, and Westfield Concessions Management to redevelop and upgrade existing passenger terminal facilities at LAX while, in parallel, LAWA constructed the new Bradley West addition to the Tom Bradley International Terminal (TBIT) and implemented renovations to public areas in certain terminals. These initiatives have allowed multiple large-scale projects to proceed simultaneously while minimizing airport operational impacts and LAWA's exposure to construction risk. As a result, all terminals except Terminals 3 and 4 have been or are being renovated.

Delta has evaluated relocation options within LAX given constraints within Terminals 5 and 6 multiple times. Under Delta's current proposal, Delta would relocate from Terminals 5 and 6

to Terminals 2 and 3 and would better align Delta's share of gates at LAX with their current passenger market share.

The proposed Lease will require Delta to facilitate and enable the relocation of affected airlines from Terminals 2 and 3 to Terminals 5, 6, and TBIT in accordance with a relocation plan vetted with the other airlines and approved by LAWA. Most of the affected airlines have indicated to LAWA that Delta's relocation will improve their own LAX operation and better position LAWA to meet airlines' future needs. LAWA will be responsible for negotiating replacement leases, lease amendments, or other agreements for affected airlines that have leases, including Air Canada, Alaska Airlines, American Airlines, Hawaiian Airlines, and Virgin America, and for executing new occupancy agreements for other affected airlines that are appropriate to each airline's circumstances.

Prior to completion of Delta's move to Terminals 2 and 3, Delta will be required to do the following:

- Prepare Terminals 5 and 6 for relocating airlines
 - Install a new data network providing common use gating ability
 - Modify the ramp to accommodate relocations including different aircraft, e.g. re-striping, multi-tenant use Wi-Fi for ramp operations, and lighting systems
 - Renovate public space, including ticket counters, lobbies, building infrastructure, and associated airline support space to accommodate 14 airlines
 - Provide club space for airlines in each terminal
- Prepare TBIT to accommodate airlines checking in at Terminal 3 and gating in TBIT
 - Create a new gate at northeast end of TBIT, providing four gates to accommodate four Group III, or three Group III and one Group V aircraft
 - Fill in current vertical circulation space to provide more holdroom space
- Prepare Terminals 2 and 3 for Delta occupancy
 - Install new data network system for Delta use, leaving existing data network system for other carriers to be accommodated in the terminals
 - Construct two new bus gates in each terminal to accommodate passenger and employee transfers between the two terminals and TBIT
 - Modify the ramp to accommodate Delta operations, including replacing and adding jet bridges in these terminals.
 - Renovate support space to accommodate Delta's staff and operational requirements, including creating new support space by enclosing vacant space on the ramp
 - Improve public space in Terminals 2 and 3 including building systems upgrades and tie-ins

The work described above would be completed with the requested appropriated funds in this Board report.

Following the completion of the relocations, the Lease provides the option for the following potential future improvements to take place, provided that LAWA completes the applicable environmental review requirements of CEQA and such separate and independent project or project components are approved by the Board:

- Completely renovate Terminal 3 providing more concession space to better serve passengers
- Rebuild headhouse for Terminals 2 and 3 to provide innovative ticketing facilities to accommodate current technology for check-in, provide more space for passenger flow to either terminal, improve security check point experience, and create a more enticing atmosphere for an overall positive guest experience
- As part of LAWA's pavement management plan, redo the entire ramp including concrete, fueling infrastructure, jet bridge facilities alignment, and upgrade aircraft safety provisions including state of the art guiding systems
- Provide infrastructure for planned Airport People Mover including all vertical circulation to serve Terminals 2 and 3

Subject to certain conditions, including CEQA clearance noted above, which is subject to Board approval, Delta will be obligated under the Lease to make the above potential future improvements to Terminals 2 and 3 that LAWA will acquire through cash and rent credits. Staff will return to the Board to specifically request appropriate funding for the above potential future improvements through one or more definitive terminal improvement plans (DTIP).

LAWA will also have the option of having Delta complete connectivity for passengers by building a post security connector between Terminals 2 and 3 and TBIT, which will also require Board action through a DTIP to fund the work.

