



Los Angeles
World Airports

RESOLUTION NO. 26758

BE IT RESOLVED that, on recommendation of Management, the Board of Airport Commissioners approved a thirty (30)-year Lease with United Airlines, Inc., and associated rental rates, covering land and improvements at 6000-6024 Avion Drive for an aircraft and ground service equipment maintenance facility at Los Angeles International Airport, 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

Gabriel L. Eshaghian
Beatrice C. Hsu
Nicholas P. Roxborough
Thomas S. Sayles
Dr. Cynthia A. Telles

Deborah Flint
Chief Executive Officer

BE IT FURTHER RESOLVED that the Board authorized the Chief Executive Officer, or designee, to execute said Lease with United Airlines, Inc. after approval as to form by the City Attorney and approval by the Los Angeles City Council; and

BE IT FURTHER RESOLVED that this action is exempt from the California Environmental Quality Act (CEQA) pursuant to Article II, Section 2.i and Article III, Class 1 (18)(c) of the Los Angeles City CEQA Guidelines; and that this action by the Board was evaluated in the Los Angeles International Airport United Airlines East Aircraft Maintenance and Ground Support Equipment Project Environmental Impact Report (SCH 2017121019) on November 1, 2018 (Resolution 26640); and

BE IT FURTHER RESOLVED that the Board found that there have been no changes to the activities contemplated under this action and no changes in circumstances, since certification by the Board of said Environmental Impact Report, that would result in a new significant impact or increase in the severity of a previously disclosed significant impact, and no further CEQA review is required pursuant to Public Resources Code § 21166 and CEQA Guidelines § 15162; and

BE IT FURTHER RESOLVED that this action is subject to the provisions of Los Angeles City Charter Sections 606.

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I hereby certify that this Resolution No. 26758 is true and correct, as adopted by the Board of Airport Commissioners at its Special Meeting held on Thursday, May 2, 2019.

Grace Miguel – Secretary
BOARD OF AIRPORT COMMISSIONERS





Los Angeles World Airports

Item Number
15

REPORT TO THE BOARD OF AIRPORT COMMISSIONERS

[Signature]
Approved by: Dave Jones – Director, Airline Property and
Concession Services

[Signature]
Reviewed by: Jeffrey Utterback, Deputy Executive Director
Commercial Development Group

[Signature]
City Attorney

[Signature]
Deborah Flint – Chief Executive Officer

Meeting Date:

5/2/2019

CAO Review:

☐ Completed
☒ Pending
☐ N/A

<u>Reviewed for</u>	<u>Date</u>	<u>Approval Status</u>	<u>By</u>
Finance	3/28/2019	<input checked="" type="checkbox"/> Y <input type="checkbox"/> N <input type="checkbox"/> NA	RW
CEQA	3/27/2019	<input checked="" type="checkbox"/> Y <input type="checkbox"/> N	JH
Procurement	3/22/2019	<input checked="" type="checkbox"/> Y <input type="checkbox"/> N <input type="checkbox"/> Cond	MT
Guest Experience	3/26/2019	<input checked="" type="checkbox"/> Y <input type="checkbox"/> N	BY
Strategic Planning	3/20/2019	<input checked="" type="checkbox"/> Y <input type="checkbox"/> N <input type="checkbox"/> NA	KV

**SUBJECT: Approval of a Lease with United Airlines, Inc. for space at 6000-6024
Avion Drive at Los Angeles International Airport**

Approve a 30-year Lease with United Airlines, Inc. for land and improvements at 6000-6024 Avion Drive for an aircraft and ground service equipment maintenance facility at Los Angeles International Airport that will generate approximately \$6,000,000 in 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 II, Section 2.i and Article III, Class 1 (18)(c) of the Los Angeles City CEQA Guidelines. This action by the Board of Airport Commissioners was evaluated in the LAX United Airlines East Aircraft Maintenance and Ground Support Equipment Project Environmental Impact Report (EIR) (SCH No. 2017121019) on November 1, 2018 (Resolution 26640).
3. FIND that there have been no changes to the activities contemplated under the proposed action, and no changes in circumstances since certification of the EIR, that would result in a new significant impact or an increase in the severity of a previously disclosed significant impact, and no further CEQA review is required pursuant to Public Resources Code section 21166 and CEQA Guidelines section 15162.

