

CITY OF LONG BEACH

R-20

OFFICE OF THE CITY MANAGER

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December 16, 2014

HONORABLE MAYOR AND CITY COUNCIL
City of Long Beach
California

RECOMMENDATION:

Authorize the City Manager to execute all documents necessary for an Amended and Restated Lease between the City of Long Beach and Aerolease-Long Beach, doing business as Aeroplex Aviation, a California general partnership, for City-owned property at 3333 E. Spring Street at the Long Beach Airport; and

Authorize the City Manager to execute all documents necessary for an Amended and Restated Lease between the City of Long Beach and Concepts 4, Inc., a California corporation, for City-owned property at 3229 E. Spring Street at the Long Beach Airport. (District 5)

DISCUSSION

In 1982, the City Council authorized the execution of a lease with Aerolease-Long Beach (Aeroplex) for the development of approximately 14.2 acres (Master Parcel) of City-owned property on Spring Street at the Long Beach Airport for office and airport services. In 1988, the City Council authorized the subdivision of the Master Parcel for the creation of a separate lease for approximately three-quarters of an acre containing a 29,000 square foot (SF), three-story office building (Office Parcel), which Aeroplex continued to manage. In 1992, the City Council authorized the further subdivision of the Master Parcel for the creation of a separate lease with Catalina Flying Boats for approximately 1.14 acres for aircraft hangar use. In 1997, the Office Parcel was assigned to Ned L. Gaylord, trustee of the Gaylord Family Trust dated August 29, 1995 and James Dumars, executor of the Estate of Bert Dumars, and further assigned in 2003 to the current tenant, Concepts 4, Inc. (Concepts 4). In 2011, Aeroplex acquired the leasehold interest in 1.7 acres of aircraft ramp space (Ramp Parcel) adjacent to the Master Parcel, which was formerly used by Fuel Controls, Inc., for aircraft parking (Attachment).

Aeroplex operates as a fixed base operator (FBO) at the Long Beach Airport (Airport) providing aviation services to the general aviation community on approximately 14 acres of City-owned property. As an FBO, Aeroplex provides aircraft hangar rentals, office space rentals for aviation businesses and services, and fueling facilities, aircraft parking, and pilot/passenger facilities and amenities for general aviation aircraft visiting Long Beach or

stopping enroute to other destinations. As an FBO, Aeroplex strives to serve all segments of the general aviation industry including the Airport, aviation businesses, government agencies, nonprofit and other airport advocacy groups, professional organizations, industry suppliers and aircraft owners and operators. The lease for the Master Parcel will terminate in approximately 15 years and the lease for the Ramp Parcel will terminate on February 28, 2015.

Concepts 4 is a firm specializing in architecture, interior design, procurement, construction management, and capital expenditure planning for the hospitality industry. Occupying part of the office building since 1998, Concepts 4 also serves as a Sublandlord by subleasing the remainder of the office building to aviation tenants who do not require on-airfield access and non-aviation tenants seeking to be close to the aviation industry. While some parking is available on the Office Parcel, the majority of its parking is shared with Aeroplex via a separate parking agreement. The parking agreement requires Aeroplex to maintain 99 parking spaces for Concepts 4 in exchange for reimbursement of the proportional share of maintenance and expenses. The lease for the Office Parcel will also terminate in approximately 15 years.

The Airport operates as a department of the City of Long Beach. As an enterprise, the Airport is responsible for generating its own revenues to cover its own expenses. Approximately 25 percent of its annual revenues are accrued from the long-term ground leases surrounding the Airport for aviation services and activities. As an enterprise, the Airport must work with its various tenants to support the long-term maintenance and improvement of the facilities on these long-term leaseholds to promote the success of these various businesses to insure continued revenue for the Airport to meet its expenses.

