



Los Angeles World Airports

REPORT TO THE

BOARD OF AIRPORT COMMISSIONERS

Item Number
9

Dave Jones

Approved by: Dave Jones, Airport Property and Concession Services

[Signature]

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

D. DeG

City Attorney

[Signature]

Justin Erbacci, Chief Executive Officer

Meeting Date:

9/3/2020

CAO Review:

☐ Completed
☒ Pending
☐ N/A

<u>Reviewed for</u>	<u>Date</u>	<u>Approval Status</u>	<u>By</u>
Finance	8/25/2020	<input checked="" type="checkbox"/> Y <input type="checkbox"/> N <input type="checkbox"/> NA	CI
CEQA	8/28/2020	<input checked="" type="checkbox"/> Y <input type="checkbox"/> N	VW
Procurement	8/25/2020	<input checked="" type="checkbox"/> Y <input type="checkbox"/> N <input type="checkbox"/> Cond	QM
Guest Experience	8/28/2020	<input checked="" type="checkbox"/> Y <input type="checkbox"/> N	BY
Strategic Planning	8/24/2020	<input checked="" type="checkbox"/> Y <input type="checkbox"/> N <input type="checkbox"/> NA	KCDL

SUBJECT: Approve the Second Amendment to the Terminal Facilities Lease and License Agreement with American Airlines, Inc. for space in Terminal 4 and Terminal 5 at Los Angeles International Airport.

Consider and Adopt the Executive Director's Los Angeles International Airport Specific Plan Compliance Report and the California Environmental Quality Act Final Negative Declaration for the Los Angeles International Airport Terminal 4 Modernization Project; approve the Second Amendment to the Terminal Facility Lease and License Agreement with American Airlines, Inc. for space in Terminal 4 and Terminal 5 at Los Angeles International Airport; and, reallocate funds in the amount of \$37,000,000 to acquire the Minimum Investment Requirement projects.

RECOMMENDATIONS:

Management RECOMMENDS that the Board of Airport Commissioners:

1. ADOPT the Staff Report;
2. FIND that:
 - a) On the basis of the whole record before the Board, including the Final Negative Declaration for the Terminal 4 Modernization Project, which includes the Initial Study/Negative Declaration, and all comments received, there is no substantial evidence that the Terminal 4 Modernization Project will have a significant effect on the environment, and that the Final Negative Declaration has been prepared in accordance with the requirements of the California Environmental Quality Act and City of Los Angeles California Environmental Quality Act Guidelines; and

- b) The Board of Airport Commissioners, as the decision-making body of the lead agency, considered the information contained in the Final Negative Declaration prior to approving the Terminal 4 Project and any comments received; and
- c) The Los Angeles International Airport Terminal 4 Project Final Negative Declaration represents the independent judgment and analysis of the lead agency;

3. FIND that:

- a) The Terminal 4 Project, as defined in the Final Negative Declaration, complies with the Los Angeles International Airport Plan, all design guidelines required by the Los Angeles International Airport Plan, and all applicable provisions of the LAX Specific Plan, as fully set forth in the Executive Director's Report; and
- b) The environmental effects of the Terminal 4 Project have been assessed in compliance with CEQA; and
- c) The Terminal 5 improvements as described in the July 11, 2018 Board action, and the circumstances under which they would be undertaken, have not changed in any way that would change the conclusion reached by the Board at that time that the improvements are exempt from review under CEQA;

4. ADOPT the:

- a) Final Negative Declaration for the Terminal 4 Modernization Project;
 - b) Executive Director's Los Angeles International Airport Plan Compliance Report; and
 - c) California Environmental Quality Act Findings;
5. CONSIDER the Los Angeles International Airport Specific Plan Compliance determination as recommended in the Executive Director's Report including the adoption of findings and imposition of all recommended conditions;
6. AUTHORIZE the Chief Executive Officer to exercise the option to purchase Non-Proprietary Terminal Renovations with cash payments instead of rent credits as provided in the Terminal Facilities Lease and License Agreement;
7. ADJUST prior funding appropriation to delete \$36,000,000 for rent credit accrued interest costs and reallocate funds in the amount of \$37,000,000 to acquire Minimum Investment Requirement projects for a total amount not to exceed \$322,000,000, including interest during construction;
8. APPROVE the proposed Second Amendment to the Terminal Facilities Lease and License Agreement with American Airlines Inc.; and

9. AUTHORIZE the Chief Executive Officer or their designee to execute the proposed Second Amendment to the Terminal Facilities Lease and License Agreement, subject to approval as to form by the City Attorney and upon approval by the Los Angeles City Council.