4. APPROVE the proposed Lease with United Airlines, Inc. and rental rates, as referenced in this report.
5. AUTHORIZE the Chief Executive Officer or her designee to execute the proposed Lease with United Airlines, Inc., subject to approval as to form by City Attorney and upon approval of the Los Angeles City Council.

DISCUSSION:

1. Purpose

Provide United Airlines, Inc. (United) a long-term ground lease to develop and operate a consolidated aircraft and Ground Service Equipment (GSE) maintenance facility at 6000-6024 Avion Drive at Los Angeles International Airport (LAX).

2. Prior Related Actions

- **March 18, 1987 - Board Order No. AO-4031 (Lease LAA-5462)**
Prior to 1987, United occupied various leaseholds located around Avion Drive and Century Boulevard under leases LAA-255, LAA-309, 1169 and LAA-4206. On March 18, 1987, the Board of Airport Commissioners (Board) approved a five-year Replacement lease with United, commencing April 1, 1987 and terminating March 31, 1992, for 51.1987 acres of land and improvements located at 6000 Avion Drive at LAX. This lease substantially consolidated the premises occupied by United under the prior leases.
- **April 15, 1993 - Board Order No. AO-4393 (Lease LAA-7264)**
The Board approved a five-year replacement lease with United at 6000 Avion Drive, commencing August 18, 1993 and terminating August 17, 1998, for the premises previously leased by United under lease No. LAA-5462 consisting of 51.1987 acres plus improvements. Upon expiration of this lease in 1998, United continued its occupancy on holdover for over 15 years. During that time, United gave up approximately 20 acres which it had utilized for a regional commuter facility. Negotiations between United and LAWA for a new lease were unsuccessful.
- **May 17, 2010 - Board Resolution No. 24114 – LAX Airport Facilities Use Terms and Conditions (UTC)**
The Board approved the LAX “Airport Facilities Use Terms and Conditions” for Non-Terminal Airport Facility Space.
- **March 18, 2013 – Board Resolution No. 25063 – Consent to Assignment**
An October 1, 2010 merger made Continental Airlines, Inc. (Continental) a subsidiary of United Continental Holdings, Inc. (UCH). On or about March 31, 2013 United and Continental merged into a single legal entity. The Board approved the Consent to Assignment of several leases from United to Continental, noting that immediately after the merger, Continental was re-named “United Airlines, Inc.”, which is the name under which the consolidated company presently operates.

- **April 21, 2014 - Board Resolution No. 25396**
The Board approved building rental rates effective July 1, 2012 for the aircraft maintenance facility occupied by United at 6000-6024 Avion Drive.
- **May 21, 2014 – UTC**
United's holdover tenancy under lease LAA-7264 was terminated and United's use of the aircraft maintenance facility at 6000-6024 Avion Drive, on a footprint of approximately 32 acres plus improvements, was authorized pursuant to the UTC effective July 1, 2012.
- **October 20, 2016 – Board Resolution No. 26098**
The Board approved a replacement lease (LAA-8947) with United for the 7300 World Way West Maintenance facility, previously occupied by Continental.
- **November 1, 2018 – Board Resolution 26640 – CEQA FEIR**
The Board approved the proposed LAX United Airlines East Aircraft Maintenance and Ground Support Equipment Project (Proposed Project). The Board certified the California Environmental Quality Act (CEQA) Final Environmental Impact Report (FEIR) for the LAX United Airlines East Aircraft Maintenance and Ground Support Equipment Project; adopted the Executive Director's LAX Plan Compliance Report (EDR) and findings, the CEQA Findings of Fact, Statement of Overriding Considerations, and Mitigation, Monitoring and Reporting Program (MMRP); and approved the Proposed Project.

