

0150-00939-0123

TRANSMITTAL

TO
Deborah Flint, Executive Officer
Department of Airports

DATE

COUNCIL FILE NO.

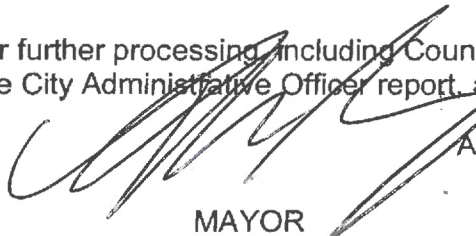
AUG 17 2017

FROM
The Mayor

COUNCIL DISTRICT
11

**Proposed Ground Lease Agreement with Southwest Airlines Company for
Vacant Land Between Terminal 1 and Terminal 2 to Allow for the
Construction and Operation of a Facility at Los Angeles International Airport**

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


Ana Guerrero
MAYOR

RHL:AVM:101800111

REPORT FROM

OFFICE OF THE CITY ADMINISTRATIVE OFFICER

Date: August 14, 2017

CAO File No. 0150-00939-0123

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 GROUND LEASE AGREEMENT WITH SOUTHWEST AIRLINES COMPANY FOR VACANT LAND BETWEEN TERMINAL 1 AND TERMINAL 2 TO ALLOW FOR THE CONSTRUCTION AND OPERATION OF FACILITY AT LOS ANGELES INTERNATIONAL AIRPORT**

RECOMMENDATIONS

That the Mayor:

1. Approve a proposed Ground Lease (Lease) with Southwest Airlines Company (SWA) with a ten-year term, for approximately 65,000–95,000 square feet of land between Terminal 1 and Terminal 2, at Los Angeles International Airport, to allow for the construction and operation of a terminal check-in, arrival baggage claim, and bus gate facility, subject to City Attorney approval as to form. Also, the Department of Airports (Department) total acquisition cost, including interest, will not exceed \$46,000,000 for the Lease non-proprietary Site Improvements. The proposed Lease is anticipated to generate revenue of approximately \$2,400,000 during its term. Prior to Lease execution, SWA must (a) have on file with the Department approved insurance documents in the terms and amounts required, and (b) submit the Contractor Responsibility Program Questionnaire and 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 Airport jobs, Living Wage Ordinance and Service Contractor Worker Retention Ordinance. The Public Works Department, Office of Contract Compliance, has determined that SWA is in full compliance with provisions of the Equal Benefits Ordinance;
2. Authorize the Chief Executive Officer to execute the proposed Lease; 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 on January 14, 2013 by the Board of Airport Commissioners (BOAC) for a term of 11 years and three months. At Los Angeles International Airport (LAX), SWA occupies 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. In the following year 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.

The request to approve a proposed ten-year Ground Lease (Lease) between SWA and the Department, for approximately 95,000 square feet of vacant land between T1 and Terminal 2 (T2), will support SWA plans to grow, improve and process its international air traffic operations. SWA proposes to construct and operate a new passenger processing facility of approximately 178,000 square feet on the vacant property. The new facility will include check-in counters, passenger screening checkpoint, new baggage systems (baggage screening capacity, arrival baggage claims), a functional bus gate, and airline office support space. Additionally, the new building will connect to a planned LAX Automated People Mover (being constructed by the Department) by way of a vertical circulation core – Landside Access Modernization Plan, LAMP Core. Department staff anticipates that after the new facility is constructed, the vacant property between T1 and T2 will be approximately 65,000 square feet. The proposed Lease is anticipated to generate revenue of approximately \$2,400,000 during its term.

The Department will acquire the Site Improvements, upon completion, for an amount not to exceed \$46,000,000 including interest, according to the proposed Lease. Staff explains the vacant land between T1 and T2 cannot be prepared for construction (site improvements) without significantly impacting a T1 renovation project under Lease LAA-8757 (separate request). Consequently, Department staff recommends the BOAC find use of a competitive bidding process for the proposed Site Improvements presently impractical and undesirable, pursuant to Charter Section 371(e)(10) - exceptions to competitive bidding. Allowing SWA to utilize the same contractor to manage construction (site improvements) as was selected for T1 renovation project will provide control and coordination of the adjacent projects, according to staff. The Department may acquire space, or sublease, the new facility - Facility Improvements (subject to future BOAC approval) - for an amount not to exceed \$432,000,000.

Other proposed Lease provisions (1) detail termination options available to SWA and the Department, (2) provide options regarding construction financing, (3) incorporate subleasing and sub-subleasing arrangements and costs of the facility into the Terminal Rate Methodology and maintain the uniform rent for terminal space, and (4) outline options available to the Department to acquire Facility Improvements, through such action depends upon approval through a separate

BOAC action.

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

FISCAL IMPACT STATEMENT

Approval of the proposed Ground Lease (Lease) between Southwest Airlines Company and the Department of Airports (Department), for approximately 95,000 square feet of vacant land at Los Angeles International Airport situated between Terminal 1 and Terminal 2, will have no impact on the General Fund. Revenue of approximately \$2,400,000 is anticipated to be generated over the ten-year Lease term. The proposed Lease provides that the Department will acquire the Site Improvements, upon completion, for an amount not to exceed \$46,000,000 including interest. Subject to future approval by the Board of Airport Commissioners, the Department may acquire space, or sublease, the new facility to be constructed on the land - Facility Improvements - for an amount not to exceed \$432,000,000.

RHL:AVM:10180011