With only 15 years remaining on two leases, these businesses cannot make any long-term plans for capital improvements to their facilities. As major facility systems approach the end of their useful life cycle, the high cost of replacement and the short term for amortization of the investment forces businesses to look for less expensive options in order to maintain functionality. Further, the Internal Revenue Code allows for the amortization of industrial-type facilities over a 40-year period. Consequently, financial institutions have come to expect a similar period of time on leases in order for applicants to qualify for the best financing opportunities. A business that plans to close at the end of its lease term negatively impacts the Airport due to the declining condition of its facilities, the displacement of subtenants who take their business to other Airports due to the unavailability of longer term subleases, and the potential loss of revenue to the Airport from a vacant property, while a new tenant is acquired. In 2013, Aeroplex and Concepts 4 approached the City and the Airport regarding their desire to extend their respective leases in order to begin planning for capital improvements for the long-term continued sustainability of their facilities and operations for the various subtenants they serve. The Airport is amenable to both requests and negotiations subsequently commenced with City staff on the terms and conditions for the modification of the provisions of the existing leases.

Aeroplex

Staff and Aeroplex have completed negotiations and, due to the age and multiple past modifications of the existing lease, an Amended and Restated Lease is proposed containing the following major terms and provisions:

- Landlord: City of Long Beach, a municipal corporation
- Tenant: Aerolease-Long Beach, a California general partnership
- Leased Premises: The lease shall be modified to incorporate the Ramp Parcel and Master Parcel under the same agreement and shall provide for a total Leased Premises of approximately 14 acres.
- Commencement Date: The target commencement date shall be March 1, 2015.
- Term: The Term of the lease shall be extended for an additional 25 years through February 28, 2055 to provide for a 40-year Term for amortization and financing purposes.
- Rent: Effective March 1, 2015, the base rent shall increase to \$0.04 per SF per month and shall increase annually thereafter by an additional \$0.005 per SF per month through February 28, 2019. Effective March 1, 2020, the base rent shall increase annually by three percent per SF through February 28, 2030. These increases will bring the existing Aeroplex lease terms in line with projected fair market value. The anticipated total rent for this 15-year period is \$7.1 million, which is approximately \$4.3 million more in revenue for the Airport than the projected total rent of \$2.8 million provided for under the existing remaining 15-year lease terms for the same SF area.

Effective March 1, 2030, the rent shall be adjusted based on a fair market value appraisal process. Thereafter, rent adjustments based on fair market value appraisals shall occur every ten years. In between fair market value appraisal adjustments, the rent shall increase annually based on the percentage increase in the consumer price index for the previous year. In no event, shall a rent adjustment provide for a decrease in rent.

- Capital Improvements: Tenant shall guarantee Capital Improvements to the Leased Premises over the term of the Lease at a minimum cost of \$2,319,000. Within 90-days of the Commencement Date, Tenant shall submit to Landlord a facilities condition report (FC Report) from an appropriately licensed third party, confirming the current condition of the Leased Premises, including all facilities, to establish a baseline Facilities Condition Index (FCI). Landlord shall meet with Tenant to review the FC Report to establish a target schedule for Capital Improvements. Annually, Tenant shall submit a summary form to Landlord memorializing any Capital Improvements completed during the preceding year. A new FC Report shall be submitted every five years to the Landlord identifying

the then current FCI. Tenant shall strive to maintain an FCI of 10% or less, however, in no event shall a report indicate an FCI of 20% or greater.

Concepts 4

Staff and Concepts 4 have completed negotiations and, due to the age and multiple past modifications of the existing lease, an Amended and Restated Lease is also proposed containing the following major terms and provisions:

- Landlord: City of Long Beach, a municipal corporation
- Tenant: Concepts 4, Inc., a California corporation
- Leased Premises: In review of the original legal descriptions of the overall development, it was discovered that an approximate 3,500 SF parcel adjacent to the Office Parcel is unleased. The lease shall be modified to incorporate this additional area with the Office Parcel and shall provide for a total Leased Premises of approximately 35,386 SF.
- Commencement Date: The target commencement date shall be March 1, 2015.
- Term: The Term of the lease shall be extended for an additional 25 years through February 28, 2055 to provide for a 40-year Term for amortization and financing purposes.
- Rent: Effective March 1, 2015, the base rent shall increase to \$0.10 per SF per month and shall increase annually thereafter by an additional \$0.005 per SF per month through February 28, 2019. Effective March 1, 2020, the base rent shall increase annually by three percent per SF through February 28, 2030. These increases will bring the existing Concepts 4 lease terms in line with projected fair market value. The anticipated total rent for this 15-year period is \$835,000, which is approximately \$347,000 more in revenue for the Airport than the projected total rent of \$488,000 provided for under the existing remaining 15-year lease terms for the same SF area.