3. Current Action

Background:

United currently operates two maintenance facilities at LAX, one on the west side of the airport at 7300 World Way West, and another on the east side of the airport at 6000-6024 Avion Drive.

West Maintenance Facility – 7300 World Way West

The West Maintenance Facility was originally occupied by Continental. Prior to 1971, Continental occupied portions of the premises under several different leases (LAA-284, LAA-911 and LAA-1593). Commencing on August 1, 1971, the premises under the various leases were consolidated under a single lease (LAA-1652) for approximately 50 acres, and the lease provided sufficient term to enable Continental to construct and finance major improvements on the site. Lease LAA-1652 was amended four times during the ensuing years and expired on May 31, 2013.

In March 2013, United assumed lease LAA-1652 as part of the United/Continental merger, and remained in holdover after expiration of the lease on May 31, 2013, until the Board approved the replacement lease (LAA-8947) on October 20, 2016, which expired December 31, 2018. The lease premises at 7300 World Way West include approximately 1,400,000 square feet (32 acres) of land, and improvements built beginning in the mid-1960s into the early 1970s. The improvements currently occupied consist of a hangar of approximately 190,000 square feet and shop/office/warehouse space of approximately 357,000 square feet. The hangar has 4-6 aircraft bays and the site can support 10–12 aircraft parking positions.

East Maintenance Facility

United has occupied portions of the East Maintenance Facility, at 6000-6024 Avion Drive, since the 1940's under various leases. In 1987, United entered into a replacement lease (LAA-5462) that consolidated the areas under the previous leases into a single agreement. United occupied the premises at 6000-6024 Avion Drive under a replacement lease (LAA-7264) until 1998, and thereafter continued on holdover until 2014. In 2014, lease LAA-7264 was terminated and United's occupancy of the facility was authorized pursuant to UTC with updated rates effective July 1, 2012. The East Maintenance Facility site occupied by United under UTC consists of approximately 1,395,000 SF (32 acres) of land. The improvements built beginning in the 1940's include a hangar of approximately 56,000 square feet and shops/office/warehouse space of about 79,000 square feet. The hangar has three aircraft bays, and the site can support 16 – 20 aircraft parking positions.

Proposed new Lease at East Maintenance Facility

The current action requests the Board approve a proposed 30-year ground lease (Lease) with United to enable consolidation of aircraft and GSE maintenance operations into a single, more efficient location in the East Maintenance Facility area located at 6000-6024 Avion Drive. United plans to have the new consolidated East Maintenance Facility ready for occupancy by December 31, 2020.

Pursuant to the proposed Lease and subject to all required approvals, United will have the opportunity to redevelop the existing approximately 32-acre site, plus an additional parcel that is approximately 70,760 SF.

- Premises – Upon Lease commencement, the site will consist of:
 - “Parcel A” -- The existing parcel of 1,371,348 SF (31.49 acres), which includes paved areas currently used for United aircraft and GSE maintenance, two maintenance bays (designated Hangar 1 and Hangar 2), storage, office space, and surface lot previously used by United employees for automobile parking.
 - “Parcel B” -- An additional 70,756 SF (1.62 acre) “Parcel B” to the north of the existing facility to provide the space needed to consolidate its operations into one location.

The Lease also provides for the following changes to the Premises:

- LAWA Expansion Option for “Parcel C” – The Lease contemplates an Expansion Option at LAWA's sole discretion, with 30 days' prior written notice, for a 41,557 SF (.95 acre) portion of Avion Drive directly adjacent to the north of United's maintenance facility at 6000-6024 Avion Drive. United's plans presently show replacement or relocation of this portion of Avion Drive to the north of Parcel B.
- LAWA Takeback Options -- The Lease contemplates three specific areas that may need to be removed from the premises for future LAWA projects and airfield work. The Lease provides that United will return these areas to LAWA, at no cost to LAWA, upon 60-days prior notice. In addition, LAWA agrees to make reasonable efforts to provide up to two wide body aircraft parking spaces adjacent to the premises upon removal of Takeback Area #3 from the Lease.

