

0150-10342-0001

TRANSMITTAL

TO
Deborah Flint, Executive Director
Department of Airports

DATE
JUL 20 2016

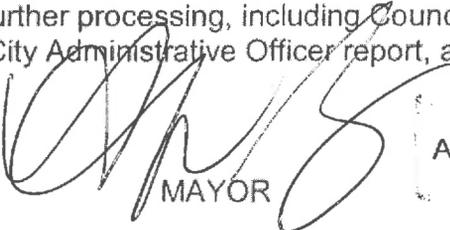
COUNCIL FILE NO.

FROM
The Mayor

COUNCIL DISTRICT
11

**Proposed First Amendment to Sublease with American Airlines, Inc. to
Provide for Additional Premises in Terminal 4 at Los Angeles International Airport**

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



Ana Guerrero

MAYOR

MAS:AVM:10160110

REPORT FROM

OFFICE OF THE CITY ADMINISTRATIVE OFFICER

Date: July 14, 2016

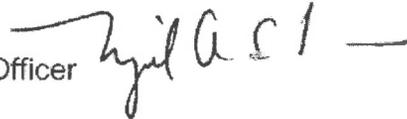
CAO File No. 0150-10342-0001

Council File No.

Council District: 11

To: The Mayor

From: Miguel A. Santana, City Administrative Officer



Reference: Communication from the Department of Airports dated May 25, 2016; referred by the Mayor for a report on May 25, 2016

Subject: **PROPOSED FIRST AMENDMENT TO SUBLEASE WITH AMERICAN AIRLINES, INC. TO PROVIDE FOR ADDITIONAL PREMISES IN TERMINAL 4 AT LOS ANGELES INTERNATIONAL AIRPORT**

SUMMARY

The Executive Director of the Department of Airports (Department) requests approval to execute a first amendment (Amendment) to a Sublease with American Airlines, Inc. Approval of the proposed Amendment will provide approximately 12,048 square feet of additional premises for the Department through the Sublease in Terminal 4 (T4) at Los Angeles International Airport (LAX). Approval of the proposed Amendment also will compensate American Airlines, Inc. by providing rent credit of up to \$2.4 million in the first year. The proposed usage for the increased space will be 65 square feet for a lactation room and up to 11,983 square feet for potential new concession areas. The Sublease term will expire December 4, 2024 and its premises currently contain 7,396 square feet in T4.

The proposed Amendment was approved by the BOAC at a meeting June 16, 2016. The above-mentioned Amendment, and this report, incorporates 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

On July 25, 1984 the Board of Airport Commissioners (BOAC) awarded and approved a 40-year terminal facilities lease (No. LAA-4687) with American Airlines for space in a Ticketing/Satellite Building No. 4 and adjacent ground area at Los Angeles International Airport (LAX). The lease allowed American Airlines to facilitate and construct an 80,000 square foot connector addition between Ticketing Building No. 4 and Satellite-Building No. 4, reconstruct, relocate and remodel the facilities in Ticketing/Satellite Building No. 4 and construct a pedestrian overcrossing between those buildings. On November 13, 2001 the BOAC approved a first amendment to the lease, thereby adding 373,705 square feet to the leasehold.

Over a decade later on January 15, 2015, the BOAC approved a Sublease agreement with American Airlines (American). The Sublease expiration date of December 4, 2024 is co-terminus with the T4 lease. Through the Sublease, American provided back to the Department a total of 7,396 square feet to be used as follows: 6,151 square feet for the T4 Connector and 1,245 square feet for concessions space. The provisions of the Sublease stated that the Department would compensate American with rent credit of approximately \$64,250 per month, or approximately \$771,000 a year. Furthermore, Department staff anticipated that the potential new concessions would generate revenue of approximately \$1 million annually.

Proposed First Amendment to Sublease with American Airlines, Inc.

Approval of the proposed Sublease Amendment will provide approximately 12,048 square feet of additional premises for the Department’s usage. Airports staff reports that the 65 square feet required for a lactation room will be located in T4, Public Level Satellite Building. According to the proposed Amendment, the majority of the new concession area, 11,698 square feet, will be located in T4, Mezzanine Level Satellite and the remainder of the concession space, 285 square feet, will be located in T4, Public Level Connector Building.

