

REPORT FROM

OFFICE OF THE CITY ADMINISTRATIVE OFFICER

Date: June 12, 2013

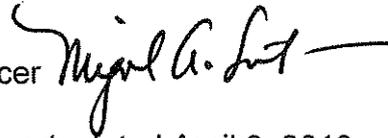
CAO File No. 0150-09974-0000

Council File No.

Council District: 11

To: The Mayor
The City Council

From: Miguel A. Santana, City Administrative Officer



Reference: Communication from the Department of Airports dated April 9, 2013; referred by the Mayor for report on April 10, 2013

Subject: **PROPOSED FIRST AMENDMENT TO THE TERMINAL LEASE AND LICENSE AGREEMENT LAA-8600 WITH TOM BRADLEY INTERNATIONAL TERMINAL EQUIPMENT COMPANY TO EXTEND THE TERM AND ALLOW ADDITIONAL SERVICES TO BE PROVIDED FOR THE OPERATION AND MAINTENANCE OF AERONAUTICAL EQUIPMENT AND AIRLINE SYSTEMS AT LOS ANGELES INTERNATIONAL AIRPORT**

SUMMARY

The Executive Director of the Department of Airports (Department) requests approval of a first amendment (Amendment) to a Terminal Lease and License Agreement LAA-8600 (Agreement) with Tom Bradley International Terminal Equipment Company (TBITEC). Through an existing five-year agreement, approved in September 2011, TBITEC has maintained and operated certain aeronautical equipment and airline systems, including baggage systems, jet bridges, and other airline related equipment in Tom Bradley International Terminal (TBIT) at Los Angeles International Airport (LAX). Approval of the proposed Amendment will extend the Agreement term five more years, thereby setting a new expiration date of September 15, 2021, and allow additional services to be provided during the Agreement term. Along with the term extension and expansion of services provided, approval of the proposed Amendment is expected to generate approximately \$140 million in additional revenue over the ten-year term of the Agreement.

The Board of Airport Commissioners (BOAC) approved the proposed Amendment during a meeting on May 7, 2013. The above-referenced aspects of the Amendment, and this report, incorporate revised information received from the Department subsequent to the initial request submittal. Pursuant to Charter Section 606, Council approval of the Amendment is required because the cumulative term exceeds five years.

Background

In 1982, a consortium of air carriers was formed as a non-profit corporation to design, finance, install, operate and maintain passenger and aircraft support equipment in TBIT. The consortium is also required to pay rent to the Department for space it occupies. At that time, the consortium was known as LAXTEC Corporation (LAX Terminal Equipment Company). In December 2006, the BOAC approved a five-year replacement contract with LAXTEC Corporation (LAA-8382) to provide continuity of maintenance and operation of older terminal equipment systems. According to Department staff, as the construction for TBIT interior improvements and baggage screening facilities began, it was important to have stability and reliability for maintaining and operating equipment systems and remote gates at TBIT.

In July 2011, the consortium changed its name from LAXTEC to TBITEC and then the BOAC approved Agreement LAA-8600 on September 17, 2011 with TBITEC to continue many of the services in the previous agreement which expired in December 2011. According to Department staff, to date the TBITEC consortium consists of 34 member air carriers. The term of the existing Agreement is September 16, 2011 to September 15, 2016. Agreement highlights are that TBITEC is:

- To maintain certain aeronautical equipment and systems, including baggage systems, jet bridges and other airline related equipment in TBIT
- To maintain aeronautical equipment at its own expense
- To provide oversight to the Department's Executive Director of consortium membership agreement, fees and charges which TBITEC can levy against airlines using aeronautical equipment it maintains
- Able to decide whether to procure replacement aeronautical equipment, if the equipment is at the end of its useful life, subject to Executive Director or BOAC approval.

