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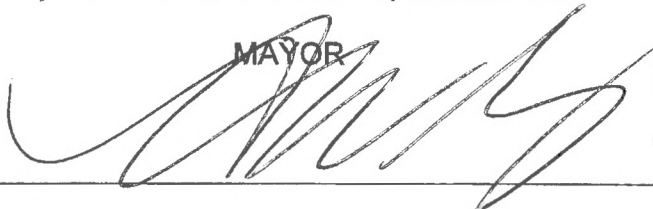
0150-09088-0005

TO Deborah Flint, Chief Executive Officer Department of Airports	DATE MAY 10 2019	COUNCIL FILE NO.
FROM The Mayor		COUNCIL DISTRICT 11

**Request to Approve a Lease Agreement with United Airlines, Inc.
for a Ground Services Equipment Aircraft Maintenance Facility at
the Los Angeles International Airport, 6000-6024 Avion Drive,
to Consolidate Maintenance Operations**

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

MAYOR



Ana Guerrero

REPORT FROM

OFFICE OF THE CITY ADMINISTRATIVE OFFICER

Date: May 10, 2019

CAO File No.: 0150-09088-0005

Council File No.:

Council District: 11

To: The Mayor

From: Richard H. Llewellyn, Jr., City Administrative Officer



Reference: Communication from the Department of Airports dated April 29, 2019; referred by the Mayor for report on May 6, 2019

Subject: **REQUEST FOR APPROVAL OF A LEASE AGREEMENT WITH UNITED AIRLINES, INC. FOR A GROUND SERVICES EQUIPMENT AIRCRAFT MAINTENANCE FACILITY AT THE LOS ANGELES INTERNATIONAL AIRPORT, 6000-6024 AVION DRIVE, TO CONSOLIDATE MAINTENANCE OPERATIONS**

RECOMMENDATIONS

That the Mayor:

1. Approve, subject to City Attorney approval as to form, a proposed lease between the Los Angeles World Airports and United Airlines, Inc. for five years (30 years if United makes a minimum of \$100 million in optional improvements to the site) for a Ground Services Equipment Aircraft Maintenance Facility at the Los Angeles International Airport, 6000-6024 Avion Drive, for the purpose of consolidating multiple facilities into one modernized facility and updating the lease terms and occupancy provisions, subject to the Lessee's compliance with the City's Standard Provisions for Contracting including: the Worker Retention and Living Wage Ordinances, Affirmative Action Program, Child Support Obligations Ordinance, the Contractor Responsibility Program, and the First Source Hiring Program for all non-trade airport jobs;
2. Authorize the Chief Executive Officer of the Los Angeles World Airports to execute the proposed Lease; and,
3. Return the Lease agreement to the Department for further processing, including Council consideration.

SUMMARY

The Chief Executive Officer of the Los Angeles World Airports (LAWA; Department) requests authority to approve a ground lease with long-time lessee United Airlines, Inc. (United Airlines) for the purpose of consolidating duplicative airfield maintenance facilities into one East Aircraft Maintenance and Ground Equipment Support Facility, northeast of Runway 7L-25R. Included in

the new lease is an update to the current terms and occupancy provisions to better align them with the Department's business objectives for the Los Angeles International Airport (LAX).

The consolidation effort is known as the "LAX United Airlines East Aircraft Maintenance and Ground Support Equipment (GSE) Project" and should be completed by December 31, 2020. The proposed lease will generate approximately \$6 million in revenue to LAWA during the first year, which includes United's payment of the residual value of the building improvements (i.e., improvements that extend the useful life of a building and/or increase its value).

