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REPORT FROM

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Deputy: CAO

OFFICE OF THE CITY ADMINISTRATIVE OFFICER

Date: April 1, 2014

CAO File No.: 0150-10165-0000
Council File No.:
Council District: 11

To: The Mayor

From: Miguel A. Santana, City Administrative Officer *MS*

Reference: Transmittal from the Department of Airports dated February 13, 2014; referred by the Mayor for report on February 13, 2014

Subject: **PROPOSED FIRST AMENDMENT TO FACILITIES LEASE WITH MERCURY AIR CENTER - LOS ANGELES, INC., dba ATLANTIC AVIATION FOR LAND AND RENTAL RATES AND TO CORRECT AN INCORRECT STREET ADDRESS FOR FACILITIES AT THE LOS ANGELES INTERNATIONAL AIRPORT, 6411 WEST IMPERIAL HIGHWAY**

SUMMARY

The Executive Director of the Los Angeles World Airports (LAWA; Department) requests authority to execute the First Amendment to a 30-year lease, Lease LAA-8190 (Lease), with Mercury Air Center – Los Angeles, Inc. dba Atlantic Aviation (Atlantic Aviation; Lessee) for 15.3008 acres of land (666,503 square feet of space) to continue general aviation fueling, aircraft parking, and related administrative services (also known as “Fixed Base Operation” services) at the Los Angeles International Airport (LAX), 6411 West Imperial Highway. In addition to continuing the Lessee's services to the general aviation community, the proposed First Amendment (1) will correct the street address for the facilities changing it from 6401 to 6411 West Imperial Highway to reflect the fact that the former address was for a building that has since been demolished, (2) includes a provision that allows LAWA to terminate the lease in the event the property is required for airport operations, (3) will increase the current per-square-foot rental rate from \$2.58 to \$3.14 to reflect the fair market value of the property, (4) will allow the lease to be updated to comply with the latest City ordinances pertaining to land use, and (5) will allow the Lessee to construct a 43,450 square foot aircraft hangar with associated office and hangar support space. According to the Department, one additional benefit will be obtained by the approval of the First Amendment: it will resolve ambiguities involving the requirements for the new hangar construction.

At its February 19, 2014 meeting, the Board of Airport Commissioners (Board) approved the Department's request to not only execute the proposed First Amendment and five-year land rental rates but to (1) adopt the Executive Director's LAX Plan Compliance Report; (2) certify and adopt an accompanying CEQA (California Environmental Quality Act) Final Negative Declaration; (3) approve the Atlantic Aviation LAX Hangar and Office Development Project; and (4) transmit to the Council the Executive Director's LAX Plan Compliance Report, including a Recommendation for LAX Plan Compliance Approval, the Negative Declaration, and the Atlantic Aviation LAX Hangar and Office

Development Project with a recommendation that the Council concur in the actions of the Board with respect to approving the three documents.

The continuation of general aviation services by the Lessee, as well as the planned construction of a new aircraft hangar (see attached site plan) that includes adjoining office and hangar support space, is consistent with the LAX Specific Plan and the LAX Master Plan adopted by the Council in September 2004 and December 2004, respectively. According to the Department, the planned construction is compatible and consistent with its Airport Airside land use designation and the surrounding airport development.

Approval of the First Amendment will result in LAWA receiving approximately \$2.09 million in annual revenue—an increase of \$373,241 from the current space rental—from the 666,503 square feet of rental space. Over the approximately 20 years remaining on the lease term, the Department will receive approximately \$41.8 million, excluding CPI (Consumer Price Index) adjustments and subsequent five-year adjustments to the property's fair market rent. The Lessee will invest approximately \$7.6 million in renovations and improvements to the leased space, including the construction of a 43,450 square foot aircraft hangar building that will contain approximately 36,550 square feet of hangar space for aircraft, and an adjoining 4,900 square foot office space and 2,000 square foot hangar support space—all to be completed within approximately 12 months from the execution of the First Amendment. At the conclusion of the lease, the Department will own the improvements. The proposed First Amendment is expected to become effective during the second quarter of 2014.

Pursuant to Charter Section 606 and the Los Angeles Administrative Code Section 10.5, the proposed First Amendment, in that the underlying lease 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 First Amendment as to form. The above-referenced aspects of the proposed First Amendment to Lease LAA-8190 with Mercury Air Center – Los Angeles, Inc., dba Atlantic Aviation, and this report, incorporate revised information received from the Department subsequent to the initial request submittal.

