

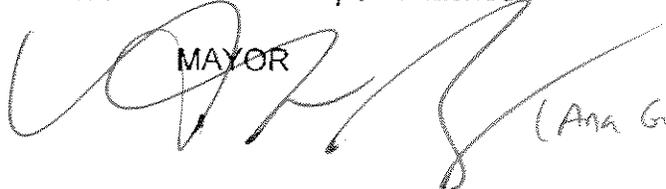
0150-10423-0000

TRANSMITTAL

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| TO Gina Marie Lindsey, Executive Director Department of Airports | DATE JUN 19 2015 | COUNCIL FILE NO. |
| FROM The Mayor | COUNCIL DISTRICT 11 | |

Request to Execute a Proposed Second Amendment to the Terminal Lease and License Agreement with the Tom Bradley International Terminal Equipment Company for Leased Space and Licensing of Aeronautical Equipment in Terminal 3 at the Los Angeles International Airport

Transmitted for further processing, including Council consideration. See the City Administrative Officer report attached.


MAYOR
(Ana Guerrero)

MAS:WDC: 10150094t

REPORT FROM

OFFICE OF THE CITY ADMINISTRATIVE OFFICER

Date: June 18, 2015

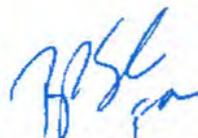
CAO File No.: 0150-10423-0000

Council File No.:

Council District: 11

To: The Mayor

From: Miguel A. Santana, City Administrative Officer



Reference: Transmittal from the Department of Airports dated May 14, 2015; referred by the Mayor for report on May 15, 2015

Subject: **PROPOSED SECOND AMENDMENT TO THE TERMINAL FACILITIES LEASE AND LICENSE AGREEMENT BETWEEN THE TOM BRADLEY INTERNATIONAL TERMINAL EQUIPMENT COMPANY AND LOS ANGELES WORLD AIRPORTS RELATIVE TO LEASED SPACE AND THE LICENSED USE OF AERONAUTICAL EQUIPMENT IN TERMINAL 3 AT THE LOS ANGELES INTERNATIONAL AIRPORT**

SUMMARY

The Executive Director of the Los Angeles World Airports (LAWA; Department) requests authority to execute a Second Amendment to Terminal Lease and License Agreement LAA-8600 (Lease) with the Tom Bradley International Terminal Equipment Company (TBITEC)—a consortium of 48 of airlines presently operating out of the Tom Bradley International Terminal (TBIT) and Terminal 2—for the addition of leased space and the licensed use of Department-owned aeronautical equipment in Terminal 3 at the Los Angeles International Airport (LAX). Approval of the Second Amendment will result in LAWA receiving approximately \$10,626,000 in first-year lease revenue and \$86,627,000 in total revenue over the remaining six years of the term (the original September 16, 2011 agreement concludes on September 15, 2021) with a cost savings of approximately \$2,497,000 annually resulting from the termination of the existing maintenance contract with Aircraft Service International Group. The proposed Second Amendment will become effective upon approval by the Council and conclude in September 2021.

Approval of the proposed Second Amendment will (1) transfer responsibility for the operation and maintenance of aeronautical equipment and airline areas (e.g., space occupied by baggage sorting equipment, bag claim devices, and holdrooms) in Terminal 3 from LAWA to TBITEC, (2) add 73,610 square feet of space in Terminal 3 to the existing square footage (91,923 square feet for the Tom Bradley Terminal and 55,493 square feet for Terminal 2) that comprises the current Lease and License Agreement with TBITEC, and (3) transfer control of Terminal 3 gates and scheduling to the six airlines currently operating out of that terminal.

In addition to the benefits to LAWA from approval of the proposed Second Amendment, the airlines comprising the TBITEC consortium will benefit in the following manner: they will (1) assume responsibility for maintaining and operating passenger and aircraft support equipment that is integral to their operations and performance, (2) have control over the Terminal 3 gates and scheduling, and

(3) be in a position to become more competitive with other airlines operating at LAX with respect to control of their ground operations.

Pursuant to Charter Section 606 and the Los Angeles Administrative Code Section 10.5, the proposed Second Amendment, in that the lease is for a period longer than five years, must be approved by the Council. Additionally, to become effective, the City Attorney must approve the Amendment as to form. The above-referenced aspects of the proposed Second Amendment to Terminal Lease and License Agreement LAA-8600 with TBITEC, and this report, incorporate revised information received from the Department subsequent to the initial request submittal.

