

REPORT FROM

OFFICE OF THE CITY ADMINISTRATIVE OFFICER

Date: August 22, 2023

CAO File No. 0150-11920-0001

Council File No.

Council District: 11

To: The Mayor

From: Matthew W. Szabo, City Administrative Officer

Reference: Correspondence from the Los Angeles World Airports Board of Airport Commissioners (Board) dated June 15, 2023 and July 10, 2023; referred by the Mayor for a report on June 15, 2023

Subject: **RESOLUTION NO. 27760 AND A PROPOSED THIRD AMENDMENT TO TERMINAL FACILITIES LEASE AND LICENSE AGREEMENT LAA-8965 WITH AIR CANADA TO PROVIDE RENT CREDITS FOR COSTS ASSOCIATED WITH THE USE OF THE BAGGAGE CLAIM SYSTEM BY COMMON USE AIRLINES LOCATED IN TERMINAL 6 AT LOS ANGELES INTERNATIONAL AIRPORT**

RECOMMENDATION

That the Mayor:

1. Approve Los Angeles World Airports (LAWA) Resolution No. 27760 authorizing a proposed Third Amendment to Terminal Facilities Lease and License Agreement LAA-8965 with Air Canada to:
 - a. Allow LAWA to issue rent credits to Air Canada for an amount not-to-exceed \$154,000 to cover expenses associated with the use of the tenant's leased portion of the baggage system by common use airlines located in Terminal 6 at Los Angeles International Airport;
 - b. Add language to update the lease provisions that govern the use of preferential use gates; and
 - c. Extend the term of the lease by four and one-half years, from June 30, 2023 to December 31, 2027, to expire contemporaneous with Terminal Facilities Lease and License Agreement LAA-8581 with Alaska Airlines.
2. Adopt the California Environmental Quality Act (CEQA) determinations of the July 10, 2023 Board of Airport Commissioners (Board) Resolution 27760, that this action is exempt from the CEQA pursuant to Article II, Section 2(f) and Article III, Class 1 (18)(c) of the Los Angeles City CEQA Guidelines; and

3. Authorize the LAWA Chief Executive Officer, or designee, to execute the proposed agreement and return the Resolution to LAWA for further processing, including Council consideration.

SUMMARY

On June 15, 2023, the Los Angeles World Airports (LAWA) Board of Airport Commissioners (Board) adopted Resolution No. 27760 authorizing approval of the proposed Third Amendment to Terminal Facilities Lease and License Agreement LAA-8965 with Air Canada. The primary objectives of this Amendment are to authorize LAWA to extend the lease term to December 31, 2027, to enable the Department to: (1) provide rent credits to Air Canada, not exceeding \$154,000, for expenses incurred operating and maintaining specific sections of the baggage system in Terminal 6 that is utilized by other airlines, and (2) incorporate language into the lease provisions to standardize the common use rate for the use of terminal gates and common equipment at Los Angeles International Airport (LAX).

The proposed lease has been approved as to form by the City Attorney. Pursuant to Charter Section 606 and Los Angeles Administrative Code Section 10.5, Council approval is required because the cumulative contract term exceeds five years. Our Office has reviewed the request and recommends approval.

BACKGROUND

On June 15, 2023 and July 10, 2023, the Board approved a LAWA staff report and Resolution No. 27760 requesting approval to execute a proposed Third Amendment with Air Canada to extend the lease term by four and one-half years, as well as issue rent credits to the tenant in an amount not-to-exceed \$154,000 over the remaining term of the lease. These funds will be used to cover costs obtained from the operation and maintenance of aeronautical equipment, such as the Baggage Handling System in Terminal 6 (T6) at LAX. The proposed Third Amendment will expire December 31, 2027, contemporaneous with the lease agreement of Alaska Airlines. Allowing both leases in T6 to simultaneously expire will provide LAWA greater flexibility for future planning, consistency for calculating the proposed rent credits, and lease continuity. The extension period will effectuate the lease from June 30, 2023 to December 31, 2027.