The provision of rent credit for American will be up to \$2.4 million in the first year and approximately \$27.7 million over the term of the Sublease. The rent credit amount will adjust periodically based upon Rental Rates changes pursuant to the lease with American and the bond payment schedule. Factors included in the rent credit calculation are the square footage rent which American pays to the Department and American’s monthly bond payment per square foot (multiplied by subleased premises).

Through the square footage provided to the Department by American through the original Sublease, the Department receives annually \$980,000 in guaranteed concessions revenue. Based upon this data, Department staff anticipates that through the Amendment, a minimum of \$2 million in additional revenue will be generated if the entire proposed premises of 11,983 square feet are converted to new concessions.

An overview of key provisions in the Proposed Amendment and the Sublease is shown below.

Description	Proposed Sublease Amendment	Current Sublease
Term Expiration Date	December 4, 2024	December 4, 2024
Premises	Up to 12,048 square feet, <u>additional</u>	7,396 square feet
Estimated Annual Rent Credit Factors	Base Rent: \$291,057 Maint/Oper. Charges: \$1,146,224 Debt Service Alloc. \$936,112	Base Rent: \$34,243 Maint/Oper. Charges: \$388,364 Debt Service Alloc. \$348,278
Total Est. Annual Rent Credit	\$2,373,393	\$770,885

Two Alternatives to the Proposed Amendment Considered by Staff

Department staff reports one alternative considered was to take no action, which meant not to amend the Sublease. However, not taking any action would result in no added space for new concessions and no added space for the Department to develop a required (per Department staff) lactation room in T4.

Department staff reports a second alternative considered was to negotiate with American to amend their T4 lease to incorporate the additional space. However, delays may occur in a negotiation process that could disrupt financing arrangements and other time sensitive considerations.

Therefore staff decided that amending the Sublease is an efficient method to securing additional space for the Department.

City Contract Compliance

The proposed Amendment is subject to approval as to form by the City Attorney. According to Department staff, the proposed action to amend the Sublease is not subject to the following standard provisions for City Contracts: Affirmative Action Program; Bidder Contributions City Ethics Commission (CEC) Form 55; Business Tax Registration Certificate; Child Support Obligations Ordinance; City Charter Section 1022 (Use of Independent Contractors); Contractor Responsibility Program; Department insurance requirements; Equal Benefits Ordinance; First Source Hiring Program; Living Wage Ordinance and Service Contractor Worker Retention Ordinance; and the Small Business Enterprise Program.

Department staff notes, however, that American Airlines, Inc. has been assigned a Business Tax Registration Certificate number and has approved insurance documents on file with the Department in the terms and amounts that are required. While American Airlines is exempt from the provisions of the Bidder Contributions CEC Form 55, the airlines company remains subject to provisions of the Affirmative Action Program, Child Support Obligations Ordinance, Contractor Responsibility Program, Equal Benefits Ordinance First Source Hiring Program, Living Wage Ordinance and Service Contractor Worker Retention Ordinance.

The issuance of permits, leases, agreements, gate and space assignments, and renewals, amendments or extensions thereof, or other entitlements granting use of an 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.

Pursuant to Charter Section 606, actions taken on this item by the BOAC will become final upon approval by the Council.

RECOMMENDATIONS

That the Mayor:

1. Approve a proposed first amendment (Amendment) to a Sublease (with a December 4, 2024 expiration date) between the Department of Airports (Department) and American Airlines, Inc., to provide approximately 12,048 square feet of additional premises for the Department to develop a lactation room and concession areas in Terminal 4 (T4) at Los Angeles International Airport (LAX) and to compensate American Airlines, Inc. by providing rent credit of up to \$2.4 million in the first year, and
2. Return the request to the Department of Airports for further processing, including Council consideration.

FISCAL IMPACT STATEMENT

Approval of the proposed Amendment to the Sublease with American Airlines, Inc., will provide rent credit for American Airlines, Inc. of up to \$2.4 million in the first year and an estimated \$27.7 million in rent credit over the term of the Sublease. Furthermore, Department staff anticipates a minimum of \$2 million in additional revenue will be generated if the proposed concession areas of 11,983 square feet are converted to new concessions. 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.