







Los Angeles World Airports

Item Number  
**2**

# REPORT TO THE BOARD OF AIRPORT COMMISSIONERS

 Approved by: Dave Jones – Airport Property and Concessions Services		<u>Meeting Date:</u> 6/17/2021																									
 Reviewed by: Samantha Bricker - Chief Sustainability & Revenue Management Officer		<u>CAO Review:</u>																									
 City Attorney		<input type="checkbox"/> Completed <input checked="" type="checkbox"/> Pending <input type="checkbox"/> N/A																									
 Justin Erbacci, Chief Executive Officer		<table border="1"> <thead> <tr> <th>Reviewed for</th> <th>Date</th> <th>Approval Status</th> <th>By</th> </tr> </thead> <tbody> <tr> <td>Finance</td> <td>6/4/2021</td> <td><input checked="" type="checkbox"/> Y <input type="checkbox"/> N <input type="checkbox"/> NA</td> <td>JS</td> </tr> <tr> <td>CEQA</td> <td>6/3/2021</td> <td><input checked="" type="checkbox"/> Y <input type="checkbox"/> N</td> <td>VW</td> </tr> <tr> <td>Procurement</td> <td>6/7/2021</td> <td><input type="checkbox"/> Y <input type="checkbox"/> N <input checked="" type="checkbox"/> Cond</td> <td>LK</td> </tr> <tr> <td>Guest Experience</td> <td>6/4/2021</td> <td><input checked="" type="checkbox"/> Y <input type="checkbox"/> N</td> <td>TB</td> </tr> <tr> <td>Strategic Planning</td> <td>6/3/2021</td> <td><input checked="" type="checkbox"/> Y <input type="checkbox"/> N <input type="checkbox"/> NA</td> <td>KC</td> </tr> </tbody> </table>	Reviewed for	Date	Approval Status	By	Finance	6/4/2021	<input checked="" type="checkbox"/> Y <input type="checkbox"/> N <input type="checkbox"/> NA	JS	CEQA	6/3/2021	<input checked="" type="checkbox"/> Y <input type="checkbox"/> N	VW	Procurement	6/7/2021	<input type="checkbox"/> Y <input type="checkbox"/> N <input checked="" type="checkbox"/> Cond	LK	Guest Experience	6/4/2021	<input checked="" type="checkbox"/> Y <input type="checkbox"/> N	TB	Strategic Planning	6/3/2021	<input checked="" type="checkbox"/> Y <input type="checkbox"/> N <input type="checkbox"/> NA	KC	
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## SUBJECT:

Approve a Second Amendment to the Terminal Facility Lease and License Agreement LAA-8965 with Air Canada, extending the Agreement for a term of two years, yielding approximately \$13,000,000 in revenue.

## 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 Second Amendment to the Terminal Facility Lease and License Agreement LAA-8965 with Air Canada in Terminal 6, extending the term by two years and yielding approximately \$13,000,000 in revenue.
4. AUTHORIZE the Chief Executive Officer to execute the proposed Second Amendment to the Terminal Facility Lease and License Agreement LAA-8965 with Air Canada, after approval as to form by the City Attorney and approval of the Los Angeles City Council.

## **DISCUSSION:**

### **1. Purpose**

To amend the lease by extending the term two additional years, from June 30, 2021 to June 30, 2023.

### **2. Prior Related Actions**

- **April 6, 2017 – Resolution No. 26206 (LAA-8965)**  
The Board of Airport Commissioners approved a Terminal Facility Lease and License Agreement with Air Canada to facilitate the relocation from Terminal 2 to Terminal 6.
- **April 09, 2020 – Board Resolution 26996 (Lease No. LAA-8965A)**  
The Board of Airport Commissioners approved deferral of payment of terminal rental, terminal use and airfield fees under Non-Exclusive Air Carrier Operating Permits and Terminal Lease and License Agreements, due in the months of April and May 2020, and authorized Los Angeles World Airports to implement a Temporary Passenger Airline Relief Program. This was the First Amendment to Lease LAA-8965.
- **April 16, 2020 – Board Resolution No. 27006 (Lease No. LAA-8965A)**  
The Board of Airport Commissioners extended the deadline to execute the amendment previously approved on April 9, 2020 pursuant to Resolution 26996, to defer the payment of terminal rental, terminal use and airfield fees under Non-Exclusive Air Carrier Operating Permits and Terminal Lease and License Agreements.