Common Use is defined as shared space or equipment that is used by multiple airlines. Common use areas are mostly used by international carriers and smaller domestic airlines that do not have the capacity to operate large terminals as a standalone airline. There are two components of common use: one element is for space rent such as ticket counters and holding rooms, and the other component is operational maintenance of aeronautical equipment. Airlines operating at LAX pay terminal facilities through a Rate Methodology. This methodology establishes a Terminal Building Charge, which is calculated based on the square footage of the demised premises, and it sets common use rates for the common use areas and equipment. The areas and equipment covered include check-in counters, baggage claim areas, outbound baggage systems, hold rooms, and aeronautical equipment.

Aeronautical Equipment in Common Use Terminals - LAWA maintains the common use equipment in the Tom Bradley International Terminal (TBIT). However, the common use equipment in Terminal 1 (T1) is operated and maintained by Southwest Airlines (SWA), while certain sections of the common use facilities in T6 are managed and operated by Air Canada (AC) or Alaska Airlines (AA). Common use airlines utilizing common use facilities in the TBIT are obligated to pay common use fees to LAWA. Conversely, common use carriers that utilize common use facilities in T1 are required to pay common use fees to SWA, whereas common use carriers utilizing common use facilities in T6 are required to remit payments to AC or AA.

Rent Credits – The rates charged by SWA, AC, and AA differ from the rates charged by LAWA. To establish uniformity, the Department proposes to simultaneously standardize the common use rate and regulate the common charges for all airlines at LAX, regardless of the terminal in which they operate. In lieu of the customary practice of allowing common use airlines to reimburse other airlines for the use of common facilities, LAWA will assume full responsibility for collecting common use fees from common use airlines. The Department will subsequently redistribute those fees to SWA, AC, or AA in the form of rent credits, equal to the sum owed by the common use airlines for the use of the aeronautical equipment within the corresponding leased facility. As assessed by both LAWA and AC, it is estimated that the total rent credits required to offset the expenses attributed by common use airlines throughout the duration of the lease shall not exceed \$154,000. The proposed annual rent credits will be disbursed in 12 monthly installments.

Revised Minimum Utilization Requirement (MUR) Language – The proposed amendment also aims to revise the criteria governing AC's utilization of preferential use gates. LAWA reports that all airlines holding leases at LAX are entitled to preferential gates. In order to ensure optimal utilization of these gates, the lease stipulates a standard utilization requirement that all airlines must satisfy to maintain their preferential use gate status. The MUR serves as a benchmark for this standard. The original MUR language was formulated in the late 2000s, and LAWA has since updated the language to provide clarity on the setting and implementation of the MUR, as well as streamline the procedures to be followed in the event of an airline's failure to meet the required performance levels. The new standards will be assimilated into all new leases with airlines that necessitate preferential use gates. Although the language has been modified, it has yet to be incorporated into existing leases at the airport. To resolve this matter, LAWA will amend the MUR language of each airline to conform to the updated standards in exchange for any requests for term extensions or other benefits solicited by the tenant. However, the new MUR language will not become effective until at least one other airline amends its lease to include the new standard.

CITY COMPLIANCE

California Environmental Quality Act (CEQA) – On July 10, 2023, the Board determined that the proposed Third Amendment to Terminal Facilities Lease and License Agreement LAA-8965 with Air Canada will not impact the environment and is exempt from CEQA pursuant to Article II, Section 2(f) and Article III, Class 1 (18)(c) of the Los Angeles City CEQA Guidelines.

The proposed Third Amendment includes provisions to ensure compliance with applicable City Ordinances, contracting, and insurance requirements. The City Attorney has reviewed and

approved the proposed Agreement. In accordance with Charter Section 606 and Administrative Code Section 10.5(c), the proposed Agreement requires Council approval because the total term of the proposed Third Amendment to the Terminal Facilities Lease and License Agreement exceeds five years. Our Office recommends approval.

