



REPORT TO THE BOARD OF AIRPORT COMMISSIONERS

Approved by: Debbie Bowers
Dave Jones, Director of Terminals Business Management

Reviewed by: Debbie Bowers
Debbie L. Bowers, Deputy Executive Director

Timothy J. [Signature]
City Attorney

Gina Marie Lindsey
Gina Marie Lindsey - Executive Director

Meeting Date:

1/15/2015

CAO Review:

Completed
 Pending
 N/A

Reviewed for	Date	Approval Status	By
Capital Budget	11/5/2014	<input checked="" type="checkbox"/> Y <input type="checkbox"/> N <input type="checkbox"/> NA	DS
Operating Budget	12/4/2014	<input checked="" type="checkbox"/> Y <input type="checkbox"/> N <input type="checkbox"/> NA	RW
CEQA	10/16/2014	<input checked="" type="checkbox"/> Y <input type="checkbox"/> N	VW
Procurement	10/17/2014	<input checked="" type="checkbox"/> Y <input type="checkbox"/> N <input type="checkbox"/> Cond	mt

SUBJECT: Sublease with American Airlines, Inc.

Approve a Sublease with American Airlines, Inc. for premises to provide space for the Terminal 4 Connector and additional concessions in Terminal 4 at Los Angeles International Airport, which will result in a rent credit to American Airlines Inc. of approximately \$771,000 in the first year of the Sublease and approximately \$11,000,000 over the term.

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 III, Class 1 (18)(c) of the Los Angeles City CEQA Guidelines.
3. APPROVE the proposed Sublease for premises in Terminal 4 at Los Angeles International Airport with American Airlines, Inc.
4. AUTHORIZE the Executive Director to execute the Sublease with American Airlines, Inc., after approval as to form by City Attorney and upon approval by the Los Angeles City Council.

DISCUSSION:

1. Purpose

Provide Los Angeles World Airports (LAWA) access to certain spaces needed for the Terminal 4 Connector (T4 Connector) between Tom Bradley International Terminal (TBIT) and Terminal 4, and provide concession space for a potential new branded coffee location in Terminal 4.

2. Prior Related Actions

- July 25, 1984 – Board Order No. AO-3689 (Lease No. LAA-4687)
The Board of Airport Commissioners (Board) approved a 40-year Terminal Facilities Lease (Lease) with American Airlines, Inc. (American) for space in Terminal 4 at Los Angeles International Airport.
- November 13, 2001 – Board Order No. AO-4793 (Lease No. LAA-4687A)
The Board approved the First Amendment to the Lease to update the demised premises upon completion of new improvements, set rental rates, and allows American to finance certain improvements to Terminal 4.

3. Current Action

The proposed Sublease with American, which is co-terminus with American's Lease, will provide LAWA a total of 7,396 square feet: 6,151 square feet for the T4 Connector and 1,245 square feet for concessions space. LAWA will compensate American by providing a rent credit of approximately \$771,000 in the first full year. The credit is calculated as the sum of (a) the amount of square footage rent American pays to LAWA pursuant to the Lease, plus (b) American's monthly Bond payment per square foot multiplied by the subleased premises. This amount will adjust based on Rental Rates changes pursuant to the Lease and the bond payment schedule.

LAWA ran a competitive process for a Branded Coffee Food and Beverage concessionaire for the potential new concessions space in Terminal 4. Award of the potential new concession is scheduled for Board approval concurrent with this Sublease. LAWA expects that the proposed new concession location will provide LAWA at least \$1,000,000 per year, which exceeds the cost to sublease both the new concessions space and areas needed for the T4 Connector.

LAWA and American are negotiating the terms for American to lease approximately 25,000 square feet of new space in the T4 Connector. Staff will present the proposed T4 Connector Lease with American to the Board for approval upon completion of negotiations of that lease.

The following is a summary of the proposed Sublease agreement:

Description	Proposed Terms		
Term:			
Commencement	Upon execution of the Sublease		
Expiration	Upon termination of the Lease which expires no later than October 31, 2024		
Premises:			
	7,396 SF		
		Estimated (\$/SF/year)	Estimated Annual Credit
Base Rent	7,396	\$4.63	\$34,243
Maintenance and Operations Charges:	7,396	\$52.51	\$388,364
Debt Service Allocation:	7,396	\$47.09	\$348,278
Total Estimated Annual Credit			\$770,885

Action Requested

Staff requests the Board approve the proposed Sublease and authorize the Executive Director to execute the Sublease upon approval as to form by the City Attorney and approval by the Los Angeles City Council.

Fiscal Impact

Approval of this Sublease will incur a direct fiscal impact on the LAWA operating budget of approximately \$64,250 monthly, or approximately \$771,000 annually. However, increased revenue of at least \$1,000,000 annually is anticipated from the potential new concession.

4. Alternatives Considered

- **Take No Action**

Not subleasing the demised premises will hinder the Terminal 4 Connector project and the potential additional concessions in Terminal 4.

- **Lease Amendment**

LAWA considered amending the Lease to adjust the demised premises. However, because the improvements in Terminal 4 are financed with Regional Airport Improvement Corporation (RAIC) bonds, a change to the demised premises requires repurchase of bonds in an amount proportional to the reduced leased area. Negotiating with the RAIC Trustee and executing an escrow agreement to facilitate such a transaction would delay securing access to the areas needed for the Terminal 4 Connector and result in additional legal fees and transaction costs.

APPROPRIATIONS:

No appropriation is required in the Operating Budget since this item will be recorded as a reduction in lease payments from American Airlines.

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 the requirements of the California Environmental Quality Act (CEQA) pursuant to Article III, Class 1 (18)(c) of the Los Angeles City CEQA Guidelines.
2. This item is 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. This action is not subject to the provisions of the Service Contractor Worker Retention and Living Wage Ordinances. American Airlines remains subject to the provisions of the Service Contractor Worker Retention and Living Wage Ordinances.
5. This action is not subject to the provisions of the SBE Program.
6. This action is not subject to the provisions of the Affirmative Action Program. American Airlines remains subject to the provisions of the Affirmative Action Program
7. This action does not require a Business Tax Registration Certificate. American Airlines has been assigned Business Tax Registration Certificate number 0000662086-0001-1.
8. This action is not subject to the provisions of the Child Support Obligations Ordinance. American Airlines remains subject to the provisions of the Child Support Obligations Ordinance.
9. This action is not subject to the insurance requirements of the Los Angeles World Airports. American Airlines must have approved insurance documents, in the terms and amounts required, on file with Los Angeles World Airports prior to execution of the Amendment.
10. This action is not subject to the provisions of City Charter Section 1022 (Use of Independent Contractors).
11. This action is not subject to the provisions of the Contractor Responsibility Program. American Airlines remains subject to the provisions of the Contractor Responsibility Program.
12. This action is not subject to the provisions of the Equal Benefits Ordinance. American Airlines remains subject to the provisions of the Equal Benefits Ordinance.
13. This action is not subject to the provisions of the First Source Hiring Program. American Airlines remains subject to the provisions of the First Source Hiring Program.

14. This action is not subject to the provisions of Bidder Contributions CEC Form 55. American Airlines is exempt from the provisions of the Bidder Contributions CEC Form 55.