A separate consortium of airlines, LAX Two Corporation (LAX Two) which also existed in the 1980s, was formed to design/construct a new Terminal 2 (T2) complex at LAX and then lease/manage the T2 facility upon completion. In April 2010, the Department entered into a three-year agreement with LAX Two to maintain certain equipment and manage daily operations in T2. This agreement was developed as a result of a stipulation in settlement agreements (Settlement Agreement) between Los Angeles World Airports, Air Canada Inc., Hawaiian Airlines, Inc. Delta Airlines, Inc., LAX Two and successor to Northwest Airlines, Inc. The agreement with LAX Two provided time for the Department to transition into the duties of maintaining and operating T2 by allowing time for the Department to prepare Requests for Proposals to solicit contractors for major terminal systems, including baggage systems and jet bridge maintenance, a transition of services could be implemented.

The agreement with LAX Two will expire on June 30, 2013. Staff reports that, in August 2012, the T2 air carriers elected to join TBITEC and asked the Department to transfer T2 operation and maintenance of aeronautical equipment to the TBITEC consortium. Consequently, the proposed Amendment with has been developed to add the services provided at T2 into its consortium services when the LAX Two agreement expires.

Proposed First Amendment to Terminal Lease and License Agreement with TBITEC

To accommodate the request of T2 air carriers, the existing Agreement LAA-8600 is being amended to include additional changes and amend Agreement LAA-8600 in a way to assist with effective and efficient terminal operations. Approval of the proposed Amendment will:

- Extend the Agreement term from five to ten years
- Allow additional aeronautical equipment to be maintained and additional services to be provided by TBITEC in TBIT, T2 and other airport areas
- Enhance maintenance requirements for aeronautical equipment

Staff reports that because TBITEC is required to pay rent for the premises it leases, the consortium has executed the LAX Rate Agreement, effective January 1, 2013, and will pay rent according to BOAC adopted rates, pursuant to the proposed Amendment. Also, the proposed Amendment notes that the premises in TBIT and T2 include baggage conveyance system areas, baggage control rooms and the baggage make-up areas. TBITEC may charge member and non-member airlines for the services it provides. In addition, the proposed Amendment requires TBITEC to submit the rates for review annually, by December 31, to the Executive Director. TBITEC is required to charge rates no greater than BOAC approved amounts, for same/similar service or equipment if, as a result of a Department sponsored capital project, a non-TBIT or non-T2 airline is required to use certain aeronautical equipment operated and maintained by TBITEC.

The existing Agreement requires TBITEC to use original equipment manufacturer or industry standards as a criteria to which aeronautical equipment is operated and maintained. However, the proposed Amendment revises the provisions to ensure Department-owned equipment is maintained to the highest standard. Therefore, the maintenance and repair requirements are expanded; when new equipment is assigned to the Department, the Executive Director will determine the form and frequency in which TBITEC must submit a maintenance plan for review and approval as well as maintenance reports and records. Furthermore, when equipment is assigned to TBITEC and it becomes responsible for equipment maintenance, TBITEC will recover maintenance cost directly from the airlines and the Department will reduce its billing accordingly.

The proposed Amendment anticipates the revenue generated will be approximately \$14 million in the first year of the Agreement and will total approximately \$211 million over the ten years of the Agreement term. Staff estimates approximately \$23.3 million in revenue will be generated from TBITEC from October 1, 2011 through June 30, 2013, prior to the execution of the proposed

Amendment. Actual revenue generated by this Agreement was \$15.4 million during the calendar year of January through December, 2012.

Revenue generated by TBITEC is based upon premises' square feet (sq. ft.), terminals building rent, loading bridge rent and the number of bridges. Upon execution of the proposed Amendment, with the inclusion of T2 lease space, the TBITEC demised premises will increase by approximately 51,885 square feet sq. ft., from 95,531 sq. ft. in the TBIT area in the existing Agreement to 147,416 sq. ft. total in the TBIT and T2 areas. Also, the Terminal Rates and Charges are adjusted annually on January 1st, in accordance with the LAX Rate Agreement.

A comparison of important components of the current Agreement and the proposed Amendment is summarized in the following table.