FISCAL IMPACT STATEMENT

Approval of the proposed Third Amendment to Terminal Facilities Lease and License Agreement LAA-8965 with Air Canada covering space in Terminal 6 at Los Angeles International Airport and adding language to update the lease provisions that regulate the use of preferential use gates will have no impact on the City's General Fund. Execution of the proposed Agreement will result in Los Angeles World Airports collecting common use fees from common use airlines, which will be subsequently redistributed in the form of rent credits to Air Canada, for an amount not-to-exceed \$154,000. The actions of the proposed Third Amendment comply with Los Angeles World Airports' adopted Financial Policies.

Attachment 1 – June 15, 2023 BOAC Report and July 10, 2023 Resolution No. 27760

MWS/PJH/JVW:DLG:10240023

June 15, 2023

The Honorable Karen Bass
Mayor, City of Los Angeles
City Hall – Room 303
Los Angeles, CA 90012

ATTN: Heleen Ramirez, Legislative Coordinator
ATTN: Thomas Arechiga, Deputy Legislative Coordinator

LAX

Van Nuys

City of Los Angeles

Karen Bass
Mayor

Board of Airport
Commissioners

Beatrice C. Hsu
President

Valeria C. Velasco
Vice President

Vanessa Aramayo
Matthew M. Johnson
Nicholas P. Roxborough
Karim Webb

Justin Erbacci
Chief Executive Officer

RE: Request to approve the proposed Third Amendment to the Terminal Facilities Lease and License Agreement with Air Canada (LAA-8965)

In accordance with Executive Directive No. 4, we are transmitting a copy of the specified board report for the request to approve the proposed Third Amendment to the Terminal Facilities Lease and License Agreement with Air Canada (LAA-8965) to provide rent credits, not to exceed \$154,000, for costs associated with the use of the baggage system by common use airlines located in Terminal 6 at Los Angeles International Airport; to add language to update the lease provisions that govern the use of preferential use gates; and to extend the term of the lease by four and a half years, from June 30, 2023 to December 31, 2027, to be co-terminus with the Alaska Airlines Lease.

City Council approval is required pursuant to Section 606 of the Los Angeles City Charter.

Sincerely,



Justin Erbacci
Chief Executive Officer

JPE:MSA:ksf
Attachments





Item Number
14

Report to the BOARD OF AIRPORT COMMISSIONERS

Approver: <u></u> Samantha Bricker (Jun 8, 2023 16:21 PDT) Dave Jones, Deputy Executive Director Commercial Development Division	Meeting Date 6/15/2023																									
	Needs Council Approval: <input checked="" type="checkbox"/> Y																									
Reviewer: <u></u> Brian C. Ostler, City Attorney <u></u> Justin Erbacci (Jun 8, 2023 17:05 PDT) Justin Erbacci, Chief Executive Officer	<table border="1"> <thead> <tr> <th>Reviewed for/by</th> <th>Date</th> <th>Approval Status</th> <th>By</th> </tr> </thead> <tbody> <tr> <td>Finance</td> <td>6/5/2023</td> <td><input checked="" type="checkbox"/> Y <input type="checkbox"/> NA</td> <td>JS</td> </tr> <tr> <td>CEQA</td> <td>6/1/2023</td> <td><input checked="" type="checkbox"/> Y</td> <td>MO</td> </tr> <tr> <td>Procurement</td> <td>6/1/2023</td> <td><input type="checkbox"/> Y <input checked="" type="checkbox"/> Cond</td> <td>BG</td> </tr> <tr> <td>Guest Experience</td> <td>5/31/2023</td> <td><input checked="" type="checkbox"/> Y</td> <td>TB</td> </tr> <tr> <td>Strategic Planning</td> <td>5/31/2023</td> <td><input checked="" type="checkbox"/> Y</td> <td>BNZ</td> </tr> </tbody> </table>	Reviewed for/by	Date	Approval Status	By	Finance	6/5/2023	<input checked="" type="checkbox"/> Y <input type="checkbox"/> NA	JS	CEQA	6/1/2023	<input checked="" type="checkbox"/> Y	MO	Procurement	6/1/2023	<input type="checkbox"/> Y <input checked="" type="checkbox"/> Cond	BG	Guest Experience	5/31/2023	<input checked="" type="checkbox"/> Y	TB	Strategic Planning	5/31/2023	<input checked="" type="checkbox"/> Y	BNZ	
	Reviewed for/by	Date	Approval Status	By																						
Finance	6/5/2023	<input checked="" type="checkbox"/> Y <input type="checkbox"/> NA	JS																							
CEQA	6/1/2023	<input checked="" type="checkbox"/> Y	MO																							
Procurement	6/1/2023	<input type="checkbox"/> Y <input checked="" type="checkbox"/> Cond	BG																							
Guest Experience	5/31/2023	<input checked="" type="checkbox"/> Y	TB																							
Strategic Planning	5/31/2023	<input checked="" type="checkbox"/> Y	BNZ																							