DISCUSSION:

1. Purpose

Adopt the Final Negative Declaration (ND) prepared for the Los Angeles International Airport (LAX) Terminal 4 (T4) Modernization Project, adopt the Executive Director's Report, approve the LAX T4 Project as described in the Final ND, and facilitate construction of renovations in Terminals 4 and 5 at LAX to modernize the facilities and improve the passenger experience.

2. Prior Related Actions

- **March 02, 2017 – Board Resolution 26185**
The Board of Airport Commissioners (Board) certified the Landside Access Modernization Program (LAMP) CEQA Final Environmental Impact Report (FEIR) and LAMP program elements which include the Automated People Mover (APM), passenger walkway systems connecting the APM stations to passenger terminals or ground transportation facilities, Modifications to existing passenger terminals and parking garages within the Central Terminal Area (CTA) for passenger walkway system connections and vertical circulation to the arrival, departure, and concourse levels, two Intermodal Transportation Facilities, a Consolidated Rental Car Facility, Roadway improvements and utilities needed to support the LAX LAMP Project.
- **July 11, 2018 – Board Resolution No. 26548 (Lease No. LAA-9037)**
The Board approved a Terminal Facilities Lease and License Agreement with American Airlines, Inc. (American) for space in Terminal 4 and Terminal 5 (Lease) to enable American to renovate its existing premises and adjacent areas, incorporate construction of a Terminal Vertical Core between Terminal 4 and Terminal 5 to connect the terminals to the Automated People Mover, and to provide the potential for future improvements.
- **April 09, 2020 – Board Resolution 26996 (Lease No. LAA-9037A)**
The Board approved deferral of the 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 LAWA to implement a Temporary Passenger Airline Relief Program. This was the First Amendment to Lease LAA-9037.
- **April 16, 2020 – Board Resolution No. 27006 (Lease No. LAA-9037A)**
The Board 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.

The current and prior actions provide for the entitlement of all proposed improvements and authorize American Airlines, Inc. to cause the construction of said entitled improvements described herein.

3. Current Action

Los Angeles World Airports (LAWA) and American executed the Lease to facilitate construction of renovations in Terminal 4 and Terminal 5 that will modernize the facilities, connect the terminals to the APM, and improve the guest experience. The Lease provides for American to make certain renovations to Terminal 4 and Terminal 5, subject to LAWA construction review and approval. The Lease also allows LAWA to acquire these improvements upon Board approval and appropriation of funding.

American Lease - Terminal Projects and Funding Appropriations

The Lease includes provisions for LAWA to acquire, in an amount not-to-exceed \$1,615,000,000, existing facility bonds, T4 Additional Assets, Minimum Improvement Requirement projects, and future renovations with Board approval as shown in the table below.

<u>Component</u>	<u>Estimated Costs</u>
T4 Bond Defeasance	\$ 191,000,000
T4 Additional Assets	\$ 38,500,000
Minimum Improvement Requirement	\$ 285,000,000
Sub-Total	\$ 514,500,000
Future Improvement Projects	\$ 1,100,500,000
Maximum Acquisition Amount	\$ 1,615,000,000

However, the Board has not appropriated the full funding amount as appropriation for the Future Improvement Projects will be presented to the Board once American and LAWA have agreed on the Definitive Terminal Improvement Projects in accordance with the Lease. In 2018, the Board did approve an initial funding appropriation of \$514,500,000 to cover the actual costs of the T4 Bond Defeasance, and acquire the T4 Additional Assets and Minimum Improvement Requirement projects at actual costs. At the same time, the Board approved \$36,000,000 to cover the interest costs that will accrue if LAWA acquires the Terminal Renovation components of the Minimum Improvement Projects with rent credits in equal installments over the remaining term of the Lease instead of with cash payments.

Option to Purchase with Cash

The Lease requires American to make minimum investment of \$285,000,000 to construct a new Terminal Vertical Core that will connect to the Automated People Mover, reconfigure and relocate ticket counters, airline ticket offices, baggage handling equipment, bag service offices, and other required work, re-gauge Terminal 5 gates, and install a common use Bus Port. In accordance with the Lease, LAWA will acquire the Non-Proprietary Airline Renovations with cash and issue rent credits in equal installments over the remaining term of the proposed Lease for the Non-Proprietary Terminal Renovations portion, unless the Board approves exercising the option to make a cash payment instead.