BACKGROUND

The original 30-year lease with Mercury Air Center was approved by the Board on October 20, 2003, and executed on December 29, 2003, for the purpose of providing 15.3 acres on the south side of LAX (on the northwest corner of Sepulveda Boulevard and Imperial Highway near various cargo and air freight operations) for a general aviation Fixed Based Operation (FBO). In 2007, Mercury Air Center's LAX FBO, fueling, and aircraft parking operations were purchased by Atlantic Aviation. There remains approximately 20 years on the Atlantic Aviation lease.

As a condition of the original lease, Mercury Air Center demolished and removed, in 2004, a B4 hangar and Air Freight Building 12 and replaced them with an airline maintenance building, a 10,059 square foot customer service and customs building, a vehicle parking lot, and an aircraft parking apron.

Proposed First Amendment

As part of the original lease, the location address was listed as 6401 West Imperial Highway. Approval of the First Amendment will change the address to 6411 West Imperial Highway to reflect the fact that the former address was for a building that has since been demolished.

The current lease rate is \$2.58 per square foot per year. To ensure that the rent reflects fair market value for similar property at LAX, the Department and Atlantic Aviation have agreed to a \$0.56 per square foot increase, to \$3.14, that is subject to (1) annual increases based upon the CPI, and (2) an every-fifth-year adjustment to the fair market rental rate.

The planned improvements to the 15.3-acre site include the following:

- Construction of a 43,450 square foot aircraft hangar building that will contain approximately 36,550 square feet of hangar space for aircraft, 4,900 square feet of office space, and 2,000 square feet of hangar support space
- Development of a vehicle parking lot for 25 cars
- Construction of a vehicle emergency access security gate from the vehicle parking lot

The proposed First Amendment to the 30-year lease with Atlantic Aviation will (1) add an early termination provision, (2) conform to the latest City ordinances for land use, and (3) resolve ambiguities involving the requirements for the new hangar construction. In addition to approving the First Amendment, the Department requested that the Board:

- Approve the proposed Atlantic Aviation LAX Hangar and Office Development Project
- Along with the City Council, certify that the required environmental Negative Declaration has been prepared in accordance with both the State's and the City's CEQA requirements, such requirements to affirm that (a) the Negative Declaration was considered prior to approving the project and prior to any comments being received, (b) there is no substantial evidence that the project will have a significant effect on the environment, and (c) the Negative Declaration reflects the independent judgment and analysis of the Los Angeles World Airports as the lead agency
- Adopt the LAWA Executive Director's LAX Plan Compliance Report (EDR) and Negative Declaration
- Consider the LAX Plan Compliance determination as contained in the EDR, which includes adoption of the required findings and implementation of the recommended conditions
- Transmit to and recommend that the Council concur with the Board's actions to adopt and certify the Negative Declaration and approve the LAX Plan Compliance determination as contained in the EDR
- Authorize the LAWA Executive Director to execute the proposed First Amendment with Mercury Air Center – Los Angeles, Inc. dba Atlantic Aviation subject to Council approval and City Attorney approval as to form

Section 7C of the LAX Specific Plan, "Recommendation by Executive Director," requires that the LAWA Executive Director recommend approval of any request for an LAX Plan Compliance

determination to both the Board and City Council provided that the proposed project (1) complies with the design guidelines of the LAX Plan and provisions of the LAX Specific Plan, and (2) has been analyzed for compliance with the applicable CEQA and master plan requirements and reviews. As a consequence of its review of the applicable compliance measures and a determination that the necessary measures have been incorporated to the extent feasible, the Department recommends adoption of the EDR and approval of the Negative Declaration by the Board of Airport Commissioners and City Council.

With respect to the CEQA environmental review, the Department, as lead agency, reports that the Negative Declaration analyzed the proposed capital improvements' effect on the environment and determined that there is no substantial evidence that the project will have a significant effect on the environment. By way of public notice, the Notice of Intent to Adopt a Negative Declaration was published in The Los Angeles Times; it was made available in three libraries close to LAX and at the LAX administrative offices; notice was posted with the City Clerk and County Clerk and on LAWA's website; and the Notice of Intent was mailed to 43 organizations and interested individuals during September 2013. In addition, the Negative Declaration was made available for public review for three weeks in September and October 2013 with no comment letters being received during the review period. As a consequence, no changes were made to the original Negative Declaration.

The LAX Specific Plan, which requires that certain approval processes be followed for projects within the LAX boundary, also requires that no grading permit, use-of-land permit, or building permit be issued for, and that no construction occur in, the Specific Plan area unless first approved by the LAWA Executive Director. In the case of Atlantic Aviation's Fixed Base Operations, the area occupied by the Lessee is designated as the LAX-A Zone: Airport Airside Sub-Area and, as such, the aircraft storage, general aviation fueling, aircraft parking, and related administrative services are considered to be (1) compatible with the surrounding development and (2) consistent with historically similar uses.