United Airlines leases two maintenance hangars at LAX consisting of approximately 32 acres each: one on the west side of the airport at 7300 World Way West (West Maintenance Facility) and one on the east side at 6000-6024 Avion Dr. (East Maintenance Facility). Together, they comprise approximately 2,795,000 square feet of hangar space and shop/office/warehouse space. The airline proposes to, at its own cost and option, consolidate the two outdated structures—one of which dates to the 1940s—in order to construct a modern, efficient, and environmentally responsible aircraft maintenance and ground support complex that will accommodate its current fleet requirements and conform to LAWA's Sustainable Design and Construction Policy and the LEED (Leadership in Energy and Environmental Design) Silver Certification standards. An added benefit is that the new facility's overall square footage, while a modernization and consolidation of two facilities with extensive ground support operations, will be only slightly larger than the previous sites' combined area. Moreover, construction of the new facility at Avion Drive (as part of this project, the site at 7300 World Way West will be vacated but not demolished) will result in the creation of over 800 construction jobs; the completed facility will house over 600 United employees—both management and union.

The primary elements of the GSE Project are as follows:

- ❖ Demolition: Demolish almost all the buildings comprising the existing East Maintenance Facility (i.e., Hangar 1, Hangar 2, an aircraft apron area, maintenance areas, stores, and office space on a 32-acre site at 6000-6024 Avion Dr.)
- ❖ Construction: Build and operate a new aircraft and GSE maintenance facility of approximately 400,000 square feet of building area to include two wide-body aircraft hangar bays; aircraft maintenance shops; aircraft parts/supplies stores, and an associated storage yard; GSE maintenance facility and associated storage yard; replacing/resurfacing a portion of the apron area and restriping aircraft parking positions; reconfiguring the apron, which will, counting aircraft parking positions in the hangar, result in a total of 22 aircraft parking positions on the leasehold, including six in the hangar; relocating an east-west portion of Avion Drive to the north; and relocating employee parking to utilize LAWA's permit parking lots, primarily Parking Structure F, located north of the existing East Maintenance Facility, on the south side of Century Boulevard

Included in the proposed lease is an option for United Airlines to extend the lease term from five years to 30 years by redeveloping the site and investing a minimum of \$100 million in optional improvements to the 32-acre site (Parcel A). The 30-year term was negotiated to allow the airline

to depreciate its capital investment. An additional option provides for the airline to redevelop a second, approximately 70,756 square foot, parcel (Parcel B) north of the East Maintenance Facility for vehicle parking and staging for the consolidation effort.

United Airlines will pay rent for the land and auto paving at Board-approved rates. United will also pay LAWA approximately \$110,000 per month, through December 31, 2020, to compensate the Department for the residual value of any facilities demolished as part of the site redevelopment.

Further lease options include (1) expanding, at the Department's sole discretion, a 41,557 square foot portion of Avion Drive (Parcel C) adjacent to Parcel A to incorporate it into the lease once the road that divides the two parcels is relocated; and (2) eliminating from the lease between one and three areas (e.g., Takeback Areas #1, #2, and #3 totaling 596,204 square feet) that are part of Parcels A and B for future LAWA airfield projects for which the Department will compensate United Airlines for removal of the 433,674 square foot Takeback Area #3 by providing two contiguous wide-body aircraft parking spaces.

The Department has the option of terminating the lease upon the expiration of the new Rate Agreement (December 31, 2022) by providing a 180-day advance written notice if LAWA has offered United a Rate Agreement extension beyond December 31, 2022 that United then fails to execute. Otherwise, LAWA may terminate the lease with 36 months' notice for safety, security, or operational requirements.

The Board approved the underlying "LAX United Airlines East Aircraft Maintenance and Ground Support Equipment Project" at its meeting of November 1, 2018, and the subject lease for space at 6000-6024 Avion Drive at its meeting of May 2, 2019.

FISCAL IMPACT STATEMENT

Approval of the proposed lease with United Airlines, Inc. will result in revenues of approximately \$6 million in the first year. This lease complies with the Department of Airports' adopted Financial Policies. There is no appropriation of funds being requested. Approval of the proposed lease will have no impact on the City's General Fund.

RHL:WDC:10190100