BACKGROUND

The current agreement with TBITEC was approved by the Board of Airport Commissioners (Board) in August 2011 for a five-year term, from September 16, 2011 to September 15, 2016. The First Amendment was approved by the Board in May 2013 extending the term an additional five years to September 15, 2021, and providing for additional services in Terminal 2 such as gate management, ticket counter assignment, alarm door responses, etc.

The airlines consortium, TBITEC, was originally formed in 1982 as a non-profit corporation comprising 20 international airlines using LAX and known as LAXTEC (LAX Terminal Equipment Company). The consortium's mission is to represent member airlines in a unified, cooperative and effective manner with other airport- and aviation-related organizations in order to promote and improve aviation effectiveness, efficiency, and success in Los Angeles by maximizing the safety, security, service, operations, and cost performance of member airlines. As of 2011, TBITEC had—over approximately 20 years—provided aviation equipment support for nearly 846,000 flights and almost 160 million passengers. The list of member airlines numbers 34, as of 2011, and includes airlines as diverse as Aeroflot Russian Airlines, Air Tahiti Nui, Air Berlin, British Airways, and TACA International Airlines.

Previously, the consortium's ownership of aeronautical equipment serving member airlines at LAX was transferred to LAWA. However, the Department now believes that it is in the best interest of both parties to transfer equipment operations and maintenance, as well as leasing the space occupied by the equipment to the consortium, to TBITEC in acknowledgment of the importance of these operations and facilities to the airlines' operations. As such, responsibility for support of the following operation and maintenance items will be assumed by the TBITEC member airlines for LAX Terminal 3 (Allegiant Air, Frontier, JetBlue, Spirit, Virgin America, and Virgin Australia) upon approval of the proposed Second Amendment:

- Passenger boarding bridges
- Baggage handling system – both inbound and outbound
- Ground power units
- Potable water cabinets
- Pre-conditioned air systems
- Gate control and scheduling
- Ramp control and fire equipment
- Terminal equipment: paging system, ticket counter scales
- Holdroom custodial services

With the transfer of responsibility for the operation and maintenance of aeronautical equipment from LAWA to the TBITEC airlines, the Department advises that adherence to its equipment maintenance standards will be monitored through a combination of maintenance records reviews and on-site visual inspections. In addition to the equipment operation and maintenance functions, LAWA will assign gate control and scheduling for Terminal 3 to the airlines. However, the Department will retain the right to designate, assign, and establish minimum use requirements for all preferential-use gates.

With regard to the termination of the existing maintenance contract between LAWA and Aircraft Service International Group as a consequence of the transfer of aeronautical equipment operation and maintenance responsibility to TBITEC, the Department notes that the company has the same opportunity as other potential service providers to compete for the new contract.

According to the Department, this transfer/lease business model is beneficial in instances where terminals--like Terminals 2, 3, and TBIT--are used by multiple airlines on a more or less equal basis (known as a "common use/multiple user terminal") without a dominant airline. This model is not being considered for Terminals 4, 5, 6, and 7/8 because those terminals are occupied by a dominant airline (e.g., American Airlines in Terminal 4 and Delta Airlines in Terminal 5) that manages the airlines' aeronautical equipment operations and maintenance services.

The primary components of the amended lease and license agreement, as well as a comparison of the current and proposed terms, are illustrated in the following table:

| SECOND AMENDMENT TO TERMINAL LEASE & LICENSING AGREEMENT WITH TBITEC FOR LAX TERMINAL 3 SUMMARY OF CURRENT AGREEMENT & PROPOSED CHANGES | | |
|--|---|--|
| Contract Provisions | Current Terms | Proposed Changes |
| Term | Sept. 16, 2011 - Sept. 15, 2021 | None |
| Contract Termination | Termination by either party with 180 days' notice | None |
| Demised Premises: TBIT | 91,923 Square Feet | None |
| Demised Premises: Terminal 2 | 55,493 Square Feet | None |
| Demised Premises: Terminal 3 | None | 73,610 Square Feet Added |
| Rental Rates | Dictated by Tariff and Rate Agreement; Rates Are Established Annually by the Board of Airport Commissioners | None |
| Services | TBIT & Terminal 2: Operation and Maintenance of: (1) Passenger Boarding Bridges; (2) Baggage Handling System; (3) Ground Power Units; (4) Potable Water Cabinets; (5) Pre-Conditioned Air Systems; (6) Gate Control & Scheduling; (7) Ramp Control and Fire Equipment; (8) Terminal Equipment Paging System, Ticket Counter Scales; (9) Holdroom Custodial Services | Added for Terminal 3: Operation and Maintenance of: (1) Passenger Boarding Bridges; (2) Baggage Handling System; (3) Ground Power Units; (4) Potable Water Cabinets; (5) Pre-Conditioned Air Systems; (6) Gate Control & Scheduling; (7) Ramp Control and Fire Equipment; (8) Terminal Equipment Paging System, Ticket Counter Scales; (9) Holdroom Custodial Services |