In addition to the benefits to LAWA that were cited above, approval of the proposed First Amendment will benefit Atlantic Aviation in the following manner: (1) should the lease be terminated by LAWA before the 2033 expiration date, the Department will pay the Lessee the unamortized value of the improvements made to the property; (2) the planned improvements to the Lessee's site and operations will help to improve customer service and operational efficiencies; (3) the ambiguities involving requirements for the new hangar construction have been resolved so that the Lessee is able to proceed with a timely construction; and (4) the planned construction will provide covered hangar parking for aircraft that now park outside, which will result in customers' aircraft being relocated to the new LAX hangar thereby reducing the number of passenger drop-offs and the corresponding takeoffs and landings by as much as 50 percent.

Alternative to the Proposed First Amendment

The Department recommends approval of the First Amendment to Lease LAA-8190 in that (1) continuation of the lease is in keeping with the historic uses for this site and the surrounding areas; (2) the lease and land use are consistent with the project area designations contained in the LAX Master Plan and LAX Specific Plan; (3) there is no substantial evidence, based upon the Negative Declaration, that the project will have a significant effect on the environment; (4) the proposed site improvements will revert to LAWA ownership upon the termination of the lease; and (5) it will retain a long-term lessee that is in good standing. No viable alternatives are presently being considered.

Compliance with City Administrative Requirements

In that the proposed First Amendment is for a property lease 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 compliance, a Negative Declaration has been prepared according to the Act's Public Resources Code Section 21000 et seq. and the State's CEQA Guidelines, reflecting the independent judgment and analysis of the Department, indicating that there is no substantial evidence that the proposed aircraft hangar and office development project will significantly affect the environment.

The Atlantic Aviation Lease and First Amendment are not subject to the provisions of the Small Business Enterprise program. However, the Lessee must comply with the provisions of the Living Wage Ordinance, 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. According to the Department, Atlantic Aviation has approved insurance documents, in the terms and amounts required, on file.

Prior to execution of the First Amendment, Atlantic Aviation must 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 First Amendment to Lease LAA-8190 and the underlying lease are for a cumulative period longer than five years, therefore, the First Amendment must be approved by the Council. Additionally, to become effective, the City Attorney must approve the First Amendment as to form.

RECOMMENDATIONS

That the Mayor:

1. Approve, subject to City Attorney approval as to form and 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, the proposed First Amendment to Lease LAA-8190 between the Los Angeles World Airports (LAWA) and Mercury Air Center – Los Angeles, Inc. dba Atlantic Aviation for the continuance of general aviation fueling, aircraft parking, and related administrative services (also known as "Fixed Base Operation" services) at the Los Angeles International Airport (LAX), 6411 West Imperial Highway;

2. Request that the Council concur with the actions of the Board of Airport Commissioners and approve the LAWA Executive Director's LAX Plan Compliance Report, including the Recommendation for LAX Plan Compliance Approval; the Final Negative Declaration; and the Atlantic Aviation LAX Hangar and Office Development Project; and

3. Return the proposed First Amendment to the Department for further processing, including Council consideration.

FISCAL IMPACT STATEMENT

Approval of the proposed First Amendment to Lease LAA-8190 with Mercury Air Center – Los Angeles, Inc., dba Atlantic Aviation and the associated increase in five-year periodical (meaning that the rates are adjusted every five years) land rental rates from \$2.58 per square foot to \$3.14 per square foot will result in an increased annual revenue of approximately \$373,241 for an annual rent of \$2,092,819. Over the nearly 20 years remaining on the lease term, the Department will receive approximately \$41.8 million in revenue, excluding the CPI adjustment and subsequent five-year adjustments to the property's fair market rent. Additionally, the Lessee has committed to approximately \$7.6 million in improvements to the leased space. Approval of the First 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.

Attachment

MAS:WDC:10140139

[illegible]

Four panels showing different types of security patterns:

- HANDMADE**: A pattern created by hand, showing irregular, non-repeating marks.
- OFFICE**: A pattern created in an office setting, showing more regular but still non-repeating marks.
- HANGAR SUPPORT**: A pattern used for hangar support, showing a regular, repeating grid-like structure.
- DECORATIVE PATTERN**: A decorative pattern, showing a regular, repeating grid-like structure with a distinct border.

VEHICLE PLATING	UNLICENSED	EXPIRY DATE

VICINITY MAP



ATLANTIC AVIATION SERVICES

6411 W. IMPERIAL HIGHWAY
LOS ANGELES INTERNATIONAL AIRPORT
LOS ANGELES, CALIFORNIA

A1.1 OVERALL SITE PLAN

UNCLASSIFIED
DATE 03-05-2003 BY 60322 UCBAW