- a. Takeback Area # 1: Consists of approximately 96,942 square feet
 - b. Takeback Area # 2: Consists of approximately 65,588 square feet
 - c. Takeback Area # 3: Consists of approximately 433,674 square feet
- Term – The term will be for five years unless United successfully redevelops the site and invests at least \$100,000,000, at which point the term will automatically extend to 30 years to allow an appropriate period for United to depreciate its investment. In addition, the proposed Lease contains the following early termination option:
 - City's Termination Option – LAWA has the right to terminate the Lease for security or operational needs with 36-months advance written notice, and subject to LAWA repayment of the verified undepreciated value of United's site redevelopment Qualified Investments. Qualified Investments will include actual costs of demolition, design, and construction of new improvements, including bonds, construction insurance, building and other similar fees related to construction, engineering and architectural design, but not financing costs.
- Rent – United will pay rent for the land and paving at Board approved rates. United will demolish the existing building improvements in order to redevelop the site with modern facilities. United will pay a fee of approximately \$110,000/month through December 31, 2020 to compensate LAWA for the residual value of the facilities demolished as part of the redevelopment of the site.
- Financing – United has advised that some or all of the Optional Lessee Improvements may be financed through the proceeds of bonds (Bond Financing). Any financing will require LAWA's prior consent.
- Optional Lessee Improvements – United intends to consolidate and modernize its existing aircraft maintenance facilities at LAX. On November 1, 2018, the Board approved the proposed project and certified the CEQA FEIR. United has agreed to comply with mitigation measures and all monitoring and reporting requirements set forth in the MMRP and the EIR prepared for the LAX UAL East Aircraft Maintenance and Ground Support Equipment Project, and to construct and operate the Project consistent with the Final EIR. In general, the main elements of the proposed project include:
 - Demolition: Demolishing the existing buildings associated with the current East Maintenance Facility. United is proposing to demolish almost all the buildings associated with the existing East Maintenance Facility. This consists of two large structures designated "Hangar 1" and "Hangar 2", an aircraft apron area, maintenance areas, stores, and office space, on approximately 32 acres in the eastern LAX airfield at 6000-6024 Avion Drive. The buildings that comprise United's existing East Maintenance Facility are dated, have not been significantly upgraded, are depreciated, and functionally obsolete and inefficient for United's current needs. In addition, the size of the existing hangars and layout of the apron area do not match United's current aircraft fleet requirements.

- Construction: Constructing and operating a new aircraft and GSE maintenance facility consisting of approximately 400,000 square feet of building area, with:

- Two wide body aircraft hangar bays
- Aircraft maintenance shops
- Aircraft parts/supplies stores, and an associated storage yard
- GSE maintenance facility and an associated storage yard.

In addition, other site improvements include:

- Replacing/resurfacing a portion of the apron area and restriping aircraft parking positions.
- Reconfiguring the apron, and counting aircraft parking positions in the hangar, will result in a total of approximately 22 aircraft parking positions on the leasehold, including 6 in the hangar
- Relocating an east-west portion of Avion Drive to the north
- Reconfiguring airfield and landside access to the site
- 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.

By modernizing the east maintenance facility, United has stated it will be able to consolidate its operations and vacate the West Maintenance Facility, and still maintain the volume and basic nature of United's existing maintenance operations at LAX.

The following table provides a summary of key points of the proposed Lease.