Alternative to the Proposed Second Amendment

Should the proposed Amendment not be approved, the Department would retain the responsibility for and cost of maintaining and operating the aeronautical equipment in Terminal 3, as well as the liability and risk for interruptions to airline operations. Additionally, according to the Department, not having control over these aspects of their operations places airlines at a competitive disadvantage relative to other airlines using LAX. For the above reasons, there appears to be no viable alternative to approving the proposed Second Amendment.

Compliance with City Administrative Requirements

In that the proposed Amendment involves a property lease and licensing agreement and does not involve the use of independent contractors, the Department's request is not subject to the provisions of Charter Section 1022.

In terms of CEQA (California Environmental Quality Act) compliance, the issuance of permits, leases, agreements, renewals, or amendments granting use of an existing facility involving no expansion of use at a municipal airport is exempt from the requirements of the CEQA pursuant to Article III, Class 1(18)(c) of the Los Angeles City CEQA Guidelines.

The Agreement and proposed Second Amendment are not subject to the provisions of the Small Business Enterprise program. However, TBITEC must comply with the provisions of the Living Wage/Service Contractor Worker Retention Ordinances, Affirmative Action Program, Child Support Obligations Ordinance, Contractor Responsibility Program, the First Source Hiring Program for all non-trade LAX airport jobs, and the Bidder Contributions CEC (City Ethics Commission) Form 55 pertaining to the City's contract bidder campaign contribution and fundraising restrictions (Charter Section 470 {c} {12}) that became effective in April 2011. The TBITEC has approved insurance documents, in the terms and amounts required by LAWA, on file with the Department.

The TBITEC must, prior to execution of the contract, be determined to be in compliance with the provisions of the Equal Benefits Ordinance by the Department of Public Works, Office of Contract Compliance.

Pursuant to Charter Section 606 and the Los Angeles Administrative Code Section 10.5, the proposed Amendment, in that it is for a cumulative period longer than five years, must be approved by the Council. Additionally, to become effective, the City Attorney must approve the Second Amendment as to form.

RECOMMENDATIONS

That the Mayor:

1. Approve the proposed Second Amendment to Terminal Lease and License Agreement LAA-8600 between the Tom Bradley International Terminal Equipment Company (TBITEC) and the Los Angeles World Airports for leased space and the licensed use of Department-owned aeronautical equipment in Terminal 3 at the Los Angeles International Airport, subject to City Attorney approval as

to form; a determination by the Department of Public Works, Office of Contract Compliance, of the Contractor's compliance with the provisions of the Equal Benefits Ordinance prior to execution of the Amendment; and compliance with the following standard City contracting provisions: the Living Wage/Service Contractor Worker Retention Ordinances, Affirmative Action Program, Child Support Obligations Ordinance, Contractor Responsibility Program, the First Source Hiring Program for all non-trade LAX airport jobs, and the Bidder Contributions CEC (City Ethics Commission) Form 55 pertaining to the City's contract bidder campaign contribution and fundraising restrictions; and

2. Return the proposed Second Amendment to Terminal Lease and License Agreement LAA-8600 to the Department for further processing, including Council consideration.

FISCAL IMPACT STATEMENT

Approval of the proposed Second Amendment to the Terminal Facilities Lease and License Agreement with TBITEC will result in (1) a savings of approximately \$2,497,000 annually over the term of the agreement due to the termination of the existing aeronautical equipment maintenance contract; (2) approximately \$10,626,000 in first-year revenues to LAWA as a result of the lease and licensing provisions of the agreement; and (3) approximately \$86,627,000 in incremental revenue to LAWA over the term of the agreement.

The Department is not requesting an appropriation for the proposed Amendment. The Second Amendment to Terminal Lease and License Agreement LAA-8600 complies with the Department of Airports' adopted Financial Policies. Approval of the Amendment will have no impact on the Department's Operating Budget or the City's General Fund.

Time Limit for Council Action

Pursuant to Charter Section 606, "Process for Granting Franchises, Permits, Licenses and Entering Into Leases," and the Los Angeles Administrative Code Section 10.5, "Limitation and Power to Make Contracts," unless the Council takes action disapproving a contract that is longer than five years within 30 days after submission to Council, the contract shall be deemed approved.