SUBJECT

Request to approve the proposed Third Amendment to the Terminal Facilities Lease and License Agreement with Air Canada (LAA-8965) to provide rent credits, not to exceed \$154,000, for costs associated with the use of the baggage system by common use airlines located in Terminal 6 at Los Angeles International Airport; to add language to update the lease provisions that govern the use of preferential use gates; and to extend the term of the lease by four and a half years, from June 30, 2023 to December 31, 2027, to be co-terminus with the Alaska Airlines Lease.

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.f and Article III, Class 1 (18)(c) of the Los Angeles City CEQA Guidelines.
3. APPROVE the proposed Third Amendment to the Terminal Facilities Lease and License Agreement LAA-8965 with Air Canada.
4. FUTHER APPROVE authority to issue rent credits in an amount not to exceed \$154,000 over the remaining term of Terminal Facilities Lease and License Agreement LAA-8965.

5. AUTHORIZE the Chief Executive Officer, or designee, to execute the proposed Third Amendment to the Terminal Facility Lease and License Agreement LAA-8965, after approval as to form by the City Attorney and approval by the Los Angeles City Council.

DISCUSSION

1. Purpose

Staff request approval of the proposed amendment to provide rent credits to Air Canada up to \$154,000 through December 31, 2027, for the costs incurred operating and maintaining portions of the baggage system in Terminal 6 that are used by common use airlines. Approval of this action, and two other simultaneous requests to amend Southwest Airlines' Lease and Alaska Airlines' Lease, is a critical component for Los Angeles World Airports (LAWA) to implement a single common use gate charge at Los Angeles International Airport (LAX). In addition, the proposed amendment will extend Air Canada's Lease to be co-terminus with Alaska Airlines' Lease, who also operates in Terminal 6, and update the lease provisions that govern use of preferential use gates.

2. Prior Related Actions/History of Board Actions

- **April 6, 2017 – Resolution No. 26206 (LAA-8965)**
The Board of Airport Commissioners (Board) approved a Terminal Facility Lease and License Agreement with Air Canada to facilitate the airline's relocation from Terminal 2 to Terminal 6.
- **April 25, 2020 – Resolution No. 26996 (LAA-8965A and LAA-8748A)**
The Board approved a Letter Agreement for a deferral of the payment of terminal rental, terminal use, and airfield fee under Non-Exclusive Air Carrier Operating Permits, and all Terminal Lease and License Agreements, due in the months of April and May 2020; the Board further approved a suspension of all gate utilization calculations and/or requirements in the Terminal Lease and License Agreements during the months of April and May 2020.
- **June 17, 2021 – Resolution No. 27282 (LAA-8965B)**
The Board approved the Second Amendment to Terminal Facility Lease and License Agreement (LAA-8965B) with Air Canada to extend the term by two years to cover space in Terminal 6 at LAX.

