



RESOLUTION NO. 26290

BE IT RESOLVED that the Board of Airport Commissioners approved a ten (10)-year Lease with Southwest Airlines Company covering 65,000-95,000 square feet of land between Terminals 1 and 2 for construction and operation of a terminal check-in, arrival baggage claim and bus gate facility, including a Landside Access Modernization Program Core at Los Angeles International Airport; appropriation of \$46,000,000 to purchase site improvements from said lessee; as referenced in the Board-adopted staff report attached hereto and made part hereof; and

LAX

Van Nuys

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
Thomas S. Sayles
Dr. Cynthia A. Telles

Deborah Flint
Chief Executive Officer

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

BE IT FURTHER RESOLVED that that pursuant to Charter Section 370(e)(10) and Administrative Code §10.15(a)(10) under the circumstances presented that the use of a competitive bidding process for construction of the Site Improvements at the present time would be impractical and undesirable because the necessary Site Improvements cannot be constructed without significantly impacting the current Southwest Airlines Company Terminal 1 Renovation Project; and

BE IT FURTHER RESOLVED that the underlying project was previously evaluated for environmental significance by Negative Declaration NG-16-275-AD, adopted by the City Council on January 25, 2017 and is exempt from the requirements of the California Environmental Quality Act (CEQA) pursuant to Article II Section 2(i) 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. 26290 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

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REPORT TO THE BOARD OF AIRPORT COMMISSIONERS

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

Debbie Bowers
Reviewed by: Debbie Bowers - Chief Commercial Officer

Ronald S. O...
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	6/2/2017	<input checked="" type="checkbox"/> Y <input type="checkbox"/> N <input type="checkbox"/> NA	RW
CEQA	5/19/2017	<input checked="" type="checkbox"/> Y <input type="checkbox"/> N	AE
Procurement	5/22/2017	<input type="checkbox"/> Y <input type="checkbox"/> N <input checked="" type="checkbox"/> Cond	MT
Guest Experience	5/31/2017	<input checked="" type="checkbox"/> Y <input type="checkbox"/> N	BY

SUBJECT: Approval of a Lease Agreement with Southwest Airlines Company for Construction and Operation of a new Terminal Check-in, Arrival Bag Claim, and Bus Gate Facility, including a LAMP Core

Approve a Lease Agreement with Southwest Airlines Company for 65,000-95,000 square feet of land between Terminals 1 and 2 at Los Angeles International Airport with a term of ten years that will generate approximately \$284,000 gross revenue in the first year and \$2,400,000 over the 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 II, Section 2.i. of the Los Angeles City CEQA Guidelines.
- FIND that pursuant to Charter Section 370(e)(10) and Administrative Code §10.15(a)(10) under the circumstances presented that the use of a competitive bidding process for construction of the Site Improvements at the present time would be impractical and

undesirable because the necessary Site Improvements cannot be constructed without significantly impacting the current Southwest Airlines Company Terminal 1 Renovation Project.

4. APPROVE the proposed Lease Agreement with Southwest for land between Terminals 1 and 2 at Los Angeles International Airport.
5. AUTHORIZE the Chief Executive Officer or her designee to execute the proposed Lease Agreement with Southwest for land between Terminals 1 and 2 at Los Angeles International Airport, subject to approval as to form by the City Attorney and upon approval of the Los Angeles City Council.
6. APPROPRIATE funds in the amount of \$46,000,000 to purchase Site Improvements, including interest during accrued construction.

DISCUSSION:

1. Purpose

Provide Southwest Airlines Company (Southwest) a ground lease (Lease) to allow the construction and operation of a terminal check-in, arrival baggage claim, bus gate facility, including a LAMP Core, 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 LAX-8757 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 Lease LAA-8757 with Southwest to increase the acquisition of renovations from \$384,008,000 to \$509,801,000.

3. Current Action

Southwest currently occupies 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 that requires use of FIS gates and facilities and has used FIS facilities in Terminal 2 pursuant to the LAX Passenger Terminal Tariff to process its international flights. These flights relocated to the Tom Bradley International Terminal (TBIT) in mid-May 2017 as part of the Airline Relocation Plan triggered by Delta Air

Lines, Inc. relocation from Terminals 5 and 6 to Terminals 2 and 3. In addition to Southwest flights being relocated from Terminal 2 to TBIT, Southwest also relinquished check-in ticket counters and offices in Terminal 2 that supported its international operations.