SUMMARY

<u>CURRENT AGREEMENT</u>		<u>PROPOSED AGREEMENT</u>
LAX UTC		LEASE
TERM		
Commencement Date	July 1, 2012	Upon full execution by the City and Lessee
Expiration	At-Will	<ul style="list-style-type: none"> • 5 years from the Commencement Date; • 30 years from the Commencement Date if Lessee completes Optional Improvements of not less than \$100,000,000
Termination Options	At-Will	<ol style="list-style-type: none"> 1. City may terminate with 36 months' notice for safety, security or operational requirements. 2. City may terminate subject to Financing provisions and defeasance of outstanding balances.
Termination Fee	None	City to pay Termination Fee of the undepreciated share of Qualified Investments if City exercises its Termination Option for safety, security or operational requirements.
DEMISED PREMISES (At Commencement)	Square Feet (SF)	Square Feet (SF)
Parcel A		
Land (Maintenance)	1,395,983	1,371,348
Office Building	75,883	N/A
Hangar	56,385	N/A
Paint Booth & Bldg	3,476	N/A
Aircraft Paving	1,108,277	1,108,277
Auto Paving	125,057	125,057
Parcel B		
Land (Maintenance)	N/A	70,756
Auto Paving	N/A	70,756
Parcels A & B Totals		
Land:	1,395,983	Land: 1,442,104
Aircraft Paving:	1,108,277	Aircraft Paving: 1,108,277
Auto Paving:	125,057	Auto Paving: 125,057

SUMMARY
(Continued)

<u>CURRENT AGREEMENT</u>		<u>PROPOSED AGREEMENT</u>
LAX UTC		LEASE
RATES	Current	Proposed*
Land Rate	\$2.82	\$2.82
Office Building Rate **	\$8.73	N/A
Hangar Rate **	\$10.90	N/A
Paint Booth & Bldg Rate **)	\$8.73	N/A
Aircraft Paving Rate	\$0.81	\$0.81
Auto Paving Rate	\$0.41	\$0.41
BUILDING RESIDUAL VALUE (**)		
Building Residual Value -Through December 31,2020 (**)	N/A	\$110,000/month
ESTIMATED RENT (prior to land rate reset 7/1/2020)		
Including Building Residual Value		
Monthly Rent to Dec 31, 2020	\$516,088	\$530,393
Annual Rent to Dec 31, 2020	\$6,193,056	\$6,364,716

NOTES:

- * United will pay rent on land and paving for the duration of the Lease. Board Resolution No. 25748 set current rates, which are subject to annual CPI adjustment and periodic Fair Market adjustment. Pursuant to the City of Los Angeles Charter, rates must be reset no less than every five years. The current land/paving rates must be reset prior to 7/1/2020. Therefore, rent after 7/1/2020 will be dependent on future fair market value of the land/paving.
- ** Lessee's payment of rent for the buildings is for the estimated and negotiated residual value of the improvements, that are fully depreciated and will be demolished. United will pay the residual value estimated at \$110,000 per month from Lease Commencement until December 31, 2020.

How this action advances a specific strategic plan goal and objective

This action advances this strategic goal and objective:

Deliver Facilities & Guest Experiences that are Exceptional: Develop, maintain and operate first class facilities and *Sustain a Strong Business: Operate sustainability – balancing economic, social and environmental responsibilities.*

The proposed Lease will allow United, at its own option and cost, to modernize an outdated aircraft maintenance facility. Modern facilities will optimize functionality for the airline, and enhance the efficiency of the airline's operations at LAX. A modernized aircraft maintenance facility will enhance overall airfield utility by consolidating two aircraft facilities into one, and optimize aircraft parking.

Allowing United to improve efficiencies through consolidation of several airfield facilities onto a smaller overall land footprint, while still keeping substantially similar operational service levels at LAX, enables LAWA to make better use of its real property assets. A more efficient layout for the East Maintenance Facility will improve overall airfield operations by reducing aircraft towing distances between the maintenance facility and the terminals that United operates. Further, consolidating United's maintenance operations into one facility will return the West Maintenance Facility site to LAWA for ongoing/future operational needs, including aircraft parking positions and aircraft maintenance facilities.