3. Background

Airlines operating at LAX pay for use of terminal facilities pursuant to the rates and charges methodology under the Los Angeles International Airport Passenger Terminal Tariff (the "Rate Methodology") approved by the Board. The Rate Methodology provides a square foot rate Terminal Building Charge for demised premises and sets common use rates for common use areas and equipment, such as common use check-in counters, baggage claim areas, outbound baggage systems, common use hold rooms and associated aeronautical equipment.

Airlines that lease entire terminals at LAX, pay for all terminal space in their lease at the square foot rate Terminal Building Charge, and therefore do not pay common use rates in their leaseholds, except when they use common use facilities in addition to their leasehold

space. Los Angeles World Airports maintains the common use equipment at the Tom Bradley International Terminal, which is used by most common use airlines. However, there is a small amount of equipment that is used by common use airlines that operate from Terminal 6 and Terminal 1 that currently is maintained by Air Canada, Alaska Airlines, and Southwest Airlines. Therefore, common use airlines that operate in Terminal 6 and Terminal 1 pay some fees to LAWA, and also pay fees to Air Canada, Alaska Airlines, or Southwest Airlines to cover costs they incur maintaining and operating parts of the baggage system equipment in Terminal 6 and Terminal 1. Therefore, common use charges vary by terminal and common use airlines utilizing different terminal facilities pay different rates depending on the location where they operate.

4. Current Action/Rationale

Los Angeles World Airports' terminal rate structure intends that common use airlines will pay a uniform common use rate for use of terminal gates and common equipment, such as the baggage handling system, regardless of the terminal in which they operate. To establish a uniform common use rate, LAWA proposes to transfer all costs for maintaining common use equipment to LAWA. To accomplish this, LAWA proposes to amend the Air Canada Lease, the Alaska Airlines Lease, and the Southwest Airlines Lease simultaneously to provide rent credits equal to the costs they incur operating and maintaining the common use portions of the baggage system in Terminal 6 and Terminal 1. As a result, the common use airlines will pay LAWA the full common use charge and no longer pay Air Canada, Alaska Airlines, and Southwest Airlines a portion of the common use fee.

To confirm the cost that needs to be transferred to LAWA, at the beginning of each fiscal year, Air Canada, Alaska Airlines, and Southwest Airlines will submit to LAWA the annual budget to operate and maintain their respective baggage handling systems. Allowable costs will include all fees incurred operating and maintaining the system, the cost to lease the baggage handling space, and overhead costs (not to exceed 10 percent). Los Angeles World Airports will review and approve the operations and maintenance budgets and determine the amount attributable to common use fees. Based on this calculation, LAWA will issue annual rent credits in 12 monthly installments to Air Canada, Alaska Airlines, and Southwest Airlines. Los Angeles World Airports will annually reconcile actual costs against the annual budget costs. Any variance between budget and actual expenditures will be corrected the following year through adjustment to the annual rent credit LAWA provides to these airlines.

Based on the specific equipment maintained by Air Canada, LAWA and Air Canada estimate the total rent credits needed to cover the cost incurred by common use airlines over the term of the lease will be \$154,000. Therefore, the proposed amendment will provide up to \$154,000 in rent credits to Air Canada.

The proposed Third Amendment also will extend the Air Canada lease from June 30, 2023, to December 31, 2027, to be co-terminus with the Alaska lease. This is recommended to align the contracts for maintenance of the baggage system between Air Canada and Alaska, which will provide consistency for calculating the proposed rent credits.

Finally, the proposed amendment will also update standards for Air Canada's use of preferential use gates. All airlines with leases at LAX have preferential gates. To maintain effective use of these gates, the leases set a standard use requirement that airlines must achieve to retain their preferential use gate status. The standard used is the Minimum

Utilization Requirement (MUR). The original MUR language was drafted in the late 2000s, and LAWA has updated the language to clarify when and how the MUR is set and to simplify the actions necessary if an airline falls below the required performance levels. Los Angeles World Airports will update the MUR language in exchange for airline requests for an extension of term or other benefit.