Key Element	Existing TBITEC Agreement LAA-8600	Proposed Amendment to Agreement LAA-8600
Term	Sept. 16, 2011 – Sept. 15, 2016	Change term from five to ten years: Sept. 16, 2011 – Sept. 15, 2021
Cancellation Provision	allows 180-day written notice	No change
Premises	<u>TBIT</u> , 95,531 sq. ft. <u>Terminal 2</u> , N.A.	<u>TBIT</u> , 91,923 sq. ft. <u>Terminal 2</u> , additional 55,493 sq. ft
Revenue Projection	Approx. \$70,470,000 over the five-year term	Approx. \$211,249,000 over the ten-year term
Consortium Services -	Operation and Maintenance of the following equipment and systems:	Operation and Maintenance of the following equipment and systems:
	<ul style="list-style-type: none"> - Passenger Boarding Bridges - Checked Baggage In-line System - Ground Power Units - Potable Water Cabinets - Pre-conditioned Air Systems 	<ul style="list-style-type: none"> - Passenger Boarding Bridges - Baggage Handling System - Ground Power Units - Potable Water Cabinets - Pre-conditioned Air Systems - Hydrant Fuel System & Pits - Gate Control & Scheduling - Ramp Control - Ramp Fire Equipment - Terminal Equipment: Paging system, ticket counter bag scales - Custodial Services, holdrooms

Alternatives to the Proposed Amendment

An option to deny the request to consider a proposed Amendment is not recommended because the existing Agreement is written specifically for TBIT services and aeronautical equipment maintenance. Without amending the Agreement, TBITEC will not be able to provide operation and maintenance of aeronautical equipment in T2 and other terminals as requested by airlines.

Department staff state the terminal services and aeronautical equipment maintenance provided in the Agreement are typically performed by airlines due to the tendency to disrupt airline operations. Department staff does not have the ability to control airline operations as does the airlines; also, staff does not have the expertise to perform the services as TBITEC does.

City Contract Compliance

The proposed Amendment must be approved by the City Attorney as to form. Prior to the execution of the proposed Amendment, TBITEC must: 1) have on file with the Department approved insurance documents in the terms and amounts required; 2) submit a Contractor Responsibility Program Pledge of Compliance; and, 3) comply with the provisions of the Contractor Responsibility Program.

In accordance with the Agreement, TBITEC is required to comply with the provisions of the: Affirmative Action Program; Child Support Obligations Ordinance; First Source Hiring Program for all non-trade LAX jobs; and, Living Wage and Service Contractor Worker Retention Ordinances.

The proposed Amendment is not subject to the provisions of: Bidder Contributions City Ethics Commission Form 55; City Charter Section 1022, Use of Independent Contractors; and, Equal Benefits Ordinance. In accordance with the Mayor's Executive Directive 2001-26, the Minority/Women Business Enterprise Program does not apply to leases. In addition, TBITEC is exempt from obtaining a Business Tax Registration Certificate Number.

The issuance of permits, leases, agreements, renewals, amendments or extensions thereof, or other entitlements granting use an existing facility at a municipal airport is exempt from the requirements of the California Environmental Quality Act (CEQA) pursuant to Article III, Class 1(18)(c) of the Los Angeles CEQA Guidelines.

Pursuant to Charter Section 606 and the Los Angeles Administrative Code Section 10.5, the proposed lease, being that it is for a period longer than five years, must be approved by the City Council.

RECOMMENDATION

That the Council, subject to approval by the Mayor:

Approve, subject to approval of the City Attorney as to form, a proposed First Amendment to a Terminal Lease and License Agreement with Tom Bradley International Terminal Equipment Company, to extend the Agreement term five more years, thereby establishing a new expiration date of September 15, 2021, and to allow additional services to be provided, along with the operation and maintenance of aeronautical equipment and airline systems in the Tom Bradley International Terminal at Los Angeles International Airport (LAX).

FISCAL IMPACT STATEMENT

Approval of the proposed First Amendment for a Lease and License Agreement between Tom Bradley International Terminal Equipment Company and the Department of Airports will have no impact on the General Fund. Approval of proposed Amendment will generate approximately \$14 million of revenue in the first year of the Agreement and approximately \$211 million in revenue of the ten-year term. The proposed Amendment complies with the Department of Airports' adopted Financial Policies.

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.

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