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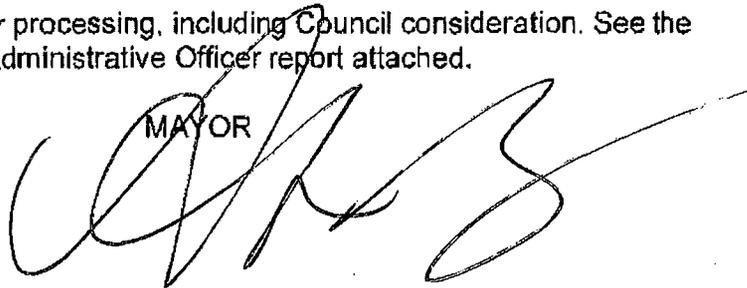
TRANSMITTAL

TO Deborah Flint, Executive Director Department of Airports	DATE	COUNCIL FILE NO
FROM The Mayor	COUNCIL DISTRICT 11	

**Proposed Five-Year Lease With Societe Air France for a Cargo Facility
At the Los Angeles International Airport, 5621 West Imperial Highway**

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

MAYOR



MAS:WDC: 10160027t

REPORT FROM

OFFICE OF THE CITY ADMINISTRATIVE OFFICER

Date: November 10, 2015

CAO File No.: 0150-10544-0000

Council File No.:

Council District: 11

To: The Mayor

From: Miguel A. Santana, City Administrative Officer



Reference: Transmittal from the Department of Airports dated October 27, 2015; referred by the Mayor for report on October 28, 2015

Subject: **PROPOSED FIVE-YEAR LEASE WITH SOCIETE AIR FRANCE FOR A CARGO FACILITY AT THE LOS ANGELES INTERNATIONAL AIRPORT, 5621 WEST IMPERIAL HIGHWAY**

SUMMARY

The Executive Director of the Los Angeles World Airports (LAWA; Department) requests authority to execute a five-year lease with Societe Air France (Air France) for the use of 292,486 square feet of land, auto paving, and a warehouse/office building located at 5621 West Imperial Highway at the Los Angeles International Airport. The proposed lease is for warehouse and office space and truck parking to continue air cargo services that have operated under a 30-year lease that will expire on December 1, 2015. Expiration of the lease will result in title to the facility improvements made by Air France in 1986 and 1990 reverting to LAWA. If approved, the lease will allow Air France to (1) continue its air cargo operations at LAX without interruption and (2) enter into a new agreement as early as December 2, 2015 (concluding on November 30, 2020).

The 292,486 square feet of leased space represents an increase of 145,096 square feet of space—a 98.4 percent increase from the original 147,390 square feet—and an increase in the annual lease payment to LAWA of \$1,226,086. The first year's lease payment will be approximately \$1,702,150, while the payment over the five-year term will be approximately \$8,511,000. Lease costs for the 80,836 square feet of paving and 64,260 square feet of warehouse and office space (that are part of the 292,486 square feet of leased space) have been excluded from the existing lease as compensation for the initial cargo warehouse/office building construction costs that were paid by Air France. Automatic annual rental adjustments of not less than two percent, reflecting the CPI (Consumer Price Index), will apply beginning July 1, 2016. Similarly, periodic (not less than every five years) fair market rental adjustments will apply beginning July 1, 2020. Air France has agreed to all the standard Department lease terms. The above-referenced aspects of the proposed lease, and this report, are based upon revised information received from the Department subsequent to the initial request submittal.

The lease with Air France was approved by the Board of Airport Commissioners at its meeting of November 5, 2015.

Background and Lease Terms

The current lease with Air France (formerly Compagnie Nationale Air France), LAA-5010, is for 30 years (December 1985 to December 2015) and includes 292,486 square feet of land and warehouse/office building space on the north side of Imperial Highway used for truck parking. As required in the original lease, Air France built a 50,260 square foot cargo warehouse/office building in 1986. In 1990, the airline expanded the building by 14,000 square feet to its present size. As a consequence of the self-financed construction, Air France was not required to pay rent on the building and auto paving for the duration of the 30-year lease. At the end of the lease, the airline agreed to revert ownership of the improvements to LAWA and to pay the annual market rate rent. The title reversion will become effective on December 1, 2015.

The proposed lease will generate approximately \$1.7 million in revenue to LAWA the first year and approximately \$8.5 million over the five-year term, excluding the automatic annual rental rate adjustments based upon the CPI.