Therefore, as this lease is being extended by 4.5 years, the proposed amendment will include the new MUR language. However, because Air Canada is the first airline to accept the new MUR language, the new MUR will not be effective until at least one other airline amends its lease to include the new standard.

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 will allow LAWA to retain control of rate setting for the common use airlines at LAX, to harmonize the common use rates across all facilities, and to apply mitigations measures as part of the Airline Cost Stabilization and Recover Plan. Establishing equalized common use rates facilitates the relocation of airlines from terminal-to-terminal that enables growth in aviation activity.

5. Fiscal Impact

Approval of this amendment will result in an authority not to exceed \$154,000 of rent credits over the remaining term of the lease. Alaska and Air Canada rent credits will be recovered through the uniform common use baggage claim and outbound system fees, where applicable.

6. Alternatives Considered

- ***Take No Action***

Alternatives were not considered because the baggage system that is used by the common use airlines is located in Air Canada's Demised Premises. Therefore, appropriating funds for the Air Canada demised premises and operations and maintenance costs on behalf of the common use carriers for continued operations from Terminal 6 is necessary.

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. In addition, pursuant to Article II, Section 2.f of the Los Angeles City CEQA Guidelines, continuing administrative, maintenance and personnel-related activities are also exempt.

2. The 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. Air Canada 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 must have approved insurance documents, in the terms and amounts required, on file with Los Angeles World Airports prior to execution of the Lease.
10. This action is not subject to the provisions of City Charter Section 1022 (Use of Independent Contractors).
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 has been determined by Public Works, Office of Contract Compliance, to be in compliance with the provisions of the Equal Benefits Ordinance.
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.



July 10, 2023

The Honorable City Council
of the City of Los Angeles
(via email)

Subject: Third Amendment to Terminal Facilities Lease and License Agreement LAA-8965 with Air Canada

Pursuant to Section 606 of the City Charter, enclosed for your approval is the Third Amendment to Terminal Facilities Lease and License Agreement LAA-8965 with Air Canada, that was approved by the Board of Airport Commissioners at its June 15, 2023 meeting. There is no impact to the General Fund.

LAX

Van Nuys

City of Los Angeles

Karen Bass
Mayor

Board of Airport
Commissioners

Valeria C. Velasco
Vice President

Vanessa Aramayo
Matthew M. Johnson
Courtney La Bau
Victor Narro
Nicholas P. Roxborough
Karim Webb

Justin Erbacci
Chief Executive Officer

RECOMMENDATIONS FOR CITY COUNCIL:

1. Adopt the determination by said Board that the action is exempt from the California Environmental Quality Act (CEQA) pursuant to Article II, Section 2.f and Article III, Class 1 (18)(c) of the Los Angeles City CEQA Guidelines; and
2. Approve the Third Amendment to Terminal Facilities Lease and License Agreement LAA-8965 with Air Canada, covering space in Terminal 6 at Los Angeles International Airport, to provide rent credits not to exceed \$154,000 for costs associated with use of the baggage system by common use airlines located in said terminal, to add language to update the lease provisions that govern use of preferential use gates, and to extend the term through December 31, 2027, to be co-terminus with the Alaska Airlines lease; and
3. Concur with said Board's action on June 15, 2023, by Resolution 27760, authorizing the Chief Executive Officer, or designee, of Los Angeles World Airports to execute said Third Amendment to Terminal Facilities Lease and License Agreement LAA-8965 with Air Canada.