The Lease established the cost for the Terminal Improvements in an amount not to exceed \$107,000,000 (\$71,000,000 renovations plus approximately \$36,000,000 of additional

interest as rent credits are applied over the remaining term of the Lease). To eliminate the costs associated with the accrual of interest as the \$71,000,000 capital costs are paid down in equal installments over the remaining term of the Lease, staff currently requests that the Board authorize LAWA to exercise its option, pursuant to Section 2.2.3(d) of the Lease, to purchase the Terminal Renovations with cash rather than issuing rent credits, including the already-completed Component 2 of the Minimum Investment Requirement projects. LAWA acquired Component 2 (T4 Tenant Improvements) in June 2020 for cash in the amount of approximately \$28,400,000 and rent credits in the amount of \$9,421,000.

LAWA estimates that exercising its option to purchase with cash all Non-Proprietary Terminal Renovations instead of issuing rent credits will save approximately \$36,000,000 of interest cost for the Minimum Investment Improvements over the term of the Lease and these funds can therefore be reallocated.

Lease Amendment

The proposed Second Amendment to the Terminal Facilities Lease and License Agreement (Amendment) makes several administrative updates to the Lease, including:

- **Demised Premises:** Update American's demised premises effective September 1, 2020 to reflect the changes in American's leased premises that have occurred to date due to the construction of the Minimum Improvement Requirement projects, including the TVC project and related changes to lobby areas, ticketing, bag claim, and offices. In addition, American's demised premises are projected to increase by approximately 50,000 square feet as a result of the contemplated future T4/5 modernization program. The proposed Amendment will adjust the Terminal 4 demised premises in seven equal annual increments of 7,150 square feet, as shown in the table below, starting after approval of the future modernization program. Using this approach will create stability for annual rate setting and billing by eliminating frequent and unpredictable fluctuations in square footage during the future construction phases.

DEMISED PREMISES				
Effective Date	Terminal 4	Terminal 5	T4 Connector	Total
<i>Current Lease *</i>	284,297 *	66,287	22,614	372,104
<i>Proposed Amendment</i>				
September 1, 2020	244,657	76,766	22,614	344,037
Year 1	251,807	76,766	22,614	351,187
Year 2	258,957	76,766	22,614	358,337
Year 3	266,107	76,766	22,614	365,487
Year 4	273,257	76,766	22,614	372,637
Year 5	280,407	76,766	22,614	379,787
Year 6	287,557	76,766	22,614	386,937
Year 7	294,707	76,766	22,614	394,087
	End-state re-measurement upon completion of construction			

* Note actual billable Terminal 4 area is 283,203 sf due to corrected measurement error.

- Minimum Investment Requirement Projects:
 - T5 Gate Realignment: Update the minimum improvement requirement projects schedule (Schedule 1-C) in the Lease to modify Component 3 - T5 gate realignment - which includes design and construction for the realignment and restriping of the existing aircraft parking positions and bus port at Terminal 5, into two components:
 - 1) T5 Gate Realignment – East (14th Gate) -- which includes design and construction for the realignment and restriping of the existing aircraft positions on the east side of T5, in order to accommodate the bus port at Gate 52; and,
 - 2) T5 Gate Realignment – West (15th Gate) – which includes design and construction for the realignment and restriping of the existing aircraft parking positions on the west side of T5.
 - Non-Proprietary Airline Renovations: Amend the acquisition cost of the Non-Proprietary Airline Renovations components that are Minimum Investment Requirement projects, including principal and interest, with the amount payable by the Landlord to the Tenant, not to exceed Two Hundred Forty-One Million Five Hundred Thousand Dollars (\$241,500,000).
 - Non-Proprietary Terminal Renovations: Amend the acquisition cost of the Non-Proprietary Terminal Renovations components that are Minimum Investment Requirement projects, including principal and interest, to not to exceed Eighty Million Five Hundred Thousand Dollars (\$80,500,000).

<i>Minimum Investment Requirement Projects Cost</i>				
	Current			Amended
Component	Cash Cost	Additional Interest for Rent Credits	Cost with Rent Credits	Cash Cost
Airline	\$214,000,000	N/A	\$214,000,000	\$241,500,000
Terminal	\$71,000,000	\$36,000,000	\$107,000,000	\$80,500,000
<i>Total</i>	<i>\$285,000,000</i>	<i>\$36,000,000</i>	<i>\$321,000,000</i>	<i>\$322,000,000</i>

- Exhibits and Schedules: Update associated exhibits, schedules and administrative requirements.

Funding Reallocation

In November 2018, LAWA defeased the T4 Bonds and subsequently also acquired the T4 Additional Assets delineated in the Lease. Actual costs resulted in savings of \$1,500,000 and \$2,000,000 on the two components respectively (B).

