

0150-10342-0000

TRANSMITTAL

TO Gina Marie Lindsey, Executive Director Department of Airports	DATE 2/20/15	COUNCIL FILE NO.
FROM The Mayor	COUNCIL DISTRICT 11	

Request to Execute Sublease with American Airlines, Inc. for Access to Terminal 4 Connector with the Tom Bradley International Terminal and Space for a Coffee Concession 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:JFH:101500511

REPORT FROM

OFFICE OF THE CITY ADMINISTRATIVE OFFICER

Date: February 19, 2015

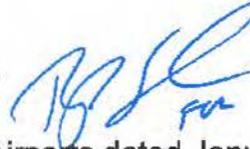
CAO File No. 0150-10342-0000

Council File No.

Council District: 11

To: The Mayor

From: Miguel A. Santana, City Administrative Officer



Reference: Communication from the Los Angeles World Airports dated January 9, 2015; referred by the Mayor for report on January 14, 2015

Subject: **REQUEST TO EXECUTE SUBLEASE WITH AMERICAN AIRLINES, INC. FOR ACCESS TO TERMINAL 4 CONNECTOR WITH THE TOM BRADLEY INTERNATIONAL TERMINAL AND SPACE FOR A COFFEE CONCESSION IN TERMINAL 4 AT LOS ANGELES INTERNATIONAL AIRPORT**

SUMMARY

Los Angeles World Airports (LAWA; Department) is currently constructing the \$115 million multi-use, multi-purpose secure T4 Connector between Terminal 4 and the Tom Bradley International Terminal at Los Angeles International Airport (LAX). The Department indicates that certain property rights, which are part of American Airlines, Inc.'s (American) Terminal 4 Lease, are required by LAWA in order to join the two buildings to create a passageway to the T4 Connector. As part of the property rights acquisition, LAWA and American have also identified space that can be used by the Department to develop a future coffee concession in Terminal 4.

The Executive Director of LAWA requests approval to execute a proposed Sublease (Agreement) with American to provide the Department a total of 7,396 square feet for Terminal 4 Connector access and for a future new Terminal 4 coffee concession. According to the Department, subleasing the required area is preferable to amending the American Lease due to legal restrictions requiring the repurchase of bonds used to finance Terminal 4 improvements in an amount proportional to the leased area. The existing American Terminal 4 lease expires on October 31, 2024.

The Department indicates that the proposed American Sublease to LAWA will result in total annual rental/bond credits to American of \$773,212 in the first year increasing to \$819,416 in the ninth year and \$3,039,820 in the tenth year. The credits to American will total approximately \$11 million over the remaining 10-year term of the American Lease. Since LAWA indicates that the proposed future coffee concession will provide at least \$1 million in new revenue annually over the first nine years of the Sublease, the minimum annual revenue increase to the Department over that period will be \$180,584. The nine-year term of the future coffee concession agreement will align it with the term of other LAX terminal concessions.

A Resolution approving the proposed Sublease with American was adopted by the LAWA Board of Airport Commissioners (Board) at its meeting of January 15, 2015.

City Council approval of the proposed Sublease is required in accordance with Charter Section 606, and the Los Angeles Administrative Code Section 10.5. Furthermore, to become effective, the City Attorney must approve the Agreement as to form. The above-referenced aspects of the proposed Agreement, and this report, incorporate revised information received from the Department subsequent to the initial request submittal.

Background of the Proposed Sublease and Significant Provisions

On July 25, 1984, the LAWA Board approved a 40-year Terminal Facilities Lease with American for space in Terminal 4 at LAX. On November 13, 2001, the Board approved the First Amendment to the Lease to update terms and conditions upon completion of new improvements, to set rental rates, and to allow American to finance certain improvements to Terminal 4.

The Department is currently constructing the \$115 million multi-use, multi-purpose secure T4 Connector between Terminal 4 and the Tom Bradley International Terminal at LAX. The Department indicates that certain property rights, which are part of American's Terminal 4 Lease, are required in order to join the two buildings to create a passageway to the T4 Connector. As part of the property rights acquisition, LAWA and American have also identified space that can be used for a future coffee concession in Terminal 4.

The Executive Director of LAWA requests approval to execute a proposed Sublease with American to provide a total of 7,396 square feet consisting of 6,151 square feet for the Terminal 4 Connector and approximately 1,245 square feet for the future coffee concession. The existing American Terminal 4 lease expires on October 31, 2024.

The Department indicates that the proposed American Sublease to LAWA will result in: (1) a rent and maintenance and operations credit of \$424,900 annually and (2) an annual bond payment credit of \$348,312 in the first year increasing to \$394,516 in the ninth year and \$2,039,820 in the tenth year. The total annual credits to American will be \$773,212 in the first year increasing to \$819,416 in the ninth year and \$3,039,820 in the tenth year. The credits to American will total approximately \$11 million over the remaining 10-year term of the American Lease. Since LAWA indicates that the future coffee concession will provide at least \$1 million in new revenue annually over the first nine years of the Sublease, the minimum annual revenue increase to the Department over that period will be \$180,584. The nine-year term of the future coffee concession agreement will align it with the term of other LAX terminal concessions.

A Resolution approving the proposed Sublease with American was adopted by the LAWA Board at its meeting of January 15, 2015. Significant provisions of the proposed Sublease are identified in the attached table (Attachment).

The Department has initiated a competitive process for award of the future Terminal 4 coffee concession the results of which have been presented separately to the LAWA Board.

City Council approval of the proposed Sublease is required in accordance with Charter Section 606, and the Los Angeles Administrative Code Section 10.5. Furthermore, to become effective, the City Attorney must approve the Agreement as to form. The above-referenced aspects of the proposed Agreement, and this report, incorporate revised information received from the Department subsequent to the initial request submittal.

