



*Los Angeles
World Airports*

March 18, 2014

LAX

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Gina Marie Lindsey
Executive Director

The Honorable City Council
of the City of Los Angeles
City Hall – Room 395
Los Angeles, CA 90012

Reference: CF 14-0297

This is to hereby transmit for your information the Mayor approved City Administrative Officer's report covering the consideration and approval of a proposed lease with Air New Zealand Limited for an aircraft maintenance operation at Los Angeles International Airport.

Sincerely,

Christine D. Iseri
Government Affairs Division
Los Angeles World Airports

Attachments



0150-10159-0000

TRANSMITTAL

TO Gina Marie Lindsey, Executive Director Department of Airports	DATE MAR 14 2014	COUNCIL FILE NO.
FROM The Mayor	COUNCIL DISTRICT 11	

**Approval of a Lease with Air New Zealand Limited and Building Rental Rate
for a Facility at 7007 West Imperial Highway,
Los Angeles International Airport**

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


MAYOR

(Ana Guerrero)

MAS:AVM:10140140t

REPORT FROM

OFFICE OF THE CITY ADMINISTRATIVE OFFICER

Date: March 3, 2014

CAO File No. 0150-10159-0000

Council File No.

Council District: 11

To: The Mayor

From: Miguel A. Santana, City Administrative Officer



Reference: Communication from the Department of Airports dated January 30, 2014; referred by the Mayor for a report on February 4, 2014

Subject: **APPROVAL OF A LEASE WITH AIR NEW ZEALAND LIMITED AND BUILDING RENTAL RATE FOR A FACILITY AT 7007 WEST IMPERIAL HIGHWAY, LOS ANGELES INTERNATIONAL AIRPORT**

SUMMARY

The Executive Director of the Department of Airports (Department) requests approval of an award of a five-year lease (Lease) to Air New Zealand Limited (ANZ) at an off-terminal facility located at 7007 West Imperial Highway, Los Angeles International Airport (LAX). The facility will provide office space as well as areas to store aircraft parts and perform minor aircraft maintenance. Approval of the proposed Lease, which has a term of five years with a five-year extension option, will provide the Department with annual revenue of approximately \$245,600, excluding annual rent adjustments and an upgraded facility. The Board of Airport Commissioners (BOAC) approved the proposed Lease and building rental rate during a meeting on December 17, 2013. The above-referenced aspects of the Agreement, and this report, incorporate revised information received from the Department subsequent to the initial request submittal. Pursuant to Charter Section 606, Council approval of the proposed Lease is required because the cumulative term exceeds five years.

Background

Department staff reports ANZ is an international airline that currently leases space in Terminal 2 (T2) and in the Tom Bradley International Terminal at LAX. The facility at 7007 W. Imperial Highway became vacant in August 2012. In February 2013, the Department released a Request for Lease Offer (RLO) to begin a competitive process for the facility. The only response to the RLO was submitted by ANZ in March 2013. After approximately seven months of negotiations between ANZ and the Department, the proposed Lease was considered and approved by BOAC.

Implementing the Lease will enable ANZ to move its operations from approximately 3,898 square feet (sq.ft.) in T2 to a larger leasehold space, in a stand-alone building outside of the terminal area. The facility at 7007 W. Imperial Highway will be used by ANZ for staff administrative and training purposes, storage of aircraft parts, equipment and supplies and to conduct aircraft maintenance. Department staff notes that while ANZ will retain its Premier Passenger Lounge, and other spaces, in the Tom Bradley terminal, securing off-terminal space through the proposed Lease may reduce ANZ's need for square footage within other terminals.

Proposed Lease with Air New Zealand Limited for a Facility at 7007 W. Imperial Highway

The proposed Lease, awarded to ANZ, has a five-year term with a five-year extension option. The international airline, ANZ, anticipates moving its offices and equipment from space in T2 to the off-terminal facility to conduct its aircraft maintenance operations at a larger location. Approval of the proposed Lease will provide the Department with annual revenue of approximately \$245,600, excluding rent adjustments, and with an upgraded facility because provisions require ANZ to invest at least \$1.5 million for tenant improvements and building systems.

A summary of the key elements in the proposed Lease is shown below.