In addition, American is in the process of completing the Minimum Investment Requirement projects. The initial estimate of acquisition costs for the Minimum Investment Requirement projects was an amount not to exceed \$285,000,000 cash, or \$321,000,000 including \$36,000,000 interest for rent credits. Conversion of the payments from rent credits to cash will result in a \$36,000,000 savings (C).

\$37,000,000 of additional scope was required due to code, safety, and operational requirements that facilitated construction phasing (D). Portions of this scope would have been installed as part of future phases of the Program including restroom facilities, paging systems, and upgrades to existing baggage handling equipment. Other scope increases include expansion joint seismic upgrades, added ACAMS and added cameras.

The revised estimate of not to exceed actual costs is \$241,500,000 for Non-Proprietary Airline Renovations and \$80,500,000 for Non-Proprietary Terminal Renovations, for a total of \$322,000,000 cash for the Minimum Investment Requirement projects.

	(A) Prior Appropriation	(B) Savings Actual vs. Anticipated	(C) Elimination of Rent Credit Interest	(D) Increased Scope	(A) + (B) + (C) + (D) Modified Appropriation
[i] Bond Defeasance	\$ 191,000,000	\$ (1,500,000)			\$ 189,500,000
[ii] T4 Additional Assets	\$ 38,500,000	\$ (2,000,000)			\$ 36,500,000
[iii] Airline Renovations	\$ 214,000,000			\$ 27,500,000	\$ 241,500,000
[iv] Terminal Renovations	\$ 107,000,000		\$ (36,000,000)	\$ 9,500,000	\$ 80,500,000
Total	\$ 550,500,000	\$ (3,500,000)	\$ (36,000,000)	\$ 37,000,000	\$ 548,000,000

Negative Declaration and Public Review

LAWA, as the lead agency for the LAX T4 Project, prepared a CEQA Negative Declaration (ND) and Initial Study (IS) for the proposed Project. The IS evaluated environmental topics required by CEQA as outlined in Appendix G (also referred as Checklist) of the State CEQA guidelines. The IS determined that the Proposed Project would result in less than significant impacts during construction to aesthetics, air quality, cultural resources, energy, geology/soils, greenhouse gas emissions, hazards and hazardous materials, hydrology/water quality, noise, transportation, tribal cultural resources and utilities/service systems. The Proposed Project would be constructed in the same location as the existing T4 Concourse and operation of the Proposed Project may result in a reduction in emissions and other pollutants since the Proposed Project would incorporate modern building materials and internal systems technology in accordance with the Los Angeles Green Building Code, Los Angeles New Deal, and LEED® Silver requirements, resulting in an increase in energy efficiency for T4 operations. Further, the proposed project is targeting 12 to 14 percent increase in energy efficiency over baseline conditions. The implementation of the Proposed Project would largely be restricted to the T4 Concourse, and the majority of the T4 gates would remain open throughout construction to reduce operational impacts on other boarding areas and would maintain a minimum level of service for passengers.

Best Management Practices and avoidance and minimization measures would be implemented to reduce the potential for cumulatively significant impacts to occur as a result of the Proposed Project in combination with other existing and future on-and-off-airport construction projects. The limited nature of the impacts the Proposed Project would have on

the environment, the methods by which the Project would be constructed and operated, and the location of the Proposed Project, when considered cumulatively with other on-and-off-airport construction projects, would result in a less than significant impact to the environment.

Implementation of the LAX T4 Project would comply with federal, state, and local regulations to ensure construction and operation of the proposed project would not significantly impact human health and safety.

The Notice of Intent (NOI) to Adopt the ND/IS, the ND/IS and Notice of an LAX Specific Plan Compliance Review were made available for review and comment for 20 days beginning October 24, 2019 and ending on November 13, 2019. Subsequently, the comment period was re-opened for 20 days following filing of the NOI with the Los Angeles County Registrar-Record/County Clerk's Office for a public comment period beginning December 11, 2019 through December 31, 2019. LAWA received four comments on the IS/ND and no comments for the LAX Specific Plan Compliance Review, Executive Directors Report (EDR). The comments were received from: California Department of Transportation (Caltrans), the Federal Emergency Management Agency (FEMA), the Los Angeles County Regional Planning Commission (as the Airport Land Use Commission), and the Los Angeles Department of Sanitation and Environment (LA Sanitation and Environment). Comments received from the LA Department of Sanitation and Environment and the Los Angeles County Regional Planning Commission determined that review by their respective organizations was not necessary. The comment from Caltrans verified that the proposed Project is not expected to impact State transportation facilities. The FEMA comment identified the Flood Insurance Rate Maps (FIRMs) applicable to the City of Los Angeles and Los Angeles County and identified the building requirements of the National Flood Insurance Program. LAWA also received a comment outside of the public comment period from a private citizen, Lawrence de Valencia; however, the comment was not related to CEQA or LAX Specific Plan Compliance Review.