In advance of losing space in Terminal 2, Southwest explored options to operate its international flights and determined that it was not possible to relocate international check in to TBIT because of existing ticket counter and baggage system constraints in that facility. Therefore, Southwest determined it would need to run a busing operation to transport passengers to TBIT and approached LAWA about the plans to construct a new passenger processing building on the vacant land between Terminals 1 and 2.

To support its plans to grow international traffic and process associated international passengers and provide a satisfactory facility to transport passengers to available international gates in TBIT, Southwest requested to lease the ground between Terminals 1 and 2 and to construct the passenger processing facility and bus gate. Adjacency to Terminal 1 make this option more attractive to Southwest than operating out of a passenger processing/bus facility at any other location and provides a better guest experience. To support this plan, Southwest requested to lease the land and construct and operate a new 178,000 square feet facility.

The proposed facility will include a vertical circulation core (LAMP Core) that will connect to the Automated People Mover (APM) that LAWA is constructing as part of the Landside Access Modernization Plan. In addition, the facility will include check-in counters, passenger screening checkpoint, new baggage systems including additional baggage screening capacity and arrival baggage claims, a fully functional bus gate, and airline office support space. Southwest wishes to eventually lease approximately 23,000 SF of the facility to support check-in and transport its international passengers to TBIT via the new proposed bus gate. LAWA will retain 12 ticket counters, two skycap positions and an arrival baggage claim. The cost of the proposed facility is \$489,900,000 including \$46,000,000 for Site Improvements, \$432,000,000 for Facility Improvements, and \$11,300,000 for Southwest proprietary investment.

Under the proposed Lease, upon completion of the Site Improvements, LAWA will acquire the Site Improvements in an amount not to exceed \$46,000,000, including construction interest. This work is needed to bring the ground into a condition so Southwest can construct the facility, and is work that LAWA would need to undertake to prepare the site for a future connection to the APM, which Southwest has agreed to incorporate into the facility. Under the circumstances presented the use of a competitive bidding process at the present time for the construction of the Site Improvements would be impractical and undesirable because of the significant impacts that would be imposed on the Southwest's Terminal 1 Renovation project. Allowing Southwest to perform this work will allow Southwest to control coordination of the construction phasing between these adjacent projects and control the impacts to their Terminal 1 Renovation Project and to their operations from the Terminal.

Further, pursuant to Charter Section 372 under the circumstances presented obtaining competitive proposals for the construction of the Site Improvements is not reasonably practicable and compatible with the City's interests because Southwest already procured the contractor for the Terminal 1 Renovation Project, which is the same contractor Southwest wishes to manage this construction in order to control the impacts to their ongoing construction project and flight operations.

LAWA staff determined that it is more beneficial for Southwest to perform this work and LAWA to acquire the Site Improvements from Southwest as it will reduce risk of delays to the project and potential conflicts between contractors working in the same area.

In addition, pursuant to Section 1.1.2 (a) of the proposed Lease, if Southwest constructs the Facility Improvements, LAWA will have the option, subject to separate Board approval, to acquire the Facility Improvements in an amount not to exceed \$432,000,000, upon completion of construction. Southwest intends to secure third party financing to support this construction. However, if it does not secure financing to fund the Facility Improvements and if LAWA does not exercise its option to purchase the Facility Improvements within six months of Lease execution, Southwest will have the option to terminate the Lease upon completion of the Site Improvements.

To maintain the uniform rate structure for use of passenger processing facilities in the Central Terminal Area, the proposed Lease will include a subleasing arrangement. If LAWA has not exercised its option to acquire the improvements and terminate the Lease, LAWA will sublease the entire facility from Southwest and sub-sublease space to Southwest and any other airlines that may use the facility. This will allow LAWA to incorporate the sublease costs of the facility into the Terminal Rate Methodology and maintain the uniform rent for terminal space.

The proposed Lease also provides that Southwest may finance some or all of the construction through (1) a lender or lending institution, (2) a special purpose entity, or (3) the Regional Airports Improvement Corporation (RAIC) or another similar financing entity. Southwest has advised LAWA that it wishes to finance some or all of the construction of the renovations using RAIC 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 and grant a security interest therein to an administrative agent or collateral agent acting on behalf of the Lenders.