Alternatives to the Proposed Sublease

The following alternatives to the proposed Sublease were considered:

- Take no action to sublease the proposed space. The Department indicates that such an action would hinder the development of the Terminal 4 to Bradley International Terminal Connector Project and the ability to provide additional Terminal 4 concessions beneficial to the traveling public.
- Amend the American Lease. The Department indicates that, although this option was considered, such an action would require the repurchase of Regional Airport Improvement Corporation (RAIC) bonds which financed improvements in Terminal 4 in an amount proportional to the reduction in leased area. Amending the Lease would, therefore, delay access to the needed areas and incur added legal fees and transaction costs.

Compliance with City Administrative Requirements

Inasmuch as the proposed Agreement is a sublease back to the City, LAWA indicates that the Standard Provisions for City Contracts; including Service Worker Retention, Small Business Enterprise, Affirmative Action, Business Tax Registration, Child Support Obligations, insurance, Contractor Responsibility, Equal Benefits, First Source Hiring, and Bidder Contributions CEC Form 55 do not apply.

The Department indicates that Charter Section 1022 does not apply since the proposed Agreement is a sublease back to LAWA and does not involve the services of independent contractors.

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 franchise, permit, license or lease that is longer than five years within 30 days after submission to Council, the lease shall be deemed approved. Additionally, to become effective, the City Attorney must approve the proposed sublease as to form.

California Environmental Quality Act Guidelines

With respect to CEQA (California Environmental Quality Act) compliance, the Department indicates that the issuance of permits, 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 CEQA pursuant to Article III, Class 1 (18)(c) of the Los Angeles City CEQA guidelines.

RECOMMENDATIONS

That the Mayor:

1. Approve the proposed Sublease with American Airlines, Inc., covering 7,396 square feet in Terminal 4 at LAX, to provide space for the Terminal 4 Connector with the Tom Bradley International Terminal and a future Terminal 4 coffee concession, coterminous with the existing American Airlines, Inc., Terminal 4 Lease, which expires no later than October 31, 2024, subject to City Attorney approval as to form;
2. Authorize the Executive Director to execute the Sublease; and
3. Return the proposed Sublease to the Department for further processing, including Council consideration.

FISCAL IMPACT STATEMENT

The Department indicates that approval of the proposed Sublease by the Los Angeles World Airports to provide space for access to the \$115 million Terminal 4 Connector and for a future Terminal 4 coffee concession will result in a base rent, maintenance and operations and debt service credit to American Airlines, Inc. of approximately \$773,212 in the first year increasing to \$819,416 after nine years. The Department further indicates that the annual credit will be \$3,039,820 in the tenth year due to a final \$2.6 million bond payment credit due American from the Department at that time. However, additional revenue of at least \$1 million annually will be generated from the proposed new Terminal 4 coffee concession over years one through nine of the Sublease since the concession agreement's proposed term will be nine years. The net annual revenue increase to the Department's operating budget as a result of the coffee concession revenue will, therefore, be a minimum of \$180,584 annually over nine years. The nine-year term of the coffee concession agreement will align it with the term of other LAX terminal concessions. The proposed Sublease will have no impact on the City's General Fund.

Time Limit for Council Action

Pursuant to Charter Section 606 and the Los Angeles Administrative Code Section 10.5, unless the Council takes action disapproving a franchise, permit, license or lease that is longer than five years within 30 days after submission to Council, the lease shall be deemed approved.

MAS:JFH:10150051

Attachment

ATTACHMENT

SIGNIFICANT PROVISIONS OF PROPOSED LAWA SUBLEASE WITH AMERICAN AIRLINES, INC. FOR ACCESS TO TERMINAL 4 CONNECTOR WITH TOM BRADLEY INTERNATIONAL TERMINAL AND SPACE FOR A NEW COFFEE CONCESSION IN TERMINAL 4 AT LAX

ITEM DESCRIPTION	SUBLEASE PROVISIONS	
Term		
Commencement	Upon execution of Sublease	
Expiration	Upon termination of the American Airlines Lease expiring no later than October 31, 2024	
Area to be Subleased		
Terminal 4 Connector	6,151 Square Feet (SF)	
Branded Coffee Concession	1,245 SF (Estimate)	
Total Area to be Subleased	7,396 SF	
Sublease Rent Components	Estimated \$ Credit/SF/YR	Estimated Annual/Total Credit
Base Rent	\$4.94	\$36,536
Maintenance and Operations Charges	\$52.51	\$388,363
Debt Service Allocation	\$47.09	\$348,312 (First year)
Estimated Annual Credit		
Base Rent and Maintenance and Operations Credit	\$424,900	
American Bond Payment Credit Years One Through Nine	\$348,312 to \$394,516	
American Bond Payment Credit Tenth Year	\$2,614,920*	
Total Estimated Annual Rent Credit	\$773,212 First Year, \$819,416 in Ninth Year, and \$3,039,820 in Tenth Year	
Total Estimated Rent Credit Over Remaining Lease Term (Approximately 10 Years)	\$10,980,482	
New Terminal 4 Branded Coffee Concession Minimum Annual Revenue Years One Through Nine	\$1,000,000**	
Minimum Annual Revenue Increase as a Result of Terminal 4 Connector Sublease and Terminal 4 Coffee Concession Agreement for Years One Through Nine	\$180,584	

*Payment amount aligns bond payment credit with American Lease term.

**Guaranteed minimum annual revenue to LAWA in proposed coffee concession agreement. Proposed agreement term of nine years will align with other LAX terminal concession agreements.