Very truly yours,

Grace Miguel, Commission Executive Assistant II
BOARD OF AIRPORT COMMISSIONERS

GM/lfc

Enclosures

- cc: Trade, Travel and Tourism Committee
Councilmember Park, e-file
Councilmember McOsker, e-file
Councilmember Soto-Martinez, e-file
CAO (Airport Analyst), e-file
CLA (Airport Analyst), e-file
City Clerk's Office, e-file



RESOLUTION NO. 27760

WHEREAS, on recommendation of Management, there was presented for approval, Third Amendment to Terminal Facilities Lease and License Agreement LAA-8965 with Air Canada covering space in Terminal 6 at Los Angeles International Airport, to provide rent credits in an amount not to exceed \$154,000 for costs associated with use of the baggage system by common use airlines located in said terminal, to add language to update the lease provisions that govern use of preferential use gates, and to extend the term through December 31, 2027 to be co-terminus with the Alaska Airlines lease; and

LAX
Van Nuys
City of Los Angeles

Karen Bass
Mayor

**Board of Airport
Commissioners**

Beatrice C. Hsu
President

Valeria C. Velasco
Vice President

Vanessa Aramayo
Matthew M. Johnson
Nicholas P. Roxborough
Karim Webb

Justin Erbacci
Chief Executive Officer

WHEREAS, airlines operating at Los Angeles International Airport (LAX) pay for use of terminal facilities pursuant to the rates and charges methodology under the LAX Passenger Terminal Tariff approved by the Board of Airport Commissioners. Said methodology provides a square foot rate Terminal Building Charge for demised premises and sets common use rates for common use areas and equipment, such as common use check-in counters, baggage claim areas, outbound baggage systems, common use hold rooms and associated aeronautical equipment; and

WHEREAS, airlines that lease entire terminals at LAX pay for all terminal space in their lease at the square foot rate Terminal Building Charge, and therefore do not pay common use rates in their leaseholds, except when they use common use facilities in addition to their leasehold space. Los Angeles World Airports (LAWA) maintains the common use equipment at the Tom Bradley International Terminal, which is used by most common use airlines. However, there is a small amount of equipment that is used by common use airlines that operate from Terminal 6 and Terminal 1 that is currently maintained by Air Canada, Alaska Airlines, and Southwest Airlines. Therefore, common use airlines that operate in Terminal 6 and Terminal 1 pay some fees to LAWA and also pay fees to Air Canada, Alaska Airlines, or Southwest Airlines to cover costs they incur maintaining and operating parts of the baggage system equipment in said two terminals. Therefore, common use charges vary by terminal and common use airlines utilizing different terminal facilities pay different rates depending on the location where they operate; and

WHEREAS, LAWA's terminal rate structure intends that common use airlines will pay a uniform common use rate for use of terminal gates and common equipment, such as the baggage handling system, regardless of the terminal in which they operate. To establish a uniform common use rate, LAWA proposed to transfer all costs for maintaining common use equipment to LAWA. To accomplish this, LAWA proposed to simultaneously amend the Air Canada lease, the Alaska Airlines lease, and the Southwest Airlines lease in order to provide rent credits equal to the costs they incur operating and maintaining the common use portions of the baggage system in Terminal 6 and Terminal 1. As a result, the common use airlines will pay LAWA the full common use charge and no longer pay Air Canada, Alaska Airlines, and Southwest Airlines a portion of the common use fee; and

WHEREAS, to confirm the cost that needs to be transferred to LAWA, at the beginning of each fiscal year, Air Canada, Alaska Airlines, and Southwest Airlines will submit to LAWA the annual budget to operate and maintain their respective baggage handling systems. Allowable costs will include all fees incurred operating and maintaining the system, the cost to lease the baggage handling space, and overhead costs (not to exceed 10%). LAWA will review and approve the operations and maintenance budgets and determine the amount attributable to common use fees. Based on that calculation, LAWA will issue annual rent credits in 12 monthly installments to Air Canada, Alaska Airlines, and Southwest Airlines. LAWA will annually reconcile actual costs



against the annual budget costs. Any variance between budget and actual expenditures will be corrected the following year through adjustment to the annual rent credit LAWA provides to those airlines; and