Based on the evidence in the whole of the administrative record for the LAX T4 Project and as mentioned above, there is no substantial evidence that the project would have a significant effect on the environment.

Executive Director's LAX Specific Plan Compliance Report

In accordance with the LAX Specific Plan Section 7.C, LAX Specific Plan Compliance, an Executive Directors Report has been prepared and is attached. This report addresses the T4 Project, as defined in the Final ND to make a compliance determination with the LAX Plan, all design guidelines required by the LAX Plan, and all applicable provisions of the LAX Specific Plan, as fully set forth in the Executive Director's Report (EDR) while taking into consideration any public comments received. Four comments were received; however, the comments were specific to the CEQA ND and not for the EDR.

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.**

Action Requested

Staff requests that the Board adopt the ND prepared for the LAX T4 Project, and approve the Executive Directors Report finding that the LAX T4 Project is consistent with the LAX Specific Plan.

Staff requests the Board approve and authorize the Chief Executive Officer to execute the Second Amendment to the Terminal Facilities Lease and License Agreement, subject to approval as to form by the City Attorney and upon approval by the Los Angeles City Council.

Staff requests the Board reallocate previously-appropriated funds in the amount of \$37,000,000 for the acquisition of the Minimum Investment Requirement projects for a total of \$322,000,000 cash.

Staff requests the Board authorize the Chief Executive Officer to exercise the option to purchase Non-Proprietary Terminal Renovations with cash payments instead of rent credits as provided in the Terminal Facilities Lease and License Agreement.

Fiscal Impact

The T4/5 Modernization Project (by American), is programmed in LAWA's 10-year Capital Improvement Plan (CIP), with a direct project budget of \$1.66 billion dollars. Of that amount, \$1.615 billion is programmed for hard costs (reflecting the lease and acquisition agreement with American Airlines), and approximately \$48 million is set aside for LAWA's soft costs. As the proposed investment amounts requested in this report are within the budgeted amounts, approval of this item will result in no net increase in the CIP.

The acquisition cost for the planned improvements from American will be recovered through future terminal rates and charges.

Approval of the proposed Lease Amendment will provide approximately \$77,000,000 in annual revenue the first full year from execution.

4. Alternatives Considered

• *Take No Action*

If the Executive Director's Los Angeles International Airport Plan Compliance Report; and California Environmental Quality Act Findings is not adopted, American will be unable to proceed with improvements as contemplated in its Lease. This will substantially defer upgrades to the Terminals and do little to improve the LAX passenger experience.

Not exercising its option to purchase improvements with cash instead of rent credits will result in additional interest cost to LAWA over the term of the Lease

Not executing the proposed Lease Amendment will not allow LAWA to update the Demised Premises, and acquire the Minimum Investment Requirement projects in their entirety.

APPROPRIATIONS:

Staff requests the Board reallocate previously appropriated capital funds in the amount of \$37,000,000 within WBS Element 1.18.40A-700 (T4 & 5 American Renovation), as discussed in the staff report.

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 involving negligible or no expansion of use and/or alteration or modification of the facilities or its operations beyond that previously existing or permitted 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, an Initial Study and Negative Declaration was prepared for the T4 Modernization project in compliance with the California Environmental Quality Act (CEQA) and the City of Los Angeles CEQA Guidelines. Pursuant to State CEQA Guidelines Section 15074(c), the location and custodian of documents and materials related to the ND for the T4 Modernization project is the Los Angeles World Airports, Environmental Programs Group, 6053 W. Century Blvd., Suite 1050, Los Angeles, CA 90045.
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. American 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. American Airlines will comply with the provisions of the Affirmative Action Program.
7. American Airlines has been assigned Business Tax Registration Certificate number 0000662086-0001-1.
8. American Airlines will comply with the provisions of the Child Support Obligations Ordinance.
9. American Airlines have 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 City Charter Section 1022 (Use of Independent Contractors).

11. American Airlines has submitted the Contractor Responsibility Program Questionnaire and Pledge of Compliance and will comply with the provisions of the Contractor Responsibility Program.
12. American Airlines must be determined by Public Works, Office of Contract Compliance, to be in compliance with the provisions of the Equal Benefits Ordinance prior to execution of contract amendment.
13. American Airlines will be required to comply with the provisions of the First Source Hiring Program for all non -trade Airport jobs.
14. This action is not subject to the provisions of the Bidder Contributions CEC Form 55.
15. This actions is not subject to the provisions of the Iran Contracting Act of 2010.