Delta's existing Terminals 5 and 6 Lease will terminate on the date that Delta fully relocates to Terminals 2 and 3. Key components of the proposed Lease include:

Premises:

Prior to relocating to Terminals 2 and 3, Delta will have a Right of Entry to perform improvements in Terminals 2, 3, and TBIT. Upon relocation into Terminals 2 and 3, Delta will occupy all airline space consisting of approximately 340,000 square feet. Upon completion of approved renovations, Delta will occupy approximately 451,000 square feet. If the potential future improvements are approved, the premises will be revised to reflect as-built conditions through revision of the proposed Lease premises exhibits, subject to City Attorney approval as to form, and approval by the Chief Executive Office, Board, or City Council as required.

Minimum Investment Requirement

Including the cost associated with the relocation plan described above, Delta will have a Minimum Investment Requirement of \$350,000,000, which would include design and renovate holdrooms, support space and other amenities for passengers, including renovation of the club level for a Delta Sky Club, upgrade the baggage handling systems in the terminals, and manage the relocations of current tenants pursuant to a LAWA approved relocation plan.

The Minimum Investment Requirement is categorized as follows:

- Terminal Airline Renovations include non-proprietary improvements to Terminals 2 and 3 that are usable by any airline operating in these facilities and located in parts

of terminals classified as "airline areas", including a proportionate share of building improvements allocated to "airline areas" of the terminal;

- Terminal Renovations include improvements that are allocated to the public areas of Terminals 2 and 3 that are being implemented during the course of the overall project; and,
- Delta Proprietary Improvements include branded improvements unique to Delta's operational needs, and specialty lighting, finishes or other architectural elements specifically selected by Delta.

CEQA Review:

Prior to the approval and initiation of construction of the potential future improvements, the proposed development program will undergo the environmental review process required under the CEQA, recognizing that any significant impacts to the environment identified in the review process may require changes to the potential future improvements and/or implementation of feasible mitigation measures, which will be applied as conditions of approval for the development program, and will also require consideration of feasible alternatives to the development program that can avoid or substantially reduce those significant impacts. Upon completion of the CEQA compliance document, the Board will have the option of approving or denying the potential future improvements.

Additional Improvement Requirement

In addition to the Minimum Investment Requirement of \$350,000,000, Delta will be required to submit DTIPs for the potential future improvements having a cost of no less than \$650,000,000 in order to secure the Lease term, if approved by the Board. While LAWA expects Delta to submit DTIPs greater than this amount, the Lease caps LAWA's total obligation to acquire all potential future improvements, after this Board action, is \$1,455,000,000, including interest cost during construction and an allowance of \$160,000,000 for a T3-TBIT Connector. Staff will return to the Board for authority to acquire the additional improvements requested in the DTIP(s).

Preferential Gates and Gate Use:

Upon Delta relocating to Terminals 2 and 3, all holdrooms and gates will be assigned to Delta as Preferential Use Gates and be subject to utilization requirements defined in the Lease. Delta will also be required to have agreements with the following airlines, or substitute airlines approved by LAWA, that will continue to operate in Terminals 2 and 3: AeroMexico, Aeroflot, Virgin Australia, and WestJet. In addition, Delta may request and LAWA will convert up to two TBIT Common-Use Gates to Delta Preferential-Use Gates if: (i) Delta is fully utilizing its assigned Preferential-Use Gates above levels required in the Lease; (ii) Delta presents a schedule that demonstrates enplaning passengers using assigned TBIT gates will be processed in Terminals 2 and 3; and, (iii) LAWA determines Delta's proposed use will result in each assigned TBIT gate processing international capacity, measured as available seats, equal to at least 125% of LAWA's use of its TBIT Common-Use Gates. Delta may request additional TBIT Preferential-Use Gates subject to these same terms after the Midfield Satellite Concourse opens.