### **3. Current Action**

Staff requests amending Lease LAA-8965 with Air Canada for space in Terminal 6, to extend the term by two years, from June 30, 2021 to June 30, 2023. Air Canada moved to Terminal 6 in May 2017 as part of the airline relocation project that moved 27 airlines between Terminals 2, 3, 5 and 6, and the Tom Bradley International Terminal. Air Canada's Terminal 6 Lease was negotiated as a replacement to lease space Air Canada occupied in Terminal 2 which, was terminated early to accommodate the relocation. As part of the negotiation for the replacement lease, Los Angeles World Airports (LAWA) leased Air Canada approximately 29,000 square feet of space in Terminal 6, including a new premium passenger lounge, through June 30, 2021, which was the end date of the original Terminal 2 lease.

Terminal 6 currently has 13 gates, two of which are leased by Air Canada. Alaska Airlines Leases ten of the remaining gates, and the final gate is a common use gate controlled by LAWA, to which Air Canada has rights for two daily preferential wide-body flights. Maintaining Air Canada's operations in Terminal 6 for the next two years is beneficial because there currently are no alternative gates and passenger processing facilities that can accommodate Air Canada's pre-COVID-19 flight activity. Extending the term of the lease until June 30, 2023, will not interfere with any plans for the leases in adjacent terminals and will allow for continuity of Air Canada's operations in Terminal 6 through the scheduled completion of the Terminal 6 renovation project. At that point, LAWA will reassess the capacity in the terminals at LAX to determine the best options for Air Canada's operations.

The two-year extension also will provide additional time for Air Canada to install a dedicated vertical circulation path for passengers to reach the Air Canada premium passenger lounge, which is located one level above the concourse/holdroom passenger level. Passengers currently access the premium passenger lounge through a single elevator that is also the service elevator for deliveries and supplies to the terminal concessionaires and facilities maintenance providers. Air Canada has designed plans to install a dedicated passenger elevator and stair case that will provide more appropriate access to the premium passenger lounge. However, Air Canada deferred the project due to the impacts of COVID-19. Extending the term of the lease will provide Air Canada the necessary time to reconsider this investment.

Rent will be based on the terms of the Rate Agreement, to which Air Canada is a signatory, and will generate approximately \$6,500,000 in the first year and \$13,000,000 over the two year term extension. The table below highlights the terms of the Lease LAA-8965. All other terms remain unchanged.

<b>LEASE SUMMARY</b>		
<b>Terms:</b>	<b>Original Lease:</b>	<b>Amendment:</b>
Commencement Date:	May 17, 2017	July 1, 2021
Expiration Date:	June 30, 2021	June 30, 2023
Demised Premises:	29,094	29,094
Preferential Gates:	2	2
Preferential Flights:	2	2
Rent:		
Space Rental Rate	\$171.40 PSFPY	\$224.32 PSFPY
Annual Space Rent (est.):	\$4,986,700	\$6,526,400

***How this action advances a specific strategic plan goal and objective***

This action advances this strategic goal and objective: *Sustain a Strong Business: Diversify and grow revenue sources, and manage costs.* The proposed amendment to extend this lease by two years will provide Air Canada with gate certainty and provide stable rent to Los Angeles World Airports during this period.

***Fiscal Impact***

Approval of the proposed amendment will provide approximately \$13,000,000 in revenue over the two-year extension.

#### 4. Alternatives Considered

- ***Take No Action***

Not executing the proposed amendment will result in the Air Canada's Lease terminating and Air Canada losing property rights.

#### **APPROPRIATIONS:**

No appropriation of funds is required for this action.

#### **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 California Environmental Quality Act (CEQA) requirements pursuant to Article III, Class 1 (18) (c) of the Los Angeles City CEQA Guidelines.
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. Air Canada is required to comply with the provisions of the Living Wage /Service Contractor Worker Retention Ordinances.
5. This action is statutorily exempt from the provisions of the Minority/Women Business Enterprise Program pursuant to Executive Directive 2001-26.
6. Air Canada is required to comply with the provisions of the Affirmative Action Program.
7. Air Canada has been assigned Business Tax Registration Certificate No. 0002762201-0001-0.
8. Air Canada is required to comply with the provisions of the Child Support Obligations Ordinance.
9. Air Canada 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 Charter Section 1022 (Use of Independent Contractor).
11. Air Canada has submitted the Contractor Responsibility Program Questionnaire and Pledge of Compliance and comply with the provisions of the Contractor Responsibility Program.
12. Air Canada must be determined by the Public Works - Office of Contract Compliance to be in compliance with the provisions of the Equal Benefits Ordinance prior to execution of the lease agreement.

13. Air Canada will be required to comply with the provisions of the First Source Hiring Program for all non-trade LAX jobs.
14. This action is not subject to the provisions of Bidder Contributions CEC Form 55.
15. This action is not subject to the provisions of MLO Bidder Contributions CEC Form 50.
16. This action is not subject to the provisions of the Iran Contracting Act.