Effective March 1, 2030, the rent shall be adjusted based on a fair market value appraisal process. Thereafter, rent adjustments based on fair market value appraisals shall occur every ten years. In between fair market value appraisal adjustments, the rent shall increase annually based on the percentage increase in the consumer price index for the previous year. In no event, shall a rent adjustment provide for a decrease in rent.

- Capital Improvements: Tenant shall guarantee Capital Improvements to the Leased Premises over the term of the Lease at a minimum cost of \$800,000. Within 90-days of the Commencement Date, Tenant shall submit to Landlord a facilities condition report (FC Report) from an appropriately licensed third party, confirming the current condition of the Leased Premises, including all facilities, to establish a baseline Facilities Condition Index (FCI). Landlord shall meet with

Tenant to review the FC Report to establish a target schedule for Capital Improvements. Annually, Tenant shall submit a summary form to Landlord memorializing any Capital Improvements completed during the preceding year. A new FC Report shall be submitted every five years to the Landlord identifying the then current FCI. Tenant shall strive to maintain an FCI of 10% or less, however, in no event shall a report indicate an FCI of 20% or greater.

All other terms and provisions of both leases shall be updated to reflect current standard language for the lease of City-owned property, including provisions regarding the Long Beach Airport and the Federal Aviation Administration. Due to the fact that Aeroplex and Concepts 4 are located on the same larger parcel and share parking, it is in the Airport's best interest to have coterminous Leases for both tenants.

The Master Parcel was assigned City Contract No. 16419. When the Master Parcel was subdivided, all of the additional leases were assigned with the same contract number. Thus, the current leases with Aeroplex, Concepts 4 and Catalina Flying Boats are all listed as City Contract No. 16419. The proposed Amended and Restated leases will be conformed with the City Clerk and provided with new contract numbers. Catalina Flying Boats will retain the original contract number.

This matter was reviewed by Deputy City Attorney Richard F. Anthony on November 20, 2014 and by Budget Management Officer Victoria Bell on November 25, 2014.

TIMING CONSIDERATIONS

City Council action on this matter is requested on December 16, 2014, in order to allow adequate time to finalize and execute the Amended and Restated Lease to meet the target Commencement Date of March 1, 2015.

FISCAL IMPACT

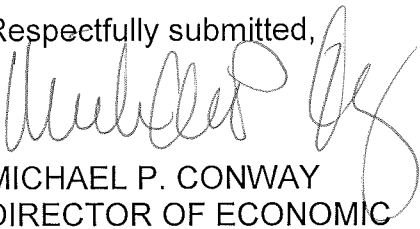
Annual revenues over the next 15-year period from Aeroplex shall increase approximately 154 percent for an anticipated total of \$7.1 million. Annual revenues over the next 15-year period from Concepts 4 shall increase approximately 71 percent for an anticipated total of \$836,000. An anticipated \$7.9 million shall continue to accrue to the Airport Fund (EF 320) at the Long Beach Airport (AP). Approval of this recommendation will provide continued support to the local economy.

SUGGESTED ACTION:

Approve recommendation.

HONORABLE MAYOR AND CITY COUNCIL
December 16, 2014
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Respectfully submitted,



MICHAEL P. CONWAY
DIRECTOR OF ECONOMIC
AND PROPERTY DEVELOPMENT

MPC:RIH:JMLR
Attachment



REGINALD I. HARRISON
ACTING DIRECTOR
LONG BEACH AIRPORT






APPROVED:



PATRICK H. WEST
CITY MANAGER

ATTACHMENT

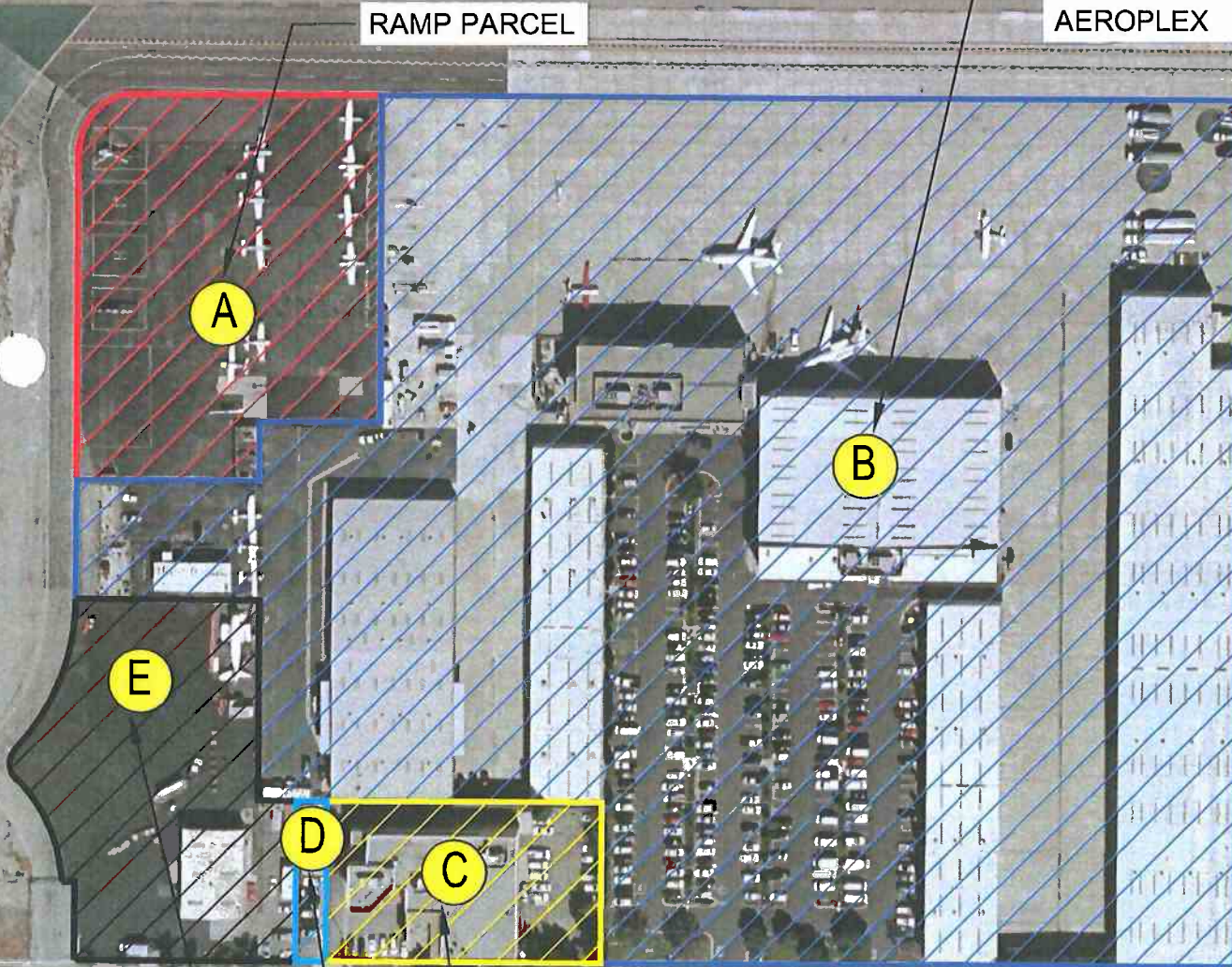
RUNWAY 7R-25L

-  (A) RAMP PARCEL
-  (B) MASTER PARCEL AEROPLEX
-  (C) OFFICE PARCEL CONCEPTS 4
-  (D) UNLEASED PARCEL
-  (E) CATALINA FLYING BOATS

TAXIWAY F

MASTER PARCEL
AEROPLEX

RAMP PARCEL



SPRING ST.

OFFICE PARCEL
CONCEPTS 4

UNLEASED PARCEL

CATALINA FLYING BOATS

REDONDO AVE