

REPORT FROM

OFFICE OF THE CITY ADMINISTRATIVE OFFICER

Date: August 5, 2021

CAO File No. 0150-11920-0000

Council File No. 20-0439

Council District: 11

To: The Mayor

From: Matthew W. Szabo, City Administrative Officer



Reference: Communication from the Department of Airports dated June 17, 2021; referred by the Mayor for a report on June 17, 2021

Subject: **PROPOSED SECOND AMENDMENT TO EXTEND THE TERMINAL FACILITY LEASE AND LICENSE AGREEMENT LAA-8965 WITH AIR CANADA**

RECOMMENDATIONS

That the Mayor:

1. Approve a proposed Second Amendment to the Terminal and Facility Lease and License Agreement LAA-8965 with Air Canada to extend the term by two years to June 30, 2023, subject to City Attorney approval as to form and compliance with the City's Standard Provisions, including: Living Wage / Service Contractor Ordinances, Affirmative Action Program, Business Tax Registration Certification, Child Support Obligations Ordinance, Insurance Documents, Contractor Responsibility Program, and First Source Hiring Program;
2. Authorize the Chief Executive Officer to execute the proposed Second Amendment to the Terminal and Facility Lease and License Agreement LAA-8965, upon approval by the Los Angeles City Council, and prior to the execution of the Second Amendment, Air Canada must be determined by Public Works, Office of Contract Compliance to be in full compliance with the provisions of the Equal Benefits Ordinance; and
3. Return the request to the Los Angeles World Airports for further processing, including Council consideration.

SUMMARY

The Los Angeles World Airports (LAWA) Board of Airport Commissioners (BOAC) requests approval of a proposed Second Amendment to the Terminal Facility Lease and License Agreement LAA-8965 (Lease) with Air Canada to extend the term by two years, from June 30, 2021 to June 30, 2023 at Los Angeles International Airport (LAX). The proposed term extension will result in approximately \$13,000,000 in revenue.

Air Canada has occupied space in Terminal 6 since May 2017, and was part of the airline relocation project that moved 27 airlines between Terminals 2, 3, 5, and 6, as well as the Tom Bradley International Terminal. Air Canada's Terminal 6 Lease resulted from negotiations to replace its Terminal 2 lease, which LAWA terminated early to accommodate the relocation project. As part of the negotiation for the replacement lease, LAWA leased to Air Canada approximately 29,000 square feet of space in Terminal 6, including a new premium passenger lounge, through June 30, 2021, the end date of the original Terminal 2 lease.

Currently, Air Canada leases two of the 13 gates at Terminal 6. Alaska Airlines leases ten of the remaining gates, and the final gate is a common use gate controlled by LAWA. Since there are no alternative gates and passenger-processing facilities that can accommodate Air Canada's pre-COVID-19 flight activity, LAWA believes it would be beneficial to maintain operations in Terminal 6 for the next two years. Extending the Lease will allow for continuity of Air Canada's operations in Terminal 6, through the scheduled completion of the Terminal 6 renovation project, at which point LAWA will reassess the capacity of terminals at LAX to determine the best options for Air Canada.

The proposed two-year extension 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/hold room 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 staircase that will provide appropriate access to the premium passenger lounge. However, Air Canada has deferred the project due to the impacts of COVID-19. LAWA indicates that the term extension will provide Air Canada additional time to reconsider this investment.

The Lease rental rate is in accordance with the terms of the Rate Agreement, to which Air Canada is a signatory. The Lease extension will generate approximately \$6,526,400 in the first year and \$13,000,000 over the two-year term extension. Below are the key terms of the proposed Second Amendment:

| | Proposed Second Amendment Lease LAA-8965 |
|--------------------------|---|
| Commencement Date | July 1, 2021 |
| Expiration Date | June 30, 2023 |
| Demised Premises | 29,094 |
| Rental Rate | \$224.32 per square foot, per year \$6,526,400 (rounded) |

On April 9, 2020, the BOAC approved the First Amendment to Lease LAA-8965, a deferral of payment of terminal rental, terminal use and airfield fees under Non-Exclusive Air Carrier Operating Permits and Terminal Lease and License Agreements for April and May 2020, and authorized LAWA to implement a temporary Passenger Airline Relief Program. On April 16, 2020, the BOAC extended the deadline to execute the First Amendment (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.

The BOAC approved the proposed Second Amendment at its meeting on June 17, 2021. Actions taken on this item by the BOAC will become final pursuant to the provisions of Los Angeles City Charter Section 606.

FISCAL IMPACT STATEMENT

Approval of the proposed Second Amendment to the Terminal and Facility Lease and License Agreement LAA-8965 with Air Canada to extend the term by two years to June 30, 2023 will have no impact on the General Fund. This item complies with the Department's adopted Financial Policies.

MWS:MK:10220011