The main elements of the proposed lease, as well as a comparison of the current and proposed lease terms, are illustrated in the following table:

SOCIETE AIR FRANCE - SUMMARY OF LEASE AGREEMENT 5621 West Imperial Highway, LAX						
Description	Current Terms		Projected Annual Revenue to LAWA (rounded)	Proposed Terms		Projected Annual Revenue to LAWA (rounded)
	Contract Period	Annual Rate		Contract Period	Annual Rate	
	30 Years			5 Years		
	12/11/85-12/1/15			12/2/15-11/30/20		
Cancellation Provision	12 months with written notice*			12 months with written notice*		
Land & Auto Paving	292,486 SF**			228,226 SF		
Building				64,260 SF		
Land	147,390 SF	\$3.23	\$476,070	147,390 SF	\$3.23	\$476,070
Auto Paving				80,836 SF	\$0.38	\$30,718
Building				64,260 SF	\$18.50	\$1,188,810
Total			\$476,070	292,486 SF		\$1,695,598

*30 days' notice if Air France ceases scheduled or actual service at the airport
**Square Feet

Alternative to the Proposed Lease

According to the Department, it is advisable to execute the proposed lease in that (1) Air France is a tenant in good standing; (2) the company's operations are consistent with the airport's land use plans; (3) annual revenue of approximately \$1.7 million is generated for LAWA; (4) it will allow for continued, uninterrupted cargo service to an airport tenant of over 30 years; and (5) an early termination provision allows LAWA to conclude the lease, without cause. Failure to approve the

lease would negatively affect Air France's cargo operations at LAX and deprive LAWA of approximately \$8.5 million in revenue over the five-year lease term. Consequently, there are no recommended alternatives to the proposed lease.

Compliance with City Administrative Requirements

The proposed agreement, in that it is a property lease, is not subject to the provisions of Charter Section 1022 ("Use of Independent Contractors").

With regard to CEQA (California Environmental Quality Act) compliance, the issuance of permits, leases, agreements, renewals, or amendments granting use of an existing facility involving no expansion of use at a municipal airport is exempt from the requirements of the CEQA pursuant to Article III, Class 1(18)(c) of the Los Angeles City CEQA Guidelines. While the proposed lease reflects an increase in the annual payment by Air France corresponding to the additional 145,096 square feet of space now subject to payment, the increase is not an expansion of use in that the warehouse/office space and truck parking space remain the same as in the current lease; rather, 145,096 square feet of space out of the total of 292,486 square feet is now subject to lease payments due to the reversion of title to LAWA.

While the Small Business Enterprise Program is not applicable to property leases, Air France is required, in accordance with the proposed agreement, to comply with the following standard City contracting provisions: the Living Wage Ordinance, Affirmative Action Program, Child Support Obligations Ordinance, the City's insurance requirements, Contractor Responsibility Program, and the First Source Hiring Program for all non-trade airport jobs. In addition, the Department of Public Works, Office of Contract Compliance, must determine that Air France is in compliance with the provisions of the Equal Benefits Ordinance prior to execution of the lease agreement. The airline is not subject to the Bidder Contributions CEC Form 55 pertaining to the City's contract bidder campaign contribution and fundraising restrictions.

Pursuant to Charter Section 606 and the Los Angeles Administrative Code Section 10.5, the proposed lease, in that it 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 lease as to form.

RECOMMENDATIONS

That the Mayor:

1. Approve the proposed Lease Agreement between the Los Angeles World Airports and Societe Air France for the use of 292,486 square feet of land, parking, and warehouse/office space at the Los Angeles International Airport, 5621 West Imperial Highway, for the purpose of continuing air cargo operations, subject to City Attorney approval as to form and compliance with the City's Standard Provisions for Contracts including the Living Wage Ordinance; Affirmative Action Program; Child Support Obligations Ordinance; Contractor Responsibility Program; First Source Hiring Program for all non-trade airport jobs; insurance requirements; and provisions of the Equal Benefits Ordinance; and

2. Return the proposed lease agreement to the Department for further processing, including Council consideration.

FISCAL IMPACT STATEMENT

Approval of the proposed lease between the Los Angeles World Airports and Air France will result in annual revenue of approximately \$1,702,150 and approximately \$8,511,000 over the five-year term, excluding the automatic annual rental rate adjustments of not less than two percent based upon the Consumer Price Index. The proposed lease complies with the Department's adopted Financial Policies and will have no impact on 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.

MAS:WDC:10160027