General Information

Term -	Five years with one five-year extension option
Commencement -	Approximately February 1, 2014
Annual Adjustment -	A minimum increase of two percent, CPI
Periodic Adjustment to Market Rent -	Land adjustment to start January 1, 2016; building adjustment to begin five years after the commencement of the lease

<u>Demised Premises</u>	<u>Square Feet</u>	<u>Rental Rate</u> (sq.ft./yr)	<u>Annual Rent</u>
Land, On Airport Industrial	49,743	\$ 2.53	\$125,850.
Building, office / shop	10,524	\$10.00	\$105,240.
Paving, Auto Parking	39,219	\$ 0.37	\$ 14,511.
Annual Rent			\$245,601.
Monthly Rent			\$ 20,467.

The \$1.5 million investment for the required improvements will be made within a 12-month time by ANZ. Subject to the Department's prior written approval for the projects, the ANZ will improve the currently vacant facility by: adding a new roof; replacing flooring, electrical wiring, existing heat/ventilation/air conditioning units, ceiling tiles and light fixtures; refurbishing the plumbing system; and, repairing or installing fire sprinkler system and landscape improvements. If the total improvement project cost exceeds \$2 million for items not originally in the project scope, and are

required by regulatory agencies, the Department will provide rent credits up to an aggregate of \$200,000. Additionally, the Department will own improvements made to the facility after 10 years and the roof will have a 15-year depreciation term.

Based upon building and land rates approved by the BOAC, the proposed Lease building rate of \$10.00 per square foot per year (PSFPY) is comparable to rates for other similar buildings at LAX. Also, the building rate is subject to an annual Consumer Price Index (CPI) adjustment as well as a periodic five-year adjustment to the fair market rental value.

As part of the negotiations, Department staff agreed the proposed Lease would not contain a cancellation clause. However, it does have a provision whereby the Lease may be terminated in the first year of the five-year extension option, following one year prior written notice for termination. The five-year extension option shall be exercisable at the sole discretion of the lessee, ANZ, by the lessee's delivery of an irrevocable written notice to the Department 6-12 months prior to the expiration of the proposed Lease.

Alternative to the Proposed Lease Award

If the Department does not implement the proposed Lease, an opportunity to generate new revenue from the facility rental will be missed. The facility current is vacant and ANZ was the single respondent to the Department's lease offer, therefore it is not a viable option to lease the facility to another tenant.

City Contract Compliance

The proposed Lease is subject to approval as to form by the City Attorney. The proposed tenant, ANZ, has been assigned a Business Tax Registration Certificate number and has approved insurance documents on file with the Department in the terms and amounts required.

As requested, ANZ will submit required documentation to comply with provisions of the City's Affirmative Action Program, Child Support Obligations Ordinance, the First Source Hiring Program for all non-trade LAX airport jobs and Living Wage Ordinance. Prior to the execution of the proposed Lease, ANZ must submit and comply with provisions of the: Contractor Responsibility Program (including its Pledge of Compliance); the Bidder Contributions City Ethics Commission Form 55 which pertains to the City's contract bidder campaign contribution and fundraising restrictions (Charter Amendment H); and the Equal Benefits Ordinance. However, initially the Department of Public Works, Office of Contract Compliance must determine that ANZ is in compliance with the Equal Benefits Ordinance provisions.

The issuance of permits, leases, agreements or other entitlements granting use of existing facilities at municipal airports involving negligible or no expansion of use beyond that previously existing or permitted 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. Furthermore, neither the Small Business Enterprise Program nor the provisions of the City

Charter Section 1022, Use of Independent Contractors, apply to this action for a proposed lease.

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, subject to City Attorney approval as to form and a determination by the Department of Public Works, Office of Contract Compliance, that Air New Zealand Limited is in compliance with the provisions of the Equal Benefits Ordinance, an award of a proposed Lease with Air New Zealand Limited, and rental rates for an off-terminal facility at 7007 West Imperial Highway, Los Angeles International Airport, for a five-term year, with one five-year extension option, and investment of at least \$1.5 million for property improvements to provide office space as well as areas to store aircraft parts and perform minor maintenance at the off-terminal facility and,
2. Return the request to the Board of Airport Commissioners for further processing, including Council consideration.

FISCAL IMPACT STATEMENT

Approval of the proposed concession lease agreement between the Department of Airports and Air New Zealand Limited will generate annual revenue for the Department of Airports of approximately \$245,600, excluding annual rent adjustments. The proposed lease agreement 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," unless the Council takes action disapproving the lease within 30 days after submission of it to Council, the lease shall be deemed approved.