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

Proposed Lease Summary

Description:

Term: Ten years

Commencement: After required approvals and upon Execution by the CEO

Termination Options: LAWA may terminate by purchasing Facility Improvements – subject to subsequent Board approval

Southwest may terminate within 15 business days of Commencement if it fails to secure financing

Southwest may terminate upon completion of the Site Improvements if LAWA has not provided notice of intent to purchase the Facility Improvements

Required Improvements: Site Improvements in an amount not to exceed \$46,000,000

Facility Improvements in an amount not to exceed \$432,000,000

Demised Premises:	Unit	Rental Rate	Rent/Year
	SF	Rate/SF/Year	Amount
Initial Premises:	95,000	\$2.99	\$284,050
Post Construction Premises:	65,000	\$3.17	\$206,246

Land Rent Current Rate = \$2.99/SF/YR

Annual Adjustment: Based on Consumer Price Index with a minimum increase of 2% and maximum increase of 7% during years other than when land is adjusted to market value every five years.

Constructing the new ticketing building between Terminals 1 and 2 will have impacts to the renovation project that Southwest is managing in Terminal 1. Specifically, there are tie-ins to the Terminal 1 utility infrastructure and airline equipment, including baggage systems, and adjacency impacts to ramp/aircraft operational areas and gate/holdroom renovation. Southwest and LAWA have discussed these impacts and believe that it is best for Southwest to manage the construction of the new facility between Terminals 1 and 2 to best coordinate the work and reduce the risks to the Terminal 1 renovation project.

Action Requested

Staff requests the Board approve the proposed Lease with Southwest for 65,000-95,000 SF of land with a 10-year term to allow the construction and operation of a terminal ticketing, baggage claim and bus gate facility, including a LAMP Core.

Fiscal Impact

The acquisition cost for the Site Improvements and Facility Improvements from Southwest will be recovered through future terminal rates and charges pursuant to the Rate Agreement.

LAWA's total acquisition cost for non-proprietary Site Improvements, including interest during construction, is capped at \$46,000,000.

Approval of the proposed Lease will provide approximately \$284,000 in revenue from in the first full year from execution and approximately \$2,400,000 through the tenth anniversary of the forecast construction completion date.

4. Alternatives Considered

- ***LAWA Builds only a LAMP Core***

LAWA was planning to build the LAMP Core only, until Southwest suggested that it needed terminal facilities to facilitate Southwest's international service. LAWA decided it would be short-sighted to just build the LAMP Core, only to return later and build the facility.

- ***LAWA Builds the Terminal Ticketing, Baggage Claim and Bus Gate Facility, including the LAMP Core***

After Southwest approached LAWA with designs for building the facility for its international service, LAWA considered taking on the project. However, interfaces with the Terminal 1 project could have caused issues for both the Terminal 1 and Terminal 1.5 projects. Together with Southwest, staff determined that the best course was to allow Southwest to continue with the design and construction of the facility, subject to LAWA approval.

APPROPRIATIONS:

Staff requests that the Board appropriate and allocate funds in a not-to-exceed amount of \$46,000,000 from the LAX Airport Revenue Fund to WBS Element 1.17.29A-700 (Southwest Terminal 1.5) and other related WBS Elements, as needed to acquire from Southwest the construction elements identified in the Current Action section and further delineated in the proposed lease.

STANDARD PROVISIONS:

1. The underlying project was previously evaluated for environmental significance by Negative Declaration NG-16-275-AD, adopted by the City Council on January 25, 2017 and is exempt from the requirements of the California Environmental Quality Act (CEQA) pursuant to Article II, Section 2.i 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 is required by contract to comply with the provisions of the Living Wage/Service Contractor Worker Retention Ordinances.
5. The Small Business Enterprise and Local Business Enterprise/Local Small Business Enterprise Programs do not apply to leases.
6. Southwest Airlines is required by contract to comply with the provisions of the Affirmative Action Program.
7. Southwest Airlines has been assigned Business Tax Registration Certificate number 0002584164-0001-3.
8. Southwest Airlines is required by contract to comply with the provisions of the Child Support Obligations Ordinance.
9. Southwest Airlines will have approved insurance documents, in the terms and amounts required, on file with Los Angeles World Airports prior to execution of the lease agreement.
10. This action is not subject to the provisions of City Charter Section 1022 (Use of Independent Contractors).
11. Southwest Airlines must submit the Contractor Responsibility Program Questionnaire and Pledge of Compliance and comply with the provisions of the Contractor Responsibility Program prior to execution of the lease agreement.
12. Southwest 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. Southwest Airlines will be required to comply with the provisions of the First Source Hiring Program for all non-trade Airport jobs.
14. This action is not subject to the provisions of the Bidder Contributions CEC Form 55.