WHEREAS, based on the specific equipment maintained by Air Canada, LAWA and said airline estimate the total rent credits needed to cover the cost incurred by common use airlines over the term of the lease will be \$154,000. Therefore, the Third Amendment will provide up to \$154,000 in rent credits to Air Canada. It is a critical component for LAWA to implement a single common use gate charge at LAX; and

WHEREAS, the Third Amendment will also extend the Air Canada lease term through December 31, 2027, to be co-terminus with the Alaska Airlines lease, thereby aligning the contracts for maintenance of the baggage system between Air Canada and Alaska Airlines that will provide consistency for calculating the rent credits; and

WHEREAS, the Third Amendment will also update standards for Air Canada's use of preferential use gates. All airlines with leases at LAX have preferential gates. To maintain effective use of the gates, the leases set a standard use requirement that airlines must achieve to retain their preferential use gate status. The standard used is the Minimum Utilization Requirement (MUR). The original MUR language was drafted in the late 2000s, and LAWA has updated the language to clarify when and how the MUR is set and to simplify the actions necessary if an airline falls below the required performance levels. LAWA will update the MUR language in exchange for airline requests for an extension of term or other benefit; and

WHEREAS, therefore, as the Air Canada's lease is being extended by 4.5 years, the Third Amendment will include the new MUR language. However, because Air Canada is the first airline to accept the new MUR language, the new MUR will not be effective until at least one other airline amends its lease to include the new standard; and

WHEREAS, 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. In addition, pursuant to Article II, Section 2.f of the Los Angeles City CEQA Guidelines, continuing administrative, maintenance and personnel-related activities are also exempt; and

WHEREAS, Air Canada is required to comply with the provisions of the Living Wage/Service Contractor Worker Retention Ordinances; and

WHEREAS, Air Canada is required to comply with the provisions of the Affirmative Action Program; and

WHEREAS, Air Canada has been assigned Business Tax Registration Certificate 0002762201-0001-0; and

WHEREAS, Air Canada is required to comply with the provisions of the Child Support Obligations Ordinance; and

WHEREAS, Air Canada must have approved insurance documents, in the terms and amounts required, on file with LAWA prior to execution of the Third Amendment; and

WHEREAS, Air Canada has submitted the Contractor Responsibility Program Questionnaire and Pledge of Compliance and will comply with the provisions of said program; and

WHEREAS, Air Canada has been determined by Public Works, Office of Contract Compliance, to be in compliance with the provisions of the Equal Benefits Ordinance; and

WHEREAS, Air Canada will be required to comply with the provisions of the First Source Hiring Program for all non-trade LAX jobs; and

WHEREAS, 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;

NOW, THEREFORE, BE IT RESOLVED that the Board of Airport Commissioners adopted the Staff Report; determined that this action is exempt from the California Environmental Quality Act (CEQA) pursuant to Article II, Section 2.f and Article III, Class 1 (18)(c) of the Los Angeles City CEQA Guidelines; approved the Third Amendment to Terminal Facilities Lease and License Agreement LAA-8965 with Air Canada covering space in Terminal 6 at Los Angeles International Airport, to provide rent credits in an amount not to exceed \$154,000 for costs associated with use of the baggage system by common use airlines located in said terminal, to add language to update the lease provisions that govern use of preferential use gates, and to extend the term through December 31, 2027 to be co-terminus with the Alaska Airlines lease; further approved the authority to issue rent credits in an amount not to exceed \$154,000 over the remaining term of said agreement; and authorized the Chief Executive Officer, or designee, to execute said Third Amendment to Terminal Facilities Lease and License Agreement LAA-8965 with Air Canada after approval as to form by the City Attorney and approval by the Los Angeles City Council.

o0o

I hereby certify that this Resolution No. 27760 is true and correct, as adopted by the Board of Airport Commissioners at its Regular Meeting held on Thursday, June 15, 2023.



Grace Miguel – Secretary
BOARD OF AIRPORT COMMISSIONERS