Term:

The proposed Lease will commence on the first day of the month following Board and City Council approval and terminate on April 30, 2039, unless terminated earlier as follows:

- Relocation Obligation – If Delta does not relocate to Terminals 2 and 3 before December 31, 2018, the Lease will terminate unless the Chief Executive Officer extends the relocation deadline by a period of no more than 24 months
- Investment Requirement – If Delta does not submit initial plans to make the remaining required investments by March 31, 2018, the Lease will terminate on October 31, 2025. If Delta does submit plans to fulfill the remaining required investment projects similar in scope to those presented by other airlines and LAWA fails to approve the plan, the Lease will terminate on November 1, 2028. If the Board does not approve potential future improvements or if Delta fails to complete the remaining investment requirement by November 1, 2025, the term will be reduced in proportion to the amount of investment that Delta did not make.
- Rate Agreement – LAWA will have the option to terminate the Lease on the expiration date of the Rate Agreement, which currently is December 31, 2022, by providing 180-day advance written notice and reimbursing Delta the undepreciated value of its Proprietary Improvements if LAWA has offered Delta a Rate Agreement extension that Delta does not execute.
- Option to Purchase Non-Proprietary Terminal Renovations – If the Board approves an option to purchase all renovations in a future action with cash rather than rent credits, the Lease will terminate on December 31, 2032.

Rent:

Delta has entered into a Rate Agreement with LAWA covering terminal rents at LAX. Delta's rent will be adjusted pursuant to the terms and conditions of the Rate Agreement while the Rate Agreement is in effect. The Lease will terminate if Delta does not execute an extension to the Rate Agreement or a replacement Rate Agreement if offered by LAWA.

Action Requested

Staff requests the Board approve and authorize the Chief Executive Officer to execute the proposed Lease, subject to approval as to form by the City Attorney and upon approval by the Los Angeles City Council.

Fiscal Impact

The acquisition cost for the planned improvements from Delta will be recovered through future terminal rates and charges pursuant to the Rate Agreement.

LAWA's total acquisition cost for non-proprietary improvements within the Minimum Investment Requirement, including interest during construction, is capped at \$462,610,000 as follows:

- \$134,750,000 - future payments after completion of Airline Renovations
- \$327,860,000 - future rent credits, 18% of which are for Airline Relocations and 82% of which are for Terminal Renovations including interest cost if rent credits are not extinguished by future Board action pursuant to Section 1.4.3(d) of the Lease

Approval of the proposed Lease will provide approximately \$4,900,000 in revenue from in the first full year from execution.

4. Alternatives Considered

- ***Take No Action***

Not executing the proposed Lease will result in cancellation of Delta's plan to relocate to Terminals 2 and 3. Abandonment of this plan will substantially defer planned upgrades and the realignment of the north terminals at LAX for an estimated eight years at a minimum, and will result in little improvement to the LAX passenger experience. Notably, the plan to provide a secure connection throughout Terminals 1, 2, 3 and TBIT will only be accomplished at some time in future.

Additionally, if Delta does not move out of Terminals 5 and 6 pursuant to the proposed Lease, a number of other airlines scheduled to be relocated to Terminals 5 and 6 in conjunction with Delta's move will not realize the benefits they anticipate from their planned relocation.

APPROPRIATIONS:

Delta intends to invest approximately \$350,000,000 to renovate Terminals 2 and 3 at LAX. Delta intends to fund an estimated \$45,000,000 for proprietary renovations. The remaining non-proprietary improvements are subject to acquisition by LAWA through cash purchase in an amount not to exceed \$134,750,000 and rent credits in an amount not to exceed \$327,860,000. Staff requests the Board appropriate and allocate the required funds in a not-to-exceed amount of \$462,610,000 from the LAX Revenue Fund to WBS Element 1.16.17-700 (Terminals 2 and 3 Renovations) and other related WBS Elements, as needed, to acquire from Delta the renovations identified in the Current Action section and further delineated in the proposed Lease.

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 agreement will be approved 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. Delta Airlines will comply with the provisions of the Living Wage/Service Contractor Worker Retention Ordinances.
5. Small Business Enterprise Program does not apply to leases.
6. Delta Airlines will comply with the provisions of the Affirmative Action Program.

7. Delta Airlines is not required to obtain a Business Tax Registration Certificate for this Lease Agreement.
8. Delta Airlines will comply with the provisions of the Child Support Obligations Ordinance.
9. Delta Airlines 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. Delta Airlines has submitted the Contractor Responsibility Program Questionnaire and Pledge of Compliance and will comply with the provisions of the Contractor Responsibility Program.
12. Delta Airlines has been determined by Public Works, Office of Contract Compliance, to be in full compliance with the provisions of the Equal Benefits Ordinance.
13. Delta Airlines 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.