It is United's stated intent for the improvements to be designed and constructed in accordance with LAWA's Sustainable Design and Construction Policy, which requires new buildings to achieve the United States Green Building Council's (USGBC) Leadership in Energy and Environmental Design (LEED) Silver certification, at a minimum. United's modernization of its aircraft maintenance facility and its achievement of LEED Silver certification would create a facility designed to save energy, water, and other resources, to generate less waste, and to support human health and comfort through better heating, ventilation, and air conditioning controls, through more natural lighting and through use of improved building materials.

Furthermore, providing United with the opportunity to modernize its aircraft maintenance operations at LAX is a demonstration of LAWA's continuing commitment to the economic health of the region by retaining and supporting the airline's aircraft maintenance business locally. The new facility will create more than 800 jobs during the construction process, all at competitive market wages and benefits. Upon completion of the project, the new facility will be home to more than 600 United employees across a variety of management and union labor positions. These are highly compensated, skilled union labor positions and represent United's commitment to the City of Los Angeles and the surrounding communities.

Finally, the proposed Lease agreement will also update the terms and provisions of United's occupancy, and provide overall better alignment with LAWA's current business objectives.

Action Requested

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

Fiscal Impact

Approval of this item will generate approximately \$6,000,000 in the first year, including payment of the residual value of building improvements.

Alternatives Considered

• Take No Action

Taking no action is not recommended. Leasing the facility to United will allow the airline to consolidate aircraft and GSE maintenance operations at LAX. It will give United the option to upgrade and modernize the aircraft maintenance facilities at its own cost and thereby secure and operate a modern aircraft maintenance facility at LAX for a 30-year term. In addition, a lease will provide LAWA with a regular revenue stream and update terms and provisions of occupancy. Further, consolidating United in one location provides the opportunity for future lease options at the west location to improve overall aircraft and GSE operations at LAX.

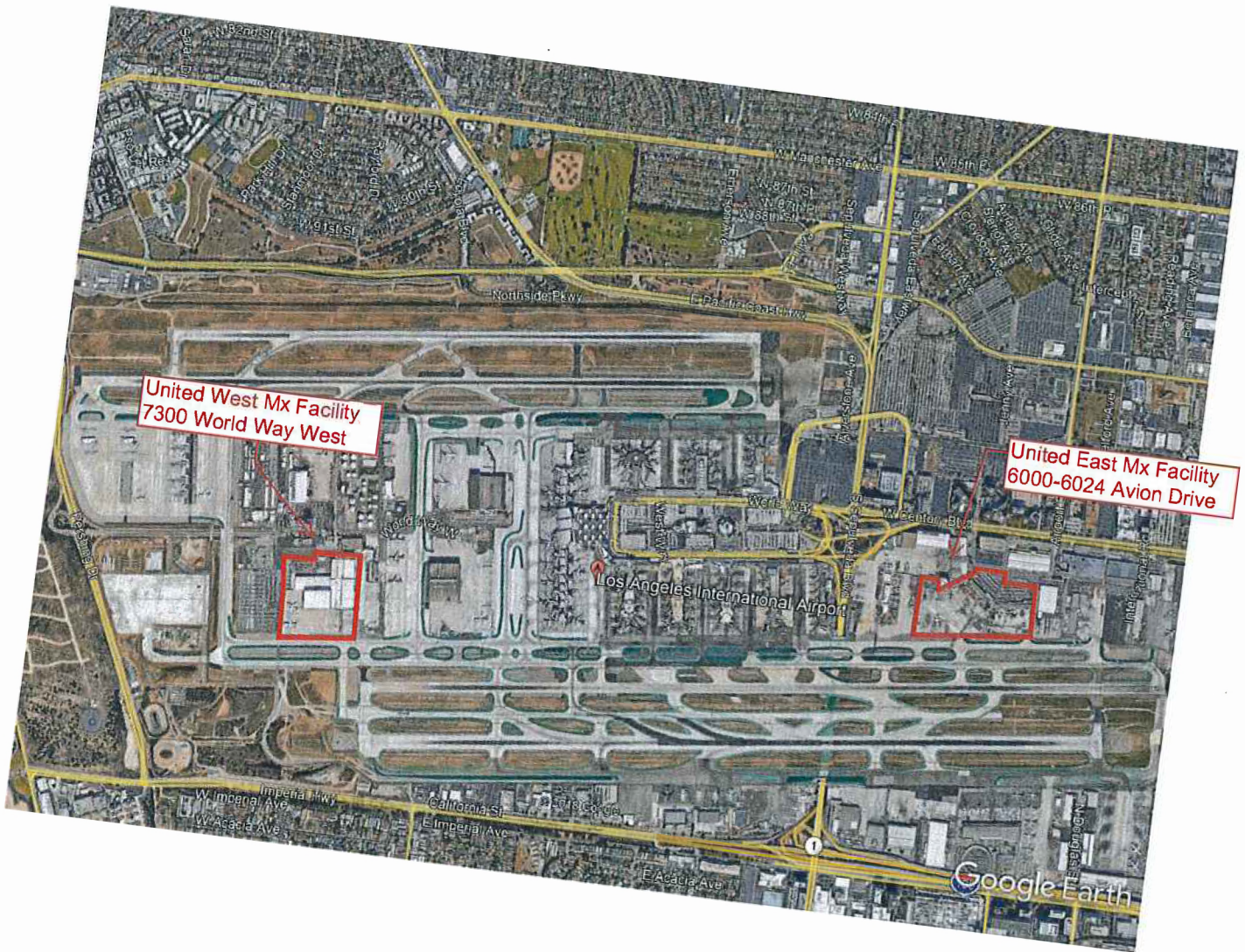
APPROPRIATIONS:

No appropriation of funds is required or requested at this time.

STANDARD PROVISIONS:

1. The underlying Project is exempt from the California Environmental Quality Act (CEQA) pursuant to Article II, Section 2.i and Article III, Class 1 (18)(c) of the Los Angeles City CEQA Guidelines. The LAX United Airlines East Aircraft Maintenance and Ground Support Equipment Project Environmental Impact Report (SCH No. 2017121019) was certified by the Board of Airport Commissioners for this Project on November 1, 2018 (Resolution 26640). The proposed action does not include any changes to the Project that would require further review under CEQA pursuant to Public Resources Code Section 21166 and CEQA Guidelines Section 15162.
2. This proposed document(s) is/are 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. United Airlines will comply with the provisions of the Living Wage/Worker Retention Ordinances.
5. The Small Business Enterprise, Local Business Enterprise/Local Small Business Enterprise, and Disabled Veterans Business Enterprise Programs do not apply to leases.
- 6.
7. United Airlines will comply with the provisions of the Affirmative Action Program.
8. United Airlines has been assigned Business Tax Registration Certificate number 0000485154-0001-2.

9. United Airlines will comply with the provisions of the Child Support Obligations Ordinance.
10. United Airlines has approved insurance documents, in the terms and amounts required, on file with Los Angeles World Airports.
11. This action is not subject to the provisions of City Charter Section 1022 (Use of Independent Contractors).
12. United Airlines has submitted the Contractor Responsibility Program Questionnaire and Pledge of Compliance and will comply with the provisions of the Contractor Responsibility Program.
13. United Airlines has been determined by Public Works, Office of Contract Compliance to be in compliance with the provisions of the Equal Benefits Ordinance.
14. United Airlines will be required to comply with the provisions of the First Source Hiring Program for all non-trade LAX Airport jobs.
15. This action is not subject to the provisions of the Bidder Contributions CEC Form 55.



United West Mx Facility
7300 World Way West

United East Mx Facility
6000-6024 Avion Drive

Los Angeles International Airport

Google Earth

EXHIBIT A



UNITED AIRLINES

Lease -- Proposed Aircraft Maintenance Hangar - 6000-6024 Avion Drive

